

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

FORM 10-Q

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

For the quarterly period ended April 30, 2018

Commission file number 0-11254

ITUS Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-2622630

(I.R.S. Employer
Identification No.)

3150 Almaden Expressway, Suite 250
San Jose, CA

(Address of principal executive offices)

95118

(Zip Code)

(408) 708-9808

(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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

Indicate 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 issuer's classes of common stock, as of the latest practicable date.

On June 5, 2018, the registrant had outstanding 18,505,132 shares of Common Stock, par value \$.01 per share, which is the registrant's only class of common stock.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.****ITUS CORPORATION AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
<u>ASSETS</u>	April 30, 2018	October 31, 2017
Current assets:		
Cash and cash equivalents	\$ 4,172,450	\$ 3,339,374
Short-term investments in certificates of deposit	1,250,000	3,500,000
Prepaid expenses and other current assets	298,181	174,566
Total current assets	5,720,631	7,013,940
Patents, net of accumulated amortization of \$1,452,985 and \$1,290,336, respectively	1,583,127	1,745,775
Property and equipment, net of accumulated depreciation of \$42,734 and \$35,725, respectively	57,145	52,701
Total assets	\$ 7,360,903	\$ 8,812,416
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 452,106	\$ 480,324
Accrued expenses	888,151	409,169
Total current liabilities	1,340,257	889,493
Commitments and contingencies (Note 11)		
Equity:		
Shareholders' equity:		
Preferred stock, par value \$100 per share; 19,860 shares authorized; no shares issued or outstanding	-	-
Series A convertible preferred stock, par value \$100 per share; 140 shares authorized; no shares issued or outstanding	-	-
Common stock, par value \$.01 per share; 48,000,000 and 24,000,000 shares authorized, respectively; 16,850,445 and 16,602,759 shares issued and outstanding, respectively	168,504	166,028
Additional paid-in capital	165,288,632	163,931,079
Accumulated deficit	(159,390,790)	(156,174,184)
Total shareholders' equity	6,066,346	7,922,923
Noncontrolling interest (Note 1)	(45,700)	-
Total equity	6,020,646	7,922,923
Total liabilities and equity	\$ 7,360,903	\$ 8,812,416

The accompanying notes are an integral part of these condensed consolidated financial statements

ITUS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Six Months Ended	
	April 30,	
	2018	2017
Revenue	\$ 750,000	\$ -
Operating costs and expenses:		
Inventor royalties, contingent legal fees, litigation and licensing expenses	526,023	2,346
Amortization of patents	162,648	162,648
Research and development expenses (including non-cash stock option compensation expenses of \$195,826 and \$148,628, respectively)	1,438,066	882,754
General and administrative expenses (including non-cash stock option compensation expenses of \$402,857 and \$303,028, respectively)	1,898,803	1,559,230
Total operating costs and expenses	4,025,540	2,606,978
Loss from operations	(3,275,540)	(2,606,978)
Gain on extinguishment of patent acquisition obligation (Note 6)	-	1,547,608
Interest expense	-	(371,026)
Interest income	17,552	1,625
Loss before income taxes	(3,257,988)	(1,428,771)
Provision for income taxes	-	-
Net loss	(3,257,988)	(1,428,771)
Less: Net loss attributable to noncontrolling interest	(41,382)	-
Net loss attributable to common shareholders before deemed dividend	(3,216,606)	(1,428,771)
Deemed dividend to preferred shareholder (Note 7)	-	(2,008,775)
Net loss attributable to common shareholders	\$ (3,216,606)	\$ (3,437,546)
Net loss per common share attributable to common shareholders:		
Basic and diluted	\$ (0.19)	\$ (0.37)
Weighted average common shares outstanding:		
Basic and diluted	16,661,083	9,236,351

The accompanying notes are an integral part of these condensed consolidated financial statements

ITUS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended April 30,	
	2018	2017
Revenue	\$ 750,000	\$ -
Operating costs and expenses:		
Inventor royalties, contingent legal fees, litigation and licensing expenses related to patent assertion	500,670	225
Amortization of patents	81,324	81,324
Research and development expenses (including non-cash stock option compensation expense of \$155,769 and \$68,928, respectively)	660,193	431,124
General and administrative expenses (including non-cash stock option compensation expense of \$175,941 and \$122,991, respectively)	908,767	699,345
Total operating costs and expenses	2,150,954	1,212,018
Loss from operations	(1,400,954)	(1,212,018)
Gain on extinguishment of patent acquisition obligation (Note 6)		1,547,608
Interest expense	-	(175,727)
Interest income	8,440	626
(Loss) income before income taxes	(1,392,514)	160,489
Provision for income taxes	-	-
Net (loss) income	(1,392,514)	160,489
Less: Net (loss) attributable to noncontrolling interest	(13,980)	-
Net (loss) income attributable to common shareholders	\$ (1,378,534)	\$ 160,489
Net (loss) income per common share attributable to common shareholders:		
Basic	\$ (0.08)	\$ 0.02
Diluted	\$ (0.08)	\$ 0.02
Weighted average common shares outstanding:		
Basic	16,713,091	9,734,171
Diluted	16,713,091	9,736,571

The accompanying notes are an integral part of these condensed consolidated financial statements

ITUS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED APRIL 30, 2018 (UNAUDITED)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity	Non- controlling Interest	Total Equity
	Shares	Par Value					
Balance, October 31, 2017	16,602,759	\$ 166,028	\$ 163,931,079	\$ (156,174,184)	\$ 7,922,923	\$ -	\$ 7,922,923
Stock option compensation to employees and directors	-	-	472,532	-	472,532	-	472,532
Stock option compensation to consultants	-	-	126,151	-	126,151	-	126,151
Common stock issued upon exercise of stock options	39,816	398	(398)	-	-	-	-
Common stock issued to consultants	5,347	53	14,949	-	15,002	-	15,002
Common stock issued in at-the-market offering	202,523	2,025	675,345	-	677,370	-	677,370
Issuance of noncontrolling interest in Certainty Therapeutics, Inc	-	-	68,974	-	68,974	(4,318)	64,656
Net loss	-	-	-	(3,216,606)	(3,216,606)	(41,382)	(3,257,988)
Balance, April 30, 2018	<u>16,850,445</u>	<u>\$ 168,504</u>	<u>\$ 165,288,632</u>	<u>\$ (159,390,790)</u>	<u>\$ 6,066,346</u>	<u>\$ (45,700)</u>	<u>\$ 6,020,646</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

