SPHERIX INC
Form 10-Q
August 11, 2017

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 EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

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 000-05576

SPHERIX INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware	52-0849320
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Rockefeller Plaza

New York, NY 10020

(Address of principal executive offices)

(212) 745-1374

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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, a smaller reporting company, or an emerging growth company. See definition 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 by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practicable date.

Class	Outstanding as of August 9, 2017
Common Stock, $0.0001 par value	6,229,898 shares

Spherix Incorporated and Subsidiaries

Form 10-Q

For the Quarter Ended June 30, 2017

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Part I. Financial Information

Item 1. Financial Statements

SPHERIX INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

($ in thousands except per share amounts)

	June 30 2017 **(Unaudited)**	December 31 2016
ASSETS		
Current assets		
Cash and cash equivalents	$733	$134
Marketable securities	2,920	6,025
Prepaid expenses and other assets	95	135
Total current assets	3,748	6,294
Property and equipment, net	4	6
Patent portfolios and patent rights, net	4,270	4,951
Investments at fair value	675	—
Deposit	26	26
Total assets	$8,723	$11,277
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$103	$123
Accrued salaries and benefits	82	446
Warrant liabilities	2,028	702
Short-term deferred revenue	1,073	1,216
Short-term lease liabilities	140	183
Total current liabilities	3,426	2,670
Long-term deferred revenue	2,771	3,245
Long-term lease liabilities	—	44
Total liabilities	6,197	5,959
Stockholders' equity		
Series D: 4,725 shares issued and outstanding at June 30, 2017 and December 31, 2016; liquidation value of $0.0001 per share	—	—
	—	—

	June 30, 2017	December 31, 2016
Series D-1: 834 shares issued and outstanding at June 30, 2017 and December 31, 2016; liquidation value of $0.0001 per share		
Series H: no shares and 381,967 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively; liquidation preference $83.50 per share	—	—
Series K: no shares and 1,240 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively; liquidation preference $1,000 per share	—	—
Common stock, $0.0001 par value, 100,000,000 shares authorized; 4,979,910 and 4,943,941 shares issued at June 30, 2017 and December 31, 2016, respectively; 4,979,898 and 4,943,929 shares outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in-capital	147,318	147,331
Treasury stock, at cost, 12 shares at June 30, 2017 and December 31, 2016	(264)	(264)
Accumulated deficit	(144,528)	(141,749)
Total stockholders' equity	2,526	5,318
Total liabilities and stockholders' equity	$8,723	$11,277

See accompanying notes to condensed consolidated financial statements

SPHERIX INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

($ in thousands except per share amounts)

(Unaudited)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2017	2016	2017	2016
Revenues	$311	$177	$638	$249
Operating costs and expenses				
Amortization of patent portfolio	343	531	681	1,062
Compensation and related expenses (including stock-based compensation)	294	361	883	673
Professional fees	250	824	535	1,529
Rent	27	23	49	45
Other selling, general and administrative	174	60	236	123
Total operating expenses	1,088	1,799	2,384	3,432
Loss from operations	(777)	(1,622)	(1,746)	(3,183)
Other (expenses) income				
Other income, net	121	55	293	25
Change in fair value of warrant liabilities	(1,204)	(511)	$(1,326)	1,031
Total other (expenses) income	(1,083)	(456)	(1,033)	1,056
Net loss	$(1,860)	$(2,078)	$(2,779)	$(2,127)
Deemed capital contribution on extinguishment of preferred stock		31,480		31,480
Net income (loss) attributable to common stockholders	$(1,860)	$29,402	$(2,779)	$29,353
Net income (loss) per share attributable to common stockholders, basic and diluted				
Basic	$(0.38)	$9.61	$(0.56)	$10.18
Diluted	$(0.38)	$9.21	$(0.56)	$9.32
Weighted average number of common shares outstanding,				
Basic	4,958,159	3,060,455	4,951,083	2,883,160
Diluted	4,958,159	3,193,227	4,951,083	3,147,022

See accompanying notes to condensed consolidated financial statements

SPHERIX INCORPORATED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

($ in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	$(2,779)	$(2,127)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of patent portfolio	681	1,062
Change in fair value of warrant liabilities	1,326	(1,031)
Stock-based compensation	11	299
Depreciation expenses	2	1
Realized loss on marketable securities	129	57
Unrealized gain on marketable securities	(137)	(29)
Changes in assets and liabilities:		
Prepaid expenses and other assets	40	231
Accounts payable and accrued expenses	(20)	(124)
Accrued salaries and benefits	(364)	(571)
Deferred revenue	(618)	4,126
Accrued lease liabilities	(87)	(90)
Net cash (used in) provided by operating activities	(1,816)	1,804
Cash flows from investing activities		
Purchase of marketable securities	(6,510)	(10,193)
Purchase of property and equipment	—	(3)
Sale of marketable securities	9,624	7,886
Investment in Hoth Therapeutics, Inc.	(675)	—
Net cash provided by (used in) investing activities	2,439	(2,310)
Cash flows from financing activities		
Cash paid for cancellation of common stock	—	(4)
Proceeds from exercise of warrants	—	760
Repurchase of restricted stock units to pay for employee withholding taxes	(24)	—
Net cash (used in) provided byfinancing activities	(24)	756
Net increase in cash and cash equivalents	599	250
Cash and cash equivalents, beginning of period	134	142
Cash and cash equivalents, end of period	$733	$392

Cash paid for interest and taxes	$114	$—
Non-cash investing and financing activities		
Extinguishment of Series H Convertible Preferred Stock in connection with license agreement	$—	$31,480
Recognition of deferred revenue in connection with license agreement	$—	$414

See accompanying notes to condensed consolidated financial statements

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Note 1. Organization and Description of Business

Organization and Description of Business

Spherix Incorporated (the "Company") is an intellectual property company incorporated in the State of Delaware that owns patented and unpatented intellectual property. The Company was formed in 1967 as a scientific research company and for much of its history pursued drug development including through Phase III clinical studies which were discontinued. Through the Company's acquisition of patents and patent applications developed by Nortel Networks Corporation from Rockstar Consortium US, LP ("Rockstar") and Harris Corporation from North South Holdings Inc. ("North South") in 2013, the Company has expanded its activities.

The Company is currently a patent commercialization company focused on generating revenues from the monetization of intellectual property, or IP. Such monetization includes, but is not limited to, acquiring IP from patent holders in order to maximize the value of the patent holdings by conducting and managing a licensing campaign, or through the settlement and litigation of patents. We intend to generate revenues and related cash flows from the granting of intellectual property rights for the use of patented technologies that we own, that we manage for others, or that others manage on our behalf. To date, we have generated minimal revenues and no assurance can be provided that our business model will be successful.

The Company continually works to enhance its portfolio of intellectual property through acquisitions and strategic partnerships. The Company's mission is to partner with inventors, or other entities, who own undervalued intellectual property. The Company then works with the inventors or other entities to commercialize the IP.

In March 2016, the Company entered into an agreement (which was subsequently amended in April and May 2016) with Equitable IP Corporation ("Equitable") to facilitate the monetization of its patents (the "Monetization Agreement"). Pursuant to the Monetization Agreement, the Company is working together with Equitable to further develop and revise its ongoing litigation plan. See Note 5 for additional details surrounding the Monetization Agreement.

Note 2. Liquidity and Financial Condition

The Company continues to incur ongoing administrative and other expenses, including public company expenses, in excess of corresponding (non-financing related) revenue. While the Company continues to implement its business strategy, it intends to finance its activities through:

managing current cash and cash equivalents on hand from the Company's past debt and equity offerings,
seeking additional funds raised through the sale of additional securities in the future,
seeking additional liquidity through credit facilities or other debt arrangements, and
increasing revenue from its patent portfolios, license fees and new business ventures.

Management believes the Company currently has sufficient funds to meet its operating requirements for at least the next twelve months.

The Company's ultimate success is dependent on its ability to obtain additional financing and generate sufficient cash flows to meet its obligations on a timely basis. The Company's business will require significant amounts of capital to sustain operations and make the investments it needs to execute its longer term business plan. The Company's working capital amounted to approximately $0.3 million at June 30, 2017, and net loss amounted to approximately $1.9 million and $2.8 million for the three and six months ended June 30, 2017. The Company had an approximately $144.5 million of accumulated deficit as of June 30, 2017. Absent generation of sufficient revenue from the execution of the Company's long term business plan, the Company will need to obtain additional debt or equity financing, especially if the Company experiences downturns in its business that are more severe or longer than anticipated, or if the Company experiences significant increases in expense levels resulting from being a publicly-traded company or operations. If the Company attempts to obtain additional debt or equity financing, the Company cannot assume that such financing will be available to the Company on favorable terms, or at all. On July 18, 2017, the Company entered into an underwriting agreement with Laidlaw & Company (UK) Ltd. with respect to the issuance and sale of an aggregate of 1,250,000 shares of the Company's common stock, par value $0.0001 per share, in a firm commitment underwritten public offering which closed on July 24, 2017. Each share was sold for a price of $2.00 for aggregate gross proceeds of $2,500,000, with net proceeds of $2,114,583, after deducting the underwriting discounts and commissions (equivalent to 8% of gross proceeds) and estimated offering expenses.

Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. The Company may be forced to litigate against others to enforce or defend its intellectual property rights or to determine the validity and scope of other parties' proprietary rights. The defendants or other third parties involved in the lawsuits in which the Company is involved may allege defenses and/or file counterclaims or initiate inter parties reviews in an effort to avoid or limit liability and damages for patent infringement or cause the Company to incur additional costs as a strategy. If such efforts are successful, they may have an impact on the value of the patents and preclude the Company from deriving revenue from the patents. The patents could be declared invalid by a court or the United States Patent and Trademark Office, in whole or in part, or the costs of the Company can increase. Recent rulings also create an increased risk that if the Company is unsuccessful in litigation it could be responsible to pay the attorneys' fees and other costs of defendants by lowering the standard for legal fee shifting sought by defendants in patent cases.

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SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Public Underwriting

On July 18, 2017, the Company entered into an underwriting agreement with Laidlaw & Company (UK) Ltd. with respect to the issuance and sale of an aggregate of 1,250,000 shares of the Company's common stock, par value $0.0001 per share, in a firm commitment underwritten public offering which closed on July 24, 2017. Each share was sold for a price of $2.00 for aggregate gross proceeds of $2,500,000, with net proceeds of $2,114,583, after deducting the underwriting discounts and commissions (equivalent to 8% of gross proceeds) and estimated offering expenses.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Nuta Technology Corp. ("Nuta"), Spherix Portfolio Acquisition II, Inc. ("SPXII"), Guidance IP, LLC ("Guidance"), Directional IP, LLC ("Directional"), Spherix Management Services, LLC ("SMS") and NNPT, LLC ("NNPT"). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). This requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. The Company's significant estimates and assumptions include the recoverability and useful lives of long-lived assets, stock-based compensation, the valuation of derivative liabilities, and the valuation allowance related to the Company's deferred tax assets. Certain of the Company's estimates, including the carrying amount of the intangible assets, could be affected by external conditions, including those unique to the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company's estimates and could cause actual results to differ from those estimates and assumptions.

Marketable Securities

Marketable securities are classified as trading and are carried at fair value. The Company's marketable securities consist of corporate bonds and highly liquid mutual funds and exchange-traded & closed-end funds which are valued at quoted market prices.

During the three months ended June 30, 2017 and 2016, the Company incurred realized losses of approximately $36,000 and realized gains of approximately $10,000, respectively, and unrealized gains of approximately $66,000 and $17,000, respectively, on its investments in marketable securities, which are included in other income, net on the consolidated statements of operations. In addition, during the three months ended June 30, 2017 and 2016, the Company earned dividend income of approximately $47,000 and $4,000, respectively, which is included in other income, net on the consolidated statement of operations.

During the six months ended June 30, 2017 and 2016, the Company incurred realized losses of approximately $129,000 and $57,000, respectively, and unrealized gains of approximately $138,000 and $29,000, respectively, on its investments in marketable securities, which are included in other income, net on the consolidated statements of operations. In addition, during the six months ended June 30, 2017 and 2016, the Company earned dividend income of approximately $55,000 and $17,000, respectively, which is included in other income, net on the consolidated statement of operations.

The Company reinvested such dividend income into its marketable securities during the six months ended June 30, 2017 and 2016. The fair market values of marketable securities held as of June 30, 2017 and December 31, 2016 were $2.9 million and $6.0 million, respectively.

Investment

The Company elected the fair value option for its investment in Hoth Therapeutics, Inc., a Nevada corporation ("Hoth"). As of June 30, 2017, the fair value of this investment was $675,000 (see Note 4). The investment was classified as a Level 3 financial instrument at June 30, 2017.

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The decision to elect the fair value option, which is irrevocable once elected, is determined on an instrument by instrument basis and applied to an entire instrument. The net gains or losses, if any, on an investment for which the fair value option has been elected, are recognized as an unrealized gain on investment in the Consolidated Statements of Operations.

Accounting for Warrants

The Company accounts for the issuance of common stock purchase warrants issued in connection with the equity offerings in accordance with the provisions of ASC 815, Derivatives and Hedging ("ASC 815"). The Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) gives the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). In addition, Under ASC 815, registered common stock warrants that require the issuance of registered shares upon exercise and do not expressly preclude an implied right to cash settlement are accounted for as derivative liabilities. The Company classifies these derivative warrant liabilities on the consolidated balance sheet as a current liability.

The Company assessed the classification of common stock purchase warrants as of the date of each offering and determined that such instruments met the criteria for liability classification. Accordingly, the Company classified the warrants as a liability at their fair value and adjusts the instruments to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until the warrants are exercised or expired, and any change in fair value is recognized as "change in the fair value of warrant liabilities" in the consolidated statements of operations. The fair value of the warrants has been estimated using a Black-Scholes valuation model (see Note 6).

Net Loss per Share

Basic loss per share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding during the period. Net income (loss) attributable to common stockholders includes the effect of the deemed capital contribution on extinguishment of preferred stock and the deemed dividend related to the immediate accretion of beneficial conversion feature of convertible preferred stock. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method) and the conversion of the Company's convertible preferred stock and warrants (using the if-converted method). Diluted loss per share excludes the shares issuable upon the conversion of preferred stock and the exercise of stock options and warrants from the calculation of net loss per share if their effect would be anti-dilutive.

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

The following table summarizes the earnings (loss) per share calculation (in thousands, except per share amount):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Basic earnings per share Numerator:				
Net Loss	$ (1,860)	$ (2,078)	$ (2,779)	$ (2,127)
Deemed capital contribution on extinguishment of preferred stock	—	31,480	—	31,480
Net income (loss) available to common stockholders	$ (1,860)	$ 29,402	$ (2,779)	$ 29,353
Denominator:				
Weighted average number of common shares outstanding,	49,58,159	30,60,455	49,51,083	28,83,160
Earnings per basic share:				
Net Loss	(0.38)	(0.68)	(0.56)	(0.74)
Deemed capital contribution on extinguishment of preferred stock	—	10.29	—	10.92
Net income (loss) available to common stockholders	$ (0.38)	$ 9.61	$ (0.56)	$ 10.18
Dilutive earnings per share Numerator:				
Net Loss	$ (1,860)	$ (2,078)	$ (2,779)	$ (2,127)
Deemed capital contribution on extinguishment of preferred stock	—	31,480	—	31,480
Net income (loss) available to common stockholders	$ (1,860)	$ 29,402	$ (2,779)	$ 29,353
Denominator:				
Weighted average basic shares outstanding,	49,58,159	30,60,455	49,51,083	28,83,160
Weighted average effect of dilutive securities				
Employee stock options	—	1,646	—	684
Convertible preferred stock	—	1,23,482	—	2,59,601
Restricted stock units	—	7,644	—	3,577
Weighted average diluted shares outstanding	49,58,159	31,93,227	49,51,083	31,47,022
Earnings per diluted share:				
Net Loss	$ (0.38)	$ (0.65)	$ (0.56)	$ (0.68)
Deemed capital contribution on extinguishment of preferred stock	—	9.86	—	10.00

Net income (loss) available to common stockholders	$ (0.38)	$ 9.21	$ (0.56)	$ 9.32

Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share at June 30, 2017 and 2016 are as follows:

	As of June 30,	
	2017	2016
Convertible preferred stock	2,926	2,926
Warrants to purchase common stock	1,251,709	1,251,709
Non-vested restricted stock units	—	59,256
Options to purchase common stock	328,716	289,380
Total	1,583,351	1,603,271

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The FASB has subsequently issued ASU No. 2016-10, Revenue from Contracts with Customer (Topic 606) Identifying Performance Obligations and Licensing to address issues arising from implementation of the new revenue recognition standard. ASU 2014-09 and ASU 2016-10 are effective for interim and annual periods beginning January 1, 2018, and may be adopted earlier, but not before Janaury 1, 2017. The revenue standards are required to be adopted by taking either a full retrospective or a modified retrospective approach. The Company is currently evaluating the impact that ASU 2014-09 and 2016-10 will have on the Company’s financial statements and determining the transition method, including the period of adoption, that it will apply.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact ASU No. 2016-01 will have on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases (Topic 840)* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the

lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial position and results of operations.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* ("ASU 2016-08"). The purpose of ASU 2016-08 is to clarify the implementation of guidance on principal versus agent considerations. The amendments in ASU 2016-08 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2016-08 on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective on January 1, 2020. Early adoption will be available on January 1, 2019. The Company is currently evaluating the effect that the updated standard will have on its condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of this new pronouncement on its condensed consolidated statements of cash flows.

