QUEST PATENT RESEARCH CORP
Form 10-Q
May 15, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from __________ to __________

**QUEST PATENT RESEARCH CORPORATION**

(Exact Name of Registrant as Specified in Charter)

| | | |
|---|---|---|
| Delaware | 33-18099-NY | 11-2873662 |

| | | |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|---|
| 411 Theodore Fremd Ave., Suite 206S, Rye, NY | 10580-1411 |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

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

| | | |
|---|---|---|
| Large accelerated filer | | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 383,038,334 shares of common stock are issued and outstanding as of May 15, 2018.

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**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 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, 2017, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-Q and in other reports that we file with the SEC. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

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

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

**OTHER PERTINENT INFORMATION**

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

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $16,508 | $165,546 |
| Accounts receivable | 8,346 | 2,846 |
| Other current assets | 1,496 | 2,522 |
| Total current assets | 26,350 | 170,914 |
| Patents, net of accumulated amortization of $774,990 and $650,560, respectively | 2,358,908 | 2,463,338 |
| Total assets | $2,385,258 | $2,634,252 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $192,203 | $147,356 |
| Loans payable – third party | 163,000 | 163,000 |
| Purchase price of patents, current portion | 100,000 | 100,000 |
| Loan payable – related party, net of unamortized discount and debt issuance costs of $487,380 and $517,182, respectively | 3,539,971 | 3,510,169 |
| Accrued interest – loan payable related party | 185,060 | 85,757 |
| Accrued interest - loans payable third party | 269,289 | 265,214 |
| Derivative liability | 100,000 | 90,000 |
| Total current liabilities | 4,549,523 | 4,361,496 |
| Non-current liabilities | | |
| Purchase price of patents, net of unamortized discount of $158,347 and $175,243, respectively | 716,653 | 699,757 |
| Total liabilities | 5,266,176 | 5,061,253 |
| Stockholders' deficit: | | |

| | | |
|---|---|---|
| Preferred stock – par value $.00003 – authorized 10,000,000 Shares – no shares issued and outstanding | - | - |
| Common stock, par value $0.00003; authorized 10,000,000,000 shares and 10,000,000,000 at March 31, 2018 and December 31, 2017, respectively; shares issued and outstanding 383,038,334 and 383,038,334, at March 31, 2018 and December 31, 2017, respectively | 11,491 | 11,491 |
| Additional paid-in capital | 14,107,782 | 14,107,782 |
| Accumulated deficit | (17,002,816) | (16,549,493) |
| Total Quest Patent Research Corporation deficit | (2,883,543) | (2,430,220) |
| Non-controlling interest in subsidiary | 2,625 | 3,219 |
| Total stockholders' deficit | (2,880,918) | (2,427,001) |
| Total liabilities and stockholders' deficit | $2,385,258 | $2,634,252 |

See accompanying notes to unaudited consolidated financial statements.

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QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

| | FOR THE THREE MONTHS ENDED MARCH 31, 2018 | 2017 |
|---|---|---|
| Revenues | | |
| Licensed sales | $8,318 | $2,817 |
| Patent licensing fees | 849,000 | - |
| Management fees | - | 12,991 |
| | 857,318 | 15,808 |
| Operating expenses | | |
| Cost of revenue: | | |
| Cost of sales | 1,465 | 440 |
| Litigation and licensing expenses | 799,100 | - |
| Management support services | 6,484 | 13,191 |
| Selling, general and administrative expenses | 293,986 | 198,298 |
| Total operating expenses | 1,101,035 | 211,929 |
| Loss from operations | (243,717) | (196,121) |
| Other Income and (expense) | | |
| (Loss) gain on derivative | (10,000) | 50,000 |
| Interest expense | (150,075) | (113,521) |
| Total Other Income and (expenses) | (160,075) | (63,521) |
| Net loss before income tax | (403,792) | (259,642) |
| Income tax | (50,125) | (3,675) |
| Net loss | (453,917) | (263,317) |
| Net income (loss) attributable to non-controlling interest in subsidiaries | 594 | (1,359) |
| Net loss attributable to Quest Patent Research Corporation | $(453,323) | $(264,676) |
| Loss per share – basic and diluted | $(0.00) | $(0.00) |
| Weighted average shares outstanding – basic and diluted | 383,038,334 | 322,819,156 |

See accompanying notes to unaudited consolidated financial statements.

