Prism Technologies Group, Inc.
Form 10-Q
November 14, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

Or

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

For the transition period from to

Commission file number 0-26083

PRISM TECHNOLOGIES GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**94-3220749**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

101 Parkshore Drive, Suite 100 Folsom, CA 95630

(Address of principal executive offices)

(916) 932-2860

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

The aggregate market value of registrant's voting and non-voting common equity held by non-affiliates of registrant, based upon the closing sale price of the common stock as of the last business day of registrant's most recently completed second fiscal quarter (June 30, 2016), as reported on the Nasdaq Capital Market, was approximately $1,819,000. Registrant is a smaller reporting company as defined in Regulation S-K. Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the Registrant's Common Stock, par value $0.001 per share, on October 31, 2016 were 10,073,688 shares.

FORM 10-Q

PRISM TECHNOLOGIES GROUP, INC.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 397	$ 1,756
Short-term investments	-	1,494
Restricted cash equivalents	400	600
Prepaid expenses and other current assets	535	639
Total current assets	1,332	4,489
Intangible assets	16,200	24,694
Goodwill	54	54
Other assets	22	63
Total assets	$ 17,608	$ 29,300
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 285	$ 267
Accrued expenses	331	575
Accrued contingent consideration, current	-	3,525
Notes payable, current	3,097	2,838
Total current liabilities	3,713	7,205
Accrued contingent consideration, non-current	11,464	9,704
Accrued lease obligation, non-current	-	49
Income tax liability	-	101

Other liabilities	45	45
Total liabilities	15,222	17,104
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock	15	15
Paid-in capital	231,351	231,294
Treasury stock	(10,323)	(10,323)
Accumulated deficit	(218,657)	(208,790)
Total stockholders' equity	2,386	12,196
Total liabilities and stockholders' equity	$ 17,608	$ 29,300

See accompanying notes.

PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
Revenues	$-	$700	$-	$700
Cost of Revenues	-	210	-	210
Gross Margin	-	490	-	490
Operating expenses:				
General and administrative	924	986	3,014	2,974
Depreciation and amortization	1,920	4,246	6,285	8,772
Impairment of long-lived assets	-	-	2,209	-
Total operating expenses	2,844	5,232	11,508	11,746
Loss from operations	(2,844)	(4,742)	(11,508)	(11,256)
Other income	11	3	2,050	12
Interest expense	(167)	(293)	(510)	(628)
Net loss before income taxes	(3,000)	(5,032)	(9,968)	(11,872)
Income tax benefit	101	-	101	-
Net loss	(2,899)	(5,032)	(9,867)	(11,872)
Net loss per share:				
Basic and diluted	$(0.29)	$(0.50)	$(0.98)	$(1.32)
Shares used in computing per share amounts				
Basic and diluted	10,074	10,074	10,074	8,997

See accompanying notes.

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PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three months ended September 30,		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Net loss	$(2,899)	$(5,032)	$(9,867)	$(11,872)
Comprehensive loss	$(2,899)	(5,032)	$(9,867)	$(11,872)

See accompanying notes.

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PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net loss	$(9,867)	$(11,872)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	57	127
Depreciation and amortization	6,285	8,772
Impairment of long-lived assets	2,209	-
Imputed interest expense on contingent consideration	246	437
Imputed interest expense on notes payable	259	189
Gain on revaluation of contingent consideration	(2,011)	-
Net changes in operating assets and liabilities:		
Prepaid expenses and other assets	145	(423)
Accounts payable	18	(434)
Accrued expenses	(293)	(140)
Income tax benefit	(101)	-
Net cash used in operating activities	(3,053)	(3,344)
Cash flows from investing activities:		
Purchase of Prism LLC, net of cash acquired	-	(16,131)
Redemptions of short-term investments	1,494	-
Redemptions of restricted cash equivalents	200	200
Net cash provided by (used in) investing activities	1,694	(15,931)
Cash flows from financing activities:		
Repayment of note payable	-	(1,000)
Net cash used in financing activities	-	(1,000)
Net decrease in cash and cash equivalents	(1,359)	(20,275
Cash and cash equivalents, beginning of period	1,756	23,137
Cash and cash equivalents, end of period	$397	$2,862