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350):* Simplifying the Accounting for *Goodwill Impairment*. ASU No. 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard will be effective for the Company beginning in the first quarter of fiscal year 2021 and is required to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact this standard will have on its condensed consolidated financial statements.

In May 2017, the Financial Accounting Standards Board (the FASB) issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, (ASU 2017-09). ASU 2017-09 provides clarity and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*, (ASU 2017-11). Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the potential impact of adopting ASU 2017-11 on its financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). Under ASU 2016-09, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital (“APIC”). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and the APIC pools will be eliminated. In addition, ASU 2016-09 eliminates the requirement that excess tax benefits be realized before companies can recognize them. ASU 2016-09 also requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. Furthermore, ASU 2016-09 will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer’s statutory income tax withholding obligation. An employer with a statutory income tax withholding obligation will now be allowed to withhold shares with a fair value up to the amount of taxes owed using the maximum statutory tax rate in the employee’s applicable jurisdiction(s). ASU 2016-09 requires a company to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows. Under current U.S. GAAP, it was not specified how these cash flows should be classified. In addition, companies will now have to elect whether to account for forfeitures on share-based payments by (1) recognizing forfeitures of awards as they occur or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted but all of the guidance must be adopted in the same period. Effective on January 1, 2017, the Company began accounting for forfeitures as they occur. Ultimately, the actual expenses recognized over the vesting period will be for those shares that vested. Prior to making this election under ASU 2016-09, the Company estimated their forfeiture rate at 0%, or they did not have a significant history of forfeitures.

Note 4. Investment in Hoth Therapeutics, Inc.

On June 30, 2017 (the “Closing Date”), the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with Hoth Therapeutics, Inc., a Nevada corporation (“Hoth”), for the purchase of an aggregate of 6,800,000 shares of common stock, par value $0.0001 (the “Shares”), of Hoth, for a purchase price of $675,000. As of the Closing Date, Hoth had a total of 17,000,000 shares of common stock issued and outstanding. Hoth is a development stage biopharmaceutical company focused on unique targeted therapeutics for patients suffering from indications such as atopic dermatitis, also known as eczema. Hoth’s primary asset is a sublicense agreement with Chelexa Biosciences, Inc. (“Chelexa”) pursuant to which Chelexa has granted Hoth an exclusive sublicense to use its BioLexa products for the treatment of eczema.

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Notes to Condensed Consolidated Financial Statements

Under the Purchase Agreement, following the occurrence of a Going Public Event (as defined below), Hoth covenants to timely file all reports required to be filed under the Securities Exchange Act of 1934 (the “Exchange Act”) and to take all necessary steps to cause the Shares to be approved for listing or quotation on a trading market such as NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, OTCQB or OTCQX. A “Going Public Event” means (i) an initial public offering of Hoth’s securities pursuant to an effective registration statement under the Securities Act of 1933, as amended (the “Securities Act”), or (ii) Hoth’s entry into a merger, consolidation, transfer or share exchange transaction pursuant to which Hoth becomes subject to the reporting requirements of the Exchange Act.

The Company adopted the fair value option for this investment and will record any change in fair value in the statement of operations.

Note 5. Intangible Assets

Patent Portfolio and Patent Rights

The Company’s intangible assets with finite lives consist of its patents and patent rights. For all periods presented, all of the Company’s identifiable intangible assets were subject to amortization. The carrying amounts related to acquired intangible assets as of June 30, 2017 are as follows ($ in thousands):

	Net Carrying Amount	Weighted average amortization period (years)
Patent Portfolios and Patent Rights at December 31, 2016, net	$ 4,951	3.65
Amortization expenses	(681)	
Patent Portfolios and Patent Rights at June 30, 2017, net	$ 4,270	3.16

The amortization expenses related to acquired intangible assets for the six months ended June 30, 2017 and 2016 are as follows ($ in thousands):

Date Acquired and Description	Amortization Expense for the Three Months Ended June 30, 2017	2016	Amortization Expense for the Six Months Ended June 30, 2017	2016
7/24/13 - Rockstar patent portfolio	$ 18	$ 26	$ 35	$ 52
9/10/13 - North South patent portfolio	5	8	11	15
12/31/13 - Rockstar patent portfolio	320	497	635	995
	$ 343	$ 531	$ 681	$ 1,062

The future amortization of these intangible assets was based on the adjusted carrying amount. Future amortization of all patents is as follows ($ in thousands):

	Rockstar Portfolio Acquired 24-Jul-13	North South Portfolio Acquired 10-Sep-13	Rockstar Portfolio Acquired 31-Dec-13	Total Amortization
Six Months Ended December 31, 2017	36	11	645	692
Year Ended December 31, 2018	71	22	1,280	1,373
Year Ended December 31, 2019	71	22	1,280	1,373
Year Ended December 31, 2020	71	22	639	732
Year Ended December 31, 2021	71	22	—	93
Thereafter	4	3	—	7
Total	$ 324	$ 102	$ 3,844	$ 4,270

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Notes to Condensed Consolidated Financial Statements

Equitable Agreement

In March 2016, the Company entered into an agreement (which was subsequently amended) with Equitable IP Corporation ("Equitable") to facilitate the monetization of the Company's patents (the "Monetization Agreement"). Pursuant to the Monetization Agreement, the Company has worked together with Equitable to develop and revise the Company's ongoing litigation plan. Under the Monetization Agreement, Equitable is obligated to use its best, commercially reasonable efforts to monetize the Company's patents. To that end, Equitable has filed several litigations, six of which are currently pending. The Company will share net monetization revenue derived from all monetization activity equally with Equitable. To facilitate the litigation plan, approximately 186 of over 330 of the Company's patents and applications have been assigned to Equitable, which will pay all maintenance and prosecution fees going forward. No assigned patents may be transferred by Equitable to a third party without the Company's consent. In the event that all terms of the Monetization Agreement are met by December 2017, the Company will further assign approximately 140 additional patents and applications to Equitable for monetization. The Company has retained a grant-back license to practice all transferred patents.

The Company concluded that the Monetization Agreement did not constitute a sale of the patents. The Company's retention of the right to use the patents, the requirement for the Company's consent to any sale, and the significant economic benefits the Company retained with respect to the litigation, licensing, and sale proceeds, did not meet the sale of patent criteria. The Monetization Agreement has been treated as an agreement to outsource its licensing activities to an outside servicer, for contingent fees based on the success of the servicer's efforts. As such, the Company will not remove the patents from its consolidated balance sheet, and will record its share of litigation, licensing, and sales proceeds, if any, when those proceeds are received, or when due if the other revenue recognition criteria are met under ASC 605, *Revenue Recognition*.

Note 6. Fair Value of Financial Assets and Liabilities

Financial instruments, including cash and cash equivalents, accounts and other receivables, investments, marketable securities, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The Company measures the fair value of financial assets and liabilities based on 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. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The Company uses three levels of inputs that may be used to measure fair value:

Level 1 - quoted prices in active markets for identical assets or liabilities

Level 2 - quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 - inputs that are unobservable (for example, cash flow modeling inputs based on assumptions)

The following table presents the Company’s assets and liabilities that are measured at fair value at June 30, 2017 and December 31, 2016 ($ in thousands):

	Fair value measured at June 30, 2017			
	Total carrying value at June 30, 2017	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Marketable securities - corporate bonds and mutual funds	$2,920	$ —	$ 2,920	$ —
Investment in Hoth	$675	$ —	$ —	$ 675
Liabilities				
Fair value of warrant liabilities	$2,028	$ —	$ —	$ 2,028

	Fair value measured at December 31, 2016			
	Total carrying value at December 31, 2016	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Marketable securities - corporate bonds	$6,025	$ 211	$ 5,814	$ —
Liabilities				
Fair value of warrant liabilities	$702	$ —	$ —	$ 702

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Notes to Condensed Consolidated Financial Statements

There were no transfers between Level 1, 2 or 3 during the six months ended June 30, 2017.

Level 2 Valuation Techniques

The fair values of Level 2 marketable securities are determined using quoted market prices from daily exchange traded markets based on the closing prices as of June 30, 2017 and December 31, 2016.

Level 3 Valuation Techniques

Level 3 financial liabilities consist of the warrant liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

A significant decrease in the volatility or a significant decrease in the Company’s stock price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the warrant liabilities are recorded in “change in fair value of warrant liabilities” in the Company’s consolidated statements of operations.

On July 21, 2015, the Company issued the July 2015 Warrants to purchase an aggregate of 370,263 shares of common stock to the investors in the July 2015 Financing. The July 2015 Warrants became exercisable on January 22, 2016 for a period of 5 years at an exercise price of $8.17 per share. The warrants require, at the option of the holder, a net-cash settlement following certain fundamental transactions (as defined in the July 2015 Warrants) at the Company and therefore are classified as liabilities. The July 2015 Warrants have been recorded at their fair value using the Black-Scholes valuation model, and will be recorded at their respective fair value at each subsequent balance sheet date. This model incorporates transaction details such as the Company’s stock price, contractual terms, maturity, risk free rates, as well as volatility.