ITUS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the six months ended April 30,	
	2018	2017
Reconciliation of net loss to net cash used in operating activities:		
Net loss	\$ (3,257,988)	\$ (1,428,771)
Stock option compensation to employees and directors	472,532	451,655
Stock option compensation to consultants	126,151	-
Common stock issued to consultants	15,002	17,811
Depreciation of property and equipment	7,369	21,278
Amortization of patents	162,648	162,648
Accretion of interest on patent acquisition obligations to interest expense	-	228,026
Gain on extinguishment of patent acquisition obligation	-	(1,547,608)
Issuance of noncontrolling interest in Certainty Therapeutics, Inc. expensed as a license fee	64,656	-
Change in operating assets and liabilities:		
Prepaid expenses and other current assets	(123,615)	97,422
Accounts payable	(28,218)	75,129
Accrued expenses	478,982	116,138
Net cash used in operating activities	<u>(2,082,481)</u>	<u>(1,806,272)</u>
Cash flows from investing activities:		
Disbursements to acquire short-term investments in certificates of deposit	(1,250,000)	(2,250,000)
Proceeds from maturities of short-term investments in certificates of deposit	3,500,000	750,000
Purchase of property and equipment	(11,813)	(14,121)
Net cash provided by (used in) investing activities	<u>2,238,187</u>	<u>(1,514,121)</u>
Cash flows from financing activities:		
Redemption of convertible preferred stock	-	(500,000)
Proceeds from sale of common stock through a rights offering to shareholders	-	4,203,302
Proceeds from sale of common stock in at-the-market offering	677,370	-
Proceeds from exercise of employee stock options	-	5,665
Net cash provided by financing activities	<u>677,370</u>	<u>3,708,967</u>
Net increase in cash and cash equivalents	833,076	388,574
Cash and cash equivalents at beginning of period	3,339,374	2,488,323
Cash and cash equivalents at end of period	<u>\$ 4,172,450</u>	<u>\$ 2,876,897</u>
Supplemental disclosure of non-cash financing and investing activities:		
Redemption of Series A convertible preferred stock into secured debenture (Note 7)	\$ -	\$ (3,000,000)
Common stock issued to pay patent acquisition obligation (Note 6)	\$ -	\$ (4,399,902)
Issuance of non-controlling interest in Certainty Therapeutics, Inc	<u>\$ 64,656</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements

ITUS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BUSINESS AND FUNDING

Description of Business

As used herein, “we,” “us,” “our,” the “Company” or “ITUS” means ITUS Corporation and its wholly-owned subsidiaries. From inception through October 2012, our primary operations involved the development of patented technologies in the areas of thin-film displays and encryption. Commencing in October 2012 the primary operations of the Company involved the development, acquisition, licensing, and enforcement of patented technologies that were either owned or controlled by the Company.

In June of 2015, the Company announced the formation of a new subsidiary, Anixa Diagnostics Corporation (“Anixa”), to develop CchekÔ , a platform for non-invasive blood tests for the early detection of cancer. In July of 2015, ITUS announced a collaborative research agreement with The Wistar Institute (“Wistar”), the nation’s first independent biomedical research institute and a leading National Cancer Institute designated cancer research center, for the purpose of validating our cancer detection methodologies and establishing protocols for identifying certain biomarkers in the blood which we identified and which are known to be associated with malignancies. In August of 2016 and again in August of 2017, ITUS announced the renewal and expansion of our relationship with Wistar.

From October of 2015 through January of 2017, ITUS announced that we had demonstrated the efficacy of our Cchek Ô early cancer detection platform with 15 different types of cancer, including: breast, lung, colon, melanoma, ovarian, liver, thyroid, pancreatic, appendiceal, uterine, osteosarcoma, leiomyosarcoma, liposarcoma, vulvar and prostate. Breast, lung, colon and prostate cancers represent the four largest categories of cancer worldwide.

In November of 2017, the Company announced the formation of a new subsidiary, Certainty Therapeutics, Inc. (“Certainty”), to develop immuno-therapy drugs against cancer. Certainty entered into a license agreement with Wistar pursuant to which Certainty was granted an exclusive worldwide, royalty-bearing license to use certain intellectual property owned or controlled by Wistar relating to Wistar’s chimeric endocrine receptor targeted therapy technology (such technology being akin to chimeric antigen receptor T-cell (“CAR-T”) technology). We plan to initially focus on the development of a treatment for ovarian cancer, but we also may pursue future applications of the technology for the development of treatments for additional solid tumors. The license agreement requires Certainty to make certain cash and equity payments to Wistar. With respect to Certainty’s equity obligations to Wistar, Certainty issued to Wistar shares of its common stock equal to five percent (5%) of the common stock of Certainty.

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On November 20, 2017, we announced that Certainty entered into a collaboration agreement with the H. Lee Moffitt Cancer Center and Research Institute, Inc. (“Moffitt”) to advance toward human clinical testing the CAR-T technology licensed by Certainty from Wistar aimed initially at treating ovarian cancer. Certainty intends to work with researchers at Moffitt to complete studies necessary to submit an Investigational New Drug (“IND”) application with the U.S. Food and Drug Administration (“FDA”).

On January 29, 2018, we announced the results of a Cchek Ô study augmenting data from our preliminary study released in December 2016. The majority of patient samples collected for this study were from breast cancer and prostate cancer patients, but several other types were also included. With the additional cancers included in this study, we have now demonstrated our technology with 20 types of cancer from solid tumors. In addition to the 15 cancer types noted above, we have evaluated bladder, cervical, head and neck, gastric and testicular cancers.

On March 27, 2018, we announced the results of a prostate cancer study with Seramatrix Corporation (“Seramatrix”) in which data from a previous collaboration between Seramatrix and Memorial Sloan Kettering Cancer Center (“MSK”) was re-evaluated using our technology. Previously, Seramatrix analyzed a number of metastatic prostate cancer and normal healthy blood samples using an MSK proprietary assay and algorithm for cancer detection. Following this, a blinded re-analysis of the data was performed by ITUS, using CchekÔ , our proprietary Artificial Intelligence based liquid biopsy cancer detection technology. This study achieved 92% sensitivity and 92% specificity using 121 prostate cancer and 125 healthy donor samples.

