

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2023

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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

Commission File Number 33-18099-NY

**QUEST PATENT RESEARCH CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

411 Theodore Fremd Ave., Suite 206S  
Rye, NY

(Address of principal executive offices)

11-2873662

(IRS Employer  
Identification No.)

10580-1411

(Zip code)

(888) 743-7577

(Registrant's telephone number, including area code)

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

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

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 (Section 232.405 of this chapter) during the preceding 12 months (or 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, a 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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 5,331,973 shares of common stock are issued and outstanding as of November 10, 2023.

TABLE OF CONTENTS

	Page
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1. <a href="#">Financial Statements.</a>	1
<a href="#">Condensed Consolidated Balance Sheets as of September 30, 2023 (Unaudited) and December 31, 2022</a>	1
<a href="#">Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2023 and 2022</a>	2
<a href="#">Unaudited Condensed Consolidated Statements of Changes in Stockholders' Deficit for the three and nine months ended September 30, 2023 and 2022</a>	3
<a href="#">Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022</a>	4
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements.</a>	5
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations.</a>	23
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk.</a>	31
Item 4. <a href="#">Controls and Procedures.</a>	31
<b>PART II - OTHER INFORMATION</b>	

**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, 2022, 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](http://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.

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2023 (unaudited)	December 31, 2022
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 611,466	\$ 90,601
Other current assets	63,067	5,321
<b>Total current assets</b>	<b>674,533</b>	<b>95,922</b>
Patents, net of accumulated amortization of \$2,217,106 and \$1,625,846, respectively	3,869,894	1,131,154
<b>Total assets</b>	<b>\$ 4,544,427</b>	<b>\$ 1,227,076</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable and accrued liabilities	283,247	148,533
Loans payable	138,000	138,000
Funding liabilities	10,820,588	5,453,204
Loan payable - related party	2,796,500	2,796,500
Warrant liability	300,000	145,428
Accrued interest	1,468,925	904,573
<b>Total current liabilities</b>	<b>15,807,260</b>	<b>9,586,238</b>
Non-current liabilities		
Loan payable – SBA	150,000	150,000
Purchase price of patents	53,665	53,665
<b>Total liabilities</b>	<b>16,010,925</b>	<b>9,789,903</b>
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock, par value \$0.00003 per share - authorized 10,000,000 shares - no shares issued and outstanding	—	—
Common stock, par value \$0.00003 per share; authorized 30,000,000 at September 30, 2023 and December 31, 2022; shares issued and outstanding 5,331,973 at September 30, 2023 and December 31, 2022	160	160
Additional paid-in capital	17,664,905	17,626,279
Accumulated deficit	(29,131,791)	(26,189,494)
<b>Total Quest Patent Research Corporation stockholders' deficit</b>	<b>(11,466,726)</b>	<b>(8,563,055)</b>
Non-controlling interest in subsidiary	228	228
<b>Total stockholders' deficit</b>	<b>(11,466,498)</b>	<b>(8,562,827)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 4,544,427</b>	<b>\$ 1,227,076</b>

See the accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Revenues</b>				
Patent licensing fees	\$ 250,000	\$ 275,000	\$ 452,500	\$ 397,000
<b>Cost of revenues</b>				
Litigation and licensing expenses	327,759	147,393	613,236	237,487
Gross (loss) profit	<u>(77,759)</u>	<u>127,607</u>	<u>(160,736)</u>	<u>159,513</u>
<b>Operating expenses</b>				
Selling, general and administrative expenses	598,296	476,812	2,026,057	1,561,987
Total operating expenses	<u>598,296</u>	<u>476,812</u>	<u>2,026,057</u>	<u>1,561,987</u>
Loss from operations	<u>(676,055)</u>	<u>(349,205)</u>	<u>(2,186,793)</u>	<u>(1,402,474)</u>
<b>Other (expense) income</b>				
Change in fair market value of warrant liability	59,480	565,928	(154,572)	1,432,145
Interest expense	(216,711)	(113,058)	(570,932)	(295,705)
<b>Total other (expense) income</b>	<u>(157,231)</u>	<u>452,870</u>	<u>(725,504)</u>	<u>1,136,440</u>
Income (loss) before income tax	<u>(833,286)</u>	<u>103,665</u>	<u>(2,912,297)</u>	<u>(266,034)</u>
Income tax expense	—	—	(30,000)	(12,884)
Net income (loss)	<u>\$ (833,286)</u>	<u>\$ 103,665</u>	<u>\$ (2,942,297)</u>	<u>\$ (278,918)</u>
Income (loss) per share - basic and diluted	<u>\$ (0.16)</u>	<u>\$ 0.02</u>	<u>\$ (0.55)</u>	<u>\$ (0.05)</u>
Weighted average shares outstanding - basic and diluted	<u>5,331,973</u>	<u>5,333,347</u>	<u>5,331,973</u>	<u>5,333,347</u>

See the accompanying notes to the unaudited condensed consolidated financial statements.

2

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Non- controlling Interest in Subsidiaries	Total Stockholders' Deficit
	Shares	Amount				
<b>Balances as of January 1, 2022</b>	5,333,347	\$ 160	\$ 17,508,867	\$ (25,435,978)	\$ 228	\$ (7,926,723)
Stock-based compensation	—	—	42,079	—	—	42,079
Net loss	—	—	—	(162,640)	—	(162,640)
<b>Balances as of March 31, 2022</b>	5,333,347	160	17,550,946	(25,598,618)	228	(8,047,284)
Stock-based compensation	—	—	24,928	—	—	24,928
Net loss	—	—	—	(219,943)	—	(219,943)
<b>Balances as of June 30, 2022</b>	5,333,347	160	17,575,874	(25,818,561)	228	(8,242,299)
Stock-based compensation	—	—	25,203	—	—	25,203
Net income	—	—	—	103,665	—	103,665
<b>Balances as of September 30, 2022</b>	<u>5,333,347</u>	<u>\$ 160</u>	<u>\$ 17,601,077</u>	<u>\$ (25,714,896)</u>	<u>\$ 228</u>	<u>\$ (8,113,431)</u>

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Non- controlling Interest in Subsidiaries	Total Stockholders' Deficit
	Shares	Amount				
<b>Balances as of January 1, 2023</b>	5,331,973	\$ 160	\$ 17,626,279	\$ (26,189,494)	\$ 228	\$ (8,562,827)
Stock-based compensation	—	—	18,573	—	—	18,573
Net loss	—	—	—	(939,365)	—	(939,365)
<b>Balances as of March 31, 2023</b>	5,331,973	160	17,644,852	(27,128,859)	228	(9,483,619)
Stock-based compensation	—	—	9,972	—	—	9,972
Net loss	—	—	—	(1,169,646)	—	(1,169,646)
<b>Balances as of June 30, 2023</b>	5,331,973	160	17,654,824	(28,298,505)	228	(10,643,293)
Stock-based compensation	—	—	10,081	—	—	10,081
Net loss	—	—	—	(833,286)	—	(833,286)
<b>Balances as of September 30, 2023</b>	<u>5,331,973</u>	<u>\$ 160</u>	<u>\$ 17,664,905</u>	<u>\$ (29,131,791)</u>	<u>\$ 228</u>	<u>\$ (11,466,498)</u>

See the accompanying notes to the unaudited condensed consolidated financial statements.

3

	For the Nine Months Ended September 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,942,297)	\$ (278,918)
Adjustments to reconcile net loss to cash used in operating activities:		
Change in fair market value of warrant liability	154,572	(1,432,145)
Stock-based compensation	38,626	92,210
Amortization of intangible assets	591,260	711,826
Change in operating assets and liabilities:		
Accounts receivable	—	(215,571)
Accrued interest	564,352	295,705
Accounts payable and accrued liabilities	134,714	63,709
Other current assets	(57,746)	(787)
<b>Net cash used in operating activities</b>	<b>(1,516,520)</b>	<b>(763,971)</b>
<b>Cash flows from investing activities:</b>		
Purchase of intangible assets	(3,330,000)	(1,502,000)
<b>Net cash used in investing activities</b>	<b>(3,330,000)</b>	<b>(1,502,000)</b>
<b>Cash flows from financing activities:</b>		
Payments on loans - related party	—	(3,850)
Proceeds from funding liability	5,500,000	2,103,000
Payment of funding liability	(132,616)	(22,051)
<b>Net cash provided by financing activities</b>	<b>5,367,385</b>	<b>2,077,099</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>520,865</b>	<b>(188,872)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>90,601</b>	<b>264,840</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 611,466</b>	<b>\$ 75,968</b>
<b>Non-cash investing and financing activities:</b>		
Interest added to principal	\$ 4,208	\$ 4,208
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Income taxes	\$ 30,000	\$ 12,884
Interest	\$ 6,579	\$ —

See the accompanying notes to the unaudited condensed consolidated financial statements.

**QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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, “we”, “us”, “our”, the “Company” refer 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 condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 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, 2022. 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.