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QUEST PATENT RESEARCH CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

| | FOR THE THREE MONTHS ENDED MARCH 31, 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(453,917) | $(263,317) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of debt discount | 46,698 | 42,809 |
| (Gain)/loss on derivative | 10,000 | (50,000) |
| Depreciation and amortization | 124,430 | 66,823 |
| Interest accrued but not paid | 99,303 | 66,637 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,500) | (31,051) |
| Other current assets | 1,026 | (1,169) |
| Accounts payable and accrued expenses | 48,922 | (30,316) |
| Net cash used in operating activities | (129,038) | (137,482) |
| Cash flows from financing activities: | | |
| Purchase of patents | (20,000) | - |
| Net cash provided (used) by financing activities | (20,000) | - |
| Net increase (decrease) in cash and cash equivalents | (149,038) | (137,482) |
| Cash and cash equivalents at beginning of period | 165,546 | 208,324 |
| Cash and cash equivalents at end of period | $16,508 | $70,842 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Income taxes including foreign taxing authorities withheld taxes of $49,900 and $0 during the years ended March 31, 2018, and 2017 respectively. | 50,125 | 3,675 |
| Interest | - | - |

See accompanying notes to unaudited consolidated financial statements.

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QUEST PATENT RESEARCH CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the US (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these interim financial statements do not include all of the information and notes required by GAAP for complete financial statements. All adjustments (consisting of normal recurring items) necessary to present fairly the Company’s consolidated financial position have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the interim periods presented herein are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. Reclassifications have been made to conform with the current year presentation.

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

<u>Principles of consolidation and financial statement presentation</u>

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and present the consolidated financial statements of the Company and its wholly owned and majority owned subsidiaries as of March 31, 2017.

The consolidated financial statements include the accounts and operations of:

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

The operations of Wynn Technologies Inc. are not included in the Company’s consolidated financial statements as there are significant contingencies related to its control of Wynn Technologies Inc. The sole asset of Wynn Technologies Inc. is US Patent No. RE38,137E. Wynn Technologies Inc. cannot transfer, assign, sell, hypothecate or otherwise encumber US Patent No. RE38,173E without the express written consent of Sol Li, owner of 35% of Wynn Technologies Inc., unless, as of the date of such transfer, assignment, sale, hypothecation or other encumbrance, Mr. Li has received a total of at least $250,000.

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The Company accounts for its 65% interest in Wynn Technologies, Inc. under the equity method whereby the investment accounts are increased for contributions by the Company plus its 60% share of income pursuant to the contractual agreement which provide that Sol Li retains 40% of the income, and reduced for distributions and its 60% share of losses incurred, respectively, with the restriction whereby the account balances cannot go below zero.

Significant intercompany transaction and balances have been eliminated in consolidation.

Use of Estimates

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

Intangible Assets

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

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

Derivative Financial Instruments

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

Fair value of financial instruments

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

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

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

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

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

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

Income Tax

The Company records revenues on a gross basis, before deduction for income taxes. The Company incurred foreign income tax expenses of approximately $49,900 for the three months ended March 31, 2018. The Company did not incur foreign income tax expense in the comparable period in 2017.

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

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

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

The Company’s operating subsidiaries may engage with funding sources that 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.

Revenue Recognition

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

Recent Accounting Pronouncements

The Company is currently evaluating ASC 842 “Leases” for future adoption. Other than those pronouncements, management does not believe that there are any other recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on the Company's financial statements.

Going Concern

As shown in the accompanying financial statements, the Company has an accumulated deficit of approximately $17,003,000 and negative working capital of approximately $4,523,000 as of March 31, 2018. Because of the Company’s continuing losses, the working capital deficiency, the uncertainty of future revenue, the Company’s low stock price and the absence of a trading market in its common stock, and the ability of the Company to raise funds in equity market or from lenders is severely impaired. These conditions raise substantial doubt as to the Company’s ability to continue as a going concern. Although the Company may seek to raise funds and to obtain third party funding for litigation to enforce its intellectual property rights, the availability of such funds is uncertain. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

The following table shows the Company’s short-term and long-term debt at March 31, 2018 and December 31, 2017.

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Short-term debt: | | |
| Loans payable – third party | $163,000 | $ 163,000 |
| Loan payable – related party | | |
| Gross | 4,027,351 | 4,027,351 |
| Accrued Interest | 185,060 | 85,757 |
| Unamortized discount | (487,380 ) | (517,182 ) |
| Net loans payable – related party | $3,725,031 | $ 3,595,926 |
| Long-term liabilities: | | |
| Purchase price of patents | | |
| Gross | 875,000 | 875,000 |
| Unamortized discount | (158,347 ) | (175,243 ) |

| | | |
|---|---|---|
| Net purchase price of patents – long-term | $716,653 | $ 699,757 |

The loan payable – third party is a demand loan made by former officers and directors, who are unrelated third parties at March 31, 2018, and December 31, 2017, in the amount of $163,000. The loans are payable on demand plus accrued interest at 10% per annum. These third parties are also shareholders, but their stockholdings are not significant.