Over the next several quarters, we expect Cchek™ and Certainty’s ovarian cancer treatment to be the primary focus of the Company. As part of our legacy operations, the Company remains engaged in limited patent licensing activities in the area of encrypted audio/video conference calling. We do not expect these activities to be a significant part of the Company’s ongoing operations nor do we expect these activities to require material financial resources or attention of senior management.

Over the past several quarters, our revenue was derived from technology licensing and the sale of patented technologies, including revenue from the settlement of litigation. In addition to Anixa and Certainty, the Company may make investments in and form new companies to develop additional emerging technologies.

Funding and Management’s Plans

During the six months ended April 30, 2018, cash used in operating activities was approximately \$2,082,000. Net cash provided by investing activities was approximately \$2,238,000, which reflects the purchase of certificates of deposit totaling \$1,250,000 and the purchase of property and equipment of approximately \$12,000, offset by proceeds from the sale or maturity of certificates of deposit totaling \$3,500,000. Cash provided by financing activities was approximately \$677,000, representing proceeds from an at-the-market equity offering. As a result, our cash, cash equivalents and short-term investments at April 30, 2018 decreased by approximately \$1,417,000 to approximately \$5,422,000 from approximately \$6,839,000 at the end of fiscal year 2017.

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Based on currently available information as of June 5, 2018, we believe that our existing cash, cash equivalents, short-term investments and expected cash flows will be sufficient to fund our activities for the next 12 months. However, our projections of future cash needs and cash flows may differ from actual results. If current cash on hand, cash equivalents, short-term investments and cash that may be generated from our business operations are insufficient to continue to operate our business, or if we elect to invest in or acquire a company or companies that are synergistic with or complimentary to our technologies, we may be required to obtain more working capital. During the six months ended April 30, 2018 we raised approximately \$677,000 through an at-the-market equity offering which we are presently continuing. We may seek to obtain additional working capital during our fiscal year ending 2018 or thereafter through sales of our equity securities or through bank credit facilities or public or private debt from various financial institutions where possible. We cannot be certain that additional funding will be available on acceptable terms, or at all. If we do identify sources for additional funding, the sale of additional equity securities or convertible debt could result in dilution to our shareholders. Additionally, the sale of equity securities or issuance of debt securities may be subject to certain security holder approvals or may result in the downward adjustment of the exercise or conversion price of our outstanding securities. We can give no assurance that we will generate sufficient cash flows in the future to satisfy our liquidity requirements or sustain future operations, or that other sources of funding, such as sales of equity or debt, would be available or would be approved by our security holders, if needed, on favorable terms or at all. If we fail to obtain additional working capital as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition. Furthermore, such lack of funds may inhibit our ability to respond to competitive pressures or unanticipated capital needs, or may force us to reduce operating expenses, which would significantly harm the business and development of operations.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, certain information and disclosures required by generally accepted accounting principles in annual financial statements have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures included in our Annual Report on Form 10-K for the year ended October 31, 2017. The accompanying October 31, 2017 consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("US GAAP"). The condensed consolidated financial statements include all adjustments of a normal recurring nature which, in the opinion of management, are necessary for a fair statement of our financial position as of April 30, 2018, and results of operations and cash flows for the interim periods represented. The results of operations for the six months ended April 30, 2018 are not necessarily indicative of the results to be expected for the entire year.

Noncontrolling Interest

Noncontrolling interest represents Wistar's equity ownership in Certainty and is presented as a component of equity. The following table sets forth the changes in noncontrolling interest for the six months ended April 30, 2018:

Balance October 31, 2017	\$	-
Issuance of noncontrolling interest in Certainty		(4,318)
Net loss attributable to noncontrolling interest		(41,382)
Balance April 30, 2018	\$	(45,700)

Revenue Recognition

Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been substantially performed pursuant to the terms of the arrangement, (iii) amounts are fixed or determinable, and (iv) the collectability of amounts is reasonably assured.

Patent Licensing Revenue

In certain instances, our past revenue arrangements have provided for the payment of contractually determined fees in settlement of litigation and in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. These arrangements typically include some combination of the following: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies owned or controlled by the Company, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. In such instances, the intellectual property rights granted have been perpetual in nature, extending until the expiration of the related patents. Pursuant to the terms of these agreements, we had no further obligations. As such, the earnings process was complete and revenue has been recognized upon the execution of the agreement, when collectability was reasonably assured, and when all other revenue recognition criteria were met.

Intangible Assets

Our only identifiable intangible assets are patents and patent rights. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life. We did not capitalize any patent acquisition costs during the six months ended April 2018 and 2017. We recorded patent amortization expense of approximately \$163,000 during each of the six-month periods ended April 30, 2018 and 2017, respectively, and approximately \$81,000 during each of the three-month periods ended April 30, 2018 and 2017, respectively.

2. STOCK BASED COMPENSATION

The Company maintains stock equity incentive plans under which the Company grants incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, performance awards, or stock units to employees, directors and consultants.

Stock Option Compensation Expense

The compensation cost for service based stock options granted to employees and directors is measured at the grant date, based on the fair value of the award using the Black-Scholes pricing model, and is recognized as an expense on a straight-line basis over the requisite service period (the vesting period of the stock option) which is one to ten years. We recorded stock-based compensation expense related to stock options granted to employees and directors of approximately \$473,000 and \$452,000 during the six months ended April 30, 2018 and 2017, respectively, and approximately \$258,000 and \$192,000 during the three months ended April 30, 2018 and 2017, respectively.

We estimate the fair value of service based and performance based stock options granted to consultants and recognize expense at each reporting period using the Black-Scholes pricing model. We recorded stock-based compensation expense related to stock options granted to consultants of approximately \$126,000 and \$-0- during the six months ended April 30, 2018 and 2017, respectively, and approximately \$74,000 and \$-0- during the three months ended April 30, 2018 and 2017, respectively.