On December 7, 2015, the Company issued Series A warrants to purchase up to 1,052,624 shares of common stock and Series B warrants to purchase up to 842,099 shares of common stock contained in such offering. Series A Warrants had an exercise price of $3.80 per share and were exercisable at any time between December 7, 2015 and May 6, 2016. 852,624 shares of Series A warrants expired unexercised on May 24, 2016, and no Series A Warrants remain outstanding as of December 31, 2016. Series B Warrants have an exercise price of $4.75 per share and are exercisable at any time between December 7, 2015 and December 6, 2020. The Warrants require the issuance of registered shares upon exercise, do not expressly preclude an implied right to cash settlement and are therefore accounted for as derivative liabilities. The Company classifies these derivative warrant liabilities on the consolidated balance sheet as a current liability.

The Series B warrants have been recorded at their fair value using the Black-Scholes valuation model, and will be recorded at their respective fair value at each subsequent balance sheet date. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as volatility.

A summary of quantitative information with respect to the valuation methodology and significant unobservable inputs used for the Company's warrant liabilities that are categorized within Level 3 of the fair value hierarchy at the date of issuance and as of June 30, 2017 is as follows:

Date of valuation	June 30, 2017	December 31, 2016
Risk-free interest rate	1.55%	1.93%
Expected volatility	100.00% - 135.18%	100% - 133.79%
Expected life (in years)	3.44 - 3.56	3.93 - 4.06
Expected dividend yield	—	—

The risk-free interest rate was based on rates established by the Federal Reserve. For the July 2015 Warrants, the expected volatility in the Black-Scholes model is based on an expected volatility of 100% for both periods which represents the percentage required to be used when valuing the cash settlement feature as contractually stated in the form of warrant. The general expected volatility is based on standard deviation of the Company's underlying stock price's daily logarithmic returns. The expected life of the warrants was determined by the expiration date of the warrants. The expected dividend yield was based upon the fact that the Company has not historically paid dividends on its common stock, and does not expect to pay dividends on its common stock in the future.

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Notes to Condensed Consolidated Financial Statements

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and 2016 ($ in thousands):

	Fair Value of Level 3 financial liabilities	
	June 30, 2017	June 30, 2016
Beginning balance	$702	$2,959
Fair value adjustment of warrant liabilities	1,326	(1,031)
Ending balance	$2,028	$1,928

The value of the Company's investment in Hoth was determined based on a valuation which takes into consideration, when applicable, cash received, cost of the investment, market participant inputs, estimated cash flows based on entity specific criteria, purchase multiples paid in other comparable third-party transactions, market conditions, liquidity, operating results and other qualitative and quantitative factors. The values at which the Company's investment in Hoth is carried on its books are adjusted to estimated fair value at the end of each quarter taking into account general economic and stock market conditions and those characteristics specific to Hoth.

Note 7. RPX License Agreement

On November 23, 2015, the Company and RPX Corporation ("RPX") entered into a Patent License Agreement (the "RPX License Agreement") under which the Company granted RPX the right to sublicense various patent license rights to certain RPX clients. The consideration to the Company included: (i) the transfer to the Company for cancellation of its remaining outstanding Series I Redeemable Convertible Preferred Stock (the "Series I Preferred Stock"), as to which a $5,000,000 mandatory redemption payment would have been due from the Company on or by December 31, 2015; (ii) the transfer to the Company for cancellation of 13%, or 57,076 shares, of its Series H Convertible Preferred Stock (the "Series H Preferred Stock") then held by RPX, having a total carrying amount of $4,765,846 at the time the stock was issued to Rockstar; (iii) cancellation of the only outstanding security interest on 101 of the Company's patents and patent applications that originated at Nortel Networks ("Nortel") and were purchased by the Company from Rockstar, which security interest had previously been transferred to RPX by Rockstar ("RPX Security Interest"); and (iv) $300,000 in cash to the Company. While the license granted to RPX is non-exclusive and the duration of the license is

for the life of the patents, the Company's ongoing obligations in the arrangement is to provide certain specific RPX licensors with a non-exclusive license to any new patents that may be acquired by or exclusively licensed to the Company during the two-year period following the effective date of the agreement. Therefore, the Company will recognize $0.6 million revenue ratably over the two-year period that it is obligated to provide these RPX licensees with licenses to such new patents. During the year ended December 31, 2016 and 2015, the Company recorded approximately $290,000 and $31,000, respectively, in revenue related to the amortization of the license.

On May 23, 2016, the Company, and RPX, entered into a second, separate, Patent License Agreement (the "RPX License") under which the Company granted RPX the right to sublicense various patent rights only to current RPX clients (as of May 23, 2016). In exchange for the rights granted by the Company under the RPX License, the Company received the following consideration: (i) a cash payment made to the Company in May 2016 in the amount of $4,355,000; and (ii) cancellation of 100% of the remaining 381,967 shares of the Company's outstanding Series H Convertible Preferred Stock currently held by RPX, having a total carrying amount of $31,894,244 at the time the stock was issued to Rockstar Consortium US LP ("Rockstar").

In consideration of the above, the Company granted RPX the rights to grant to its current clients: (i) a fully paid portfolio license, to the extent such parties did not already have licenses to the Company's patents; (ii) a covenant-not-to-sue current RPX clients for supply of chipsets; (iii) a standstill of litigation involving any patents acquired in the next five years ("Standstill").

The Company also granted to Alcatel-Lucent a license to the portfolio acquired from the Harris Corporation.

Under a separate agreement between the Company and RPX, the Company granted RPX the ability to grant to VTech Telecommunications Ltd. ("VTech") a sublicense for a fully paid portfolio license in exchange for an additional $20,000 in cash consideration.

The license granted under the terms of the RPX License described herein does not extend to entities/companies that are not clients of RPX and provide chipsets or other hardware to current RPX clients.

The carrying value of Series H Convertible Preferred Stock on the extinguishment date was estimated at approximately $31.9 million. The fair value on the same date was estimated at approximately $414,000 based upon equivalent common shares that the Series H Convertible Preferred Stock could have converted into at the closing price on May 23, 2016. This resulted in the Company receiving cash from RPX of $4.4 million, a deemed capital contribution of approximately $31.5 million, short term deferred revenue $1.1 million and long term deferred revenue of $3.7 million.

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

A summary of information with respect the RPX transaction on May 23, 2016 is as follows:

Assumptions	
Stock price on May 22, 2016	$2.06
Series H Assumptions	
Series H Shares	381,967
Series H - Liquidation preference	$83.50
Series H -Carrying value	$31,894,245
Equivalent common shares - Series H	201,035
Fair Value of Series H preferred	$414,133
Contribution/Deemed dividend	$31,480,112

The deferred revenue will be amortized over a 5-year service period as the RPX License includes a standstill agreement which requires Spherix to provide the licensee with the right to use any future acquired patents for five years. During the three and six months ended June 30, 2017, the Company recorded approximately $311,000 and $618,000, respectively, in revenue related to the amortization of the license.

ASC 260-10-S99-2, *Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*, requires the gain or loss on extinguishment of equity-classified preferred stock to be included in net income per common stockholder used to calculate earnings per share (similar to the treatment of dividends paid on preferred stock). The difference between (1) the fair value of the consideration transferred to the holders of the preferred stock and (2) the carrying amount of the preferred stock (net of issuance costs) is subtracted from (or added to) net income to arrive at income available to common stockholders in the calculation of earnings per share.

Note 8. Stockholders' Equity and Redeemable Convertible Preferred Stock

Restated Certificate of Incorporation

On March 4, 2016, the Company implemented a Reverse Stock Split with a ratio of 1-for-19. The par value and other terms of the common stock were not affected by the Reverse Stock Split. In addition, the amendment to the Company's certificate of incorporation that effected the Reverse Stock Split simultaneously reduced the number of authorized shares of Common Stock from 200,000,000 to 100,000,000.

Common Stock

On August 8, 2016, the Company closed on an underwritten public offering of 1,592,357 shares of the Company's common stock at a price to the public of $1.57 per share. Under the terms of the Underwriting Agreement, the Company granted the representative of the underwriters a 30-day option to purchase up to 231,349 additional shares of its common stock (the 30-day underwriters option expired unexercised). The net proceeds to the Company were $2.1 million, after deducting the underwriting discount and other estimated offering expenses payable by the Company.