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The loan payable – related party at March 31, 2018 represents the principal amount of the Company's 10% note to United Wireless Holdings, Inc. ("United Wireless") in the amount of $4,027,351 pursuant to securities purchase agreement dated October 22, 2015 more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. On March 16, 2017, the Company received a letter from counsel to United Wireless claiming that the Company is in violation of the requirements of the registration rights agreement dated October 22, 2015 on the grounds that the Company did not update the registration statement in November 2016. The Company disputed the claim that it was in breach of the registration rights agreement. On June 12, 2017, the Company entered into a standstill agreement with United Wireless pursuant to which the Company agreed (i) to increase its authorized common stock to 10,000,000,000 shares, (ii) to file by June 30, 2017, a post-effective amendment to the registration statement covering the sale of the shares of common stock initially issued to United Wireless pursuant to the securities purchase agreement and the shares of common stock issuable upon the option granted to United Wireless pursuant to the securities purchase agreement, (iii) if the existing warrant held by the Company's chief executive officer is not exercised prior to its expiration date, any re-issuance will not have an exercise price less than the current exercise price and the existing warrants will not be amended to lower the exercise price, and (iv) United Wireless no longer has any obligation to purchase any note pursuant to the securities purchase agreement other than the $1,000,000 note related to the final payment to Intellectual Ventures which was made in November 2017, except in connection with the potential acquisition by the Company of patent rights which triggered a $25,000 working capital loan in connection with the acquisition and the Company can require United Wireless to make $125,000 working capital loans to the Company, at the Company's sole discretion, on December 31, 2017, March 31, 2018 and June 30, 2018 pursuant to securities purchase agreement dated October 22, 2015 more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and, in such event, United Wireless would have a 7½% net proceeds percentage interest in the net proceeds from such patent. On June 15, 2017, the Company amended its certificate of incorporation to increase its authorized common stock to 10,000,000,000 shares. On June 30, 2017, the Company filed a post-effective amendment to the registration statement covering the sale of the shares of common stock initially issued to United Wireless pursuant to the securities purchase agreement and the shares of common stock issuable upon the option granted to United Wireless pursuant to the securities purchase agreement. The registration statement was declared effective on July 6, 2017. The Company issued to United Wireless a 10% promissory note due September 30, 2020 in the principal amount of $25,000 pursuant to the standstill agreement, for which the Company received $25,000, which was used to make the $25,000 advance to Intellectual Ventures Assets 34 LLC and Intellectual Ventures Assets 37 LLC ("IV 34/37") as part of acquisition of intellectual property from IV 34/37. In connection with the loan, the Company entered into a monetization agreement with United Wireless pursuant to which the Company agreed to pay United Wireless 7.5% of the net monetization proceeds from the patents acquired by CXT from IV 34/37. This obligation was recorded as an expense related to obtaining the standstill agreement and is reflected in interest expenses. CXT's obligations under the monetization proceeds agreement are secured by a security interest in the proceeds (from litigation or otherwise) from the CXT Portfolio. The security interest in the proceeds from the CXT Portfolio is junior to the security interest held by IV 34/37 in the CXT Portfolio and proceeds thereof. The notes payable to United Wireless have been classified as current liabilities as of March 31, 2018. Because of its right to elect a director of the Company, United Wireless is treated as a related party. Prior to the securities purchase agreement with United Wireless, the Company had no relationship with United Wireless.

Long term liabilities

The purchase price of patents at March 31, 2018 represents the non-current portion of minimum payments due under the agreement between CXT Systems, Inc. (“CXT”), a wholly owned subsidiary, and IV 34/37 pursuant to which at closing CXT acquired by assignment all right, title, and interest in a portfolio of fourteen United States patents, five foreign patents and six related applications (the “CXT Portfolio”). Under the agreement, CXT will distribute 50% of net recoveries, as defined, to IV 34/37. CXT advanced $25,000 to IV 34/37 at closing, and agreed that in the event that, on August 31, 2018, August 31, 2019 and August 31, 2020, cumulative distributions to IV 34/37 total less than $100,000, $375,000 and $975,000, respectively, CXT shall pay the difference necessary to achieve the applicable minimum payment amount within ten days after the applicable date; with any advances being credited toward future distributions to IV 34/36. No affiliate of CXT has guaranteed the minimum payments. CXT’s obligations under the agreement are secured by a security interest in the proceeds (from litigation or otherwise) from the CXT Portfolio.

**NOTE 4 – DERIVATIVE LIABILITIES**

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

As of March 31, 2018, and December 31, 2017, the aggregate fair value of the outstanding derivative liability was approximately $100,000 and $90,000, respectively.