Stock Option Activity

During the six months ended April 30, 2018 and 2017, we granted options to purchase 497,000 shares and 106,000 shares of common stock, respectively, to employees, directors and consultants at weighted average exercise prices of \$3.48 and \$5.00 per share, respectively, pursuant to the ITUS Corporation 2010 Share Incentive Plan (the "2010 Share Plan") and the ITUS Corporation 2018 Share Incentive Plan (the "2018 Share Plan"). During the six months ended April 30, 2018 and 2017, stock options to purchase 48,600 and 2,200 shares of common stock, respectively, were exercised with aggregate proceeds of approximately \$-0- and \$6,000, respectively. Under certain circumstances, stock options may be exercised on a cashless basis. During the six months ended April 30, 2018 and 2017, 8,784 and -0- shares of common stock, respectively, were withheld in connection with cashless exercises of stock options.

Stock Option Plans

As of April 30, 2018, we have three stock option plans: the ITUS Corporation 2003 Share Incentive Plan (the "2003 Share Plan"), the 2010 Share Plan and 2018 Share Plan, which were adopted by our Board of Directors on April 21, 2003, July 14, 2010 and January 25, 2018, respectively. The 2018 Share Plan was approved by our shareholders on March 29, 2018.

The 2003 Share Plan provided for the grant of nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to employees, directors and consultants. In accordance with the provisions of the 2003 Share Plan, the plan terminated with respect to the ability to grant future options on April 21, 2013. Information regarding the 2003 Share Plan for the six months ended April 30, 2018 is as follows:

	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Options Outstanding at October 31, 2017	30,600	\$ 3.16	
Exercised	(10,600)	\$ 0.67	
Forfeited	(5,600)	\$ 3.63	
Options Outstanding and exercisable at April 30, 2018	14,400	\$ 4.81	\$ 17,280

The following table summarizes information about stock options outstanding and exercisable under the 2003 Share Plan as of April 30, 2018:

Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
\$ 0.67 - \$17.50	14,400	1.06	\$ 4.81

The 2010 Share Plan provides for the grant of nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to employees, directors and consultants. As of April 30, 2018, the 2010 Share Plan had 725,719 shares available for future grants. Information regarding the 2010 Share Plan for the six months ended April 30, 2018 is as follows:

	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Options Outstanding at October 31, 2017	1,637,246	\$ 1.50	
Granted	175,000	\$ 2.81	
Exercised	(38,000)	\$ 0.67	
Forfeited	(49,800)	\$ 2.15	
Options Outstanding at April 30, 2018	1,724,446	\$ 1.63	\$ 3,702,296
Options Exercisable at April 30, 2018	1,122,259	\$ 1.77	\$ 2,276,255

The following table summarizes information about stock options outstanding and exercisable under the 2010 Share Plan as of April 30, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
\$0.67	943,000	7.09	\$ 0.67	566,059	5.96	\$ 0.67
\$ 2.27 - \$ 7.00	781,446	5.13	\$ 2.79	556,200	4.78	\$ 2.90

The 2018 Share Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to employees, directors and consultants. As of April 30, 2018, the 2018 Share Plan had 4,678,000 shares available for future grants. Information regarding options outstanding under the 2018 Share Plan for the six months ended April 30, 2018 is as follows:

	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Options Outstanding at October 31, 2017	-0-		
Granted	322,000	\$ 3.84	
Options Outstanding at April 30 2018	322,000	\$ 3.84	\$ -0-
Options Exercisable at April 30, 2018	8,608	\$ 3.84	\$ -0-

The following table summarizes information about stock options outstanding under the 2018 Share Plan as of April 30, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
\$3.84	322,000	9.92	\$ 3.84	8,608	9.92	\$ 3.84

In addition to options granted under the 2003 Share Plan, the 2010 Share Plan and the 2018 Share Plan, the Board of Directors approved the grant of stock options to purchase 1,780,000 shares. Information regarding stock options outstanding that were not granted under the 2003 Share Plan, the 2010 Share Plan or the 2018 Share Plan for the six months ended April 30, 2018 is as follows:

	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Options Outstanding at October 31, 2017	1,780,000	\$ 1.58	
Options Outstanding and exercisable at April 30, 2018	1,780,000	\$ 1.58	\$ 3,953,820

The following table summarizes information about stock options outstanding and exercisable that were not granted under the 2003 Share Plan, the 2010 Share Plan or the 2018 Plan as of April 30, 2018:

Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
\$0.67	1,046,000	4.41	\$ 0.67
\$ 2.58-\$ 5.56	734,000	3.87	\$ 2.88

On May 8, 2018, stock options to purchase 3,100,000 shares were granted under the 2018 Share Plan. Our Chairman, President and Chief Executive Officer was awarded options for 600,000 shares that were time based options and options for 1,500,000 shares that were performance based options. Our Chief Operating Officer and Chief Financial Officer was awarded options for 500,000 shares that were time based options. The remaining options were awarded to other employees of the Company. The time based options vest over three years and the performance based options vest in three equal installments upon achievement of three stock price targets before May 31, 2021.

Stock Awards

We account for stock awards granted to employees, directors and consultants based on the grant date market price of the underlying common stock. During the six months ended April 30, 2018 and 2017, we issued 5,347 shares and 3,463 shares, respectively, of common stock to consultants for services rendered. We recorded consulting expense for the six months ended April 30, 2018 and 2017 of approximately \$15,000 and \$18,000, respectively, for the shares of common stock issued to consultants.

On May 8, 2018, a restricted stock award for 1,500,000 shares was granted under the 2018 Share Plan to our Chairman, President and Chief Executive Officer. The restricted stock award vests in its entirety upon achievement of a stock price target before May 31, 2021.

3. FAIR VALUE MEASUREMENTS

US GAAP defines fair value and establishes a framework for measuring fair value. We have categorized our financial assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded in the accompanying condensed consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market which we have the ability to access at the measurement date.

Level 2 - Financial assets and liabilities whose values are based on quoted market prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset and liabilities.

The following table presents the hierarchy for our financial assets measured at fair value on a recurring basis as of April 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds –				
Cash equivalents	\$ 3,869,297	\$ -	\$ -	\$ 3,869,297
Certificates of deposit -				
Short-term investments	-	1,250,000	-	1,250,000
Total financial assets	<u>\$ 3,869,297</u>	<u>\$ 1,250,000</u>	<u>\$ -</u>	<u>\$ 5,119,297</u>

The following table presents the hierarchy for our financial assets measured at fair value on a recurring basis as of October 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds –				
Cash equivalents	\$ 3,079,282	\$ -	\$ -	\$ 3,079,282
Certificates of deposit -				
Short-term investments	-	3,500,000	-	3,500,000
Total financial assets	<u>\$ 3,079,282</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 6,579,232</u>

Our non-financial assets that are measured on a non-recurring basis include our patents and property and equipment which are measured using fair value techniques whenever events or changes in circumstances indicate a condition of impairment exists. The estimated fair value of prepaid expenses, accounts payable and accrued expenses approximates their individual carrying amounts due to the short-term nature of these measurements. Cash and cash equivalents are stated at carrying value which approximates fair value.