**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 September 30, 2023.

The consolidated financial statements include the accounts and operations of:

- Quest Patent Research Corporation (“The Company”)
- Digital IP Advisors Inc. (“DIPA”) (wholly owned) (formerly Quest Licensing Corporation (NY))
- Quest Licensing Corporation (DE) (“QLC”) (wholly owned)
- Quest Packaging Solutions Corporation (90% owned)
- Quest Nettech Corporation (“NetTech”) (65% owned)
- Semcon IP, Inc. (“Semcon”) (wholly owned)
- Mariner IC, Inc. (“Mariner”) (wholly owned)
- IC Kinetics, Inc. (“IC”) (wholly owned)
- CXT Systems, Inc. (“CXT”) (wholly owned)
- Photonic Imaging Solutions Inc. (“PIS”) (wholly owned)
- M-Red Inc. (“M-Red”) (wholly owned)

Audio Messaging Inc. (“AMI”) (wholly owned)  
Peregrin Licensing LLC (“PLL”) (wholly owned)  
Taasera Licensing LLC (“TLL”) (wholly owned)  
Soundstreak Texas LLC (“STX”) (wholly owned)  
Multimodal Media LLC (“MML”) (wholly owned)  
LS Cloud Storage Technologies, LLC (“LSC”) (wholly owned)  
Tyche Licensing LLC (“Tyche”) (wholly owned)  
Deepwell IP LLC (“DIP”) (wholly owned)  
EDI Licensing LLC (“EDI”) (wholly owned)  
Koyo Licensing LLC (“Koyo”) (wholly owned)  
Harbor Island Dynamic LLC (“HID”) (wholly owned)  
Flash Uplink LLC (“FUL”) (wholly owned)

In February 2022, the Company changed the name of Quest Licensing Corporation to Digital IP Advisors Incorporated.

Significant intercompany transactions and balances have been eliminated in consolidation.

The non-controlling interests are presented in the unaudited condensed consolidated balance sheets, separately from equity attributable to the shareholders of the Company. During the three and nine months ended September 30, 2023 and 2022, none of the Company’s net loss was attributable to non-controlling interests.

#### Reverse Split, Change in Authorized Common Stock

On July 27, 2022, the Company amended its amended and restated certificate of incorporation. The amendment (i) decreased the number of authorized shares of common stock from 10,000,000,000 shares to 30,000,000 shares and (ii) effected a one-for-100 reverse split whereby each share of common stock, par value \$0.00003 per share, became and was converted into 0.01 share of such common stock, with fractional shares being rounded up to the next higher whole number of shares. All authorized share and share information in these financial statements retroactively reflect the reverse split and change in authorized common stock.

#### 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.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturity dates of three months or less when purchased, to be cash equivalents. The Company had no cash equivalents as of September 30, 2023 and December 31, 2022.

#### Accounts Receivable

Accounts receivable, which generally relate to licensed sales, are presented on the balance sheet net of estimated uncollectible amounts. The Company records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The Company did not record an allowance for doubtful accounts at September 30, 2023 and December 31, 2022.

#### 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 asset’s 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.

#### Warrant Liability

The Company reflects a warrant liability with respect to warrants for which the number of shares underlying the warrants is not fixed until the date of the initial exercise. The amount of the liability is determined at the end of each fiscal period and the period-to-period change in the amount of warrant liability is reflected as a gain or loss in warrant liability and is included under other income (expense) in the accompanying consolidated statements of operations.

#### 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 our warrant liability.

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

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. The carrying value of long-term debt approximates fair value since the related rates of interest approximate current market rates. The fair value of warrant liabilities are classified as Level 3 in the fair value hierarchy.

#### Commitments and Contingencies

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 and are included in cost of revenues as litigation and licensing expenses. 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

##### *Patent Licensing Fees*

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.

For the periods presented, revenue contracts executed by the Company primarily provided for the payment of contractually determined, one-time, paid-up license fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company's operating subsidiaries as part of the settlement of litigation commenced by the Company's subsidiaries. Intellectual property rights granted included the following, as applicable: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. The intellectual property rights granted were perpetual in nature, extending until the legal expiration date of the related patents. The individual intellectual property rights are not accounted for as separate performance obligations, as (a) the nature of the promise, within the context of the contract, is to transfer combined items to which the promised intellectual property rights are inputs and (b) the Company's promise to transfer each individual intellectual property right described above to the customer is not separately identifiable from other promises to transfer intellectual property rights in the contract.

Since the promised intellectual property rights are not individually distinct, the Company combined each individual IP right in the contract into a bundle of IP rights that is distinct, and accounted for all of the intellectual property rights promised in the contract as a single performance obligation. The intellectual property rights granted were "functional IP rights" that have significant standalone functionality. The Company's subsequent activities do not substantively change that functionality and do not significantly affect the utility of the IP to which the licensee has rights. The Company's subsidiaries have no further obligation with respect to the grant of intellectual property rights, including no express or implied obligation to maintain or upgrade the technology, or provide future support or services. The contracts provide for the grant (i.e., transfer of control) of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the contract. Licensees legally obtain control of the intellectual property rights upon execution of the contract. As such, the earnings process is complete and revenue is recognized upon the execution of the contract, when collectability is probable and all other revenue recognition criteria have been met. Revenue contracts generally provide for payment of contractual amounts within 30 to 90 days of execution of the contract. Contractual payments made by licensees are generally non-refundable. The Company does not have any significant payment terms, as payment is received shortly after goods are delivered or services are provided, therefore there is no significant financing component or consideration payable to the customer in these transactions.

##### *Cost of Revenues*

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 Royalties, 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 may execute 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 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 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.

#### Income Taxes

The Company did not incur any foreign income tax expense for the three months ended September 30, 2023 and 2022. The Company incurred foreign income tax expense of \$30,000 and \$12,884 for the nine months ended September 30, 2023 and 2022, respectively.

#### Stock-Based Compensation

The Company recognizes stock-based compensation pursuant to ASC 718, "Compensation — Stock Compensation," which prescribes accounting and reporting standards for all stock-based payment transactions in which employee and non-employee services, are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options and other equity instruments such as employee stock ownership plans and stock appreciation rights. Stock-based payments to employees and non-employees, including grants of employee stock options, are recognized as compensation expense in the financial statements based on their fair values. That expense is recognized over the period during which an employee or non-employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

#### Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any such losses in these accounts.

#### Net Loss Per Share

The Company calculates net loss per share by dividing losses allocated to the Company's stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted weighted average shares is computed using basic weighted average shares plus any potentially dilutive securities outstanding during the period using the treasury-stock-type method and the if-converted method, except when their effect is anti-dilutive. Potentially dilutive securities are out of the money and therefore excluded from the computation of dilutive earnings per share for the three months ended September 30, 2022. Because the Company incurred losses for the three months ended September 30, 2023 and the nine months ended September 30, 2023 and 2022, the inclusion of diluted weighted average shares would be anti-dilutive, and therefore, the diluted net loss per share is the same as the basic net loss per share. The Company's potentially dilutive securities include 962,463 potential shares of common stock issuable upon exercise of warrants granted to QPRC Finance LLC ("QFL") in connection with the Purchase Agreement, 500,000 shares of common stock issuable upon exercise of stock options granted to Intelligent Partners in connection with the Restructure Agreement and 600,000 shares of common stock issuable upon exercise of stock options granted to officers and consultants. See Notes 3, 4 and 5.

#### 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

The Company has an accumulated deficit of approximately \$29,132,000 and negative working capital of approximately \$15,133,000 as of September 30, 2023. Because of the Company's continuing losses, its working capital deficiency, the uncertainty of future revenue, the Company's obligations to Intelligent Partners, and QFL, the Company's low stock price and the absence of an active trading market in its common stock, the ability of the Company to raise funds in the equity market or from lenders is severely impaired. These conditions, as well as any adverse consequences which would result from the Company's failure to meet the continued listing requirements of the OTCQB (see Note 8), raise substantial doubt as to the Company's ability to continue as a going concern within one year after the date that these unaudited condensed consolidated financial statements are issued. The Company's revenue is generated exclusively from license fees generated from litigation seeking damages for infringement of the Company's intellectual property rights. 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 is uncertain. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **3. SHORT-TERM DEBT AND LONG-TERM LIABILITIES**

#### Short-Term Debt

##### *Loans Payable*

The loans payable represents demand loans made by former officers and directors, who are third parties and stockholders, whose holdings were insignificant at September 30, 2023 and December 31, 2022, in the amount of \$138,000. The loans are payable on demand plus accrued interest at 10% per annum. Accrued interest on these loans at September 30, 2023 and December 31, 2022 was approximately \$306,000 and \$296,000, respectively.

##### *Funding Liabilities*

The following table shows the Company's funding liabilities to QFL and QF3 at September 30, 2023 and December 31, 2022:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Funding liability – QFL	\$ 5,520,588	\$ 5,453,204
Funding liability – QF3	5,300,000	—
<b>Net funding liabilities</b>	<b>\$ 10,820,588</b>	<b>\$ 5,453,204</b>

The QFL funding liabilities at September 30, 2023 and December 31, 2022 of \$5,520,588 and \$5,453,204, respectively, represents the principal amount of the Company's obligations to QFL pursuant to a purchase agreement ("Purchase Agreement") dated February 22, 2021 between the Company and QFL, as described below. As of September 30, 2023, the Company had made total repayments in the amount of approximately \$882,000 since February 22, 2021. Approximately \$133,000 was repaid during the nine months ended September 30, 2023. The obligation to QFL has no repayment term since payment is due solely from a portion of net proceeds generated from the monetization of the Company's intellectual property and has been classified as a current liability as of September 30, 2023 and December 31, 2022. Accrued interest related to this funding liability as of September 30, 2023 and December 31, 2022, was approximately \$961,000 and \$600,000, respectively.

