

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**QUEST PATENT RESEARCH CORPORATION**  
(Exact Name of Registrant as Specified in Charter)

Delaware	33-18099-NY	11-2873662
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)
411 Theodore Fremd Ave., Suite 206S, Rye, NY		10580-1411
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code: (888) 743-7577

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>		<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
		Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Securities registered pursuant to Section 12(b) of the Act: None

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 383,038,334 shares of common stock are issued and outstanding as of May 13, 2020.

TABLE OF CONTENTS

	Page No.
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<b>Item 1.</b> <a href="#">Financial Statements.</a>	1
<a href="#">Unaudited Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019</a>	1
<a href="#">Unaudited Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019</a>	2
<a href="#">Unaudited Consolidated Statements of Changes in Stockholders' Deficit for the three months ended March 31, 2020 and 2019</a>	3
<a href="#">Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019</a>	4
<a href="#">Notes to Unaudited Consolidated Financial Statements.</a>	5
<b>Item 2.</b> <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations.</a>	16
<b>Item 3.</b> <a href="#">Quantitative and Qualitative Disclosures About Market Risk.</a>	21
<b>Item 4.</b> <a href="#">Controls and Procedures.</a>	21
<b><u>PART II - OTHER INFORMATION</u></b>	
<b>Item 5.</b> <a href="#">Other Information</a>	22
<b>Item 6.</b> <a href="#">Exhibits.</a>	22

## FORWARD LOOKING STATEMENTS

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this report. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings “Risks Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our report on Form 10-K for the year ended December 31, 2019, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-Q and in other reports that we file with the SEC. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

We file reports with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

## OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, “Quest”, “Company”, “we,” “us,” “our” and similar terms refer to Quest Patent Research Corporation, and its subsidiaries, unless the context indicates otherwise.

ii

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

#### QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES UNAUDITED CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 551,636	\$ 537,198
Accounts receivable	-	1,850,375
Other current assets	14,781	17,180
<b>Total current assets</b>	<u>566,417</u>	<u>2,404,753</u>
Patents, net of accumulated amortization of \$1,756,018 and \$1,617,762, respectively	<u>2,616,098</u>	<u>2,754,354</u>
<b>Total assets</b>	<u>\$ 3,182,515</u>	<u>\$ 5,159,107</u>
<b>LIABILITIES AND STOCKHOLDERS’ DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,120,363	\$ 3,362,932
Loans payable – third party	147,000	147,000
Purchase price of patents, current portion, net of unamortized discount of \$23,392 and \$0 respectively	951,608	569,386
Loan payable – related party, net of unamortized discount and debt issuance costs of \$131,780 and \$189,705, respectively	4,541,030	4,483,105
Accrued interest – loans payable related party	116,500	117,780
Accrued interest - loans payable third party	273,860	270,185
Derivative liability	635,000	595,000
<b>Total current liabilities</b>	<u>8,785,361</u>	<u>9,545,388</u>
<b>Non-current liabilities</b>		
Contingent funding liabilities	20,378	20,378
Purchase price of patents, net of unamortized discount of \$216,270 and \$282,503, respectively	908,730	1,442,497
<b>Total liabilities</b>	<u>9,714,469</u>	<u>11,008,263</u>
Stockholders’ deficit:		
Preferred stock, par value \$.00003 per share, authorized 10,000,000 shares, no shares issued and outstanding	-	-
Common stock, par value \$0.00003 per share; authorized 10,000,000,000 shares at March 31, 2020 and December 31, 2019; shares issued and outstanding 383,038,334 at March 31, 2020 and December 31, 2019	11,491	11,491
Additional paid-in capital	14,107,782	14,107,782
Accumulated deficit	(20,651,466)	(19,968,668)
<b>Total Quest Patent Research Corporation deficit</b>	<u>(6,532,193)</u>	<u>(5,849,395)</u>
Non-controlling interest in subsidiary	239	239
<b>Total stockholders’ deficit</b>	<u>(6,531,954)</u>	<u>(5,849,156)</u>
<b>Total liabilities and stockholders’ deficit</b>	<u>\$ 3,182,515</u>	<u>\$ 5,159,107</u>

See accompanying notes to unaudited consolidated financial statements.

**QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended March 31,	
	2020	2019
<b>Revenues</b>		
Patent licensing fees	\$ 870,103	\$ 370,000
Licensed packaging sales	-	4,865
	870,103	374,865
Operating expenses		
Cost of revenue:		
Cost of sales	-	977
Litigation and licensing expenses	910,126	265,044
Management support services	-	340
Selling, general and administrative expenses	381,609	320,437
Total operating expenses	1,291,735	586,798
Loss from operations	(421,632)	(211,933)
<b>Other expense</b>		
Loss on derivative liability	(40,000)	(165,000)
Interest expense	(220,941)	(162,910)
<b>Total other expenses</b>	(260,941)	(327,910)
Net loss before income tax	(682,573)	(539,843)
Income tax	(225)	(225)
Net loss	(682,798)	(540,068)
Net loss attributable to non-controlling interest in subsidiaries	-	259
Net loss attributable to Quest Patent Research Corporation	\$ (682,798)	\$ (539,809)
Net loss per share – basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average shares outstanding – basic and diluted	383,038,334	383,038,334

See accompanying notes to unaudited consolidated financial statements.

2

**QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**

	Common Stock		Additional Paid-in Capital	Deficit	Non- controlling Interest in Subsidiaries	Total Stockholders' Deficit
	Shares	Amount				
	<b>Balances as of December 31, 2018</b>	383,038,334				
Net loss	-	-	-	(539,809)	(259)	(540,068)
<b>Balances as of March 31, 2019</b>	383,038,334	\$ 11,491	\$ 14,107,782	\$ (19,199,701)	\$ 1,499	\$ (5,078,929)
	Common Stock		Additional Paid-in Capital	Deficit	Non- controlling Interest in Subsidiaries	Total Stockholders' Deficit
	Shares	Amount				
	<b>Balances as of December 31, 2019</b>	383,038,334				
Net loss	-	-	-	(682,798)	-	(682,798)
<b>Balances as of March 31, 2020</b>	383,038,334	\$ 11,491	\$ 14,107,782	\$ (20,651,466)	\$ 239	\$ (6,531,954)

See accompanying notes to unaudited consolidated financial statements.

3

**QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the Three Months Ended March 31,	
	2020	2019
<b>Cash flows from operating activities:</b>		

Net loss	\$	(682,798)	\$	(540,068)
Adjustments to reconcile net loss to net cash used in operating activities:				
Amortization of debt discount		100,766		68,615
Loss on derivative liability		40,000		165,000
Depreciation and amortization		138,256		110,378
Changes in operating assets and liabilities:				
Accounts receivable		1,850,375		(4,865)
Accrued interest – loans payable related party		(1,280)		(27,560)
Accrued interest – loans payable third party		3,675		4,075
Other current assets		2,399		1,026
Accounts payable and accrued expenses		(1,242,569)		327,263
<b>Net cash provided by operating activities</b>		<b>208,824</b>		<b>103,864</b>
<b>Cash flows from investing activities:</b>				
Purchase of patents		-		(75,000)
<b>Net cash used in investing activities</b>		<b>-</b>		<b>(75,000)</b>
<b>Cash flows from financing activities:</b>				
Repayment of purchase price of patents		(194,386)		(75,000)
<b>Net cash used in financing activities</b>		<b>(194,386)</b>		<b>(75,000)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>14,438</b>		<b>(46,136)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>537,198</b>		<b>166,911</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>551,636</b>	<b>\$</b>	<b>120,775</b>
<b>Non-cash investing and financing activities</b>				
Accounts payable for patent purchase, net of imputed interest of \$0 and \$336,781, respectively		-		1,238,219
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid during the period for:				
Income taxes including foreign taxing authorities withheld taxes of \$0 and \$0 during the periods ended March 31, 2020, and 2019 respectively.		225		225
Interest		117,780		117,780

See accompanying notes to unaudited consolidated financial statements.

**QUEST PATENT RESEARCH CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2020**

**NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

The Company is a Delaware corporation, incorporated on July 17, 1987 and has been engaged in the intellectual property monetization business since 2008.

As used herein, the “Company” refers to Quest Patent Research Corporation and its wholly and majority-owned and controlled operating subsidiaries unless the context indicates otherwise. All intellectual property acquisition, development, licensing and enforcement activities are conducted by the Company’s wholly and majority-owned and controlled operating subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the US (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these interim financial statements do not include all of the information and notes required by GAAP for complete financial statements. All adjustments (consisting of normal recurring items) necessary to present fairly the Company’s consolidated financial position have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2019. Operating results for the interim periods presented herein are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. Reclassifications have been made to conform with the current year presentation.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of consolidation and financial statement presentation

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and present the consolidated financial statements of the Company and its wholly owned and majority owned subsidiaries as of March 31, 2020.