Supplemental disclosures of cash flow information and non-cash transactions:

In connection with its acquisition of Prism, the Company assumed liabilities and issued common stock as follows:

Cash paid for acquisition as of September 30, 2015	$16,500
Contingent consideration	32,411
Issuance of common stock	9,380
Value of net assets acquired	$58,291
Liabilities assumed	$3,611

See accompanying notes.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Business of Prism Technologies Group, Inc.

Prism Technologies Group, Inc. (also referred to as "Company", "we", "our" or "us") was originally incorporated in California in February 1995 and re-incorporated in Delaware in October 1996.The mailing address of our headquarters is 101 Parkshore Drive, Suite 100, Folsom, CA 95630, and the telephone number at that location is (916) 932-2860. Our principal website is www.przmgroup.com.

Our business consists of licensing and enforcing a portfolio of patents. On March 26, 2015, we completed a merger with Prism Technologies, LLC ("Prism LLC"), with Prism LLC becoming a wholly-owned subsidiary of the Company (the "Merger"). Prism LLC also operates a patent licensing and enforcement business. We and our subsidiaries own a portfolio of nine patent families with over 50 issued patents and patent applications in the areas of computer and network security, semiconductors and medical technology. In September 2015, we changed our name to Prism Technologies Group, Inc. to better reflect the operations of the combined companies.

2. Basis of Presentation

The consolidated financial statements include the accounts of Prism Technologies Group, Inc. and its wholly-owned subsidiaries, Goldrush Insurance Services, Inc. and Prism Technologies LLC. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. 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, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly our financial position as of

September 30, 2016 and the results of operations for the three and nine months ended September 30, 2016 and 2015 and of cash flows for the nine months ended September 30, 2016 and 2015. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for any future period.

The accompanying financial statements have been prepared under the assumption that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. Basis of Presentation (continued)

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2015 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. We believe the disclosures in its notes to the condensed consolidated financial statements are adequate to make the information presented not misleading. We have evaluated subsequent events through the time of filing these financial statements. Based upon the evaluation, there was no material impact on the accompanying condensed consolidated financial statements.

Going Concern

As of September 30, 2016, our cash and cash equivalents totaled $0.4 million, and we are unable to estimate if or when we will receive revenues from our operations due to the uncertainty associated with patent litigation. We have notes payable of $3.1 million, which are due in 2016. As previously reported, on September 15, 2016, the officers and directors agreed to substantially reduce their salaries, which is our single largest use of operating cash. In addition, we expect to receive approximately $350,000 in February 2017 from the release of the security deposit related to our former headquarters in Rancho Cordova, CA. However, unless we are able to restructure our long term liabilities, further reduce our operating expenses, or receive revenues, we anticipate that our cash will be insufficient to fund our operations past the fourth quarter of 2016. Accordingly, we have initiated discussions with various third parties about potential financing alternatives, including a non-recourse financing alternative based on the outcome of specific patent infringement activities. But there can be no assurance that these discussions will be successful. If additional funds were raised through the issuance of equity securities, the percentage ownership of the Company’s then-current stockholders would be reduced. In addition, issuance of a significant number of new shares of our common stock could result in an ownership change under Section 382 of the Code, resulting in a substantial reduction in the usability of NOLs. If we are unable to raise capital on acceptable terms, we may need to cease operations and, as a result, investors could lose their investment.

Reclassifications

Certain reclassifications, which have no effect on previously reported net loss, have been made to the 2015 condensed consolidated balance sheets to conform to our 2016 financial statement presentation.