On February 22, 2021, the Company entered into a series of agreements, all dated February 19, 2021, with QFL, a non-affiliated party, including the Purchase Agreement, a security agreement (the "Security Agreement"), a subsidiary security agreement (the "Subsidiary Security Agreement"), a subsidiary guaranty (the "Subsidiary Guaranty"), a warrant issue agreement (the "Warrant Issue Agreement"), a registration rights agreement (the "Registration Rights Agreement") and a board observation rights agreement (the "Board Observation Rights Agreement" together with the Security Agreement, the Subsidiary Guaranty, the Subsidiary Security Agreement, Warrant Issuance Agreement, Registration Rights Agreement and the Purchase Agreement, the "QFL Investment Documents") pursuant to which, at the closing on February 22, 2021 held contemporaneously with the execution of the agreements:

(i) Pursuant to the Purchase Agreement, QFL agreed to make available to the Company a financing facility of: (a) up to \$25,000,000 for the acquisition of mutually agreed patent rights that the Company intends to monetize, of which \$2,653,000 has been advanced as of September 30, 2023; (b) up to \$2,000,000 for operating expenses, of which the Company has requested and received \$2,000,000 as of September 30, 2023; and (iii) \$1,750,000 to fund the cash payment portion of the restructure of the Company's obligations to Intelligent Partners. In return the Company transferred to QFL a right to receive a portion of net proceeds generated from the monetization of those patents.

(ii) The Company used \$1,750,000 of proceeds from the QFL financing as the cash payment portion of the restructure of the Company's obligations to Intelligent Partners pursuant to the Restructure Agreement executed contemporaneously with the closing of the Investment Documents. The payment was made directly from QFL to Intelligent Partners.

(iii) Pursuant to the Security Agreement, the Company's obligations under the Purchase Agreement with QFL are secured by: (a) the proceeds (as defined in the Purchase Agreement); (b) the patents (as defined in the Purchase Agreement); (c) all general intangibles now or hereafter arising from or related to the foregoing (a) and (b); and (d) proceeds (including, without limitation, cash proceeds and insurance proceeds) and products of the foregoing (a)-(c).

(iv) Pursuant to the Subsidiary Guaranty, eight of the Company's subsidiaries – QLC, NetTech, Mariner, Semcon, IC, CXT, M-Red, and AMI, collectively, the "Subsidiary Guarantors") guaranteed the Company's obligations to QFL under the Purchase Agreement.

(v) Pursuant to the Subsidiary Security Agreement, the Subsidiary Guarantors granted QFL a security interest in the proceeds from the future monetization of their respective patent portfolios.

11

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(vi) Pursuant to the Warrant Issue Agreement, the Company granted QFL ten-year warrants to purchase a total of up to 962,463 shares of the Company's common stock, at an exercise price of \$0.54 per share which may be exercised from the grant date through February 18, 2031 on a cash or cashless basis. Exercisability of the warrant is limited if, upon exercise, the holder or any of holder's affiliates would beneficially own more than 4.99% (the "Maximum Percentage") of the Company's common stock, except that by written notice to the Company, the holder may change the Maximum Percentage to any other percentage not in excess of 9.99% provided any such change will not be effective until the 61<sup>st</sup> day following notice to the Company. The warrant also contains certain minimum ownership percentage antidilution rights pursuant to which the aggregate number of shares of common stock purchasable upon the initial exercise of the warrant shall not be less than 10% of the aggregate number of outstanding shares of capital stock of the Company (determined on a fully diluted basis). Because the facility with QFL has no term the fair value of the warrants was expensed at the grant date. A portion of any gain from sale of the shares, net of taxes and costs of exercise, realized prior to the completion of all monetization activities shall be credited against the total return due to QFL pursuant to the Purchase Agreement. See Notes 4 and 5 for information on the warrant issue and associated liability.

(vii) The Company regained compliance with the OTCQB Eligibility Requirements on May 7, 2021, at which time the common stock recommenced trading on the OTCQB.

(viii) The Company granted QFL certain registration rights with respect to the 962,463 shares of common stock issuable upon exercise of the warrant. See Note 5 for information on the warrant issue.

(ix) Pursuant to the Board Observation Rights Agreement, until the later of the date on which QFL or its affiliates (i) have received the entirety of their Investment Return (as defined in Purchase Agreement), and (ii) no longer hold any Securities (the "Observation Period"), the Company granted QFL the right, exercisable at any time during the Observation Period, to appoint a representative to attend meetings (including, without limitation, telephonic or other electronic meetings) of the Board or any committee thereof, including executive sessions, in an observer capacity.

On January 27, 2022, the Company acquired, via assignment from Intellectual Ventures Assets 181 LLC and Intellectual Ventures Assets 174 LLC, all right title and interest to fifteen United States patents and three foreign patents for a purchase price of \$1,060,000. The Company requested and received a capital advance in the amount of the \$1,060,000 purchase price from QFL. Two of the patents were assigned to Tyche and the balance of the patents were assigned to DIP.

In June 2022, MML and AI agreed to amend the Purchase Agreement to add two additional patent families for an additional \$92,000. The Company requested and received a capital advance from QFL in the amount of \$92,000, which was used to make payment to AI in August 2022 pursuant to the amendment to the Purchase Agreement.

In July 2022, EDI acquired, via assignment from Edward D. Ioli Trust, all right title and interest to a portfolio of five United States patents relating to a system and method for controlling vehicles and for providing assistance to operated vehicles ("EDI Portfolio") for a purchase price consisting of 50% of the net proceeds resulting from monetization of the EDI Portfolio.

In July 2022, the Company entered into a purchase agreement with Hewlett Packard Enterprise Development LP and Hewlett Packard Enterprise Company for the purchase of eight United States Patents for a purchase price of \$350,000. The Company paid \$35,000 upon execution of the agreement with the balance payable within 30 days. The Company requested and received a capital advance from QFL in the amount of \$350,000, which was used to make payment of the balance in August 2022 pursuant to the terms of the purchase agreement.

The Company requested and received an operating capital advance in the amount of \$0 and \$200,000 from QFL pursuant to the Purchase Agreement during the three and nine months ended September 30, 2023. During the three and nine months ended September 30, 2022, the Company requested and received operating capital advances in the amount of \$200,000 and \$600,000, respectively.

12

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The QF3 funding liabilities at September 30, 2023 of \$5,300,000 represents the principal amount of the Company's obligations to QF3 pursuant to a purchase agreement ("QF3 Purchase Agreement") dated March 12, 2023 between the Company and QF3, as described below. As of September 30, 2023, the Company has made no repayments on this funding liability. The obligation to QF3 has no repayment term since the payment is due from net proceeds generated from the monetization of the Company's intellectual property and has been classified as a current liability as of September 30, 2023. Accrued interest related to this funding liability as of September 30, 2023, was approximately \$190,000.

On March 12, 2023, the Company and HID, entered into a series of agreements, all dated March 12, 2023, with QF3, a non-affiliated party, including a prepaid forward purchase agreement (the "Purchase Agreement QF3"), a security agreement (the "QF3 Security Agreement"), a patent security agreement (the "QF3 Patent Security Agreement" together with the QF3 Security Agreement, the QF3 Patent Security Agreement, and the QF3 Purchase Agreement, the "QF3 Investment Documents") pursuant to which, at the closing held contemporaneously with the execution of the agreements on March 12, 2023:

(i) Pursuant to the QF3 Purchase Agreement, QF3 agreed to make available to the Company a financing facility of: (a) up to \$4,000,000 for operating expenses, of which the Company has requested and received \$2,000,000 as of September 30, 2023; (b) \$3,300,000 to fund the cash payment portion of the purchase of a patent portfolio from Tower Semiconductor Ltd. ("Tower"); and (c) up to an additional \$25,000,000 for the acquisition of mutually agreed patent rights that the Company intends to monetize, of which no amounts have been requested or received as of September 30, 2023. In return, the Company transferred to QF3 a right to receive a portion of net proceeds generated from the monetization of those patents.

(ii) On March 17, 2023, the Company used \$3,300,000 of proceeds from the QF3 financing as the cash payment portion of the purchase of a ten-patent portfolio from Tower (the "HID Portfolio").

(iii) Pursuant to the QF3 Security Agreement and QF3 Patent Security Agreement, payment of our obligations under the QF3 Purchase Agreement with QF3 are secured by (a) the value of anything received from the monetization of the intellectual property rights covered by the Security Agreement; (b) the patents (as defined in the Security Agreement); (c) all general intangibles now or hereafter arising from or related to the foregoing (a) and (b); and (d) proceeds (including, without limitation, cash proceeds and insurance proceeds) and products of the foregoing (a)-(c).

In connection with the agreements with QF3, the Company, HID and the Subsidiary Guarantors entered into an intercreditor agreement with QF3 and Intelligent Partners which sets forth the priority of QF3 in the collateral under the Investment Documents.