The consolidated financial statements include the accounts and operations of:

- Quest Patent Research Corporation (“The Company”)
- Quest Licensing Corporation (NY) (wholly owned)
- Quest Licensing Corporation (DE) (wholly owned)
- Quest Packaging Solutions Corporation (90% owned)
- Quest Nettech Corporation (65% owned)
- Semcon IP, Inc. (wholly owned)
- Mariner IC, Inc. (wholly owned)
- IC Kinetics, Inc. (wholly owned)
- CXT Systems, Inc. (wholly owned)
- Photonic Imaging Solutions Inc. (wholly owned)
- M-RED Inc. (wholly owned)

Prior to April 2019, the operations of Wynn Technologies, Inc. were not included in the Company's consolidated financial statements as there were significant contingencies related to its control of Wynn Technologies, Inc. The sole asset of Wynn Technologies, Inc. was US Patent No. RE38,137E. Wynn Technologies, Inc. could not transfer, assign, sell, hypothecate or otherwise encumber US Patent No. RE38,137E without the express written consent of the owner of 35% of Wynn Technologies, Inc., unless, as of the date of such transfer, assignment, sale, hypothecation or other encumbrance, Mr. Li had received a total of at least \$250,000. US Patent No. RE38,137E expired on September 28, 2015. The Company accounted for its 65% interest in Wynn Technologies, Inc. under the equity method whereby the investment accounts were increased for contributions by the Company plus its 60% share of income pursuant to the contractual agreement which provides that the owner of 35% of Wynn Technologies, Inc. retained 40% of the income, and reduced for distributions and its 60% share of losses incurred, respectively, with the restriction whereby the account balances cannot go below zero. On April 11, 2019, Quest NetTech Corporation merged with Wynn Technologies, Inc. with Quest NetTech Corporation being the surviving entity. Pursuant to the merger agreement, we issued to the former 35% stockholder of Wynn Technologies, Inc. a 35% interest in Quest NetTech Corporation.

Significant intercompany transaction and balances have been eliminated in consolidation.

#### Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Intangible Assets

Intangible assets consist of patents which are amortized using the straight-line method over their estimated useful lives or statutory lives whichever is shorter and are reviewed for impairment upon any triggering event that may give rise to the assets ultimate recoverability as prescribed under the guidance related to impairment of long-lived assets. Costs incurred to acquire patents, including legal costs, are also capitalized as long-lived assets and amortized on a straight-line basis with the associated patent.

Patents include the cost of patents or patent rights (hereinafter, collectively "patents") acquired from third-parties or acquired in connection with business combinations. Patent acquisition costs are amortized utilizing the straight-line method over their remaining economic useful lives, ranging from one to ten years. Certain patent application and prosecution costs incurred to secure additional patent claims that, based on management's estimates are deemed to be recoverable, are capitalized and amortized over the remaining estimated economic useful life of the related patent portfolio.

#### Derivative Financial Instruments

The Company evaluates the embedded conversion feature within its convertible debt instruments under ASC 815-15 and ASC 815-40 to determine if the conversion feature meets the definition of a liability and, if so, whether to bifurcate the conversion feature and account for it as a separate derivative liability. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a Black Scholes model, in accordance with ASC 815-15 "Derivative and Hedging" to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether net-cash settlement of the derivative instrument could be required within 12 months after the balance sheet date.

#### Fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is used which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See Note 4 for information about derivative liabilities.

The fair value hierarchy based on the three levels of inputs that may be used to measure fair value are as follows:

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* – Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

The carrying value reflected in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and short-term borrowings approximate fair value due to the short-term nature of these items.

#### Income Tax

The Company records revenues on a gross basis, before deduction for income taxes. The Company incurred no foreign income tax expenses for the three months ended March 31, 2020 and 2019.

#### Inventor/Former Owner Royalties and Contingent Legal/Litigation Finance Expenses

In connection with the investment in certain patents and patent rights, certain of the Company's operating subsidiaries may execute related agreements which grant to the inventors and/or former owners of the respective patents or patent rights, the right to receive a percentage of future net revenues (as defined in the respective agreements) generated as a result of licensing and otherwise enforcing the respective patents or patent portfolios.

The Company's operating subsidiaries may retain the services of law firms that specialize in patent licensing and enforcement and patent law in connection with their licensing and enforcement activities. These law firms may be retained on a contingent fee basis whereby such law firms are paid a percentage of any negotiated fees, settlements or judgments awarded.

The Company's operating subsidiaries may engage with funding sources that provide financing for patent licensing and enforcement. These litigation finance firms may be engaged on a non-recourse basis whereby such litigation finance firms are paid a percentage of any negotiated fees, settlements or judgments awarded in exchange for providing funding for legal fees and out of pocket expenses incurred as a result of the licensing and enforcement activities.

The economic terms of the inventor agreements, operating agreements, contingent legal fee arrangements and litigation financing agreements associated with the patent portfolios owned or controlled by the Company's operating subsidiaries, if any, including royalty rates, contingent fee rates and other terms, vary across the patent portfolios owned or controlled by such operating subsidiaries. Inventor/former owner royalties, payments to non-controlling interests, contingent legal fees expenses and litigation finance expenses fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of revenue agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. Inventor/former owner royalties, contingent legal fees expenses and litigation finance expenses will continue to fluctuate and may continue to vary significantly period to period, based primarily on these factors.

#### Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, "Revenue from Contracts with Customers". Revenue is recognized when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Under Topic 606, revenue is recognized when there is a contract which has commercial substance which is approved by both parties and identifies the rights of the parties and the payment terms. The Company adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method, with no impact on the consolidated financial position or results of operations.

7

#### Recent Accounting Pronouncements

Management does not believe that there are any recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on the Company's financial statements.

#### Going Concern

As shown in the accompanying financial statements, the Company has an accumulated deficit of approximately \$20,651,000 and negative working capital of approximately \$8,219,000 as of March 31, 2020. Because of the Company's continuing losses, its working capital deficiency, the uncertainty of future revenue, the Company's obligations to Intellectual Ventures and Intelligent Partners, as transferee of United Wireless, the Company's low stock price and the absence of a trading market in its common stock, the ability of the Company to raise funds in equity market or from lenders is severely impaired. These conditions, together with the effects of the COVID-19 pandemic and the steps taken by the states to slow the spread of the virus and its effect on its business raise substantial doubt as to the Company's ability to continue as a going concern. Although the Company may seek to raise funds and to obtain third party funding for litigation to enforce its intellectual property rights, the availability of such funds, particularly in view of the COVID-19 pandemic, is uncertain. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### **NOTE 3 – SHORT-TERM DEBT AND LONG-TERM LIABILITIES**

The following table shows the Company's short-term and long-term debt at March 31, 2020 and December 31, 2019.

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Short-term debt:		
Loans payable – third party	\$ 147,000	\$ 147,000
Purchase price of patents – current portion	951,608	569,386
Net short-term debt	<u>1,098,608</u>	<u>716,386</u>
Loan payable – related party		
Gross	4,672,810	4,672,810
Accrued Interest	116,500	117,780
Unamortized discount	(131,780)	(189,705)
Net loans payable – related party	<u>\$ 4,657,530</u>	<u>\$ 4,600,885</u>
Long-term liabilities:		
Purchase price of patents		
Gross	1,125,000	1,725,000
Unamortized discount	(216,270)	(282,503)
Net purchase price of patents – long-term	<u>\$ 908,730</u>	<u>\$ 1,442,497</u>
Contingent funding liabilities:		
Gross	20,378	20,378
Net contingent funding liabilities	<u>\$ 20,378</u>	<u>\$ 20,378</u>

The loan payable – third party is a demand loan made by former officers and directors, who are unrelated third parties at March 31, 2020, and December 31, 2019, in the amount of \$147,000. The loans are payable on demand plus accrued interest at 10% per annum. These third parties are also stockholders, but their stockholdings are not significant.

8

The loan payable – related party at March 31, 2020 represents the principal amount of the Company's 10% note to Intelligent Partners, LLC ("Intelligent Partners") as transferee of the notes issued to United Wireless Holdings, Inc. ("United Wireless"), in the amount of \$4,672,810 pursuant to securities purchase agreement dated October 22, 2015 between the Company and United Wireless, as more fully described in the Company's annual report on Form 10-K for the year ended December 31, 2019. The notes payable to Intelligent Partners, as transferee of United Wireless, have been classified as a current liability as of March 31, 2020.

Interest on all notes issued pursuant to the securities purchase agreement, accrued through September 30, 2018, with accrued interest being added to principal on September 30, 2016, 2017 and 2018. Accordingly, the accrued interest is included in loans payable, related party. Since September 30, 2018, the Company has been required to pay interest quarterly. For the three months ended March 31, 2020, the Company paid approximately \$117,780 in interest.

Because of its right to elect a director of the Company, United Wireless is treated as a related party. Prior to the securities purchase agreement with United Wireless, the Company had no relationship with United Wireless.