The Company estimated the fair value of the derivative liability using the Black-Scholes option pricing model using the following key assumptions during the period ended March 31, 2018:

| | **Period Ended March 31, 2018** |
|---|---|
| Volatility | 426 % - 452% |
| Risk-free interest rate | 1.36% |
| Expected dividends | -% |
| Expected term | 2.50 – 2.75 years |

The following schedule summarizes the valuation of financial instruments at fair value in the balance sheets as of March 31, 2018 and December 31, 2017:

| | Fair Value Measurements as of | | | | | |
|---|---|---|---|---|---|---|
| | 31-Mar-18 | | | 31-Dec-17 | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |
| None | - | - | - | - | - | - |
| Total assets | - | - | - | - | - | - |
| Liabilities | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Option derivative liability | - | - | 100,000 | - | - | 90,000 |
| Total liabilities | $- | $- | $100,000 | $- | $ - | $90,000 |

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

| | **Significant Unobservable Inputs (Level 3) as of March 31, 2018** |
|---|---|
| Beginning balance | $ 90,000 |
| Change in fair value | 10,000 |
| Ending balance | $ 100,000 |

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**NOTE 5 – STOCKHOLDERS' EQUITY**

Increase in Authorized Common Stock

On June 15, 2017, the Company amended its certificate of incorporation to increase its authorized common stock to 10,000,000,000 shares.

Issuance of Common Stock and Options

There was no stock-based compensation expense for the three months ended March 31, 2018 or 2017.

As of March 31, 2018, there was no unamortized option expense associated with compensatory 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 Remaining Contractual Life (Years) |
|---|---|---|---|
| Balance - December 31, 2017 | 50,000,000 | 0.03 | 2.75 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Expired | - | - | - |
| Cancelled | - | - | - |
| Balance - March 31, 2018 | 50,000,000 | 0.03 | 2.5 |

Warrants

As of March 31, 2018, there was no unamortized warrant expense.

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

| | Number of Warrants (#) | Weighted Average Exercise Price ($) | Weighted Average Remaining Contractual Life (Years) |
|---|---|---|---|
| Balance - December 31, 2017 | 65,000,000 | 0.004 | 0.17 |
| Granted | - | - | - |
| Cancelled | - | - | - |
| Expired | 65,000,000 | 0.004 | - |
| Exercised | - | - | - |
| Balance - March 31, 2018 | - | - | - |

**NOTE 6 – INTANGIBLE ASSETS**

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

| | March 31, 2018 | December 31, 2017 | Weighted average amortization period (years) |
|---|---|---|---|
| Patents | $4,020,000 | $ 4,000,000 | 9.8 |
| Less: net monetization obligations | (509,811 ) | (509,811 ) | |
| Imputed interest | (376,291 ) | (376,291 ) | |
| Subtotal | 3,133,898 | 3,113,898 | |
| Less: accumulated amortization | (774,990 ) | (650,560 ) | |
| Net value of intangible assets | $2,358,908 | $ 2,463,338 | 8.2 |

Intangible assets are comprised of patents with estimated useful lives. The intangible assets at March 31, 2018 represent: (1) patents acquired in October 2015 for a purchase price of $3,000,000, the useful lives of the patents, at the date of purchase, was 6-10 years, (2) patents acquired in July 2017 pursuant to an obligation to distribute 50% of net revenues to IV 34/37, against which $25,000 was advanced at closing and provided that in the event that, on December 31, 2018, December 31, 2019 and December 31, 2020, cumulative distributions of 50% of net revenues to IV 34/37 total less than $100,000, $375,000 and $975,000, respectively, CXT shall pay the difference necessary to achieve the applicable minimum payment amount within ten days after the applicable date; with any advances being credited toward future distributions to IV 34/36; the useful lives of the patents, at the date of acquisition, was 5-6 years, (3) patents (which were fully depreciated 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 obligation to distribute 50% of net revenues to IV 62/71 against which CXT advanced $10,000 at closing; and (4) patents acquired in January 2018 by Photonic Imaging Solutions Inc. ("PIS") from Intellectual Ventures Assets 64 LLC ("IV 64") pursuant to which PIS is to pay IV 64 (a) 70% of the first $1,500,000 of net revenue, (b) 30% of the next $1,500,000 of net revenue and (c) 50% of net revenue in excess of $3,000,000, against which PIS advanced $10,000 at closing. The Company amortizes the costs of intangible assets over their estimated useful lives on a straight-line basis. Costs incurred to acquire patents, including legal costs, are also capitalized as long-lived assets and amortized on a straight-line basis with the associated patent. Amortization of patents is included as a selling, general and administrative expense in the accompanying consolidated statements of operations.

The Company assesses intangible assets for any impairment to the carrying values. As of March 31, 2017, and December 31, 2017, management concluded that there was no impairment to the acquired assets. At March 31, 2018 and December 31, 2017, the book value of the Company's intellectual property was $2,358,908 and $2,463,338, respectively.