#### *Loan Payable Related Party*

The loan payable – related party at September 30, 2023 and December 31, 2022 represents the current amount of a non-interest bearing total monetization proceeds obligation (the "TMPO") due to Intelligent Partners, LLC ("Intelligent Partners") of \$2,796,500 and \$2,796,500, respectively, pursuant to a restructure agreement ("Restructure Agreement") dated February 22, 2021 whereby the Company and Intelligent Partners, extinguished the Company's 10% Note to 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. The notes became due by their terms on September 30, 2020, and the Company did not make any payment on account of principal of and interest on the notes. Subsequent to September 30, 2020, the Company engaged in negotiations with Intelligent Partners in parallel with the Company's negotiations with QFL, with a view to restructuring the Company's obligations under the United Wireless agreements, including the notes, so that the Company no longer had any obligations under the notes or the SPA. These negotiations resulted in the Restructure Agreement, described below, which provided for the payment to Intelligent Partners of \$1,750,000 from the proceeds from the Company's agreements with QFL. As part of the restructure of the Company's agreements with Intelligent Partners, the Company amended the existing MPAs and granted Intelligent Partners certain rights in the monetization proceeds from any new intellectual property the Company acquires, as described below. Under these MPAs, Intelligent Partners participates in the monetization proceeds the Company receives with respect to new patents after QFL has received its negotiated rate of return.

On or prior to the date of the Restructure Agreement, Intelligent Partners transferred to Andrew Fitton ("Fitton") and Michael Carper ("Carper") \$250,000 of the notes (the "Transferred Note"), thereby reducing the principal amount of the notes held by Intelligent Partners to \$4,422,810.

On February 22, 2021, the Company and Intelligent Partners agreed to extinguish the notes and Transferred Note, and terminate or amend and restate the SPA and Transaction Documents, pursuant to a series of agreements including: the Restructure Agreement, a Stock Purchase Agreement (the "Stock Purchase Agreement"), an Option Grant (the "Option Grant"), an Amended and Restated Pledge Agreement (the "Pledge Agreement"), an Amended and Restated Registration Rights Agreement (the "Registration Rights Agreement"), a Board Observation Agreement (the "Board Observation Agreement"), a MPA-NA Security Interest Agreement (the "MPA-NA Security Interest Agreement"), an Amended and Restated Patent Proceeds Security Agreement (the "Patent Proceeds Security Agreement", an Amended and Restated MPA-CP (the "MPA-CP"), an Amended and Restated MPA-CXT (the "MPA-CXT"), a MPA-MR (the "MPA-MR"), a MPA-AMI (the "MPA-AMI," and together with the MPA-CP, MPA-CXT and MPA-MR, each a Restructure MPA and together the Restructure MPAs) and a MPA-NA (the "MPA-NA").

(i) Pursuant to the Restructure Agreement, the Company paid Intelligent Partners \$1,750,000 at closing, which the Company received from QFL and which QFL paid directly to Intelligent Partners, and recognized the TMPO, which shall, from and after the Restructure Date, be reduced on a dollar for dollar basis by (a) payments to Intelligent Partners pursuant to the Restructure Agreement, the Restructure MPAs and the MPA-NA and (b) any election by the Intelligent Partners to pay the Exercise Price of the Restructure Option, in whole or part, by means of a reduction in the then outstanding TMPO. The TMPO has been classified as a current liability as of September 30, 2023.

(ii) Pursuant to the Stock Purchase Agreement, the Company issued to Fitton and Carper, as holders of the Transferred Note, a total of 462,963 shares of common stock at a purchase price of \$0.54 per share, which purchase price was paid by the conversion and in full satisfaction of the Transferred Note (the "Conversion Shares"). For purposes of extinguishment, the issuance of the Conversion Shares in full satisfaction of the Transferred Note balance of \$250,000 is included in the reacquisition price of the debt. The Company recognized a loss on debt conversion of \$305,556 which is the difference between the agreed conversion price and the fair value of the Conversion Shares at the date of conversion. See Note 5 for information on the share issue.

(iii) Pursuant to the Option Grant, the Company granted Intelligent Partners an option to purchase a total of 500,000 shares of common stock, with an exercise price of \$0.54 per share which vests immediately and may be exercised through September 30, 2025. The Company valued the option at approximately \$598,000 using the Black-Scholes pricing model. The proceeds were allocated to the repurchase price of the debt extinguishment based on its fair value. See Note 5 for information on the option grant.

(iv) Pursuant to the restructured monetization proceeds agreement, Intelligent Partners has a right to receive 60% of the net monetization proceeds from the patents currently owned by the Subsidiary Guarantors. The agreement has no termination provisions, so Intelligent Partners will be entitled to its percentage interest as long as revenue is generated from the intellectual property covered by the agreement.

(v) Pursuant to the MPA-NA, until the TMPO has been paid in full, Intelligent Partners is entitled to receive 10% of the net proceeds realized from new assets acquired by the Company. If, in any calendar quarter, net proceeds realized exceed \$1,000,000, Intelligent Partners' entitlement for that quarter only shall increase to 30% on the portion of net proceeds in excess of \$1,000,000 but less than \$3,000,000. If in the same calendar quarter, net proceeds exceed \$3,000,000, Intelligent Partners' entitlement for that quarter only shall increase to 50% on the portion of net proceeds in excess of \$3,000,000. After satisfaction of the TMPO, the MPA-NA and Intelligent Partners' interest in new asset proceeds shall terminate.

(vi) The Company granted Intelligent Partners, Fitton and Carper certain registration rights with respect to (i) the 500,000 shares currently owned by Fitton and Carper; (ii) the 462,963 Conversion Shares issued to Fitton and Carper, and (iii) the 500,000 shares of common stock issuable upon exercise of the option. See Note 5.

(vii) Pursuant to the Subsidiary Security Agreement, the Company's obligations under its agreements with Intelligent Partners, including its obligations under the Restructure Agreement and the Restructure MPAs are secured by a security interest in the net proceeds realized from the future monetization of the patents currently owned by the eight subsidiaries named above.

(viii) Pursuant to the MPA-NA-Security Interest Agreement, our obligations under the MPA-NA are secured by a security interest in net proceeds realized from the future monetization of new patents acquired until the TMPO is satisfied, provided Intelligent Partners' secured interest shall be limited to its entitlement in Net Proceeds under the MPA-NA. After satisfaction of the TMPO the security interest in proceeds from new assets shall terminate.

(ix) Pursuant to the Board Observation Rights Agreement, until the Total Monetization Proceeds Obligation has been satisfied (the "Observation Period"), the Company granted Intelligent Partners the option and right, exercisable at any time during the Observation Period, to appoint a representative to attend meetings of the Board or any committee thereof, including executive sessions, in an observer capacity. Intelligent Partners has no right to appoint a director to the board.

Events of Default include (i) a Change of Control of the Company (ii) any uncured default on payment due to Intelligent Partners in an amount totaling in excess of \$275,000, which is not the subject of a Dispute or other formal dispute resolution proceeding initiated in good faith pursuant to this Agreement or other Restructure Documents (iii) the filing of a voluntary petition for relief under the United States Bankruptcy Code by Company or any of its material subsidiaries, (iv) the filing of an involuntary petition for relief under the United States Bankruptcy Code against the Company, which is not stayed or dismissed within sixty (60) days of such filing, except for an involuntary petition for relief filed solely by Intelligent Partners, or any Affiliate or member of Intelligent Partners, or (v) acceleration of an obligation in excess of \$1,000,000 to another provider of financing following a final determination by arbitration or other judicial proceeding that such obligation is due and owing.

Because of the beneficial ownership percentage of its principals, Intelligent Partners is treated as a related party.

#### Long-Term Liabilities

##### *Loan Payable – SBA*

The loans payable – SBA balance at September 30, 2023 and December 31, 2022 of \$150,000 represents the total amount due under a secured Economic Injury Disaster Loan from the U.S. Small Business Association ("SBA") in the aggregate amount of \$150,000, pursuant to Section 7(b) of the Small Business Act as part of the COVID-19 relief effort. The Company's obligations on the loan are set forth in the Company's note dated May 14, 2020 which matures on May 14, 2050 and bears interest at a rate of 3.75% per annum, payable monthly commencing on November 14, 2022. The Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. Funds from the Loan may be used solely as working capital to alleviate economic injury caused by disaster occurring in the month of January 31, 2020 and continuing thereafter and to pay Uniform Commercial Code (UCC) lien filing fees and a third-party UCC handling charge of \$100 which were deducted from the loan amount stated above. In addition to the loan, as part of the COVID-19 relief effort, the Company obtained an Emergency EIDL Grant from the SBA in the amount of \$1,000. The Company is not required to repay the grant.

##### *Purchase Price of Patents*

The purchase price of patents balance at September 30, 2023 and December 31, 2022 of \$53,665 represents:

The non-current portion of our obligations under the unsecured non-recourse funding agreement with a third-party funder entered into in May 2020 whereby the third-party agreed to provide acquisition funding in the amount of \$95,000 for the Company's acquisition of the audio messaging portfolio. Under the funding agreement, the third-party funder is entitled to a priority return of funds advanced from net proceeds, as defined, recovered until the funder has received \$53,665. The Company has not paid anything against the obligation in 2023. The Company has no other obligation to the third-party and has no liability to the funder in the event that the Company does not generate net proceeds. Pursuant to ASC 470, the Company recorded this monetization obligation as debt and the difference between the purchase price and total obligation as a discount to the debt and fully expensed to interest during the period.