#### Long term liabilities

The purchase price of patents at March 31, 2020 represents:

- The minimum payments due under the agreement between CXT Systems, Inc. (“CXT”), a wholly owned subsidiary, and IV 34/37 pursuant to which at closing CXT acquired by assignment all right, title, and interest in a portfolio of fourteen United States patents, five foreign patents and six related applications (the “CXT Portfolio”). Under the agreement, CXT will distribute 50% of net recoveries, as defined, to IV 34/37. CXT advanced \$25,000 to IV 34/37 at closing, and agreed that in the event that, on December 31, 2018, December 31, 2019 and December 31, 2020, cumulative distributions to IV 34/37 total less than \$100,000, \$375,000 and \$975,000, respectively, CXT shall pay the difference necessary to achieve the applicable minimum payment amount within ten days after the applicable date; with any advances being credited toward future distributions to IV 34/36. As of March 31, 2020, \$600,000 of the minimum future cumulative distributions were presented as short-term debt based on the payment due date. No affiliate of CXT has guaranteed the minimum payments. CXT’s obligations under the agreement are secured by a security interest in the proceeds (from litigation or otherwise) from the CXT Portfolio. During the three-months ended March 31, 2020, the Company paid the \$194,386 liability that was classified as a short-term liability as of December 31, 2019.
- The non-current portion of minimum payments due under the agreement between M-RED Inc. (“M-RED”), a wholly owned subsidiary Intellectual Ventures Assets 113 LLC and Intellectual Ventures Assets 108 LLC (“IV 113/108”) pursuant to which M-RED paid IV 113/108 \$75,000 and IV 113/108 transferred to M-RED all right, title and interest in a portfolio of sixty United States patents and eight foreign patents (the “M-RED Portfolio”). Under the agreement, M-RED will distribute 50% of net proceeds, as defined, to IV 113/108, as long as the Company generates revenue from the M-RED Portfolio. The agreement with IV 113/108 provides that if, on September 30, 2020, September 30, 2021 and September 30, 2022, cumulative distributions to IV 113/108 total less than \$450,000, \$975,000 and \$1,575,000, respectively, M-RED shall pay the difference between such cumulative amounts and the amount paid to IV 113/108 within ten days after the applicable date. The \$75,000 advance is treated as an advance against the first distributions of net proceeds payable to IV 113/108. As of March 31, 2020, \$1,125,000 and \$375,000 of the minimum future cumulative distributions were presented as long-term and short-term debt, respectively, based on payment due dates. No affiliate of M-RED has guaranteed the minimum payments. M-RED’s obligations under the agreement with IV 113/108 are secured by a security interest in the proceeds (from litigation or otherwise) from the M-RED Portfolio.

The contingent funding liabilities at March 31, 2020 represents the non-current portion of our obligations under the litigation funding agreement with a third-party litigation funder entered into in December 2018 whereby the third-party agreed to provide litigation funding in the amount of \$150,000 to the Company to enable the Company to support its structured licensing programs for the CMOS and M-RED portfolios. Under the funding agreement, the third party receives an interest in the proceeds from the programs that are payable to the Company, and the Company has no other obligation to the third party.

9

Our relationship with the funding source meets the criteria in ASC 470-10-25 - Sales of Future Revenues or Various Other Measures of Income (“ASC 470”), which relates to cash received from a funding source in exchange for a specified percentage or amount of revenue or other measure of income of a particular product line, business segment, trademark, patent, or contractual right for a defined period. Under this guidance, we recognized the fair value of our contingent obligation to the funding source, as of the acquisition date, as long-term debt in our consolidated balance sheet. This initial fair value measurement is based on the perspective of a market participant and includes significant unobservable inputs which are classified as Level 3 inputs within the fair value hierarchy and are discussed further within Note 2. At each subsequent reporting period, we will measure the long-term debt at fair value based on the discounted expected future cash flows over the life of the obligation. Our repayment obligations are contingent upon future patent licensing fee revenues generated from the licensing programs.

Under ASC 470, amounts recorded as debt shall be amortized under the interest method. The Company made an accounting policy election to utilize the prospective method when there is a change in the estimated future cash flows, whereby a new effective interest rate is determined based on the revised estimate of remaining cash flows. The new rate is the discount rate that equates the present value of the revised estimate of remaining cash flows with the carrying amount of the debt, and it will be used to recognize interest expense for the remaining periods. Under this method, the effective interest rate is not constant, and any change in expected cash flows is recognized prospectively as an adjustment to the effective yield. As of March 31, 2020, the total contingent funding liability was approximately \$20,000, and the effective interest rate was approximately 8.5%. This rate represents the discount rate that equates the estimated future cash flows with the fair value of the debt and is used to compute the amount of interest to be recognized each period. Any future payments made to the funding source will decrease the long-term debt balance accordingly. For the period ended March 31, 2020, the amortization amount is deemed immaterial.

#### NOTE 4—DERIVATIVE LIABILITIES

Because there is not a fixed conversion price, remaining compliant with the authorized share requirement under the notes to Intelligent Partners is outside of the control of the Company. Because there is no set limit on the number of shares issuable under the notes if the notes become convertible, absent an increase in the stock price or an increase in authorized shares, there are potentially not enough authorized shares of common stock to satisfy the exercise of the Company’s options, thus the Company determined that certain options qualify as derivative liabilities under ASC Topic 815. On January 22, 2016, the Company reclassified all non-employee warrants and options as derivative liabilities and revalued them at their fair values at each balance sheet date. Any change in fair value was recorded as other income (expense) for each reporting period at each balance sheet date.

As of March 31, 2020, and December 31, 2019, the aggregate fair value of the outstanding derivative liability was approximately \$635,000 and \$595,000, respectively.

The Company estimated the fair value of the derivative liability using the Black-Scholes option pricing model using the following key assumptions during the period ended March 31, 2020 and December 31, 2019:

	Period Ended	
	March 31, 2020	December 31, 2019
Volatility	238%	207-426%
Risk-free interest rate	0.24%	0.24%
Expected dividends	-	-%
Expected term	0.5	0.75-4.70

The following schedule summarizes the valuation of financial instruments at fair value in the balance sheets as of March 31, 2020 and December 31, 2019:

	Fair Value Measurements as of					
	31-Mar-20			31-Dec-19		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
None	-	-	-	-	-	-
Total assets	-	-	-	-	-	-
<b>Liabilities</b>						
Option derivative liability	-	-	635,000	-	-	595,000
Total liabilities	\$ -	\$ -	\$ 635,000	\$ -	\$ -	\$ 595,000

The following table sets forth a reconciliation of changes in the fair value of derivative liabilities classified as Level 3 in the fair value hierarchy:

	Significant Unobservable Inputs (Level 3) as of March 31, 2020
Beginning balance	\$ 595,000
Change in fair value	40,000
Ending balance	<u>\$ 635,000</u>

#### NOTE 5 – STOCKHOLDERS’ EQUITY

No options were granted during three months ended March 31, 2020.

A summary of the status of the Company’s stock options and changes is set forth below:

	Number of Options (#)	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (Years)
<b>Balance - December 31, 2019</b>	50,000,000	0.03	0.75
Granted	-	-	-
Exercised	-	-	-
Expired	-	-	-
Cancelled	-	-	-
<b>Balance - March 31, 2020</b>	<u>50,000,000</u>	<u>0.03</u>	<u>0.5</u>

#### NOTE 6 – INTANGIBLE ASSETS

Intangible assets include patents purchased and are recorded based at their acquisition cost. Intangible assets consisted of the following:

	March 31, 2020	December 31, 2019	Weighted average amortization period (years)
Patents	\$ 5,595,000	\$ 5,595,000	9.8
Less: net monetization obligations	(509,811)	(509,811)	
Imputed interest	(713,073)	(713,073)	
Subtotal	4,372,116	4,372,116	
Less: accumulated amortization	(1,756,018)	(1,617,762)	
Net value of intangible assets	<u>\$ 2,616,098</u>	<u>\$ 2,754,354</u>	6.52

Intangible assets are comprised of patents with estimated useful lives. The intangible assets at March 31, 2020 represent:

- patents acquired in October 2015 for a purchase price of \$3,000,000, the useful lives of the patents, at the date of purchase, was 6-10 years;
- patents acquired in July 2017 pursuant to an obligation to distribute 50% of net revenues to IV 34/37, against which \$25,000 was advanced at closing and provided that in the event that, on December 31, 2018, December 31, 2019 and December 31, 2020, cumulative distributions of 50% of net revenues to IV 34/37 total less than \$100,000, \$375,000 and \$975,000, respectively, CXT shall pay the difference necessary to achieve the applicable minimum payment amount within ten days after the applicable date; with any advances being credited toward future distributions to IV 34/36; the useful lives of the patents, at the date of acquisition, was 5-6 years;
- patents (which were fully depreciated at the date of acquisition) acquired in January 2018 pursuant to an agreement with Intellectual Ventures Assets 62 LLC and Intellectual Ventures Assets 71 LLC (“IV 62/71”), pursuant to which CXT has an obligation to distribute 50% of net revenues to IV 62/71 against which CXT advanced \$10,000 at closing;
- patents acquired in January 2018 by Photonic Imaging Solutions Inc. (“PIS”) from Intellectual Ventures Assets 64 LLC (“IV 64”) pursuant to which PIS is to pay IV 64 (a) 70% of the first \$1,500,000 of net revenue, (b) 30% of the next \$1,500,000 of net revenue and (c) 50% of net revenue in excess of \$3,000,000, against which PIS advanced \$10,000 at closing; and
- patents acquired in March 2019 by M-Red Inc. (“M-Red”) from Intellectual Ventures Assets 113 LLC and Intellectual Ventures 108 LLC (“IV 113/108”) pursuant to which M-Red is obligated to distribute 50% of net revenues to IV 113/108, against which \$75,000 was advanced at closing and provided that in the event that, on September 30, 2020, September 30, 2021 and September 30, 2022, cumulative distributions of 50% of net revenues to IV 113/108 total less than \$450,000, \$975,000 and \$1,575,000, respectively, M-Red shall pay the difference necessary to achieve the applicable minimum payment amount within ten days after the applicable date; with any advances being credited toward future distributions to IV 113/108; the useful lives of the patents, at the date of acquisition, was approximately nine years.

The Company amortizes the costs of intangible assets over their estimated useful lives on a straight-line basis. Costs incurred to acquire patents, including legal costs, are also capitalized as long-lived assets and amortized on a straight-line basis with the associated patent. Amortization of patents is included as a selling, general and administrative expense in the accompanying consolidated statements of operations.

The Company assesses intangible assets for any impairment to the carrying values. As of March 31, 2020, and December 31, 2019, management concluded that there was no impairment to the acquired assets. At March 31, 2020 and December 31, 2019, the book value of the Company’s intellectual property was \$2,616,098 and \$2,754,354, respectively.

Amortization expense for patents comprised \$138,256 and \$529,486 for the three months ended March 31, 2020 and the year ended December 31, 2019, respectively. Future amortization of intangible assets is as follows:

**Year ended December 31,**

Remainder of 2020	\$	411,862
2021		549,345
2022		495,742
2023		323,070
2024 and thereafter		836,079
Total	\$	<u>2,616,098</u>

12

Pursuant to the securities purchase agreement dated October 22, 2015 between the Company and United Wireless, more fully described in the Company's annual report on Form 10-K for the year ended December 31, 2019, 15% of the net monetization proceeds from the patents acquired in October 2015 will be paid to Intelligent Partners, as transferee of United Wireless. This monetization obligation was recognized as a discount to the loan and will be amortized over the life of the loan using the effective interest method. In addition, the Company entered into a monetization agreement with United Wireless pursuant to which the Company agreed to pay United Wireless 7.5% of the net monetization proceeds from the patents acquired by CXT in July 2017. This obligation was recorded as an expense and is reflected in interest expense during the third quarter of 2017.

The Company granted Intellectual Ventures a security interest in the patents assigned to the Company as security for the payment of the balance of the purchase price. The security interest of Intellectual Ventures is senior to the security interest of United Wireless in the proceeds derived from such patents.

The balance of the purchase price of the patents is reflected as follows:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Current Liabilities:		
Purchase price of patents, current portion	975,000	\$ 569,386
Unamortized discount	(23,392)	
Non-current liabilities:		
Purchase price of patents, long term	1,125,000	\$ 1,725,000
Unamortized discount	(216,270)	(282,503)
Total current and non-current	1,860,338	2,011,883
Effective interest rate of Amortized over 2-3 years	9.35-14.45%	9.6-12.5%

Because the non-current minimum payment obligations of \$2,100,000 are due over the next three and a half years, the Company imputed interest of 10% and the interest will be accreted up to the maturity date.

**NOTE 7 – NON-CONTROLLING INTEREST**

The following table reconciles equity attributable to the non-controlling interest related to Quest Packaging Solutions Corporation.

<b>Balance as of December 31, 2019</b>	\$	239
Net income attributable to non-controlling interest	\$	-
<b>Balance as of March 31, 2020</b>	\$	<u>239</u>

**NOTE 8 – RELATED PARTY TRANSACTIONS**

The Company has at various times entered into transactions with related parties, including officers, directors and major stockholders, wherein these parties have provided services, advanced or loaned money, or both, to the Company which was needed to support its daily operations. The Company discloses all related party transactions.

See Notes 3 and 6 in connection with transactions with United Wireless. During periods ended March 31, 2020 and 2019, the Company incurred interest expense on the Company's 10% notes issued to United Wireless pursuant to the securities purchase agreement dated October 22, 2015 more fully described in the Company's annual report on Form 10-K for the year ended December 31, 2019. On each of September 30, 2017 and 2018, accrued interest was added to the principal amount of the note. Subsequent to September 30, 2018, the Company is to pay interest quarterly. The interest expense was approximately \$117,780 and \$117,780 for the three months ended March 31, 2020 and 2019, respectively.

See Note 10 with respect to the employment agreement with the Company's president and chief executive officer.

13

During the three months ended March 31, 2020 and 2019, the Company contracted with an entity owned by the chief technology officer for the provision of information technology services to the Company. For the three months ended March 31, 2020 and 2019, the cost of these services was approximately \$145 and \$145, respectively.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES***Employment Agreements*

Pursuant to a restated employment agreement, dated November 30, 2014, with the Company's president and chief executive officer, the Company agreed to employ him as president and chief executive officer for a term of three years, commencing January 1, 2014, and continuing on a year-to-year basis unless terminated by either party on not less than 90 days' notice prior to the expiration of the initial term or any one-year extension. The agreement provides for an initial annual salary of \$252,000, which may be increased, but not decreased, by the board or the compensation committee. In March 2016, the Company's board of directors increased the chief executive officer's annual salary to \$300,000, effective January 1, 2016. The chief executive officer is entitled to a bonus if the Company meets or exceeds performance criteria established by the compensation committee. In August 2016, the Company's board of directors approved annual bonus compensation equal to 30% of the amount by which our consolidated income before income taxes exceeds \$500,000, but, if the Company is subject to the limitation on deductibility of executive compensation pursuant to Section 162(m) of the Internal Revenue Code, the bonus cannot exceed the amount which would be deductible pursuant to Section 162(m). The chief executive officer is also eligible to participate in any executive incentive plans which the Company may adopt.

*Inventor Royalties, Contingent Litigation Funding Fees and Contingent Legal Expenses*

In connection with the investment in certain patents and patent rights, certain of the Company's operating subsidiaries executed agreements which grant to the former owners of the respective patents or patent rights, the right to receive inventor royalties based on future net revenues (as defined in the respective agreements) generated as a result of licensing and otherwise enforcing the respective patents or patent portfolios.

The Company's operating subsidiaries may engage third party funding sources to provide funding for patent licensing and enforcement. The agreements with the third party funding sources may provide that the funding source receive a portion of any negotiated fees, settlements or judgments. In certain instances, these third party funding sources are entitled to receive a significant percentage of any proceeds realized until the third party funder has recouped agreed upon amounts based on formulas set forth in the underlying funding agreement, which may reduce or delay and proceeds due to the Company.

The Company's operating subsidiaries may retain the services of law firms in connection with their licensing and enforcement activities. These law firms may be retained on a contingent fee basis whereby the law firms are paid on a scaled percentage of any negotiated fees, settlements or judgments awarded based on how and when the fees, settlements or judgments are obtained.

Depending on the amount of any recovery, it is possible that all the proceeds from a specific settlement may be paid to the funding source and legal counsel.

The economic terms of the inventor agreements, funding agreements and contingent legal fee arrangements associated with the patent portfolios owned or controlled by the Company's operating subsidiaries, if any, including royalty rates, proceeds sharing rates, contingent fee rates and other terms, vary across the patent portfolios owned or controlled by the operating subsidiaries. Inventor royalties, payments to noncontrolling interests, payments to third party funding providers and contingent legal fees expenses fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of revenue agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. Inventor royalties, payments to third party funding sources and contingent legal fees expenses will continue to fluctuate and may continue to vary significantly period to period, based primarily on these factors.