4. SHORT-TERM INVESTMENTS

At April 30, 2018 and October 31, 2017, we had certificates of deposit of \$1,250,000 and \$3,500,000, respectively, which were classified as short-term investments and reported at fair value.

5. ACCRUED EXPENSES

Accrued expense consists of the following as of:

	<u>April 30, 2018</u>	<u>October 31, 2017</u>
Accrued severance costs	80,374	237,563
Payroll and related expenses	293,447	51,643
Accrued royalty	246,177	-
Accrued collaborative research and license expenses	187,500	-
Accrued other	80,653	119,963
	<u>\$ 888,151</u>	<u>\$ 409,169</u>

6. PATENT ACQUISITION OBLIGATION

On March 27, 2017, the Company issued 947,606 shares of common stock to Meetrix Communications, Inc. (“Meetrix”) in satisfaction of the obligation owed by us to Meetrix pursuant to the terms of the Patent Acquisition Agreement, dated November 11, 2013 between the Company and Meetrix. The carrying value of the patent acquisition obligation at the date of extinguishment was approximately \$4,400,000. The fair value of the shares of common stock issued to satisfy the obligation on the date of extinguishment was approximately \$2,843,000, resulting in the recognition of a gain on the debt extinguishment of approximately \$1,548,000.

7. PREFERRED STOCK REDEMPTION

On November 11, 2016, the holder of all our outstanding Series A Preferred Stock (the “Series A Preferred”) with an aggregate stated value of \$3,500,000 exercised its right of redemption to receive such amount from proceeds from the sale of the Company’s equity securities. On December 6, 2016, we entered into an agreement with the holder of the Series A Preferred setting forth the terms under which such redemption would take place (the “Series A Redemption Terms”).

Pursuant to the Series A Redemption Terms, on December 9, 2016 the holder of the Series A Preferred received (i) \$500,000 in cash, (ii) a 12% secured debenture evidencing the remaining \$3,000,000 amount to be redeemed, \$1,000,000 of which was due on or before June 1, 2017 and the remainder of which was due November 11, 2017 (the “Redemption Debenture”), and (iii) a 5 year warrant to purchase 500,000 shares of the Company’s common stock at an exercise price equal to 10% below the thirty (30) day volume weighted average closing price of our common stock at closing (the “Redemption Warrant”). The Redemption Debenture was secured by a lien on the Company’s assets and prohibited the Company from incurring any senior indebtedness other than equipment financing in connection with the Company’s business. The Redemption Debenture was paid in full during fiscal year 2017.

The difference between the fair value of the consideration given to the holder of our Series A Preferred and the carrying value of the Series A Preferred represents a return to the preferred shareholder which is treated in a similar manner as that of dividends paid on preferred stock. In the redemption, the Series A Preferred holder received \$500,000 in cash, the Redemption Debenture with a present value of approximately \$2,999,000 and the Redemption Warrant with a fair value of approximately \$2,801,000, determined using the Black Scholes pricing model, and waived the Series A Preferred’s conversion right with an intrinsic value of approximately \$792,000, resulting in total consideration given to the Series A Preferred holder of approximately \$5,508,000. The difference between the fair value of the consideration and the \$3,500,000 carrying value of the Series A Preferred resulted in a deemed dividend to the Series A Preferred holder of approximately \$2,008,000.

8. NET INCOME (LOSS) PER SHARE OF COMMON STOCK

Basic net income (loss) per common share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per common share ("Diluted EPS") is computed by dividing net income (loss) by the weighted average number of common shares and dilutive common share equivalents and convertible securities then outstanding. The treasury stock method reduces the dilutive effect of potentially dilutive securities as it assumes that any cash proceeds (from the issuance of potentially dilutive securities) are used to buy back shares at the average share price during the period.

Diluted EPS for the six months ended April 30, 2018 and 2017 and for the three months ended April 30, 2018 is the same as Basic EPS, as the inclusion of the effect of common share equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of Diluted EPS for the six and three months ended April 30, 2018 were stock options to purchase 3,840,846 shares and warrants to purchase 829,400 shares and for the six months ended April 30, 2017 were stock options to purchase 3,155,872 shares and warrants to purchase 837,400 shares

Dilutive EPS for the three months ended April 30, 2017 excluded stock options to purchase 3,153,472 shares and warrants to purchase 837,400 shares because their effect would be antidilutive. The following is a reconciliation between basic weighted average common shares outstanding and dilutive weighted average common shares outstanding for the three months ended April 30, 2017:

	For the Three Months Ended April 30, 2017
Basic weighted average common shares outstanding	9,734,171
Effect of stock options	2,400
Dilutive weighted average common shares outstanding	9,736,571

9. EFFECT OF RECENTLY ADOPTED AND ISSUED PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers. This amendment updates addressing revenue from contracts with customers, which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under the standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. This standard update is effective for interim and annual reporting periods beginning after December 15, 2016, and were to be applied retrospectively or the cumulative effect as of the date of adoption, with early application not permitted. In July 2015, a one-year deferral of the effective date of the new guidance was approved. We do not expect the adoption of ASU 2014-09 to have a material impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02 (“ASU 2016-02”) which requires lessees to recognize most leases on the balance sheet. This is expected to increase both reported assets and liabilities. The new lease standard does not substantially change lessor accounting. For public companies, the standard will be effective for the first interim reporting period within annual periods beginning after December 15, 2018, although early adoption is permitted. Lessees and lessors will be required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method. The requirements of this standard include a significant increase in required disclosures. We began a detailed assessment of the impact that this guidance will have on our consolidated financial statements and related disclosures, and our analysis is currently ongoing.