#### **4. WARRANT LIABILITY**

On February 22, 2021 the Company issued warrants to purchase 962,463 shares of common stock to QFL (see Note 3) in connection with its funding agreement. If on the date of initial exercise the aggregate number of warrant shares purchasable upon exercise of the warrant would yield less than an amount equal to 10% of the aggregate number of outstanding shares of capital stock of the Company (determined on a fully diluted basis), then the number of warrant shares shall be increased to an amount equal to 10% of the aggregate number of outstanding shares of capital stock of the Company (determined on a fully diluted basis), and therefore the number of shares underlying the warrants is not fixed until the date of the initial exercise. As such, the warrant issued to QFL requires classification as a liability pursuant to ASC Topic 480, Distinguishing Liabilities from Equity and is valued at its fair value as of the grant date and re-measured at each balance sheet date with the period-to-period change in the fair market value of the warrant liability reflected as a gain or loss in warrant liability and included under other income (expense).

As of September 30, 2023 and December 31, 2022, the aggregate fair value of the outstanding warrant liability was approximately \$300,000 and \$145,000, respectively.

The Company estimated the fair value of the warrant liability using the Black-Scholes option pricing model using the following key assumptions as of September 30, 2023 and December 31, 2022:

	As of	
	September 30, 2023	December 31, 2022
Volatility	396%	374%
Exercise price	\$ 0.54	\$ 0.54
Risk-free interest rate	1.37%	1.37%
Expected dividends	—%	—%
Expected term	7.4	8.1

	Fair Value Measurements as of					
	September 30, 2023			December 31, 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Liabilities						
Warrant liability	—	—	300,000	—	—	145,428
Total liabilities	\$ —	\$ —	\$ 300,000	\$ —	\$ —	\$ 145,428

The following tables set forth a reconciliation of changes in the fair value of warrant liabilities classified as Level 3 in the fair value hierarchy:

	Fair Value
Balance at December 31, 2022	\$ 145,428
Loss on subsequent measurement	8,566
Balance at March 31, 2023	153,994
Loss on subsequent measurement	205,486
Balance at June 30, 2023	359,480
Gain on subsequent measurement	(59,480)
Balance at September 30, 2023	\$ 300,000

	Fair Value
Balance at December 31, 2021	\$ 1,636,187
Gain on subsequent measurement	(471,607)
Balance at March 31, 2022	1,164,580
Gain on subsequent measurement	(394,610)
Balance at June 30, 2022	769,970
Gain on subsequent measurement	(565,928)
Balance at September 30, 2022	\$ 204,042

See Notes 3 and 5 for information on the warrant issuance.

## 5. STOCKHOLDERS' EQUITY

### Amendment to Amended and Restated Certificate of Incorporation

On July 27, 2022, the Company amended its amended and restated certificate of incorporation following approval of the amendment by the stockholders at the 2022 annual meeting of stockholders.

The amendment (i) decreased the number of authorized shares of common stock from 10,000,000,000 shares to 30,000,000 shares and (ii) effected a one-for-100 reverse split whereby each share of common stock became and was converted into 0.01 shares of common stock, with fractional shares being rounded up to the next higher whole number of shares. There was no change in the par value of the common stock.

All historical share and per share amounts in these financial statements have been retroactively adjusted to reflect the reverse stock split and change in authorized common stock.

### Issuance of Options

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 Grant Date Fair Value (\$)	Weighted Average Remaining Contractual Life (Years)
<b>Balance - December 31, 2022</b>	2,000,000	2.00	1.20	6.80
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
Cancelled	—	—	—	—
<b>Balance - September 30, 2023</b>	2,000,000	2.00	1.20	6.05
Options exercisable at end of period	1,100,000	0.97	1.20	5.20

The outstanding options do not have an intrinsic value as of September 30, 2023 or December 31, 2022.

As of September 30, 2023, there was approximately \$986,000 of unrecognized compensation expense related to nonvested stock option awards that is expected to be recognized over a weighted average expected term of approximately 7.40 years.

### Issuance of Warrants

A summary of the status of the Company's warrants and changes is set forth below:

	Number of Warrants (#)	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (Years)
<b>Balance - December 31, 2022</b>	962,463	0.54	8.15
Granted	—	—	—
Exercised	—	—	—

Expired	—	—	—
Cancelled	—	—	—
<b>Balance - September 30, 2023</b>	<b>962,463</b>	<b>0.54</b>	<b>7.40</b>

The outstanding warrants do not have an intrinsic value as of September 30, 2023 or December 31, 2022.

## 6. INTANGIBLE ASSETS

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

	September 30, 2023	December 31, 2022
Patents	\$ 6,087,000	\$ 2,757,000
Disposal	—	—
Subtotal	6,087,000	2,757,000
Less: accumulated amortization	(2,217,106)	(1,625,846)
Net value of intangible assets	<u>\$ 3,869,894</u>	<u>\$ 1,131,154</u>
Weighted Average Amortization Period (Years)	5.69	2.48

Intangible assets are comprised of patents with estimated useful lives. The intangible assets at September 30, 2023 represent:

- patents (which were fully amortized at the date of acquisition) acquired in January 2018 pursuant to an agreement with to 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;

18

- patents (which were fully amortized at the date of acquisition) 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;
- patents (which were fully amortized at the date of acquisition) acquired in May 2020 for a purchase price of \$95,000 pursuant to an agreement with Texas Technology Ventures 2, LLP (“TTV”), pursuant to which of the Company retains the first \$230,000 of net proceeds, as defined in the agreement, after which the company has an obligation to distribute 50% of net proceeds to TTV.
- patents (which were fully amortized at the date of acquisition) acquired in February 2021 pursuant to an agreement with PKT for a purchase price of \$350,000, pursuant to which \$350,000 was paid at closing, and upon the realization of gross proceeds, as defined in the agreement, the Company shall make a subsequent payments in the aggregate amount of \$93,900, representing reimbursement to PKT, as the prosecuting attorney, for legal fees associated with prosecution of the portfolio, such reimbursement shall be due and payable to PKT from time to time as gross proceeds are realized, if any, and paid to PKT along with and in proportion to reimbursement to other third parties of costs incurred in realizing gross proceeds. Thereafter, PKT is entitled to a percentage of gross proceeds realized, if any.
- patents (which were fully depreciated at the date of acquisition) acquired in May 2021 for a purchase price of \$250,000.
- patents acquired in October 2021 from AI for a purchase price of \$550,000 pursuant to which the Company retains an amount equal to the purchase price plus any fees incurred out of net proceeds, as defined in the agreement, after which AI is entitled to a percentage of further net proceeds realized, if any; the useful lives of the patents, at the date of acquisition, was approximately 11 years.
- patents acquired in January 2022 for a purchase price of \$1,060,000, the useful lives of the patents, at the date of purchase, was approximately 1-2 years.
- patents acquired in July 2022 via assignment from AI for a purchase price of \$92,000, the useful lives of the patents, at the date of purchase, was approximately 2-4 years.
- patents acquired July 2022 pursuant to an agreement with Hewlett Packard Enterprise Development LP and Hewlett Packard Enterprise Company for a purchase price of \$350,000. The useful lives of the patents, at the date of purchase, was approximately 2-9 years.
- patents acquired March 2023 from Tower for a purchase price of \$3,300,000 pursuant to which the Company retains an amount equal to the purchase price plus a negotiated return and any fees out of net proceeds, as defined in the agreement, after which Tower in entitled to a percentage of further net proceeds realized, if any. The useful lives of the patents, at the date of purchase, was approximately 5-15 years.
- patents acquired in August 2023 pursuant to an agreement with Koji Yoden for a purchase price of \$30,000. The useful lives of the patents, at the date of purchase, was approximately 9-10 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.

19

The Company assesses intangible assets for any impairment to the carrying values. As of September 30, 2023, management concluded that there was no impairment to the intangible assets.

Amortization expense for patents was approximately \$203,000 and \$591,000 for the three and nine months ended September 30, 2023, respectively. Amortization expense for patents was approximately \$198,000 and \$712,000 for the three and nine months ended September 30, 2022, respectively. Amortization expense is included in selling, general, and administration expenses in the accompanying consolidated statement of operations. Future amortization of intangible assets is as follows:

Year Ended December 31,	
Remainder of 2023	\$ 195,291
2024	636,353
2025	540,589
2026	500,064

2027	464,786
Thereafter	1,532,810
<b>Total</b>	<b>\$ 3,869,894</b>

## 7. 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 5 in connection with the Restructure Agreement dated February 22, 2021 with Intelligent Partners. Because of its ownership percentage, Intelligent Partners is treated as a related party.

See Note 5 with respect to share-based compensation to officers and directors.

See Note 8 with respect to the employment agreement with the Company's president and chief executive officer.

During the nine months ended September 30, 2022, the Company contracted with an entity owned by the chief technology officer for the provision of information technology services to the Company. In June 2022 the chief technology officer sold his interest in the entity. The cost of such services was approximately \$0 and \$205 for the three and nine months ended September 30, 2022.

During the three and nine months ended September 30, 2023, the Company contracted with a law firm more than 10 percent owned by the chief executive officer. The firm serves as counsel to the Company in connection with general corporate matters, diligence and maintenance of the Company's patent portfolio. For the three and nine months ended September 30, 2023, the cost of these services was approximately \$25,000 and \$25,000, respectively.

During the three and nine months ended September 30, 2023 and 2022, the Company contracted with a law firm more than 10 percent owned, but not controlled, by the father-in-law of the chief executive officer. The firm is engaged on a contingent fee basis and serves as escrow agent in connection with monetization of the Company's patents in matters where the firm is serving as counsel to the Company. For the three and nine months ended September 30, 2023, the cost of these services was approximately \$56,000 and \$118,000, respectively. For the three and nine months ended September 30, 2022, the cost of these services was approximately \$33,000 and \$61,000, respectively. Since the services are on a contingent fee basis, no fees are incurred unless there is a recovery.