In March 2014, the Company entered into a funding agreement whereby a third party agreed to provide funds to the Company to enable the Company to implement a structured licensing program, including litigation if necessary, for the Mobile Data portfolio. Under the funding agreement, the third party receives an interest in the proceeds from the program, and we have no other obligation to the third party. In April and June 2014, as part of a structured licensing program for the Mobile Data portfolio, Quest Licensing Corporation brought patent infringement suits in the U.S. District for the District of Delaware against Bloomberg LP et. al., FactSet Research Systems Inc., Interactive Data Corporation, SunGard Data Systems Inc. and The Charles Schwab Corporation et. al. In June and August 2016, Quest Licensing Corporation entered into a settlement agreement with SunGard Data Systems Inc. and FactSet Research Systems Inc. On January 19, 2017, the court in the Mobile Data Portfolio litigation granted the remaining defendants' motion for summary judgment of non-infringement. On June 8, 2018 the appellate court affirmed the lower court's decision. On June 9, 2018 Quest Licensing Corporation filed a petition for rehearing with the appellate court. On July 30, 2018 the appellate court denied Quest Licensing Corporations petition for rehearing and the funding agreement terminated.

In December 2018, we entered into a funding agreement whereby a third party agreed to provide funds to us to enable us to support our structured licensing programs for the CMOS and M-RED portfolios. Under the funding agreement, the third party receives an interest in the proceeds from the programs, and we have no other obligation to the third party. As of March 31, 2020 the Company paid the third party approximately \$130,000 under the agreement.

#### *Patent Enforcement and Other Litigation*

Certain of the Company's operating subsidiaries are engaged in litigation to enforce their patents and patent rights. In connection with these patent enforcement actions, it is possible that a defendant may request and/or a court may rule that an operating subsidiary has violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against the Company or its operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material, and if required to be paid by the Company or its operating subsidiaries, could materially harm the Company's operating results and financial position and could result in a default under the Company's notes to Intelligent Partners. Since the operating subsidiaries do not have any assets other than the patents, and the Company does not have any available financial resources to pay any judgment which a defendant may obtain against a subsidiary, such a judgment may result in the bankruptcy of the subsidiary and/or the loss of the patents, which are the subsidiaries' only assets.

On January 19, 2017, the court in the Mobile Data Portfolio litigation granted the defendants' motion for summary judgment of non-infringement. On January 31, 2017, Quest Licensing Corporation filed a notice of appeal with the United States Court of Appeals for the Federal Circuit. Following the court's decision granting the defendant's motion for summary judgment, the defendants moved for an award of attorneys' fees under Section 285 of the Patent Act which provides that "the court in exceptional cases may award reasonable attorney fees to the prevailing party." On June 29, 2017, the defendants' motion for attorney fees in the Mobile Data litigation was denied, without prejudice and with leave to renew their motion thirty days from the decision of the appellate court on Quest Licensing Corporation's appeal. On June 8, 2018 the appellate court affirmed the lower court's decision. On June 9, 2018 Quest Licensing Corporation filed a petition for rehearing with the appellate court. On July 30, 2018 the appellate court denied Quest Licensing Corporations petition for rehearing. On March 27, 2019 the court in the Mobile Data Portfolio litigation denied the defendants' motion for attorney fees under Section 285 of the Patent Act.

In February 2020, Specialty Retailers, Inc. ("Specialty") failed to make the final installment payment pursuant to the Settlement and License Agreement between Specialty and CXT. On March 31, 2020, CXT made a sealed motion with the Court to Reopen the Action and Enforce the Settlement Agreement. On April 17, 2020, the Court set a Telephone Status Conference for April 20, 2020. On May 1, 2020, CXT filed a sealed motion with the Court seeking Summary Judgment to Enforce the Settlement Agreement. On May 4<sup>th</sup> the Court granted the motion.

#### **NOTE 10 – SUBSEQUENT EVENTS**

On May 11, 2020, the board of directors adopted a Simplified Employee Pension – Individual Retirement Accounts Contribution Agreement for its employees pursuant to which the Company deposits to a SEP IRA account of its employees a percentage of the employee's compensation, subject to statutory limitations on the amount of the contribution. For 2020, the percentage was set at 19%. The Company has only one employee, its chief executive officer.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

Our principal operations include the development, acquisition, licensing and enforcement of intellectual property rights that are either owned or controlled by us or one of our wholly owned subsidiaries. We currently own, control or manage eleven intellectual property portfolios, which principally consist of patent rights. Our ten intellectual property portfolios include the portfolios which we acquired from Intellectual Ventures Assets 16, LLC ("Intellectual Ventures") and seven of its affiliates. As part of our intellectual property asset management activities and in the ordinary course of our business, it has been necessary for either us or the intellectual property owner who we represent to initiate, and it is likely to continue to be necessary to initiate patent infringement lawsuits and engage in patent infringement litigation. We anticipate that our primary source of revenue will come from the grant of licenses to use our intellectual property, including licenses granted as part of the settlement of patent infringement lawsuits.

Our business, like all businesses at the present time, are affected by the COVID-19 pandemic and the steps taken by states to seek to reduce the spread of the virus. Although we do not manufacture or sell products, the COVID-19 pandemic and the work shutdown imposed in the United States and other countries to limit the spread of the virus can have a negative impact on our business. Our revenue is generated almost exclusively from license fees generated from litigation seeking damages for infringement of our intellectual property rights. The work shutdown has affected the court system, with courts operating on a reduced schedule. As a result, patent infringement actions are likely to be lower priority items in allocation of court resources, with the effect that deadlines are likely to be postponed which delays may give defendants an incentive to delay negotiations or offer a lower amount than they might otherwise accept. In addition, the effect of the COVID-19 and the public response may adversely affect the financial condition and prospects of defendants and potential defendants, which would make it less likely that they would be willing to settle our claim. A number of defendants and potential defendants have filed to take advantage of the Bankruptcy Act or have announced that they may consider such action. If any defendant filed for protection under the Bankruptcy Act, the action would be stayed and we may not be able to obtain a judgment or recover on any judgment.

The COVID-19 pandemic and the response to limit the spread of the infection may affect the financial condition of financing sources and the willingness of potential financing sources to provide funding for our litigation. In addition, these factors may affect a law firm's ability and willingness to provide us with legal services on a contingent or partial contingent. The possibility that a defendant may seek protection under the Bankruptcy Act may make it less likely that a financing source would finance the litigation or that a law firm would work on a contingency or modified contingency basis.

Further, to the extent that holders of intellectual property rights see these factors impacting our ability to generate revenue from their intellectual property, they may be reluctant to sell intellectual property to us on terms which are acceptable to us, if at all.

We seek to generate revenue from two sources:

- Patent licensing fees relating to our intellectual property portfolio, which includes fees from the licensing of our intellectual property, primarily from litigation relating to enforcement of our intellectual property rights. Almost all of the revenue for the three months ended March 31, 2020 and 2019 were from patent licensing fees, of which approximately 100% and 77%, respectively, was paid to the patent seller, funding sources and legal counsel pursuant to our agreements with patent sellers, funding sources and legal counsel.
- Licensed packaging sales, which relate to the sale of licensed products

In previous periods, we also generated revenue from management fees, which we received for managing structured licensing programs, including litigation, related to our intellectual property rights pursuant to an agreement with our financing source. We do not currently receive these fees and do not have any agreements that provide for such payments, and we cannot assure you that we will generate such fees in the future.

Because of the nature of our business transactions to date, we recognize revenues from licensing upon execution of a license agreement following settlement of litigation and not over the life of the patent. Thus, we would recognize revenue when we receive the license fee or settlement payment. Although we intend to seek to develop portfolios of intellectual property rights that provide us for a continuing stream of revenue, to date we have not been successful in doing so, and we do not anticipate that we will be able to generate any significant revenue from licenses that provide a continuing stream of revenue. Thus, to the extent that we continue to generate cash from single payment licenses, our revenue can, and is likely to, vary significantly from quarter to quarter and year to year. Our gross profit from license fees reflects any royalties which we pay in connection with our license.

It is generally necessary to commence litigation in order to obtain a recovery for past infringement of, or to license the use of, our intellectual property rights. Intellectual property litigation is very expensive, with no certainty of any recovery. To the extent possible we seek to engage counsel on a contingent fee or partial contingent fee basis, which significantly reduces our litigation cost, but which also reduces the value of the recovery to us. We do not have the resources to enable us to fund the cost of litigation. To the extent that we cannot fund litigation ourselves, we may enter into an agreement with a third-party funding source. Our agreements with the funding sources typically provide that the funding source pays the litigation costs and that the funding source receives a percentage of the recovery, thus reducing our recovery in connection with any settlement of the litigation. In view of our limited cash and our working capital deficiency, we are not able to institute any monetization program that may require litigation unless we engage counsel on a fully contingent basis or we obtain funding from third party funding sources. In these cases, counsel may be afforded a greater participation in the recovery and the third party that funds the litigation would be entitled to participate in any recovery. To the extent that we have agreements with counsel and/or litigation funding sources pursuant to which payments made to them represent a portion of the gross recovery, and such payment is contingent upon a recovery, our revenue from litigation reflects the gross recovery from litigation as licensing fees, and payments to counsel and/or litigation funding sources are reflected as cost of revenue.

To a significantly lesser extent, we generate revenue from sale of packaging materials based on our TurtlePak<sup>TM</sup> technology. Our gross profit from sales reflects the cost of contract manufacturing and labor. We did not generate any revenue from the TurtlePak<sup>TM</sup> Portfolio other than from the sale of products using our technology.