In March 2016, the FASB issued Accounting Standards Update 2016-09 (“ASU 2016-09”) that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee’s shares than it previously could for tax withholding purposes without triggering liability accounting and to make a policy election for forfeitures as they occur. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those years. We adopted ASU 2016-09 on November 1, 2017 and the adoption did not have an impact on our consolidated financial statements and related disclosures.

In May 2017, the FASB issued Accounting Standards Update 2017-09 (“ASU 2017-09”) that provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. This update is effective for all entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. We began a detailed assessment of the impact that this guidance will have on our consolidated financial statements and related disclosures, and our analysis is ongoing.

10. INCOME TAXES

We file Federal, New York, California and Pennsylvania state income tax returns. Due to net operating losses, the statute of limitations for Federal and New York State income tax returns remains open to examination by taxing authorities since the fiscal year ended October 31, 1998. We account for interest and penalties related to income tax matters, if any, in general and administrative expenses. There are no unrecognized income tax benefits as of April 30, 2018 and October 31, 2017.

We recognize deferred tax assets and liabilities for the estimated future tax effects of events that have been recognized in our financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized. We have substantial net operating loss carryforwards for Federal, New York State and California income tax returns. These net operating loss carryforwards could be subject to limitations under Internal Revenue Code section 382. We have provided a full valuation allowance against our deferred tax asset due to our historical pre-tax losses and the uncertainty regarding the realizability of these deferred tax assets.

11. COMMITMENT AND CONTINGENCES

Litigation Matters

Other than suits we bring to enforce our patent rights we are not a party to any material pending legal proceedings other than that which arise in the ordinary course of business. We believe that any liability that may ultimately result from the resolution of these matters will not, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

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

GENERAL

We discuss the description of our business in the Notes to our Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

Six months ended April 30, 2018 compared with six months ended April 30, 2017

Revenue

For the six months ended April 30, 2018, we recorded revenue of \$750,000 from one license agreement. The license agreement provided for a one-time, non-recurring, lump sum payment in exchange for a non-exclusive retroactive and future license, or covenant not to sue. Accordingly, the earning process from the license was complete and 100% of the revenue was recognized upon execution of the license agreement. As discussed in Note 1 to our Condensed Consolidated Financial Statements, as part of our legacy operations, the Company remains engaged in limited patent licensing activities which we do not expect to be a significant part of our ongoing operations. There was no revenue in the six months ended April 30, 2017.

Inventor Royalties, Contingent Legal Fees and Litigation and Licensing Expenses Related to Patent Assertion

Inventor royalties, contingent legal fees and litigation and licensing expenses related to patent assertion activities were approximately \$526,000 in the six months ended April 30, 2018 compared to approximately \$2,000 in the comparable prior year. Inventor royalties and contingent legal fees are expensed in the period that the related revenues are recognized. Litigation and licensing expenses related to patent assertion, other than contingent legal fees, are expensed in the period incurred.

Amortization of Patents

Amortization of patents was approximately \$163,000 in each of the six-month periods ended April 30, 2018 and 2017, respectively. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life.

Research and Development Expenses

Research and development expenses are related to the development of our early cancer detection and cancer immune-therapy drug platforms and increased by approximately \$555,000 to approximately \$1,438,000 in the six months ended April 30, 2018, from approximately \$883,000 in the six months ended April 30, 2017. The increase in research and development expenses was primarily due to an increase in costs related to our collaboration and license agreements with Wistar and the initiation of our collaboration agreement with Moffitt of approximately \$445,000, an increase in employee compensation and related costs, other than stock option expense, of approximately \$218,000 and an increase in consultant stock option expense of approximately \$90,000.

General and Administrative Expenses

General and administrative expenses increased by approximately \$340,000 to approximately \$1,899,000 in the six months ended April 30 2018, from approximately \$1,559,000 in the six months ended April 30, 2017. The increase in general and administrative expenses was principally due to an increase in legal and accounting fees of approximately \$208,000 due primarily to potential acquisitions and collaborative arrangements, the commencement and subsequent termination of an at-the-market equity program and the special shareholder meeting held in March 2018, an increase in consultant stock option expense of approximately \$58,000 and an increase in employee stock option expense of approximately \$42,000.

Gain on Extinguishment of Patent Acquisition Obligation

The gain on extinguishment of patent acquisition obligation of approximately \$1,548,000 in the six months ended April 30, 2017 resulted from the difference in the carrying value of the patent acquisition obligation and the fair value of the shares of common stock issued to satisfy the obligation on the date of extinguishment.

Interest Expense

Interest expense decreased from approximately \$371,000 in the six months ended April 30, 2017 to \$-0- in the current period due to the payment in full of the patent acquisition obligation and the secured debenture during fiscal year 2017.

Interest Income

Interest income increased by approximately \$16,000 to approximately \$18,000 in the six months ended April 30, 2018, from approximately \$2,000 in the comparable prior year period as a result of additional cash on hand.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to noncontrolling interest of approximately \$41,000 in the six months ended April 30, 2018 represents Wistar's 5% ownership interest in Certainty's net loss for the six-month period. There was no net loss attributable to noncontrolling interest in 2017 because the arrangement with Wistar occurred in 2018.

Deemed Dividend to Preferred Shareholder

The deemed dividend to preferred shareholder of approximately \$2,009,000 in 2017 resulted from the redemption of our Series A Preferred in 2017. The difference between the fair value of the consideration given to the holder of our Series A Preferred and the carrying value of the Series A Preferred represented a return to the preferred shareholder and was treated in a similar manner as that of dividends paid on preferred stock.

Three months ended April 30, 2018 compared with three months ended April 30, 2017

Revenue

For the three months ended April 30, 2018, we recorded revenue of \$750,000 from one license agreement. The license agreement provided for a one-time, non-recurring, lump sum payment in exchange for a non-exclusive retroactive and future license, or covenant not to sue. Accordingly, the earning process from the license was complete and 100% of the revenue was recognized upon execution of the license agreement. As discussed in Note 1 to our Condensed Consolidated Financial Statements, as part of our legacy operations, the Company remains engaged in limited patent licensing activities which we do not expect to be a significant part of our ongoing operations. There was no revenue in the three months ended April 30, 2017.