## 8. 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 2023, the Company's board of directors increased the chief executive officer's annual salary to \$600,000, effective January 1, 2023. 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 the Company's 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.

### *SEP IRA Plan*

Pursuant to the SEP IRA plan adopted by the Company in March 2020, the Company deposited into a SEP IRA account of each of its participating employees a percentage of the employee's compensation, subject to statutory limitations on the amount of the contribution all as set forth in the IRS Form 5305-SEP. For the year ending December 31, 2023, the percentage was set at 20%. The Company's president and chief executive officer is the only participant and during the nine months ended September 30, 2023 and 2022, \$33,000 and \$14,500 was deposited into his SEP IRA account, respectively.

### *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.

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 impair the Company's operating results and financial position and could result in a default under the Company's obligations to QFL and QF3. 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.

#### *Effects of possible delisting of common stock on OTCQB*

On May 23, 2022, the Company received notice from OTC Markets Group, that, because the bid price for its common stock had closed below \$0.01 per share for more than 30 consecutive days, the Company no longer meets the Standards for Continued Eligibility under the OTC listing standards and, if this deficiency is not met by August 21, 2022, the Company's common stock will be removed from the OTCQB marketplace, in which event the common stock will be traded on the OTC Pink market. Our registration rights agreement with QFL provides that, in the event of a failure to comply with certain covenants, which includes the failure of our common stock to be traded on the OTCQB, in addition to any other remedies available to QFL, we are to pay to QFL an amount in cash equal to 2.0% of the aggregate value of QFL's Registrable Securities, as defined in the Registration Rights Agreement, whether or not included in such registration statement, on each of the following dates: (i) the initial day of a maintenance failure; (ii) on the 30th day after the date of such a failure and (iii) every 30th day thereafter (prorated for periods totaling less than thirty (30) days) until such failure is cured. In July 2022 the Company amended its Certificate of Incorporation to effect a one-for-100 reverse split of its common stock (see Note 5). The OTC Markets Group confirmed to the Company that the deficiency has been cured. The Company cannot assure it will continue to meet the requirements for continued listing on the OTCQB, including the maintenance of a bid price of at least \$0.01 per share.

#### **9. SUBSEQUENT EVENTS**

The Company evaluates events that have occurred after the balance sheet date through the date for which the condensed consolidated financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements.

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

*The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated unaudited financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. See "Forward-Looking Statements." Our actual results could differ materially from those anticipated in the forward-looking statements.*

##### **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 eighteen intellectual property portfolios, which principally consist of patent rights. 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.

##### **Effects of COVID-19 Pandemic**

The World Health Organization ended the global emergency status for COVID-19 on May 5, 2023, and the United States Department of Health and Human Services declared that the public health emergency from COVID-19 expired on May 11, 2023. Further, as the population of the United States becomes vaccinated and restrictions that had been imposed to address the pandemic are lifted, we cannot assure you that our revenue will increase as a result of the reduction of such restrictions, including courts being open for longer hours and for in person hearings.

##### **Market and Economic Conditions**

In recent years, the United States and other markets have experienced cyclical or episodic downturns, and worldwide economic conditions remain uncertain, including, as a result of the COVID-19 pandemic, supply chain disruptions, the Russian invasion of Ukraine, recent attacks by Hamas on Israel from the Gaza Strip and the resultant action by Israel against Hamas in the Gaza Strip and the potential for broader conflict in the Middle East, instability in the U.S. and global banking systems, rising fuel prices, increasing interest rates or foreign exchange rates and increased inflation and the possibility of a recession. A significant downturn in economic conditions may adversely affect the intellectual property licensing market including: the financial condition of financing sources and the willingness of potential financing sources to provide funding for our litigation; a law firms' ability and willingness to provide us with legal services on acceptable contingent fee terms; and the financial condition and prospects of defendants and potential defendants, which could make it less likely that they would be willing to settle our claim.

We cannot predict the timing, strength, or duration of any future economic slowdown or any subsequent recovery generally, or in any industry. If the conditions in the general economy and the markets in which we operate worsen from present levels, our business, financial condition, operating results could be adversely affected. For example, in January 2023, the outstanding national debt of the U.S. government reached its statutory limit. Although Congress took steps to raise the debt limit, the failure or the concern about the possibility of Congress to fail to raise the federal debt ceiling could have severe repercussions within the U.S. and to global credit and financial markets. If Congress does not raise the debt ceiling in a timely manner or if the U.S. government defaults on its payment obligations or experiences delays in making payments when due, such payment default or delay by the U.S. government, as well as continued uncertainty surrounding the U.S. debt ceiling or the U.S. Government's ability to pay debts, could result in a variety of adverse effects for financial markets, market participants and U.S. and global economic conditions. In addition, U.S. debt ceiling and budget deficit concerns have increased the possibility a downgrade in the credit rating of the U.S. government and could result in economic slowdowns or a recession in the United States. Although U.S. lawmakers have passed legislation to raise the federal debt ceiling on multiple occasions, ratings agencies have lowered and threatened to lower the long-term sovereign credit rating on the United States as a result of disputes over the debt ceiling. The impact of a potential downgrade to the U.S. government's sovereign credit rating or its perceived creditworthiness could adversely affect economic conditions, as well as our business, financial condition and operating results which could impair our ability to monetize our intellectual property rights as potential funding sources may be reluctant to finance our litigation and law firms may be unwilling to provide services on a contingent fee basis, which would impair our ability to generate revenue and could result in our inability to continue in business.

Further, to the extent that holders of intellectual property rights see these factors, as well as the effect of inflation and the actions of the Federal Reserve System in increasing interest rates and the possibility of the United States may default on its obligation as a result of the failure of Congress to increase the debt limit may affect our business and the economy generally and could impact 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 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. All of the revenue for the three and nine months ended September 30, 2023 and 2022 was from patent licensing fees, of which approximately 100% was paid to the patent seller, funding sources and legal counsel pursuant to our agreements with patent sellers, funding sources and legal counsel.

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.

#### ***Effect of Warrant Liability***

We reflect a warrant liability with respect to warrants for which the number of shares underlying the warrants is not fixed until the date of the initial exercise. The change in the warrant liability is reflected as either income or expense. Because of our low level of revenue, the change in warrant liability, which generally increases if the stock price declines and decreases if the stock price rises, can have a disproportionate effect upon the results of our operations and can, as was the case for the nine months ended September 30, 2022, change a loss from operations to net income.

#### **Agreements with QF3, QFL and Intelligent Partners**

On March 12, 2023, we entered into a funding agreement with QF3.

Pursuant to the QF3 Purchase Agreement, QF3 agreed to make available to us a financing facility of: (a) up to \$25,000,000 for the acquisition of mutually agreed patent rights that we intend to monetize, of which no amounts have been received as of September 30, 2023; (b) up to \$4,000,000 for operating expenses, of which the we have requested and received \$2,000,000 as of September 30, 2023; and (iii) \$3,300,000 to fund the cash payment portion of the purchase price of a patent portfolio acquired from Tower. In return we transferred to QF3 a right to receive a portion of net proceeds generated from the monetization of those patents. We used \$3,300,000 proceeds from the QF3 financing as the cash payment portion of the purchase price of a portfolio acquired from Tower. Our obligations to QF3 are secured by the proceeds from the patents acquired with their funding, the patents and all general intangibles now or hereafter arising from or related to the foregoing and the proceeds and products of the foregoing.

On February 22, 2021, we entered into a funding agreement with QFL and a restructure agreement with Intelligent Partners.

Pursuant to the Purchase Agreement with QFL, QFL agreed to make available to us a financing facility of: (a) up to \$25,000,000 for the acquisition of mutually agreed patent rights that we intend to monetize, of which \$2,653,000 has been advanced as of September 30, 2023; (b) up to \$2,000,000 for operating expenses, of which the we have requested and received \$2,000,000 as of September 30, 2023; and (iii) \$1,750,000 to fund the cash payment portion of the restructure of our obligations to Intelligent Partners. In return we transferred to QFL a right to receive a portion of net proceeds generated from the monetization of those patents. We used \$1,750,000 of proceeds from the QFL financing as the cash payment portion of the restructure of our obligations to Intelligent Partners. Our obligations to QFL are secured by the proceeds from the patents acquired with their funding, the patents and all general intangibles now or hereafter arising from or related to the foregoing and the proceeds and products of the foregoing. We also granted QFL a ten-year warrant to purchase a total of up to 962,463 shares of our common stock, with an exercise price of \$0.54 per share which may be exercised through February 18, 2031 on a cash or cashless basis, subject to certain limitations on exercisability. The warrant also contains certain minimum ownership percentage antidilution rights pursuant to which the aggregate number of shares of common stock purchasable upon the initial exercise of the Warrant shall not be less than 10% of the aggregate number of outstanding shares of our capital stock (determined on a fully diluted basis). A portion of any gain from sale of the shares, net of taxes and costs of exercise, realized prior to the completion of all monetization activities shall be credited against the total return due to QFL pursuant to the Purchase Agreement. We also agreed to take all commercially reasonable steps necessary to regain compliance with the OTCQB eligibility standards as soon as practicable, but in no event later than 12 months from the closing date, and regained compliance on May 7, 2021 and we granted QFL registration rights with respect to the common stock issuable upon exercise of the warrants. We also granted QFL certain board observation rights. Pursuant to the Purchase Agreement, all of the net proceeds from the monetization of the intellectual property acquired with funds from QFL are paid directly to QFL. After QFL has received a negotiated rate of return, we and QFL share net proceeds equally until QFL achieves its investment return, as defined in the agreement. Thereafter, we retain 100% of all net proceeds. Except in an Event of Default, as defined therein, all payments by us to QFL pursuant to the Purchase Agreement are non-recourse and shall be paid only if and after net proceeds from monetization of the patent rights owned or acquire by us are received, or to be received.