Amortization expense for patents comprised $124,430 and $331,275 for the three months ended March 31, 2018 and the year ended December 31, 2017, respectively. Future amortization of intangible assets is as follows:

| | |
|---|---|
| Year ended December 31, | |
| 2018 | $313,289 |
| 2019 | 417,719 |
| 2020 | 417,719 |
| 2021 | 413,658 |
| 2022 and thereafter | 796,523 |
| Total | $2,358,908 |

Pursuant to the securities purchase agreement dated October 22, 2015 more fully described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, 15% of the net monetization proceeds from the patents acquired in October 2015 will be paid to our lender, United Wireless. This monetization obligation was recognized as a discount to the loan and will be amortized over the life of the loan using the effective interest method. In addition, the Company entered into a monetization agreement with United Wireless pursuant to which the Company agreed to pay United Wireless 7.5% of the net monetization proceeds from the patents acquired by CXT in July 2017. This obligation was recorded as an expense and is reflected in interest expense during the third quarter of 2017.

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

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

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Current Liabilities: | | |
| Purchase price of patents, current portion | 100,000 | $ 100,000 |
| Unamortized discount | | |
| Non-current liabilities: | | |
| Purchase price of patents, long term | 875,000 | $ 875,000 |
| Unamortized discount | (158,347) | (175,243) |
| Total current and non-current | 816,653 | 799,757 |
| Effective interest rate of Amortized over 2-3 years | | 9.2-9.6 % |

Because the non-current minimum payment obligations of $875,000 are due over the next three years, the Company imputed interest of 10% and the interest will be accreted up to the maturity date.

**NOTE 7 – NON-CONTROLLING INTEREST**

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

| | |
|---|---|
| Balance as of December 31, 2017 | $3,219 |
| Net income attributable to non-controlling interest | $(594) |
| Balance as of March 31, 2018 | $2,625 |

**NOTE 8 – RELATED PARTY TRANSACTIONS**

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

During the three months ended March 31, 2018 and 2017, the Company contracted with an entity owned by the chief technology officer for the provision of information technology services to the Company. For the three months ended

March 31, 2018 and 2017, the cost of these services was approximately $230 and $545 respectively.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

*Employment Agreements*

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

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

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

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

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

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

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

In March 2014, the Company entered into a funding agreement whereby a third party agreed to provide funds to us to enable us to implement a structured licensing program, including litigation if necessary, for the Mobile Data. Under the funding agreement, the third party receives an interest in the proceeds from the program, and we have no other obligation to the third party. In April and June 2014, as part of a structured licensing program for the Mobile Data portfolio, Quest Licensing Corporation brought patent infringement suits in the U.S. District for the District of Delaware against Bloomberg LP et. al., FactSet Research Systems Inc., Interactive Data Corporation, SunGard Data Systems Inc. and The Charles Schwab Corporation et. al. These cases have been consolidated for trial. In June and August 2016, Quest Licensing Corporation entered into a settlement agreement with SunGard Data Systems Inc. and FactSet Research Systems Inc. As of the date of filing the third party litigation has advanced approximately $3,000,000 in litigation fees, costs and expenses. Under the terms of the funding agreement, the third party funder is entitled to a priority return of funds advanced from any proceeds recovered. The Company’s management fees and management support services expenses relate to this agreement.

*Patent Enforcement and Other Litigation*

Certain of the Company's operating subsidiaries are engaged in litigation to enforce their patents and patent rights. In connection with these patent enforcement actions, it is possible that a defendant may request and/or a court may rule that an operating subsidiary has violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against the Company or its operating subsidiaries or award attorney's fees and/or expenses to a defendant(s), which could be material, and if required to be paid by the Company or its operating subsidiaries, could materially harm the Company's operating results and financial position. 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 judgement may result in the bankruptcy of the subsidiary and/or the loss of the patents, which are the subsidiaries' only assets.

On January 19, 2017, the court in the Mobile Data Portfolio litigation granted the defendants' motion for summary judgment of non-infringement, which Quest Licensing Corporation has appealed, and oral argument has been scheduled for June 6, 2018, though this date may change. Following the court's decision granting the defendant's motion for summary judgment, the defendants moved for an award of attorneys' fees under Section 285 of the patent act which provides that "the court in exceptional cases may award reasonable attorney fees to the prevailing party." Such a motion, if granted, would result in a judgment against Quest Licensing Corporation, which does not have the financial resources to enable it to pay any judgment which may be rendered against it, and, the defendants may seek to enforce their judgment by seeking to foreclose on the patents owned by the subsidiary or seek to force the subsidiary into bankruptcy and purchase the patents in the bankruptcy proceeding, either of which could result in a default under the Company's agreement with United Wireless. The possible amount of any judgment cannot be estimated and the funding source for the litigation will not provide the Company with funds to pay an adverse judgment. On June 29, 2017, the defendants' motion for attorney fees in the Mobile Data litigation was denied, without prejudice. Defendants may renew their motion thirty days from the decision of the appellate court on Quest Licensing Corporation's appeal.