On April 12, 2019, Quest NetTech brought a patent infringement suit in the U.S. District for the Eastern District of Texas against Apple, Inc. In March 2020, the Court issued an order granting the parties Joint Motion to Stay All Deadlines and Notice of Settlement.

In May 2018, Semcon brought patent infringement actions in the United States District Court for the Eastern District of Texas against Amazon.com, Inc., AsusTeK Computer Inc., TCT Mobile International Limited et. al., Kyocera Corporation, LVMH Moet Hennessy Louis Vuitton, SE, Shenzhen OnePlus Science & Technology Co., Ltd., and Michael Kors Holdings Ltd. In January and April, 2020, the Court issued an order granting the parties joint motion to dismiss in the Asus and Louis Vuitton matters, respectively.

In April 2018 CXT brought patent infringement suits in the United States District Court for the Eastern District of Texas against Academy Ltd. In February 2020, the Court granted the parties' sealed motion to Stay All Deadlines and Notice of Settlement, in April 2020, the Court issued an order granted the parties' Joint Motion to Dismiss

In May 2018 CXT brought patent infringement suits in the United States District Court for the Eastern District of Texas against Conn's, Inc., Fossil Group, Inc., JC Penney Company, Inc., Stage Stores, Inc. and Tailored Brands, Inc. In January 2020, the action against Conn's Inc. matter was dismissed. In the Fossil and JC Penney matters, in February 2020, the Court granted the parties' sealed motion to Stay All Deadlines and Notice of Settlement and in April 2020, the Court issued an order granted the parties' Joint Motion to Dismiss. In February 2020, Specialty Retailers, Inc., the parent company of Stage Stores, Inc., failed to make the final installment payment pursuant to the Settlement and License Agreement between Specialty and CXT. On March 31, 2020, CXT made a sealed motion with the Court to Reopen the Action and Enforce the Settlement Agreement. On April 17, 2020, the Court set a Telephone Status Conference for April 20, 2020. On May 1, 2020, CXT filed a sealed motion with the Court seeking Summary Judgment to Enforce the Settlement Agreement and on May 4<sup>th</sup> the Court granted the motion. In the Tailored Brands matter, in May 2020 the parties made a joint motion to the court to Stay All Deadlines and Notice of Settlement.

In May 2019, CXT brought patent infringement actions in the United States District Court for the Eastern District of Texas against Harbor Freight Tools USA, Inc., Hallmark.com, LLC, Retail Concepts, Inc. and CC Filson Co. All the actions were dismissed.

In August 2019, CXT brought patent infringement suits in the United States District Court for the Eastern District of Texas against Neiman Marcus Group Ltd., General Nutrition Corporation and Steven Madden, Ltd. The General Nutrition action has been settled and dismissed and the Steven Madden action is stayed pending settlement.

## Results of Operations

### *Three months ended March 31, 2020 and 2019*

Revenues for the three months ended March 31, 2020 were approximately \$870,000, an increase of approximately \$495,000, or 132%, compared to the three months ended March 31, 2019, which were approximately \$375,000. The increase principally reflects an increase in patent licensing fees of approximately \$495,000. The patent licensing fees of \$870,000 for the three months ended March 31, 2020 resulted from the licensing and settlements of the Power Management/Bus Control Portfolio and the CXT Portfolio. Our revenue, in the near future if not longer, is likely to be affected by factors relating to the COVID-19 pandemic as described under "Overview". We generated revenue of approximately \$370,000 for the three months ended March 31, 2019, from settlements in the licenses to the CXT portfolio. The total settlement recovery is included in revenue and the associated costs are deducted as cost of revenue. As discussed above, the timing and amount of our revenue is dependent upon the results of litigation seeking to enforce our intellectual property rights, and we cannot predict when or whether we will have a recovery and how much of the recovery will be received by us after payments to legal counsel, to our funding sources, to inventors/former patent owners and to Intelligent Partners who have an interest in our share of the recovery from certain patent portfolios after deducting payments due to counsel and the litigation funding source.

Operating expenses for the three months ended March 31, 2020 increased by approximately \$705,000, or 120%, compared to the three months ended March 31, 2019. Our principal operating expense for the three months ended March 31, 2020 was litigation and licensing expenses which consist of fees payable to attorneys and third-party funding sources inventors/former patent owners associated with the power management/bus controller portfolio and CXT settlements of approximately \$910,000. We had settlement costs of approximately \$265,000 for the three months ended March 31, 2019. As discussed above, the timing and amount of revenue is dependent upon the results of litigation seeking to enforce our intellectual property rights. Depending on the terms of the engagement with counsel, total fees payable across all our portfolio enforcement actions may exceed total settlement recoveries as of a specific date as the settlements do not occur simultaneously.

Other expense for the three months ended March 31, 2020 included a \$40,000 loss on the derivative liability associated with the options held by Intelligent Partners. We realized a loss of \$165,000 on derivative liability in the comparable period of 2019. Other expense reflects interest expense of approximately \$221,000 for the three months ended March 31, 2020 and approximately \$163,000 for the three months ended March 31, 2019. The increase in interest expense reflects the interest accrued on our note to Intelligent Partners.

During the period we incurred income tax expense of approximately \$225 for the three months March 31, 2020 and 2019.

As a result of the foregoing, we realized net loss of approximately \$683,000, or \$0.00 per share (basic and diluted), for the three months ended March 31, 2020, compared to net loss of approximately \$540,000, or \$0.00 per share (basic and diluted), for the three months ended March 31, 2019.

## Liquidity and Capital Resources

At March 31, 2020, we had current assets of approximately \$566,000, and current liabilities of approximately \$8,785,000. Our current liabilities include approximately \$952,000 payable to Intellectual Ventures, loans payable of approximately \$4,541,000 (net of discount of approximately \$132,000) and accrued interest of approximately \$117,000 payable to Intelligent Partners, as transferee of United Wireless, and loans payable of \$147,000 and accrued interest of approximately \$274,000 due to former directors and minority stockholders. As of March 31, 2020, we have an accumulated deficit of approximately \$20,651,000 and a negative working capital of approximately \$8,219,000. Other than salary and pension benefits to our chief executive officer, we do not contemplate any other material operating expense in the near future other than normal general and administrative expenses, including expenses relating to our status as a public company filing reports with the SEC.

We cannot assure you that we will be successful in generating future revenues, in obtaining additional debt or equity financing or that such additional debt or equity financing will be available on terms acceptable to us, if at all, or that we will be able to obtain any third party funding in connection with any of our intellectual property portfolios. We have no credit facilities.

We cannot predict the success of any pending or future litigation. Our obligations to Intelligent Partners are not contingent upon the success of any litigation. If we fail to generate a sufficient recovery in these actions (net of any portion of any recovery payable to the funding source or our legal counsel) in a timely manner to enable us to pay Intelligent Partners on the present loans we would be in default under our agreements with Intelligent Partners which could result in Intelligent Partners obtaining ownership of the three subsidiaries which own the patent rights we acquired from Intellectual Ventures. Our agreements with the funding sources provide that the funding sources will participate in any recovery which is generated. We believe that our financial condition, our history of losses and negative cash flow from operations, and our low stock price make it difficult for us to raise funds in the debt or equity markets.

As noted below, there is a substantial doubt about our ability to continue as a going concern.

## Significant Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities. On an on-going basis, we evaluate our estimates including the allowance for doubtful accounts, the salability and recoverability of our products, income taxes and contingencies. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements.

### *Principles of Consolidation*

The consolidated financial statements are prepared in accordance with US GAAP and Rule 8-03 of Regulation S-X of the SEC, and present the financial statements of the Company and our wholly-owned subsidiary. In the preparation of our consolidated financial statements, intercompany transactions and balances are eliminated.

### *Use of Estimates and Assumptions*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Fair Value of Financial Instruments*

We adopted Financial Accounting Standards Board (“FASB”) ASC 820, “Fair Value Measurements and Disclosures”, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that require the use of fair value measurements which establishes a framework for measuring fair value and expands disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

In addition, FASB ASC 825-10-25 “Fair Value Option” was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value.

#### *Income Tax*

We record revenues on a gross basis, before deduction for income taxes. We incurred no foreign income tax expenses for the three-months ended March 31, 2020 and 2019.

#### *Long-Lived Assets*

We review for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable, pursuant to guidance established in ASC 360-10-35-15, “Impairment or Disposal of Long-Lived Assets”. We recognize an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset’s estimated fair value and its book value.

#### *Revenue Recognition*

We recognize revenue in accordance with ASC Topic 606, “Revenue from Contracts with Customers”. Revenue is recognized when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Under Topic 606, revenue is recognized when there is a contract which has commercial substance which is approved by both parties and identifies the rights of the parties and the payment terms. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method, with no impact on the consolidated financial position or results of operations.