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Preferred Stock

The Company had designated separate series of its capital stock as of June 30, 2017 and December 31, 2016 as summarized below:

	Number of Shares Issued and Outstanding as of			
	June 30, 2017	December 31, 2016	Par Value	Conversion Ratio
Series "A"	—	—	$0.0001	N/A
Series "C"	—	—	0.0001	0.05:1
Series "D"	4,725	4,725	0.0001	0.53:1
Series "D-1"	834	834	0.0001	0.53:1
Series "F-1"	—	—	0.0001	0.05:1
Series "H"	—	—	0.0001	0.53:1
Series "I"	—	—	0.0001	1.05:1
Series "J"	—	—	0.0001	0.05:1
Series "K"	—	—	0.0001	263.16:1

Warrants

A summary of warrant activity for the three months ended June 30, 2017 is presented below:

	Warrants	Weighted Average Exercise Price	Total Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding as of December 31, 2016	1,250,311	$ 9.21	$ —	3.91

Outstanding as of June 30, 2017	1,250,311	$ 9.21		3.42
Exercisable as of June 30, 2017	1,250,311	$ 9.21	$ —	3.42

Stock Options

Also approved by the Company's Stockholders on February 26, 2016 was an amendment to the Company's 2014 Equity Incentive Plan, which increased the number of shares of common stock authorized to be issued pursuant to the 2014 Plan from 4,161,892 to 8,250,000 prior to effectuation of the 1:19 reverse stock split. As a result of the split, the total share authorization under the plan was reduced to 434,210 shares.

During the second quarter ended June 30, 2017, pursuant to and subject to the available number of shares reserved under the 2014 Plan, the Company issued an aggregate of 15,788 options to purchase common stock of the Company to four of its directors. The aggregate grant date fair value of these options was approximately $12,000. These stock options vest over one year.

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Notes to Condensed Consolidated Financial Statements

A summary of option activity under the Company's employee stock option plan for the three months ended June 30, 2017 is presented below:

	Number of Shares	Weighted Average Exercise Price	Total Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding as of December 31, 2016	310,091	$ 82.25	$ —	4.1
Employee options granted	15,788	1.02	—	4.9
Outstanding as of June 30, 2017	325,879	$ 78.28	$ —	3.7
Options vested and expected to vest	325,823	$ 78.28	$ —	3.7
Options vested and exercisable	315,958	$ 80.69	$ —	3.6

A summary of option activity under the Company's non-employee stock option plan for the six months ended June 30, 2017 is presented below:

	Number of Shares	Weighted Average Exercise Price	Total Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding as of December 31, 2016	2,893	$ 98.07	$ —	4.4
Non-employee options granted	—	—	—	—
Outstanding as of June 30, 2017	2,893	$ 98.07	$ —	3.9
Options vested and expected to vest	2,893	$ 98.07	$ —	3.9
Options vested and exercisable	2,893	$ 98.07	$ —	3.9

Stock-based compensation associated with the amortization of stock option expense was approximately $8,000 and $19,000 for the three months ended June 30, 2017 and 2016, and was approximately $11,000 and $21,000 for the six months ended June 30, 2017 and 2016, respectively.

Restricted Stock Units

On March 14, 2017, 35,969 RSUs were delivered to Anthony Hayes. 23,287 shares of common stock were withheld (at the closing price of the Company's common stock on the NASDAQ Capital Market on March 14, 2017) to satisfy the tax obligation relating to the vesting of the RSUs.

Stock-based Compensation

Stock-based compensation for the three months ended June 30, 2017 and 2016 was comprised of the following ($ in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Employee stock option awards	$8	$19	$11	21
Non-employee restricted stock awards	—	125	—	23
Employee restricted stock units	—	23	—	255
Total compensation expense	$8	$167	$11	$299

Stock-based compensation was approximately $8,000 and $0.2 million for the three months ended June 30, 2017 and 2016, and was approximately $11,000 and $0.3 million for the six months ended June 30, 2017 and 2016, respectively. Unamortized stock-based compensation expense amounted to approximately $0 at June 30, 2017.

Note 9. Commitments and Contingencies

Legal Proceedings

In the ordinary course of business, the Company actively pursues legal remedies to enforce its intellectual property rights and to stop unauthorized use of patented technology. From time to time, the Company may be involved in various claims and counterclaims and legal actions arising in the ordinary course of business. There were no pending

material claims or legal matters as of the date of this report other than the following matters:

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Spherix Incorporated v. Uniden Corporation et al., Case No. 3:13-cv-03496-M, in the United States District Court for the Northern District of Texas

On August 30, 2013, we initiated litigation against Uniden Corporation and Uniden America Corporation (collectively "Uniden") in *Spherix Incorporated v. Uniden Corporation et al.*, Case No. 3:13-cv-03496-M, in the United States District Court for the Northern District of Texas ("the Court") for infringement of U.S. Patent Nos. 5,581,599; 5,752,195; 6,614,899; and 6,965,614 (collectively, the "Asserted Patents"). The complaint alleges that Uniden has manufactured, sold, offered for sale and/or imported technology that infringes the Asserted Patents. We sought relief in the form of a finding of infringement of the Asserted Patents, an accounting of all damages sustained by us as a result of Uniden's infringement, actual damages, enhanced damages under 35 U.S.C. Section 284, attorney's fees and costs. On June 3, 2014, in an effort to narrow the case, the parties filed a stipulation dismissing without prejudice all claims and counterclaims related to U.S. Patent No. 5,752,195. On September 4, 2014, Uniden America Corporation, together with VTech Communications, Inc., filed a request for *inter partes* review ("IPR") of U.S. Patent No. 5,581,599 (the "'599 Patent") and 6,614,899 (the "'899 Patent") in the United States Patent and Trademark Office. On March 3, 2015, the U.S. Patent Trial and Appeal Board ("PTAB") entered decisions instituting, on limited grounds, IPR proceedings regarding a portion of the claims for the two Spherix patents. On March 19, 2015, the Court issued its *Markman* order, construing a total of 13 claim terms that had been disputed by the parties. On April 2, 2015, we filed an Amended Complaint with Jury Demand and the parties filed a Settlement Conference Report informing the Court that the parties have not yet resumed settlement negotiations. On September 10, 2015, the Court stayed the case and ordered the parties to file a status report within 10 days of the Patent Office issuing its decision in the IPR proceedings. On October 13, 2015, the Court ordered the case administratively closed until the PTAB issued its final written decisions. On February 3, 2016, the PTAB issued its final decisions in the IPR proceedings, finding invalid eight of the 15 asserted claims of the '599 Patent and all asserted claims of the '899 Patent. Our deadline to file a Notice of Appeal of the PTAB's decision to the United States Court of Appeals for the Federal Circuit was set for April 6, 2016. On February 29, 2016, at the parties' joint request, the Court ordered that the stay of the case remain in effect for 30 days so the parties may work to resolve the case without further Court intervention. The parties timely filed a Joint Status Report on March 31, 2016, in which we requested that the stay remain in effect pending the Federal Circuit issuing a ruling in connection with the appeal of IPR2014-01431 relating to the '599 Patent. On April 1, 2016, we filed our Patent Owner's Notice of Appeal in IPR2014-01431. On April 11, 2016, the Court granted the parties' motion to continue the stay. On January 12, 2017, we settled the case with Uniden and Uniden took a license under the Asserted Patents and the appeal to the Federal Circuit continued with the Patent and Trademark Office ("PTO") as an adverse party. On July 25, 2017, after full briefing and oral argument, the Federal Circuit issued an order affirming the PTAB's decision relating to the '599 Patent.

International License Exchange of America, LLC v. Fairpoint Communications, Inc., Case No. 1:16-cv-00305-RGA, in the United States District Court for the District of Delaware

On April 26, 2016, we initiated litigation against Fairpoint Communications, Inc. in *Spherix Incorporated v. Fairpoint Communications, Inc.*, Case No. 1:16-cv-00305-RGA, in the United States District Court for the District of Delaware (the "Court") for infringement of U.S. Patent No. RE40,999 (the '999 Patent"). In the Complaint, we sought relief in the form of a finding of infringement of the '999 Patent, damages sufficient to compensate us for Fairpoint's infringement together with pre-and post-judgment interest and costs, a declaration that the case is exceptional under 35 U.S.C. § 285, and the Company's attorney's fees. On October 13, 2016, Fairpoint filed its answer with no counterclaims. On November 16, 2016, International License Exchange of America, LLC, a wholly-owned subsidiary of Equitable ("ILEA"), filed a motion to substitute itself as the plaintiff, consistent with our Monetization Agreement with Equitable. On November 17, 2016, the Court granted ILEA's motion. On June 22, 2017, the Court entered a Scheduling Order setting the Markman hearing for August 22, 2018 and jury trial for October 28, 2019.

International License Exchange of America, LLC Litigations

Under our Monetization Agreement with Equitable, ILEA has filed the patent infringement litigations listed below.

On August 12, 2016, litigation against Cincinnati Bell, Inc., case number 1:16-cv-00715-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of U.S. Patent No. RE40,999 ("the '999 patent"), U.S. Patent No. 6,970,461, and U.S. Patent No. 7,478,167. On March 8, 2017, Cincinnati Bell filed a motion to dismiss, alleging lack of personal jurisdiction and improper venue. On March 29, 2017, the parties filed a joint motion to stay all deadlines until April 29, 2017, stating that the parties have reached an agreement in principal to resolve all claims asserted in the case. On April 3, 2017, the court granted the parties motion to stay all deadlines until April 29, 2017. On May 5, 2017, the Court ordered the parties to file a joint status report by three days from the date of the order. On May 5, 2017, the parties filed a joint stipulation of dismissal and the Court terminated the case.