**NOTE 10 – SUBSEQUENT EVENTS**

On April 6, 2018 and April 30, 2018 pursuant to the Company's agreements with United Wireless, United Wireless made a working capital loans in the amount of $25,000 and $100,000, respectively, for which the Company issued its 10% promissory notes due September 30, 2020 in the principal amounts of $25,000 and $100,000, respectively.

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

**Overview**

Our principal operations include the development, acquisition, licensing and enforcement of intellectual property rights that are either owned or controlled by us or one of our wholly owned subsidiaries. We currently own, control or manage ten intellectual property portfolios, which principally consist of patent rights. Our ten intellectual property portfolios include the portfolios which we acquired from Intellectual Ventures Assets 16, LLC ("Intellectual Ventures") and five of its affiliates. As part of our intellectual property asset management activities and in the ordinary course of our business, it has been necessary for either us or the intellectual property owner who we represent to initiate, and it is likely to continue to be necessary to initiate patent infringement lawsuits and engage in patent infringement litigation. To date, we have not generated any significant revenues from our intellectual property rights.

We seek to generate revenue from three sources:

Patent licensing fees relating to our intellectual property portfolio, which includes fees from the licensing of our intellectual property, primarily from litigation relating to enforcement of our intellectual property rights. Almost all of the revenue for the three months ended March 31, 2018 were from patent licensing fees, of which approximately 94% was paid to funding sources and legal counsel pursuant to our agreements with funding sources and legal counsel.

Management fees, which we receive for managing structured licensing programs, including litigation, related to our intellectual property rights, there were no management fees in the three months ended March 31, 2018, and management fees were not significant in the three months ended March 31, 2017.

Licensed packaging sales, which relate to the sale of licensed products

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 cannot give you any assurance 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.

Fees generated in connection with the management of litigation are paid to us by a third-party funding source in support of the litigation seeking to enforce our intellectual property rights. Our agreement with the funding source provides that the funding source pays the litigation costs and provides that this funding source receives a percentage of the recovery, thus reducing our recovery in connection with any settlement of the litigation. As a result, in connection with litigation funded by the third party, we would, if the litigation is successful, receive fees both for managing the litigation and from a license of the intellectual property, which will be net of that portion of the recovery payable to the funding source. 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. Our gross profit from management fees reflects payments to third party support services providers which we pay in connection with management of the licensing program.

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

In April 2016, Semcon IP Inc. brought patent infringement actions in the United States District Court for the Eastern District of Texas against Huawei Technologies, MediaTek Inc., STMicroelectronics Inc., Texas Instruments Incorporated and ZTE Corporation. In January 2018, the action against Texas Instruments was dismissed, and in February 2018, the action against Huawei Technologies was dismissed. As of March 31, 2018, the remaining actions were stayed pending settlement. Our revenue for the quarter ended March 31, 2018 included revenue from two of these settlements.

On January 19, 2017, the court in the Mobile Data Portfolio litigation granted the defendants' motion for summary judgment of non-infringement, which Quest Licensing Corporation has appealed, and oral argument has been scheduled for June 6, 2018, though this date may change. Following the court's decision granting the defendant's motion for summary judgment, the defendants moved for an award of attorneys' fees under Section 285 of the patent act which provides that "the court in exceptional cases may award reasonable attorney fees to the prevailing party." Such a motion, if granted, would result in a judgment against Quest Licensing Corporation, which does not have the financial resources to enable it to pay any judgment which may be rendered against it, and, the defendants may seek to enforce their judgment by seeking to foreclose on the patents owned by the subsidiary or seek to force the subsidiary into bankruptcy and purchase the patents in the bankruptcy proceeding, either of which could result in a default under our agreements with United Wireless. On June 29, 2017, the defendants' motion for attorney fees in the Mobile Data litigation was denied, without prejudice. The defendants may renew their motion thirty days from the decision of the appellate court on our appeal of the district court's decision granting the defendant's motion for summary judgment. The possible amount of any judgment cannot be estimated and the funding source for the litigation will not provide us with funds to pay an adverse judgment.