#### *Cost of Revenue*

Cost of revenues mainly includes expenses incurred in connection with our patent enforcement activities, such as legal fees, consulting costs, patent maintenance, royalty fees for acquired patents and other related expenses. Cost of revenue does not include expenses related to product development, patent amortization, integration or support, as these are included in general and administrative expenses.

#### *Inventor/Former Owner Royalties and Contingent Legal/Litigation Finance Expenses*

In connection with the investment in certain patents and patent rights, certain of our operating subsidiaries may execute related agreements which grant to the inventors and/or former owners of the respective patents or patent rights, the right to receive a percentage of future net revenues (as defined in the respective agreements) generated as a result of licensing and otherwise enforcing the respective patents or patent portfolios.

Our operating subsidiaries may retain the services of law firms that specialize in patent licensing and enforcement and patent law in connection with their licensing and enforcement activities. These law firms may be retained on a contingent fee basis whereby such law firms are paid a percentage of any negotiated fees, settlements or judgments awarded.

Our operating subsidiaries may engage with funding sources that specialize in providing financing for patent licensing and enforcement. These litigation finance firms may be engaged on a non-recourse basis whereby such litigation finance firms are paid a percentage of any negotiated fees, settlements or judgments awarded in exchange for providing funding for legal fees and out of pocket expenses incurred as a result of the licensing and enforcement activities.

The economic terms of the inventor agreements, operating agreements, contingent legal fee arrangements and litigation financing agreements associated with the patent portfolios owned or controlled by our operating subsidiaries, if any, including royalty rates, contingent fee rates and other terms, vary across the patent portfolios owned or controlled by such operating subsidiaries. Inventor/former owner royalties, payments to non-controlling interests, contingent legal fees expenses and litigation finance expenses fluctuate period to period, based on the amount of revenues recognized each period, the terms and conditions of revenue agreements executed each period and the mix of specific patent portfolios with varying economic terms and obligations generating revenues each period. Inventor/former owner royalties, contingent legal fees expenses and litigation finance expenses will continue to fluctuate and may continue to vary significantly period to period, based primarily on these factors.

#### **Recent Accounting Pronouncements**

Management does not believe that there are any recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on our financial statements.

#### **Going Concern**

We have an accumulated deficit of approximately \$20,651,000 and negative working capital of approximately \$8,219,000 as of March 31, 2020. Because of our continuing losses, our working capital deficiency, the uncertainty of future revenue, our obligations to Intellectual Ventures and Intelligent Partners, as transferee of United Wireless, our low stock price and the absence of a trading market in our common stock, our ability to raise funds in equity market or from lenders is severely impaired. These conditions, together with the effects of the COVID-19 pandemic and the steps taken by the states to slow the spread of the virus and its effect on

our business raise substantial doubt as to our ability to continue as a going concern. Although we may seek to raise funds to obtain third party funding for litigation to enforce our intellectual property rights, the availability of such funds, particularly in view of the COVID-19 pandemic, is uncertain. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### Off-balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

#### Item 4. Controls and Procedures.

##### Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2020, the end of the period covered by this Quarterly Report on Form 10-Q. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our chief executive officer and chief financial officer, which positions are held by the same person. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, due to the inadequacy of our internal controls over financial reporting and our limited internal audit function, our disclosure controls were not effective as of March 31, 2020, such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the president and treasurer, as appropriate to allow timely decisions regarding disclosure.

##### Changes in Internal Control over Financial Reporting.

As reported in our annual report on Form 10-K for the year ended December 31, 2019, management has determined that our internal audit our internal controls contains material weaknesses due to lack of segregation of duties within accounting functions as well as lack of qualified accounting personnel and excessive reliance on third party consultants for accounting, financial reporting and related activities. These problems continue to affect us as we only have on full-time executive officer, who is our only full-time employee and who serves as chief executive officer and chief financial officer.

During the period ended March 31, 2020, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

#### Item 5. Other Information

On May 11, 2020, the board of directors adopted a Simplified Employee Pension – Individual Retirement Accounts Contribution Agreement for its employees pursuant to which the Company deposits to a SEP IRA account of its employees a percentage of the employee's compensation, subject to statutory limitations on the amount of the contribution. For 2020, the percentage was set at 19%. The Company has only one employee, its chief executive officer.

#### Item 6. Exhibits.

10.1	<a href="#">The Company's Simplified Employee Pension – Individual Retirement Accounts Contribution Agreement</a>
31.1	<a href="#">Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.ins	XBRL Instance Document
101.sch	XBRL Taxonomy Schema Document
101.cal	XBRL Taxonomy Calculation Document
101.def	XBRL Taxonomy Linkbase Document
101.lab	XBRL Taxonomy Label Linkbase Document
101.pre	XBRL Taxonomy 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.

Date: May 13, 2020

#### QUEST PATENT RESEARCH CORPORATION

By: /s/ Jon C. Scahill  
Jon C. Scahill  
Chief Executive Officer and  
Acting Chief Financial Officer

**Simplified Employee Pension—Individual  
Retirement Accounts Contribution Agreement**  
(Under section 408(k) of the Internal Revenue Code)

**Quest Patent Research Corporation** makes the following agreement under section 408(k) of the  
(Name of employer) Internal Revenue Code and the instructions to this form.

**Article I—Eligibility Requirements** (check applicable boxes—see instructions)

The employer agrees to provide discretionary contributions in each calendar year to the individual retirement account or individual retirement annuity (IRA) of all employees who are at least **21** years old (not to exceed 21 years old) and have performed services for the employer in at least 3 years (not to exceed 3 years) of the immediately preceding 5 years. This simplified employee pension (SEP) includes **does not** include employees covered under a collective bargaining agreement, includes **does not** include certain nonresident aliens, and includes **does not** include employees whose total compensation during the year is less than \$450\*.

**Article II—SEP Requirements** (see instructions)

The employer agrees that contributions made on behalf of each eligible employee will be:

- A. Based only on the first \$205,000\* of compensation.
- B. The same percentage of compensation for every employee.
- C. Limited annually to the smaller of \$41,000\* or 25% of compensation.
- D. Paid to the employee's IRA trustee, custodian, or insurance company (for an annuity contract).

\_\_\_\_\_  
Employer's signature and date

**Jon C. Scahill, CEO**  
\_\_\_\_\_  
Name and title

**Instructions**

*Section references are to the Internal Revenue Code unless otherwise noted.*

**Purpose of Form**

Form 5305-SEP (Model SEP) is used by an employer to make an agreement to provide benefits to all eligible employees under a simplified employee pension (SEP) described in section 408(k).

Do not file Form 5305-SEP with the IRS. Instead, keep it with your records.

For more information on SEPs and IRAs, see Pub. 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), and Pub. 590, Individual Retirement Arrangements (IRAs).

**Instructions to the Employer**

**Simplified employee pension.** A SEP is a written arrangement (a plan) that provides you with an easy way to make contributions toward your employees' retirement income. Under a SEP, you can contribute to an employee's traditional individual retirement account or annuity (traditional IRA). You make contributions directly to an IRA set up by or for each employee with a bank, insurance company, or other qualified financial institution. When using Form 5305-SEP to establish a SEP, the IRA must be a Model traditional IRA established on an IRS form or a master or prototype traditional IRA for which the IRS has issued a favorable opinion letter. You may not make SEP contributions to a Roth IRA or a SIMPLE IRA. Making the agreement on Form 5305-SEP does not establish an employer IRA described in section 408(c).

*\* For 2005 and later years, this amount is subject to annual cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS website at www.irs.gov.*

**For Paperwork Reduction Act Notice, see page 5.**

Cat. No. 11825J

Form 5305-SEP (Rev. 12-2004)

Form 5305-SEP (Rev. 12-2004)

Page 2

**When not to use Form 5305-SEP.** Do not use this form if you:

1. Currently maintain any other qualified retirement plan. This does not prevent you from maintaining another SEP.
2. Have any eligible employees for whom IRAs have not been established.
3. Use the services of leased employees (described in section 414(n)).
4. Are a member of an affiliated service group (described in section 414(m)), a controlled group of corporations (described in section 414(b)), or trades or businesses under common control (described in sections 414(c) and 414(o)), unless all eligible employees of all the members of such groups, trades, or businesses participate in the SEP.
5. Will not pay the cost of the SEP contributions. Do not use Form 5305-SEP for a SEP that provides for elective employee contributions even if the contributions are made under a salary reduction agreement. Use Form 5305A-SEP, or a nonmodel SEP.

**Note.** SEPs permitting elective deferrals cannot be established after 1996.

**Eligible employees.** All eligible employees must be allowed to participate in the SEP. An eligible employee is any employee who: (1) is at least 21 years old, and (2) has performed "service" for you in at least 3 of the immediately preceding 5 years. You can establish less restrictive eligibility requirements, but not more restrictive ones.