On August 12, 2016, litigation against Frontier Communications Corporation, case number 1:16-cv-00714-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the '999 patent. On May 16, 2017, ILEA filed an agreed motion to stay all deadlines in the case, stating that the parties had reached an agreement in principal in the case and needed time to finalize the written agreement. On May 19, 2017, the Court granted the motion and stayed all deadlines until June 19, 2017. On June 19, 2017, ILEA filed a notice of voluntary dismissal and the Court terminated the case.

SPHERIX INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

On August 12, 2016, litigation against Echostar Corporation, case number 1:16-cv-00716-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On April 17, 2017, ILEA filed a notice of voluntary dismissal of the case, and on April 18, 2017, the Court closed the case.

On August 15, 2016, litigation against ATN International, Inc. Commnet Wireless, LLC Choice Communications LLC, and Choice Communications, LLC (“Choice Wireless”), case number: 1:16-cv-00718-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On April 12, 2017, the parties jointly dismissed the case by filing a stipulation dismissing the case with prejudice.

On August 15, 2016, litigation against Sprint Corporation and Clearwire Corporation case number 1:16-cv-00719-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On May 1, 2017, ILEA filed a notice of voluntary dismissal of the case, and the court closed the case on May 2, 2017.

On August 16, 2016, litigation against ViaSat, Inc., case number 1:16-cv-00720-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On March 7, 2017, ViaSat filed a motion to dismiss, alleging failure to state a plausible claim of patent infringement. On March 21, 2017, ILEA filed its brief in opposition to the motion to dismiss. On March 28, 2017, ViaSat filed its reply brief on the motion to dismiss. On May 19, 2017, the Court issued an order granting ViaSat’s motion to dismiss, but granted ILEA leave to amend the complaint no later than three weeks from the date of the order. On May 30, 2017, ILEA filed its amended complaint. On July 24, 2017, the parties filed a joint motion to dismiss the case. On July 25, 2017, the Court granted the motion and closed the case.

On September 9, 2016, litigation against Fortinet Inc., case number 1:16-cv-00795-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On March 7, 2017, Fortinet filed its answer to the Complaint. On June 14, 2017, the Court ordered the parties to file a status report within three days of the order. On June 16, 2017, the parties filed the joint status report stating that the parties have executed a written settlement agreement resolving the case. On July 6, 2017, ILEA filed a stipulation of dismissal with prejudice and the Court closed the case.

On September 9, 2016, litigation against GTT Communications, Inc., case number 1:16-cv-00796-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On May 19, 2017, the parties filed a motion to extend time to answer the complaint until June 5, 2017. On May, 22, 2017, the Court granted the motion. On June 5, 2017, ILEA filed a notice of voluntary dismissal and the Court terminated the case.

On November 22, 2016, litigation against Alcatel-Lucent SA and Alcatel-Lucent USA Inc., case number 1:16-cv-01077-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent and U.S. Patent Nos. 7,158,515; 6,222,848; 6,578,086; and 6,697,325. On March 28, 2017, ILEA filed a notice of voluntary dismissal of the case and on that date the court closed the case.

On May 15, 2017, litigation against ADTRAN, Inc. case number 1:17-cv-00562-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ‘999 patent and U.S. Patent Nos. 5,959,990; 6.970,461; 7,478,167; 7,274,704; and 7,277,533.

In July 2016, a lawsuit relating to the ’999 Patent was dismissed in anticipation of settlement with the counterparty. In May 2017, settlement was reached, pursuant to which the counterparty granted to Equitable the right to monetize a portfolio of 112 patents (the “Settlement Patents”). Pursuant to the Company’s Monetization Agreement with Equitable,

the Company is entitled to receive a portion of the net revenue generated by Equitable’s monetization of the Settlement Patents.

Counterclaims

In the ordinary course of business, we, or with our wholly-owned subsidiaries or monetization partners, will initiate litigation against parties whom we believe have infringed on our intellectual property rights and technologies. The initiation of such litigation exposes us to potential counterclaims initiated by the defendants. Currently, there are no counterclaims pending against us. In the event such counterclaims are filed, we can provide no assurance that the outcome of these claims will not have a material adverse effect on our financial position and results from operations.

Note 10. Subsequent Events

On July 18, 2017, the Company entered into an underwriting agreement with Laidlaw & Company (UK) Ltd. with respect to the issuance and sale of an aggregate of 1,250,000 shares of the Company’s common stock, par value $0.0001 per share, in a firm commitment underwritten public offering which closed on July 24, 2017. Each share was sold for a price of $2.00 for aggregate gross proceeds of $2,500,000, with net proceeds of $2,114,583, after deducting the underwriting discounts and commissions (equivalent to 8% of gross proceeds) and estimated offering expenses.

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

Forward-Looking Statements

You should read this discussion together with the Financial Statements, related Notes and other financial information included elsewhere in this Form 10-Q. The following discussion contains assumptions, estimates and other forward-looking statements that involve a number of risks and uncertainties. These risks could cause our actual results to differ materially from those anticipated in these forward-looking statements. All references to "we," "us," "our" and the "Company" refer to Spherix Incorporated, a Delaware corporation and its consolidated subsidiaries unless the context requires otherwise.

Overview

We are an intellectual property company that owns patented and unpatented intellectual property. Spherix Incorporated was formed in 1967 as a scientific research company and for much of our history pursued drug development including through Phase III clinical studies which were largely discontinued in 2012. In 2012 and 2013, we shifted our focus to being a firm that owns, develops, acquires and monetizes intellectual property assets. Through our acquisitions of 108 patents and patent applications from Rockstar Consortium US, LP and acquisition of several hundred patents issued to Harris Corporation as a result of our acquisition of North South, we have expanded our activities in wireless communications and telecommunication sectors including antenna technology, Wi-Fi, base station functionality and cellular.

Our activities generally include the acquisition and development of patents through internal or external research and development. In addition, we seek to acquire existing rights to intellectual property through the acquisition of already issued patents and pending patent applications, both in the United States and abroad. We may alone, or in conjunction with others, develop products and processes associated with our intellectual property and license our intellectual property to others seeking to develop products or processes or whose products or processes infringe our intellectual property rights through legal processes. Using our patented technologies, we employ strategies seeking to permit us to derive value from licensing, commercialization, settlement and litigation from our patents. We will continue to seek to obtain patents from inventors and patent owners to monetize patent portfolios.

Results of Operations

Three months ended June 30, 2017 compared to three months ended June 30, 2016

During the three months ended June 30, 2017 and 2016, revenue was approximately $0.3 million and $0.2 million, respectively, which represents the amortization of deferred revenue related to the two patent license agreements we entered into with RPX Corporation ("RPX") on November 23, 2015 and May 22, 2016 (the "RPX License Agreements"). Both the November 2015 and May 2016 RPX License transactions use straight-line method to amortize the deferred revenue over the contract life of 2 years and 5 years, respectively.

During the three months ended June 30, 2017 and 2016, we incurred a loss from operations of approximately $0.8 million and $1.6 million, respectively. The decrease in net loss was primarily attributed to (i) a $0.2 million decrease in amortization expenses related to the Rockstar patents acquired by the Company during 2013 due to a $2.7 million impairment of intangible assets in 2016 and (ii) a $0.6 million decrease in professional fees due to further cost cutting implemented in the first quarter of 2017.

During the three months ended June 30, 2017, other expenses was approximately $1.1 million as compared to approximately $0.5 million for the comparable prior period. The increase in other expenses was primarily attributed to a $0.7 million increase in change in fair value of warrant liabilities between both periods.

Net loss attributable to common stockholders was a net loss of $1.9 million in the three months ended June 30, 2017 compared to net income of $29.4 million in the three months ended June 30, 2016. The change is attributed to the decrease of deemed capital contribution on extinguishment of preferred stock. During the three months ended June 30, 2016, we incurred a one-time $31.5 million of deemed capital contribution on preferred stock related to the cancellation of 381,967 shares of Series H Preferred Stock pursuant to the RPX license agreement, which capital contribution is not reflected in the three months ended June 30, 2017.

Six months ended June 30, 2017 compared to three months ended June 30, 2016

During the six months ended June 30, 2017 and 2016, revenue was approximately $0.6 million and $0.2 million, respectively, which represents the amortization of deferred revenue related to the two patent license agreements we entered into with RPX Corporation ("RPX") on November 23, 2015 and May 22, 2016 (the "RPX License Agreements"). Both the November 2015 and May 2016 RPX License transactions use straight-line method to amortize the deferred revenue over the contract life.