Inventor Royalties, Contingent Legal Fees and Litigation and Licensing Expenses Related to Patent Assertion

Inventor royalties, contingent legal fees and litigation and licensing expenses related to patent assertion activities were approximately \$501,000 in the three months ended April 30, 2018 compared to approximately \$200 in the comparable prior year. Inventor royalties and contingent legal fees are expensed in the period that the related revenues are recognized. Litigation and licensing expenses related to patent assertion, other than contingent legal fees, are expensed in the period incurred.

Amortization of Patents

Amortization of patents was approximately \$81,000 in each of the three-month periods ended April 30, 2018 and 2017, respectively. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life.

Research and Development Expenses

Research and development expenses are related to the development of our early cancer detection and cancer immune-therapy drug platforms and increased by approximately \$229,000 to approximately \$660,000 in the three months ended April 30, 2018, from approximately \$431,000 in the three months ended April 30, 2017. The increase in research and development expenses was primarily due to an increase in employee compensation and related costs, other than stock option expense, of approximately \$176,000 and an increase in consultant stock option expense of approximately \$90,000.

General and Administrative Expenses

General and administrative expenses increased by approximately \$210,000 to approximately \$909,000 in the three months ended April 30, 2018, from approximately \$699,000 in the three months ended April 30, 2017. The increase in general and administrative expenses was principally due to an increase in employee compensation and related costs, other than stock option expense, of approximately \$100,000, an increase in legal and accounting fees of approximately \$89,000 due primarily to potential acquisitions and collaborative arrangements and the special shareholder meeting held in March 2018 and an increase in employee stock option expense of approximately \$39,000.

Interest Expense

Interest expense decreased from approximately \$175,000 in the three months ended April 30, 2017 to \$-0- in the current period due to the payment in full of the patent acquisition obligation and the secured debenture during fiscal year 2017.

Interest Income

Interest income increased by approximately \$7,000 to approximately \$8,000 in the three months ended April 30, 2018, from approximately \$1,000 in the comparable prior year period as a result of additional cash on hand.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to noncontrolling interest of approximately \$14,000 in the three months ended April 30, 2018 represents Wistar's 5% ownership interest in Certainty's net loss for the three-month period. There was no net loss attributable to noncontrolling interest in 2017 because the arrangement with Wistar occurred in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash, cash equivalents and short-term investments.

Based on currently available information as of June 5, 2018, we believe that our existing cash, cash equivalents, short-term investments and expected cash flows will be sufficient to fund our activities for the next 12 months. However, our projections of future cash needs and cash flows may differ from actual results. If current cash on hand, cash equivalents, short-term investments and cash that may be generated from our business operations are insufficient to continue to operate our business, or if we elect to invest in or acquire a company or companies that are synergistic with or complimentary to our technologies, we may be required to obtain more working capital. During the six months ended April 30, 2018 we raised approximately \$677,000 through an at-the-market equity offering which we are presently continuing. We may seek to obtain additional working capital during our fiscal year ending 2018 or thereafter through sales of our equity securities or through bank credit facilities or public or private debt from various financial institutions where possible. We cannot be certain that additional funding will be available on acceptable terms, or at all. If we do identify sources for additional funding, the sale of additional equity securities or convertible debt could result in dilution to our shareholders. Additionally, the sale of equity securities or issuance of debt securities may be subject to certain security holder approvals or may result in the downward adjustment of the exercise or conversion price of our outstanding securities. We can give no assurance that we will generate sufficient cash flows in the future to satisfy our liquidity requirements or sustain future operations, or that other sources of funding, such as sales of equity or debt, would be available or would be approved by our security holders, if needed, on favorable terms or at all. If we fail to obtain additional working capital as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition. Furthermore, such lack of funds may inhibit our ability to respond to competitive pressures or unanticipated capital needs, or may force us to reduce operating expenses, which would significantly harm the business and development of operations.

During the six months ended April 30, 2018, cash used in operating activities was approximately \$2,082,000. Net cash provided by investing activities was approximately \$2,238,000, which reflects the purchase of certificates of deposit totaling \$1,250,000 and the purchase of property and equipment of approximately \$12,000, offset by proceeds from the sale or maturity of certificates of deposit totaling \$3,500,000. Cash provided by financing activities was approximately \$677,000, representing proceeds from an at-the-market equity offering. As a result, our cash, cash equivalents and short-term investments at April 30, 2018 decreased by approximately \$1,417,000 to approximately \$5,422,000 from approximately \$6,839,000 at the end of fiscal year 2017.

CRITICAL ACCOUNTING POLICIES

The Company's condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our condensed consolidated financial statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates and make changes accordingly.

We believe that, of the significant accounting policies discussed in Note 2 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, the following accounting policies require our most difficult, subjective or complex judgments:

Revenue Recognition; and

Stock-Based Compensation

Revenue Recognition

Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been substantially performed pursuant to the terms of the arrangement, (iii) amounts are fixed or determinable, and (iv) the collectability of amounts is reasonably assured.

Patent Licensing Revenue

In certain instances, our past revenue arrangements have provided for the payment of contractually determined fees in settlement of litigation and in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. These arrangements typically include some combination of the following: (i) the grant of a non-exclusive, retroactive and future license to manufacture and/or sell products covered by patented technologies owned or controlled by the Company, (ii) a covenant-not-to-sue, (iii) the release of the licensee from certain claims, and (iv) the dismissal of any pending litigation. In such instances, the intellectual property rights granted have been perpetual in nature, extending until the expiration of the related patents. Pursuant to the terms of these agreements, we had no further obligations. As such, the earnings process was complete and revenue has been recognized upon the execution of the agreement, when collectability was reasonably assured, and when all other revenue recognition criteria were met.

Stock-Based Compensation

The compensation cost for service based stock options granted to employees and directors is measured at the grant date, based on the fair value of the award using the Black-Scholes pricing model, and is recognized as an expense on a straight-line basis over the requisite service period (the vesting period of the stock option) which is one to ten years. For service based stock options granted to consultants we estimate the fair value of the stock options and recognize expense at each reporting period using the Black-Scholes pricing model.

The Black-Scholes pricing model requires the input of highly subjective assumptions. These variables include, but are not limited to, our stock price volatility over the term of the stock options, and actual and projected employee stock option exercise behaviors.