Service is any work performed for you for any period of time, however short. If you are a member of an affiliated service group, a controlled group of corporations, or trades or businesses under common control, service includes any work performed for any period of time for any other member of such group, trades, or businesses.

**Excludable employees.** The following employees do not have to be covered by the SEP: (1) employees covered by a collective bargaining agreement whose retirement benefits were bargained for in good faith by you and their union, (2) nonresident alien employees who did not earn U.S. source income from you, and (3) employees who received less than \$450\* in compensation during the year.

**Contribution limits.** You may make an annual contribution of up to 25% of the employee's compensation or \$41,000\*, whichever is less. Compensation, for this purpose, does not include employer contributions to the SEP or the employee's compensation in excess of \$205,000\*. If you also maintain a salary reduction SEP, contributions to the two SEPs together may not exceed the smaller of \$41,000\* or 25% of compensation for any employee.

You are not required to make contributions every year, but when you do, you must contribute to the SEP-IRAs of all eligible employees who actually performed services during the year of the contribution. This includes eligible employees who die or quit working before the contribution is made.

Contributions cannot discriminate in favor of highly compensated employees. Also, you may not integrate your SEP contributions with, or offset them by, contributions made under the Federal Insurance Contributions Act (FICA).

If this SEP is intended to meet the top-heavy minimum contribution rules of section 416, but it does not cover all your employees who participate in your salary reduction SEP, then you must make minimum contributions to IRAs established on behalf of those employees.

**Deducting contributions.** You may deduct contributions to a SEP subject to the limits of section 404(h). This SEP is maintained on a calendar year basis and contributions to the SEP are deductible for your tax year with or within which the calendar year ends. Contributions made for a particular tax year must be made by the due date of your income tax return (including extensions) for that tax year.

*\* For 2005 and later years, this amount is subject to annual cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS website at [www.irs.gov](http://www.irs.gov).*

---

**Completing the agreement.** This agreement is considered adopted when:

- IRAs have been established for all your eligible employees;
- You have completed all blanks on the agreement form without modification; and
- You have given all your eligible employees the following information:
  1. A copy of Form 5305-SEP.
  2. A statement that traditional IRAs other than the traditional IRAs into which employer SEP contributions will be made may provide different rates of return and different terms concerning, among other things, transfers and withdrawals of funds from the IRAs.
  3. A statement that, in addition to the information provided to an employee at the time the employee becomes eligible to participate, the administrator of the SEP must furnish each participant within 30 days of the effective date of any amendment to the SEP, a copy of the amendment and a written explanation of its effects.
  4. A statement that the administrator will give written notification to each participant of any employer contributions made under the SEP to that participant's IRA by the later of January 31 of the year following the year for which a contribution is made or 30 days after the contribution is made.

Employers who have established a SEP using Form 5305-SEP and have furnished each eligible employee with a copy of the completed Form 5305-SEP and provided the other documents and disclosures described in *Instructions to the Employer* and *Information for the Employee*, are not required to file the annual information returns, Forms 5500 or 5500-EZ for the SEP. However, under Title I of the Employee Retirement Income Security Act of 1974 (ERISA), this relief from the annual reporting requirements may not be available to an employer who selects, recommends, or influences its employees to choose IRAs into which contributions will be made under the SEP, if those IRAs are subject to provisions that impose any limits on a participant's ability to withdraw funds (other than restrictions imposed by the Code that apply to all IRAs). For additional information on Title I requirements, see the Department of Labor regulation at 29 CFR 2520.104-48.

#### **Information for the Employee**

The information below explains what a SEP is, how contributions are made, and how to treat your employer's contributions for tax purposes. For more information, see Pub. 590.

**Simplified employee pension.** A SEP is a written arrangement (a plan) that allows an employer to make contributions toward your retirement. Contributions are made to a traditional individual retirement account/annuity (traditional IRA). Contributions must be made to either a Model traditional IRA executed on an IRS form or a master or prototype traditional IRA for which the IRS has issued a favorable opinion letter.

An employer is not required to make SEP contributions. If a contribution is made, however, it must be allocated to all eligible employees according to the SEP agreement. The Model SEP (Form 5305-SEP) specifies that the contribution for each eligible employee will be the same percentage of compensation (excluding compensation greater than \$205,000\*) for all employees.

Your employer will provide you with a copy of the agreement containing participation rules and a description of how employer contributions may be made to your IRA. Your employer must also provide you with a copy of the completed Form 5305-SEP and a yearly statement showing any contributions to your IRA.

All amounts contributed to your IRA by your employer belong to you even after you stop working for that employer.

*\* For 2005 and later years, this amount is subject to annual cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS website at [www.irs.gov](http://www.irs.gov).*

---

**Contribution limits.** Your employer will determine the amount to be contributed to your IRA each year. However, the amount for any year is limited to the smaller of \$41,000\* or 25% of your compensation for that year. Compensation does not include any amount that is contributed by your employer to your IRA under the SEP. Your employer is not required to make contributions every year or to maintain a particular level of contributions.

**Tax treatment of contributions.** Employer contributions to your SEP-IRA are excluded from your income unless there are contributions in excess of the applicable limit. Employer contributions within these limits will not be included on your Form W-2.

**Employee contributions.** You may make regular IRA contributions to an IRA. However, the amount you can deduct may be reduced or eliminated because, as a

participant in a SEP, you are covered by an employer retirement plan.

**SEP participation.** If your employer does not require you to participate in a SEP as a condition of employment, and you elect not to participate, all other employees of your employer may be prohibited from participating. If one or more eligible employees do not participate and the employer tries to establish a SEP for the remaining employees, it could cause adverse tax consequences for the participating employees.

An employer may not adopt this IRS Model SEP if the employer maintains another qualified retirement plan. This does not prevent your employer from adopting this IRS Model SEP and also maintaining an IRS Model Salary Reduction SEP or other SEP. However, if you work for several employers, you may be covered by a SEP of one employer and a different SEP or pension or profit-sharing plan of another employer.

**SEP-IRA amounts—rollover or transfer to another IRA.** You can withdraw or receive funds from your SEP-IRA if, within 60 days of receipt, you place those funds in the same or another IRA. This is called a “rollover” and can be done without penalty only once in any 1-year period. However, there are no restrictions on the number of times you may make “transfers” if you arrange to have these funds transferred between the trustees or the custodians so that you never have possession of the funds.

**Withdrawals.** You may withdraw your employer’s contribution at any time, but any amount withdrawn is includible in your income unless rolled over. Also, if withdrawals occur before you reach age 59½, you may be subject to a tax on early withdrawal.

**Excess SEP contributions.** Contributions exceeding the yearly limitations may be withdrawn without penalty by the due date (plus extensions) for filing your tax return (normally April 15), but are includible in your gross income. Excess contributions left in your SEP-IRA after that time may have adverse tax consequences. Withdrawals of those contributions may be taxed as premature withdrawals.

**Financial institution requirements.** The financial institution where your IRA is maintained must provide you with a disclosure statement that contains the following information in plain, nontechnical language:

1. The law that relates to your IRA.
2. The tax consequences of various options concerning your IRA.
3. Participation eligibility rules, and rules on the deductibility of retirement savings.
4. Situations and procedures for revoking your IRA, including the name, address, and telephone number of the person designated to receive notice of revocation. This information must be clearly displayed at the beginning of the disclosure statement.
5. A discussion of the penalties that may be assessed because of prohibited activities concerning your IRA.
6. Financial disclosure that provides the following information:
  - a. Projects value growth rates of your IRA under various contribution and retirement schedules, or describes the method of determining annual earnings and charges that may be assessed.
  - b. Describes whether, and for when, the growth projections are guaranteed, or a statement of the earnings rate and the terms on which the projections are based.
  - c. States the sales commission for each year expressed as a percentage of \$1,000.

*\* For 2005 and later years, this amount is subject to annual cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS website at [www.irs.gov](http://www.irs.gov).*

In addition, the financial institution must provide you with a financial statement each year. You may want to keep these statements to evaluate your IRA’s investment performance.

**Paperwork Reduction Act Notice.** You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b>	1 hr., 40 min.
<b>Learning about the law or the form</b>	1 hr., 35 min.
<b>Preparing the form</b>	1 hr., 41 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, Washington, DC 20224. Do not send this form to this address. Instead, keep it with your records.

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Jon C. Scahill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quest Patent Research Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: May 13, 2020

By: /s/ Jon C. Scahill  
Chief Executive Officer and  
Acting Chief Financial Officer  
(Principal Executive and Accounting Officer)

EX-32.1 4 fl0q0320ex32-1\_quest.htm CERTIFICATION

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Quest Patent Research Corporation (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon C. Scahill, chief executive officer and acting chief financial officer of the Company, certify, pursuant to 18 U.S.C. section 1350 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2020

By: /s/Jon C. Scahill  
Jon C. Scahill  
Chief Executive Officer and  
Acting Chief Financial Officer  
(Principal Executive and Accounting Officer)