During the six months ended June 30, 2017 and 2016, we incurred a net loss from operations of approximately $1.7 million and $3.2 million, respectively. The decrease in net loss was primarily attributed to (i) a $0.4 million decrease in amortization expenses related to the Rockstar patents acquired by the Company during 2013 due to a $2.7 million impairment of intangible assets in 2016 and (ii) $1.0 million decrease in professional fees due to further cost cutting implemented in the first quarter of 2017.

During the six months ended June 30, 2017 and 2016, other expenses was approximately $1.0 million as compared to approximately $1.1 million of other income for the comparable prior period. The increase in other expenses was primarily attributed to a $2.4 million increase in fair value of warrant liabilities.

Net loss attributable to common stockholders was a net loss of $2.8 million in the six months ended June 30, 2017 compared to net income of $29.4 million in the six months ended June 30, 2016. The change is attributed to the decrease of deemed capital contribution on extinguishment of preferred stock. During the six months ended June 30, 2016, we incurred a one-time $31.5 million of deemed capital contribution on preferred stock related to the cancellation of 381,967 shares of Series H Preferred Stock pursuant to the RPX license agreement, which capital contribution is not reflected in the three months ended June 30, 2017.

Liquidity and Capital Resources

We continue to incur ongoing administrative and other expenses, including public company expenses, in excess of corresponding revenue.

We intend to finance our activities through:

- managing current cash and cash equivalents on hand from our past equity offerings,
- seeking additional funds raised through the sale of additional securities in the future,
- seeking additional liquidity through credit facilities or other debt arrangements, and
- increasing revenue from the monetization of its patent portfolios, license fees and new business ventures.

Cash Flows from Operating Activities - For the six months ended June 30, 2017, net cash used in operations was approximately $1.8 million. The cash used in operating activities for the six months ended June 30, 2017 primarily resulted from $1.3 million of change in fair value of warrant liabilities and amortization expenses of $0.7 million, partially offset by $1.0 million of changes in assets and liabilities. During the six months ended June 30, 2016, we generated approximately $1.8 million of cash in operating activities. The cash provided by operating activities for the six months ended June 30, 2016 primarily resulted from significant non-cash charges related to amortization expenses of $1.1 million, stock-based compensation expense of approximately $0.3 million and approximately $4.1 million of deferred revenue, partially offset by approximately $2.1 million of net loss and $1.0 million of change in fair value of warrant liabilities.

Cash Flows from Investing Activities - For the six months ended June 30, 2017, net cash provided by investing activities was approximately $2.4 million. The cash provided by investing activities primarily resulted from our sale of marketable securities for the six months ended June 30, 2017 of $9.6 million, partially offset by our purchase of marketable securities of $6.5 million. During the six months ended June 30, 2016, we used approximately $2.3 million of cash investing activities. The cash used in investing activities primarily resulted from our purchase of marketable securities for the six months ended June 30, 2016 of approximately $10.2 million and purchase of property and equipment of approximately $3,000, partially offset by sale of marketable securities of approximately $7.9 million.

Cash Flows from Financing Activities - Cash used in financing activities for the six months ended June 30, 2016 was approximately $24,000, which related to repurchase of restricted stock units to pay for employee withholding taxes. Cash provided by financing activities for the six months ended June 30, 2016 was approximately $0.8 million, which related to approximately $0.8 million proceeds from exercise of 200,000 shares of warrants, partially offset by the payment for the cancellation of common stock of approximately $4,000.

Our business will require significant amounts of capital to sustain operations and make the investments we need to execute our longer term business plan. Our working capital amounted to approximately $0.3 million at June 30, 2017, and net loss amounted to approximately $2.8 million for the six months ended June 30, 2017. On July 24, 2017, we closed on a firm commitment underwritten offering for aggregated gross proceeds of $2,500,000. In addition, the fair market value of our marketable securities held as of June 30, 2017 was $2.9 million. Our accumulated deficit amounted to approximately $144.5 million at June 30, 2017. We will need to obtain additional debt or equity financing, especially if we experience downturns in our business that are more severe or longer than anticipated, or if we experience significant increases in expense levels resulting from being a publicly-traded company or from the litigations in which we participate. If we attempt to obtain additional debt or equity financing, we cannot assume that such financing will be available to us on favorable terms, or at all.

Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. We may be forced to litigate against others to enforce or defend our intellectual property rights or to determine the validity and scope of other parties' proprietary rights. The defendants or other third parties involved in the lawsuits in which we are involved may allege defenses and/or file counterclaims or initiate inter parties reviews in an effort to avoid or limit liability and damages for patent infringement or cause us to incur additional costs as a strategy. If such efforts are successful, they may have an impact on the value of the patents and preclude us from deriving revenue from the patents, the patents could be declared invalid by a court or the United States Patent and Trademark Office, in whole or in part, or the costs could increase.

Should we be unsuccessful in our efforts to execute our business plan, it could become necessary for us to reduce expenses, curtail operations or explore various alternative business opportunities or possibly suspend or discontinue our business activities.

Pursuant to the RPX License Agreement, the security interest that RPX held in favor of our patents acquired from Rockstar was extinguished. Accordingly, we now have greater flexibility to monetize our patent portfolio, including through the sale of our patents or sublicensing our patents to third parties who can pursue their own monetization strategies with respect to those patents in exchange for royalties or some other consideration.

We have filed a shelf registration statement on Form S-3 with the SEC. The registration statement, which has been declared effective, was filed in reliance on Instruction I.B.6. of Form S-3, which imposes a limitation on the maximum amount of securities that we may sell pursuant to the registration statement during any twelve-month period. At the time we sell securities pursuant to the registration statement, the amount of securities to be sold plus the amount of any securities we have sold during the prior twelve months in reliance on Instruction I.B.6. may not exceed one-third of the aggregate market value of our outstanding common stock held by non-affiliates as of a day during the 60 days immediately preceding such sale as computed in accordance with Instruction I.B.6. Based on this calculation and primarily as a result of our sale of $2,500,000 of Common Stock for the purchase of Common Stock on August 8, 2016 we are not currently eligible to sell any securities pursuant to our effective registration statement on Form S-3. Whether we sell securities under the registration statement will depend on a number of factors, including the market conditions at that time, our cash position at that time and the availability and terms of alternative sources of capital.

Rockstar will be entitled to receive a contingent recovery percentage of future profits (“Participation Payments”) from licensing, settlements and judgments against defendants with respect to patents purchased under the First Patent Purchase Agreement; however, no payment is required unless the Company receives a recovery. The Participation Payments under the First Patent Purchase Agreement are equal to zero percent until the Company recovers with respect to patents purchased under the First Patent Purchase Agreement at least (a) $8.0 million or (b) if we recover less than $17.0 million, an amount equal to $5.0 million plus $3.0 million times a fraction equal to total recoveries minus $10.0 million, divided by $7.0 million (clause (a) or (b), as applicable, being the “Initial Return”), in each case net of certain expenses. Once we obtain recoveries in excess of the Initial Return, we are required to make a payment to Rockstar of $13.0 million, payable only from the proceeds of such recovery, within six months after such recovery. In addition, no later than 30 days after the end of each quarter in which we make such a recovery, we are required to pay to Rockstar a percentage of such recovery, net of certain expenses, scaling from 30% if such cumulative recoveries net of certain expenses are less than or equal to $50.0 million, to 70% to the extent cumulative recoveries net of certain expenses are in excess of $1.0 billion.

Rockstar will also be entitled to receive Participation Payments from licensing, settlements and judgments against defendants with respect to patents purchased under the Second Patent Purchase Agreement; however, no payment is required unless we receive a recovery. The Participation Payments under the Second Patent Purchase Agreement are equal to zero percent until we recover with respect to patents purchased under the Second Patent Purchase Agreement at least $120.0 million, net of certain expenses. Once we obtain recoveries in excess of that amount, we are required to pay to Rockstar 50% of our recovery in excess of that amount, no later than 30 days after the end of each quarter in which we make such a recovery.

Our ability to fund these Participation Payments or the $13.0 million contingent payment will depend on the liquidity of our assets, recoveries, alternative demands for cash resources and access to capital at the time. Furthermore, our obligation to fund Participation Payments could adversely impact our liquidity and financial position.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

With respect to the quarter ended June 30, 2017, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer has concluded that our disclosure controls and procedures were not effective as of June 30, 2017. We have a lack of segregation of duties, and a lack of controls in place to ensure that all material transactions and developments impacting the financial statements are reflected.

However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals. We believe that the foregoing steps will remediate the material weakness identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate.

Management is in the process of determining how best to make the required changes that are needed to implement an effective system of internal control over financial reporting. Our management acknowledges the existence of this problem, and intends to develop procedures to address it to the extent possible given our limitations in financial and human resources.

Management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

C*hanges in Internal Control over Financial Reporting:*

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2017 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

In the ordinary course of business, we actively pursue legal remedies to enforce our intellectual property rights and to stop unauthorized use of the technology in our patent portfolio. Other than ordinary routine litigation incidental to the business and other than as set forth below, we know of no material, active or pending legal proceedings against us, except for those described below.