Contemporaneously with the execution of the agreements with QFL, we entered into a restructure agreement with Intelligent Partners to eliminate any obligations we had with respect to the outstanding notes and the securities purchase agreement. As part of the restructure of our agreements with Intelligent Partners, we amended the existing MPAs and granted Intelligent Partners certain rights in the monetization proceeds from any new intellectual property we acquire. Under these MPAs, Intelligent Partners receives a 60% interest in the proceeds from our intellectual property owned by the eight Subsidiary Guarantors. Intelligent Partners also participates in the monetization proceeds from new intellectual property that we acquire until the total payments under all the monetization participation agreements equal \$2,805,000, as follows: for net proceeds between \$0 and \$1,000,000, Intelligent Partners receives 10% of the net proceeds realized from new patents, except that if, in any calendar quarter, net proceeds realized by us exceed \$1,000,000, Intelligent Partners' entitlement for that quarter only shall increase to 30% on the portion of net proceeds in excess of \$1,000,000 but less than \$3,000,000. If in the same calendar quarter, net proceeds exceed \$3,000,000, Intelligent Partners' entitlement for that quarter only shall increase to 50% on the portion of net proceeds in excess of \$3,000,000. The payments with respect to the new patents terminate once total payments to Intelligent Partners under all monetization participation agreements reach \$2,805,000. The payments to Intellectual Partners with respect new patents are payable from the proceeds which are allocated to us under the QFL agreements, which start after QFL has received a negotiated rate of return.

#### **Effects of Possible Delisting of Common Stock on OTCQB**

On May 23, 2022, we received notice from OTC Markets Group, that, because the bid price for our common stock had closed below \$0.01 per share for more than 30 consecutive days, we no longer met the Standards for Continued Eligibility under the OTC listing standards and, if this deficiency was not cured by August 21, 2022, our stock would be removed from the OTCQB marketplace, in which event our common stock will be traded on the OTC Pink market. Our registration rights

agreement with QFL provides that, in the event of a failure to comply with certain covenants, which includes the failure of our common stock to be traded on the OTCQB, in addition to any other remedies available to QFL, we are to pay to QFL an amount in cash equal to 2.0% of the aggregate value of QFL's Registrable Securities, as defined in the Registration Rights Agreement, whether or not included in such registration statement, on each of the following dates: (i) the initial day of a maintenance failure; (ii) on the 30th day after the date of such a failure and (iii) every 30th day thereafter (prorated for periods totaling less than thirty (30) days) until such failure is cured. In July 2022, we amended our certificate of incorporation to effect a one-for-100 reverse split of our common stock. The OTC Markets Group confirmed to us that the deficiency has been cured. We cannot assure you that we will continue to meet the requirements for continued listing on the OTCQB, including the maintenance of a bid price of at least \$0.01 per share.

## Portfolios

In November 2021, TLL brought patent infringement suits in the U.S. District for the Eastern District of Texas against Trend Micro Incorporated. In March 2022, Trend Micro, Inc. filed a complaint against TLL in the U.S. District for the Western District of Texas seeking declaratory judgement of non-infringement of the patents in suit. In February 2022, TLL brought patent infringement suits in the U.S. District for the Eastern District of Texas against Checkpoint Software Technologies Ltd. and Palo Alto Networks, Inc. In March 2022, TLL voluntarily dismissed, without prejudice, the action against Palo Alto Networks, Inc. In March 2022, Palo Alto Networks, Inc. filed a complaint against TLL and the Company in the U.S. District for the Southern District of New York seeking declaratory judgement of non-infringement of the patents in suit. In May 2022, Trend Micro Inc. filed a motion with the Panel on Multidistrict Litigation seeking to have the pending actions consolidated into a centralized multidistrict litigation for pretrial proceedings. In August 2022, the Judicial Panel on Multidistrict Litigation consolidated all actions in the U.S. District for the Eastern District of Texas. In October 2022, TLL brought patent infringement suits in the U.S. District for the Eastern District of Texas against Fortinet, inc., Crowdstrike, Inc. et.al., and Musarubra US, LLC. In March 2023, TLL brought a patent infringement suits in the U.S. District for the Eastern District of Texas against Palo Alto Networks, Inc. As of September 30, 2023, Palo Alto Networks Inc. has filed six petitions and Trend Micro Inc. has filed four petitions before the patent trial and appeal board for inter partes review of certain Taasera Portfolio patents.

25

In November 2021, MML brought patent infringement suits in the U.S. District for the Eastern District of Texas against ZTE Corporation and Guangdong OPPO Mobile Telecommunications Corp., Ltd. In November 2022, MML brought patent infringement suits in the U.S. District for the Eastern District of Texas against Samsung Electronics Co., Ltd. et al and TCL Technology Group Corporation et al. As of September 30, 2023 the action against ZTE Corporation is stayed pending settlement and the action against Guangdong OPPO Mobile Telecommunications Corp., Ltd. has been resolved. Revenue for the three and nine months ended September 30, 2023 includes revenue from the settlement.

In March 2022, LSC brought patent infringement suits in the U.S. District for the Eastern District of Texas against Microsoft Corporation, Google LLC, Cisco Systems, Inc. and Amazon.com, Inc. et.al. In November 2022, Google LLC filed a petition before the patent trial and appeal board for inter partes review of US Patent No. 10,154,092. In March 2023 Cisco Systems, Inc, Microsoft Corporation and Google LLC filed petitions before the patent trial and appeal board for inter partes review of LSC Portfolio patents.

In May 2022, Tyche brought patent infringement suits in the U.S. District for the Eastern District of Texas against MediaTek Inc., Realtek Semiconductor Corporation, Texas Instruments Incorporated, Infineon Technologies AG and STMicroelectronics NV et. al. As of September 30, 2023, the actions against MediaTek Inc. and Infineon Technologies AG have been resolved and revenue for the nine months ended September 30, 2023 includes revenue from the settlements. This revenue was generated in the first quarter of 2023.

In July 2022, STX brought a patent infringement suit in the U.S. District for the Eastern District of Texas against FUJIFILM Holdings Corporation et al. As of September 30, 2023, the matter against FUJIFILM Holdings Corporation et al has been resolved., and revenue for the nine months ended September 30, 2023 includes revenue from the settlement. This revenue was recognized in the first quarter of 2023.

In March 2023, we entered into a purchase agreement with Tower for the purchase of seven United States Patents for a purchase price of \$3,300,000. We requested and received a capital advance from QF3 in the amount of \$3,300,000 to fund the cash payment portion of the purchase price. Pursuant to the purchase agreement, after recovery of the purchase price and a negotiated return, Tower is entitled to a portion of net proceeds, if any, as defined in the purchase agreement.

In August 2023, we entered into a purchase agreement with Koji Yoden for the purchase of two United States Patents for a purchase price of \$30,000. Pursuant to the purchase agreement, after recovery of the purchase price Mr. Yoden is entitled to a portion of net proceeds, if any, as defined in the purchase agreement.

## Results of Operations

*Three and Nine Months Ended September 30, 2023 and 2022*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues (patent licensing fees)	\$ 250,000	\$ 275,000	\$ 452,500	\$ 397,000
Cost of revenue (litigation and licensing expenses)	327,759	147,393	613,236	237,487
Selling, general and administrative expenses	598,296	476,812	2,026,057	1,561,987
Loss from operations	(676,055)	(349,205)	(2,186,793)	(1,402,474)
Other (expense) income				
Change in fair market value of warrant liability	59,480	565,928	(154,572)	1,432,145
Interest expense	(216,711)	(113,058)	(570,932)	(295,705)
Total other (expense) income	(157,231)	452,870	(725,504)	1,136,440
Income (loss) before income tax	(833,286)	103,665	(2,912,297)	(266,034)
Income tax benefit (expense)	—	—	(30,000)	(12,884)
Net income (loss)	\$ (833,286)	\$ 103,665	\$ (2,942,297)	\$ (278,918)

26

We generated revenues of approximately \$250,000 for the three months ended September 30, 2023 as compared to \$275,000 for the three months ended September 30, 2022. We generated revenues of approximately \$453,000 for the nine months ended September 30, 2023 as compared to \$397,000 for the nine months ended September 30, 2022. Our revenue for the three and nine months ended September 30, 2023 and 2022 was generated from licenses pursuant to the settlement of patent infringement lawsuits in the Tyche and STX portfolios. The total settlement recovery is included in revenue and the associated costs are deducted as cost of revenue. Cost of revenue for the three months ended September 30, 2023 and 2022 relating to patent service costs was approximately \$328,000 and \$147,000,

respectively. Cost of revenue for the three months ended September 30, 2023 and 2022 relating to patent service costs was approximately \$613,000 and \$237,000, respectively. 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.