On January 26, 2018, CXT entered into an agreement with Intellectual Ventures Assets 62 LLC and Intellectual Ventures Assets 71 LLC "(IV 62/71") pursuant to which CXT advanced IV 62/71 $10,000 at closing and IV 62/71 assigned to CXT all right, title, and interest in a portfolio of sixteen United States patents and three pending applications. Under the agreement, CXT will distribute 50% of net proceeds, as defined, to IV 62/71, from the assigned patents; with any advances being credited toward future distributions to IV 62/71. CXT's obligations under the agreement are secured by a security interest in the proceeds (from litigation or otherwise) from the patents acquired from IV 62/71. The Company agreed to modify the monetization proceeds agreement between CXT and United Wireless to include the patents acquired from IV 62/71. In April 2018 CXT brought patent infringement suits in the United States District Court for the Eastern District of Texas against Academy Ltd., The Container Store Group, Inc. and Pier 1 Imports, Inc.

On January 26, 2018, Photonic Imaging Solutions Inc. ("PIS"), a wholly-owned subsidiary, entered into an agreement with Intellectual Ventures Assets 64 LLC ("IV 64") pursuant to which PIS advanced $10,000 to IV 64 at closing and IV

64 assigned to PIS all right, title, and interest in the eleven United States patents and sixteen foreign patents ("CMOS Portfolio"). Under the agreement, PIS will distribute to IV 64 (a) 70% of the first $1,500,000 of revenue, as defined in the agreement, (b) 30% of the next $1,500,000 of revenue and (c) 50% of revenue in excess of $3,000,000; with any advances being credited toward future distributions to IV 64. PIS' obligations under the monetization proceeds agreement are secured by a security interest in the proceeds (from litigation or otherwise) from the portfolio. In April 2018 PIS brought patent infringement actions in the United States District Court for the District of Delaware against Lenovo Group Ltd., AsusTek Computer Inc., Lorex Technology Inc., and NETGEAR, Inc.

In March 2018, Mariner IC brought patent infringement actions in the United States District Court for the Eastern District of Texas against Acer Inc., Schneider Electric, Sharp Corporation, AsusTek Computer Inc., and Bose Corporation. In April 2018, the pending actions against Acer Inc., Schneider Electric and Bose Corporation were dismissed. In April 2018, Mariner IC brought patent infringement actions in the United States District Court for the Eastern District of Texas against TiVo Corporation, Huawei Device Co., Ltd et. al., and Lenovo Group Ltd.

In April 2018, Photonic Imaging Solutions brought patent infringement actions in the United States District Court for the District of Delaware against Lenovo Group Ltd., ASUS Tek Computer Inc., Lorex Technology Inc., and NETGEAR, Inc.

In April 2018, CXT brought patent infringement actions in the United States District Court for the Eastern District of Texas against Academy Ltd., The Container Store Group, Inc. and Pier 1 Imports, Inc.

In May 2018 Semcon brought patent infringement actions in the United States District Court for the Eastern District of Texas against Amazon.com, Inc., ASUS TeK Computer Inc., TCL Communication Technology Holdings Limited et. al., Kyocera Corporation, LVMH Moet Hennessy Louis Vuitton, SE, Shenzhen OnePlus Science & Technology Co., Ltd., and Michael Kors Holdings Ltd.

**Results of Operations**

*Three months ended March 31, 2018 and 2017*

Revenues for the three months ended March 31, 2018 were approximately $857,000, an increase of approximately $841,000, or 5256%, compared to the three months ended March 31, 2017, which were approximately $16,000. We generated revenue f of approximately $849,000 for the three months ended March 31, 2018, from settlements in the power management/bus controller portfolio actions. We did not generated revenue from patent licensing fees during the three months ended March 31, 2017.

Operating expenses for the three months ended March 31, 2018 increased by approximately $889,000, or 420%, compared to the three months ended March 31, 2017. Our principal operating expense for the three months ended March 31, 2018 was litigation and licensing expenses which consist of fees payable to attorneys and third-party funding sources associated with the power management/bus controller portfolio settlements of approximately $799,000. These fees, which are paid directly from the settlement funds, became payable as a result of settlement agreements that provided for a recovery. The total settlement recovery is included in revenue and the associated costs are deducted as cost of revenue. When the settlement funds are disbursed we receive the net amount due us after deducting the associated settlement costs.

Other income (expense) for the three months ended March 31, 2018 included a $10,000 loss on the derivative liability associated with the options granted to United Wireless. We realized a gain of $50,000 on derivative liability in the comparable period of 2017. Other income reflects interest expense of approximately $150,000 for the three months ended March 31, 2018 and approximately $114,000 for the three months ended March 31, 2017. The increase in interest expense reflects the interest accrued on our note to United Wireless.

During the period we incurred income tax expense of approximately $50,000 for the three months March 31, 2018, compared to approximately $4,000 for the three months ended March 31, 2017. The increase in income tax expense primarily reflect foreign income taxes related to foreign source patent licensing fees. We did not incur foreign income tax expenses in the comparable period in 2017.