Spherix Incorporated v. Uniden Corporation et al., Case No. 3:13-cv-03496-M, in the United States District Court for the Northern District of Texas

On August 30, 2013, we initiated litigation against Uniden Corporation and Uniden America Corporation (collectively "Uniden") in *Spherix Incorporated v. Uniden Corporation et al*, Case No. 3:13-cv-03496-M, in the United States District Court for the Northern District of Texas ("the Court") for infringement of U.S. Patent Nos. 5,581,599; 5,752,195; 6,614,899; and 6,965,614 (collectively, the "Asserted Patents"). The complaint alleges that Uniden has manufactured, sold, offered for sale and/or imported technology that infringes the Asserted Patents. We seek relief in the form of a finding of infringement of the Asserted Patents, an accounting of all damages sustained by us as a result of Uniden's infringement, actual damages, enhanced damages under 35 U.S.C. Section 284, attorney's fees and costs. On June 3, 2014, in an effort to narrow the case, the parties filed a stipulation dismissing without prejudice all claims and counterclaims related to U.S. Patent No. 5,752,195. On September 4, 2014, Uniden America Corporation, together with VTech Communications, Inc., filed a request for *inter partes* review ("IPR") of U.S. Patent No. 5,581,599 (the "'599 Patent") and 6,614,899 (the "'899 Patent") in the United States Patent and Trademark Office. On March 3, 2015, the U.S. Patent Trial and Appeal Board "PTAB") entered decisions instituting, on limited grounds, IPR proceedings regarding a portion of the claims for the two Spherix patents. On March 19, 2015, the Court issued its *Markman* order, construing a total of 13 claim terms that had been disputed by the parties. On April 2, 2015, we filed an Amended Complaint with Jury Demand and the parties filed a Settlement Conference Report informing the Court that the parties have not yet resumed settlement negotiations. On September 10, 2015, the Court stayed the case and ordered the parties to file a status report within 10 days of the Patent Office issuing its decision in the IPR proceedings. On October 13, 2015, the Court ordered the case administratively closed until the PTAB issued its final written decisions. On February 3, 2016, the PTAB issued its final decisions in the IPR proceedings, finding invalid eight of the 15 asserted claims of U.S. Patent No. 5,581,599 the '599 Patent and all asserted claims of the '899 patent. Our deadline to file a Notice of Appeal of the PTAB's decision to the United States Court of Appeals for the Federal Circuit was set for April 6, 2016. On February 29, 2016, at the parties' joint request, the Court ordered that the stay of the case remain in effect for 30 days so the parties may work to resolve the case without further Court intervention The parties timely filed a Joint Status Report on March 31, 2016, in which we requested that the stay remain in effect pending the Federal Circuit issuing a ruling in connection with the appeal of IPR2014-01431 relating to the '599 Patent. On April 1, 2016, we filed our Patent Owner's Notice of Appeal in IPR2014-01431. On April 11, 2016, the Court granted the parties' motion to continue the stay. On January 12, 2017, we settled the case with Uniden and Uniden took a license under the Asserted Patents and the appeal to the Federal Circuit continued with the Patent Office as an adverse party. On July 25, 2017, after full briefing and oral argument, the Federal Circuit issued an order affirming the PTAB's decision relating to the '599 Patent.

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International License Exchange of America, LLC Litigations

Under our Monetization Agreement with Equitable, ILEA has filed the patent infringement litigations listed below.

On August 12, 2016, litigation against Cincinnati Bell, Inc., case number 1:16-cv-00715-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of U.S. Patent No. RE40,999 ("the '999 patent"), U.S. Patent No. 6,970,461, and U.S. Patent No. 7,478,167. On March 8, 2017, Cincinnati Bell filed a motion to dismiss, alleging lack of personal jurisdiction and improper venue. On March 29, 2017, the parties filed a joint motion to stay all deadlines until April 29, 2017, stating that the parties have reached an agreement in principal to resolve all claims asserted in the case. On April 3, 2017, the court granted the parties motion to stay all deadlines until April 29, 2017. On May 5, 2017, the Court ordered the parties to file a joint status report by three days from the date of the order. On May 5, 2017, the parties filed a joint stipulation of dismissal and the Court terminated the case.

On August 12, 2016, litigation against Frontier Communications Corporation, case number 1:16-cv-00714-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the '999 patent. On May 16, 2017, ILEA filed an agreed motion to stay all deadlines in the case, stating that the parties had reached an agreement in principal in the case and needed time to finalize the written agreement. On May 19, 2017, the Court granted the motion and stayed all deadlines until June 19, 2017. On June 19, 2017, ILEA filed a notice of voluntary dismissal and the Court terminated the case.

On August 12, 2016, litigation against Echostar Corporation, case number 1:16-cv-00716-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the '999 patent. On April 17, 2017, ILEA filed a notice of voluntary dismissal of the case and on April 18, 2017, the Court closed the case.

On August 15, 2016, litigation against ATN International, Inc. Commnet Wireless, LLC Choice Communications LLC, and Choice Communications, LLC ("Choice Wireless"), case number: 1:16-cv-00718-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the '999 patent. On April 12, 2017, the parties jointly dismissed the case by filing a stipulation dismissing the case with prejudice.

On August 15, 2016, litigation against Sprint Corporation and Clearwire Corporation case number 1:16-cv-00719-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On May 1, 2017, ILEA filed a notice of voluntary dismissal of the case, and on April 18, 2017, the court closed the case on May 2, 2017.

On August 16, 2016, litigation against ViaSat, Inc., case number 1:16-cv-00720-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On March 21, 2017, ILEA filed its brief in opposition to the motion to dismiss. On March 28, 2017, ViaSat filed its reply brief on the motion to dismiss. On May 19, 2017, the Court issued an order granting ViaSat’s motion to dismiss, but granted ILEA leave to amend the complaint no later than three weeks from the date of the order. On May 30, 2017, ILEA filed its amended complaint. On July 24, 2017, the parties filed a joint motion to dismiss the case. On July 25, 2017, the Court granted the motion and closed the case.

On September 9, 2016, litigation against Fortinet Inc., case number 1:16-cv-00795-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On March 7, 2017, Fortinet filed its answer to the Complaint. On June 14, 2017, the Court ordered the parties to file a status report within three days of the order. On June 16, 2017, the parties filed the joint status report stating that the parties have executed a written settlement agreement resolving the case. On July 6, 2017, ILEA filed a stipulation of dismissal with prejudice and the Court closed the case.

On September 9, 2016, litigation against GTT Communications, Inc., case number 1:16-cv-00796-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent. On May 19, 2017, the parties filed a motion to extend time to answer the complaint until June 5, 2017. On May, 22, 2017, the Court granted the motion. On June 5, 2017, ILEA filed a notice of voluntary dismissal and the Court terminated the case.

On November 22, 2016, litigation against Alcatel-Lucent SA and Alcatel-Lucent USA Inc., case number 1:16-cv-01077-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ’999 patent and U.S. Patent Nos. 7,158,515; 6,222,848; 6,578,086; and 6,697,325. On March 28, 2017, ILEA filed a notice of voluntary dismissal of the case and on that date the court closed the case.

On May 15, 2017, litigation against ADTRAN, Inc. case number 1:17-cv-00562-RGA, in the U.S. District Court for the District of Delaware, related to alleged infringement of the ‘999 patent and U.S. Patent Nos. 5,959,990; 6.970,461; 7,478,167; 7,274,704; and 7,277,533.

In July 2016, a lawsuit relating to the ’999 Patent was dismissed in anticipation of settlement with the counterparty. In May 2017, settlement was reached, pursuant to which the counterparty granted to Equitable the right to monetize a portfolio of 112 patents (the “Settlement Patents”). Pursuant to the Company’s Monetization Agreement with Equitable, the Company is entitled to receive a portion of the net revenue generated by Equitable’s monetization of the Settlement Patents.

Counterclaims

In the ordinary course of business, we, or with our wholly-owned subsidiaries or monetization partners, will initiate litigation against parties whom we believe have infringed on our intellectual property rights and technologies. The initiation of such litigation exposes us to potential counterclaims initiated by the defendants. Currently, there are no counterclaims pending against us. In the event such counterclaims are filed, we can provide no assurance that the outcome of these claims will not have a material adverse effect on our financial position and results from operations.

Item 1A. Risk Factors

Investing in our common stock is subject to a number of risks and uncertainties. You should carefully consider the risk factors described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and in other reports we file with the SEC. There have been no changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 that we believe are material. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial also may negatively impact our business.

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

None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer and Principal Financial Officer of Spherix Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Principal Financial Officer of Spherix Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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Signatures

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

Spherix Incorporated

(Registrant)

Date: August 11, 2017	By: /s/ Anthony Hayes
	Anthony Hayes
	Chief Executive Officer
	(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)