EFFECT OF RECENTLY ISSUED PRONOUNCEMENTS

We discuss the effect of recently issued pronouncements in the Notes to our Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

Information included in this Quarterly Report on Form 10-Q (this “Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results. We generally use the words “believes,” “expects,” “intends,” “plans,” “anticipates,” “likely,” “will” and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and factors include, but are not limited to, those factors set forth in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 and the condensed consolidated financial statements included in this Report. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of April 30, 2018, we had investments in short-term, fixed rate and highly liquid instruments that have historically been reinvested when they mature throughout the year. Although our existing instruments are not considered at risk with respect to changes in interest rates or markets for these instruments, our rate of return on these securities could be affected at the time of reinvestment, if any.

Item 4. Controls and Procedures.

We carried out an evaluation, under the supervision and with the participation of our management including our President and Chief Executive Officer and our Chief Operating Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13-15(b) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our President and Chief Executive Officer and our Chief Operating Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during the second quarter of fiscal year 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Other than suits we bring to enforce our patent rights we are not a party to any material pending legal proceedings other than that which arise in the ordinary course of business. We believe that any liability that may ultimately result from the resolution of these matters will not, individually or in the aggregate, have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Mine Safety Disclosures. Not Applicable.

Item 5. Other Information. None.

Item 6. Exhibits.

- 3.1 [Certificate of Amendment to the Certificate of Incorporation of ITUS Corporation.](#)
- 31.1 [Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 8, 2018.](#)
- 31.2 [Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 8, 2018.](#)
- 32.1 [Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated June 8, 2018.](#)
- 32.2 [Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated June 8, 2018.](#)

SIGNATURES

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

ITUS CORPORATION

By: /s/ Dr. Amit Kumar
Dr. Amit Kumar
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

June 8, 2018

By: /s/ Michael J. Catelani
Michael J. Catelani
Chief Operating Officer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

June 8, 2018

**CERTIFICATE OF AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
OF ITUS CORPORATION**

The undersigned, for the purposes of amending the Certificate of Incorporation of ITUS Corporation (the “Corporation”), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify that:

FIRST: The Board of Directors of the Corporation (the “Board”) duly adopted in accordance with Section 141(f) of the DCGL at a meeting of the Board on January 25, 2018, a resolution proposing and declaring advisable the following amendment to replace Article FOURTH of the Certificate of Incorporation of said Corporation:

“FOURTH: The total number of shares of stock that the Corporation shall have authority to issue is forty eight million twenty thousand (48,020,000), of which forty eight million (48,000,000) shall be Common Stock of the par value \$0.01 per share and twenty thousand (20,000) shall be Preferred Stock of the par value of \$100 per share. The 20,000 shares of Preferred Stock may be issued from time to time in one or more series, each of such series to have such voting powers, full or limited, or no voting powers, designations, preferences and relative participating, optional or other special rights and qualifications and limitations or restrictions as are stated and expressed in the resolutions providing for the issue of such series adopted by the Board of Directors as hereinafter provided. Authority is hereby expressly granted to the Board of Directors to establish and designate one or more series of Preferred Stock and to fix the relative rights, preferences and limitations of each series, including without limitation:

1. The number of shares to constitute such series and the distinctive designations thereof;
2. The dividend rate to which such shares shall be entitled and the restrictions, limitations and conditions upon the payment of such dividends, whether dividends shall be cumulative, the date or dates from which dividends (if cumulative) shall accumulate and the dates on which dividends (if declared) shall be payable;
3. Whether or not the shares of such series shall be redeemable and, if so, the terms, limitations and restrictions with respect to such redemption, including without limitation the manner of selecting shares for redemption if less than all shares are to be redeemed, and the amount, if any, in addition to any accrued dividends thereon, which the holders of shares of such series shall be entitled to receive upon the redemption thereof, which amount may vary at different redemption dates and may be different with respect to shares redeemed through the operation of any purchase, retirement or sinking fund and with respect to shares otherwise redeemed;
4. The amount in addition to any accrued dividends thereon which the holders of shares of such series shall be entitled to receive upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, which amount may vary at different dates and may vary depending on whether such liquidation, dissolution or winding up is voluntary or involuntary;
5. Whether or not the shares of such series shall be subject to the operation of a purchase, retirement or sinking fund and, if so, the terms, limitations and restrictions with respect thereto, including without limitation whether such purchase, retirement or sinking fund shall be cumulative or non—cumulative, the extent to and the manner in which such fund shall be applied to the purchase, retirement or redemption of the shares of such series for retirement or to other corporate purposes and the terms and provisions relative to the operation thereof;
6. Whether or not the shares of such series shall have conversion privileges and, if so, prices or rates of conversion and the method, if any, of adjusting the same;
7. The voting powers, if any, of such series; and

8. Any other relative rights, preferences and limitations thereof as shall not be inconsistent with this Article. ”

SECOND: The holders of a majority of the issued and outstanding voting stock of the Corporation have voted in favor of said amendment at a duly convened meeting of the stockholders of the Corporation .

THIRD: The aforesaid amendment was duly adopted in accordance with the applicable provisions of Section 242 of the DGCL.

FOURTH: The aforesaid amendment shall be effective as of 9:00 A.M. Eastern Daylight Time on April 10, 2018.

IN WITNESS WHEREOF, the Corporation has caused this Amendment to the Certificate of Incorporation of the Corporation to be duly executed by the undersigned this 9th day of April, 2018.

ITUS CORPORATION

By: /s/ Amit Kumar

Name: Dr. Amit Kumar

Title: President and Chief Executive Officer

CERTIFICATION

I, Dr. Amit Kumar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITUS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dr. Amit Kumar

Dr. Amit Kumar

Chairman, President and

Chief Executive Officer

(Principal Executive Officer)

June 8, 2018

CERTIFICATION

I, Michael J. Catelani, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITUS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael J. Catelani
Michael J. Catelani
Chief Operating Officer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

June 8, 2018

Statement of Chief Executive Officer
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Dr. Amit Kumar, the Chairman, President and Chief Executive Officer of ITUS Corporation, hereby certifies that:

1. The Company's Form 10-Q Quarterly Report for the period ended April 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dr. Amit Kumar

Dr. Amit Kumar
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

June 8, 2018

Statement of Chief Financial Officer
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Michael J. Catelani, the Chief Operating Officer and Chief Financial Officer of ITUS Corporation, hereby certifies that:

1. The Company's Form 10-Q Quarterly Report for the period ended April 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Catelani

Michael J. Catelani
Chief Operating Officer and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

June 8, 2018