As a result of the foregoing, we realized net loss of approximately $453,000, or $0.001 per share (basic and diluted), for the three months ended March 31, 2018, compared to net loss of approximately $265,000, or $0.001 per share (basic and diluted), for the three months ended March 31, 2017.

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**Liquidity and Capital Resources**

At March 31, 2018, we had current assets of approximately $26,000, and current liabilities of approximately $4,550,000. Our current liabilities include approximately $100,000 payable to Intellectual Ventures, loans payable of approximately $3,540,000 (net of discount of approximately $487,000) and accrued interest of approximately $185,000 payable to United Wireless and loans payable of $163,000 and accrued interest of approximately $269,000 due to former directors and minority stockholders. As of March 31, 2018, we have an accumulated deficit of approximately $17,003,000 and a negative working capital of approximately $4,523,000. Other than salary to our chief executive officer, we do not contemplate any other material operating expense in the near future other than normal general and administrative expenses, including expenses relating to our status as a public company filing reports with the SEC.

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

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

In April 2016, Semcon IP brought patent infringement actions in the United States District Court for the Eastern District of Texas against Huawei Technologies, MediaTek Inc., STMicroelectronics Inc., Texas Instruments Incorporated and ZTE Corporation. As of March 31, 2018, all the cases have settled and been dismissed or were stayed pending settlement. The gross settlements are, or will be, reflected in revenue and the associated costs and expenses are, or will be, included in cost of revenue.

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

**Significant Accounting Policies and Estimates**

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

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

*Principles of Consolidation*

The condensed consolidated financial statements are prepared in accordance with US GAAP and present the financial statements of the Company and our wholly-owned subsidiary. In the preparation of our consolidated financial statements, intercompany transactions and balances are eliminated.

*Use of Estimates and Assumptions*

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

*Fair Value of Financial Instruments*

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

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

| | |
|---|---|
| Level 1: | Observable inputs such as quoted market prices in active markets for identical assets or liabilities |
| Level 2: | Observable market-based inputs or unobservable inputs that are corroborated by market data |
| Level 3: | Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions. |

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

*Income Tax*

We record revenues on a gross basis, before deduction for income taxes. We incurred foreign income tax expenses of approximately $49,900 for the three-months ended March 31, 2018. We did not incur foreign income tax expense in the comparable period in 2017.

*Long-Lived Assets*

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

*Revenue Recognition*

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

*Cost of Revenue*

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

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

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

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

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

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

**Recent Accounting Pronouncements**

The Company is currently evaluating ASC 842 “Leases” for future adoption. Other than those pronouncements, management does not believe that there are any other recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on the Company's financial statements.

**Going Concern**

We have an accumulated deficit of approximately $17,003,000 and negative working capital of approximately $4,523,000 as of March 31, 2018. Because of our continuing losses, our working capital deficiency, the uncertainty of future revenue, our obligations to Intellectual Ventures and United Wireless, our low stock price and the absence of a trading market in our common stock, our ability to raise funds in equity market or from lenders is severely impaired, and we may not be able to continue as a going concern. Although we may seek to raise funds and to obtain third party funding for litigation to enforce our intellectual property rights, the availability of such funds in uncertain. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Off-balance Sheet Arrangements**

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

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

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

**Item 4. Controls and Procedures.**

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

We conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2018, the end of the period covered by this Quarterly Report on Form 10-Q. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our chief executive officer and chief financial officer, which positions are held by the same person. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, due to the inadequacy of our internal controls over financial reporting and our limited internal audit function, our disclosure controls were not effective as of March 31, 2018, such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the president and treasurer, as appropriate to allow timely decisions regarding disclosure.

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

As reported in our annual report on Form 10-K for the year ended December 31, 2017, management has determined that our internal audit our internal controls contains material weaknesses due to insufficient segregation of duties within accounting functions as well as lack of qualified accounting personnel and excessive reliance on third party consultants for accounting, financial reporting and related activities. These problems continue to affect us as we only have on full-time executive officer, who is our only full-time employee and who serves as chief executive officer and chief financial officer.

During the period ended March 31, 2018, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 6. Exhibits.

| | |
|---|---|
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.ins | XBRL Instance Document |
| 101.sch | XBRL Taxonomy Schema Document |
| 101.cal | XBRL Taxonomy Calculation Document |
| 101.def | XBRL Taxonomy Linkbase Document |
| 101.lab | XBRL Taxonomy Label Linkbase Document |
| 101.pre | XBRL Taxonomy Presentation Linkbase Document |

**SIGNATURES**

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

Date: May 15, 2018

**QUEST PATENT RESEARCH CORPORATION**

By: /s/ Jon C. Scahill
Jon C. Scahill
Chief executive officer and
acting chief financial officer