Selling, general, and administrative expenses for the three months ended September 30, 2023 increased by approximately \$121,000, or approximately 25% compared to the three months ended September 30, 2022. Selling, general, and administrative expenses for the nine months ended September 30, 2023 increased by approximately \$464,000, or approximately 30% compared to the nine months ended September 30, 2022. The increase in selling, general, and administrative expenses for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 is primarily due to an increase in compensation expense to the chief executive officer of \$75,000 and \$450,000, respectively. Our principal operating expense for the three and nine months ended September 30, 2023 was amortization of intangible assets of approximately \$203,000 and \$591,000, respectively. We had stock-based compensation costs of approximately \$10,000 and \$39,000 for the three and nine months ended September 30, 2023, respectively. Our principal operating expense for the three and nine months ended September 30, 2022 was amortization of intangible assets of approximately \$198,000 and \$712,000, respectively. We had stock-based compensation costs of approximately \$25,000 and \$92,000 for the three and nine months ended September 30, 2022, respectively.

Other income and expense for the three and nine months ended September 30, 2023 included a gain on change in fair value of warrant liability of approximately \$59,000 and a loss on change in fair value of approximately \$155,000, respectively. We realized a loss on change in fair value of warrant liability of approximately \$566,000 and \$1,432,000 for the three and nine months ended September 30, 2022, respectively. The fair value of the warrant liability is affected by the price of our common stock, so it increases as the stock price goes up and decreases as the stock price goes down. Other expense also reflects interest expense of approximately \$217,000 and \$571,000 for the three and nine months ended September 30, 2023, respectively and approximately \$113,000 and \$296,000 for the three and nine months ended September 30, 2022, respectively. The increase in interest expense reflects the accrued interest payable on the principal amounts of QFL and QF3 facilities.

We incurred income tax expense of approximately \$30,000 and \$13,000 for the nine months ended September 30, 2023 and 2022, respectively. We did not incur income tax expense for the three months ended September 30, 2023 and 2022. The increase in income tax expense primarily reflects foreign income taxes related to foreign source patent licensing fees.

As a result of the foregoing, we incurred net loss of approximately \$833,000, or \$0.16 per share (basic and diluted) for the three months ended September 30, 2023 and net loss of approximately \$2,942,000, or \$0.55 per share (basic and diluted) for the nine months ended September 30, 2023, compared to net income of approximately \$104,000, or \$0.02 per share (basic and diluted) for the three months ended September 30, 2022 and net loss of approximately \$279,000, or \$0.05 per share (basic and diluted) for the nine months ended September 30, 2022.

### Liquidity and Capital Resources

At September 30, 2023, we had current assets of approximately \$675,000, and current liabilities of approximately \$15,807,000. Our current liabilities include funding liabilities of approximately \$10,821,000 payable to QFL and QF3, a non-interest bearing total monetization proceeds obligation (the "TMPO") to Intelligent Partners in the amount of approximately \$2,797,000 under the Restructure Agreement, both of which are only payable from money generated from the monetization of intellectual property, loans payable of approximately \$138,000, a warrant liability of approximately \$300,000, accounts payable and accrued liabilities of approximately \$283,000, and accrued interest of approximately \$1,469,000. As of September 30, 2023, we have an accumulated deficit of approximately \$29,132,000 and a negative working capital of approximately \$15,133,000. Other than salary and pension benefits to our chief executive officer, we do not contemplate any other material operating expense requiring cash 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.

The following table shows the summary cash flows for the nine months ended September 30, 2023 and 2022:

	For the Nine Months Ended September 30,	
	2023	2022
Cash flows used in operating activities	\$ (1,516,520)	\$ (763,971)
Cash flows used in investing activities	(3,330,000)	(1,502,000)
Cash flows from financing activities	5,367,385	2,077,099
Net (decrease) increase in cash	520,865	(188,872)
Cash at beginning of period	90,601	264,840
Cash at end of period	<u>\$ 611,466</u>	<u>\$ 75,968</u>

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 or that we will receive any of the proceeds of any litigation settlements after making all required payments to counsel and funding sources and payments to Intelligent Partners. We have no credit facilities. Although our agreement provides for QFL and QF3 to provide us with funding to acquire intellectual property rights, subject to QFL's and QF3's approval, it does not provide for financing the litigation necessary for the monetization of the intellectual property rights. We do not have any credit facilities or any arrangements for us to finance the litigation necessary to monetize our intellectual property rights other than contingent fee arrangements with counsel with respect to our pending litigation. If we do not secure contingent representation or obtain litigation financing, we may be unable to monetize our intellectual property.

We cannot predict the success of any pending or future litigation. Typically, 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.

### Critical Accounting Policies

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, 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.

#### *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 (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.

#### *Warrant Liability*

We reflect a warrant liability with respect to warrants for which the number of shares underlying the warrants is not fixed until the date of the initial exercise. The amount of the liability is determined at the end of each fiscal period and the period to period change in the amount of warrant liability is reflected as a gain or loss in warrant liability and is included under other income (expense).

#### *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.

#### *Stock-Based Compensation*

We account for stock-based compensation pursuant to ASC 718, "Compensation — Stock Compensation," which prescribes accounting and reporting standards for all stock-based payment transactions in which employee and non-employee services, are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options and other equity instruments such as employee stock ownership plans and stock appreciation rights. Stock-based payments to employees, including grants of employee stock options, are recognized as compensation expense in the financial statements based on their fair values. That expense is recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

#### *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.

#### *Patent Licensing Fees*

Revenue is recognized upon transfer of control of promised bundled intellectual property rights and other contractual performance obligations to licensees in an amount that reflects the consideration we expect to receive in exchange for those intellectual property rights. Revenue contracts that provide promises to grant "the right" to use intellectual property rights as they exist at the point in time at which the intellectual property rights are granted, are accounted for as performance obligations satisfied at a point in time and revenue is recognized at the point in time that the applicable performance obligations are satisfied and all other revenue recognition criteria have been met.

For the periods presented, revenue contracts executed by us primarily provided for the payment of contractually determined, one-time, paid-up license fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by our operating subsidiaries. Intellectual property

rights granted included the following, as applicable: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. The intellectual property rights granted were perpetual in nature, extending until the legal expiration date of the related patents. The individual intellectual property rights are not accounted for as separate performance obligations, as (a) the nature of the promise, within the context of the contract, is to transfer combined items to which the promised intellectual property rights are inputs and (b) our promise to transfer each individual intellectual property right described above to the customer is not separately identifiable from other promises to transfer intellectual property rights in the contract.

Since the promised intellectual property rights are not individually distinct, we combined each individual IP right in the contract into a bundle of IP rights that is distinct, and accounted for all of the intellectual property rights promised in the contract as a single performance obligation. The intellectual property rights granted were “functional IP rights” that have significant standalone functionality. Our subsequent activities do not substantively change that functionality and do not significantly affect the utility of the IP to which the licensee has rights. Our subsidiaries have no further obligation with respect to the grant of intellectual property rights, including no express or implied obligation to maintain or upgrade the technology, or provide future support or services. The contracts provide for the grant (i.e. transfer of control) of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the contract. Licensees legally obtain control of the intellectual property rights upon execution of the contract. As such, the earnings process is complete and revenue is recognized upon the execution of the contract, when collectability is probable and all other revenue recognition criteria have been met. Revenue contracts generally provide for payment of contractual amounts within 30-90 days of execution of the contract. Contractual payments made by licensees are generally non-refundable. We do not have any significant payment terms, as payment is received shortly after goods are delivered or services are provided, therefore there is no significant financing component or consideration payable to the customer in these transactions.

#### *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.

#### *Commitments and Contingencies*

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 and are included in cost of revenues as litigation and licensing expenses. 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 \$29,132,000 and negative working capital of approximately \$15,133,000 as of September 30, 2023. Because of our continuing losses, our working capital deficiency, the uncertainty of future revenue, our obligations to QF3, QFL and Intelligent Partners, our low stock price and the absence of a trading market in our common stock, our ability to raise funds in the equity market or from lenders is severely impaired. These conditions, as well as any adverse consequences which would result in the event that we are not able to remain listed on the OTCQB, raise substantial doubt as to our ability to continue as a going concern within one year after the date that the unaudited condensed consolidated financial statements are issued. Our revenue is generated exclusively from license fees generated from litigation seeking damages for infringement of our intellectual property rights. Although we may seek to raise funds and to obtain third-party funding for litigation to enforce its intellectual property rights, the availability of such funds 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 September 30, 2023, 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 material weaknesses in our internal control over financial reporting, our disclosure controls were not effective as of September 30, 2023, such that the information required to be disclosed by us in reports filed under the

### Changes in Internal Control over Financial Reporting

As reported in our annual report on Form 10-K for the year ended December 31, 2022, management has determined that our internal control over financial reporting 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 one 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 September 30, 2023, 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.

### Item 6. Exhibits.

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	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

### 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: November 13, 2023

#### QUEST PATENT RESEARCH CORPORATION

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

EX-31.1 2 f10q0923ex31-1\_questpatent.htm CERTIFICATION

**Exhibit 31.1**

#### 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: November 13, 2023

By: /s/ Jon C. Scahill

Chief Executive Officer and Acting Chief Financial  
Officer  
(Principal Executive and Accounting Officer)

EX-32.1 3 fl0q0923ex32-1\_questpatent.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 September 30, 2023 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.

Dated: November 13, 2023

By: /s/ Jon C. Scahill

Chief Executive Officer and Acting Chief Financial  
Officer  
(Principal Executive and Accounting Officer)