Summary of Significant Accounting Policies

Revenue recognition

In general, patent licensing arrangements are expected to provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. Complex revenue arrangements may require significant judgments, assumptions and estimates about when substantial delivery of contract elements will occur, whether any significant ongoing obligations exist subsequent to contract execution, whether collectability is reasonably assured and determination of the appropriate period in which the completion of the earning process occurs.

The Company recognizes revenue when (i) persuasive evidence of a contractual arrangement between the Company and the licensee exists, which create legally enforceable rights and obligations, (ii) delivery of the licensee agreement was provided to the licensee, based upon the point at which control of license transfers to the licensee, (iii) the price to the licensee was fixed or determinable, represents the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised licensee agreement to a licensee and (iv) collectability of consideration to which the Company is entitled to is reasonably assured.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Summary of Significant Accounting Policies (continued)

Business Combination Accounting

We account for acquisitions in accordance with ASC 805 *"Business Combinations."* Accordingly, the net assets acquired were recorded at their estimated fair values and Prism LLC's operating results are included in the Company's Consolidated Financial Statements from March 26, 2015 (the "Closing Date"). We recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. Goodwill is measured and recognized as of the acquisition date as the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any noncontrolling interest in the acquiree (if any) and the acquisition date fair value of our previously held equity interest in the acquiree (if any), over (b) the fair value of net assets acquired and liabilities assumed. At the acquisition date, we measured the fair values of all assets acquired and liabilities assumed that arise from contractual contingencies. The Company measures the fair values of all noncontractual contingencies if, as of the acquisition date, it is more likely than not that the contingency will give rise to an asset or liability. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company will record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations. Prism's operations are included in the Company's Consolidated Financial Statements as of the Closing Date. Acquisition related costs associated with a business combination are expensed as incurred.

Intangible Assets

The fair value amount assigned to each acquired patent asset is being amortized on a straight-line basis over a period ranging from 1.5 to 4.5 years, depending on the patent. The amortization period of the entire acquired patent portfolio is a weighted average of 3.7 years and was determined using the estimated life of each patent, which is represented by the period over which 100% of the expected discounted cash flows are received, and then using a weighted average approach based on the value of the patent and the estimated life.

The amortization period of the covenants not to compete with Prism LLC's officers is 3 years; the expected term of the agreements.

The Company evaluates the recoverability of its long-lived assets, including intangible assets subject to amortization in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, *Property, Plant and Equipment*. ASC 360 requires the recognition of impairment losses related to long-lived assets in the event the net carrying value of such assets exceeds fair value. The Company assesses the impairment of its long-lived assets when events or changes in circumstances indicate that the carrying amount of the intangible asset or asset group may not be recoverable. Significant judgment is required in determining whether a potential indicator of impairment of the assets exists and in estimating future cash flows for any necessary impairment tests. Recoverability of the intangible assets to be held and used is measured by the comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the year ended December 31, 2015, the Company recorded a $23.8 million impairment charge associated with the patent portfolio it acquired from Prism LLC.

As a result of delays in litigation events in the second quarter of 2016, the Company reassessed the recoverability of the intangible assets recorded in connection with the Merger in accordance with *ASC 360*. The Company determined that the carrying value of the intangible assets were in excess of fair value because the receipt of the forecasted cash flows would likely be delayed. The Company, therefore, recorded impairment charges of $2.2 million in the second quarter of 2016. As a result of the recorded impairment charges, the carrying value of the covenant not to compete and the patent portfolio were decreased by $0.4 million and $1.8 million, respectively. The fair value of the acquired intangible assets were based on estimated future cash flows to be generated from the patent portfolio to be received from Prism by the Company, discounted using a rate commensurate with the risk involved.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any noncontrolling interest in the acquiree (if any) and the acquisition date fair value of the Company's previously held equity interest in the acquiree (if any), over (b) the fair value of assets acquired and liabilities assumed. Goodwill, deemed to have an indefinite life is subject to periodic impairment testing as described below.

Goodwill is tested for impairment on a periodic basis, and at least annually in the fourth quarter of the year. In the first step of testing for goodwill and intangible assets impairment, we will estimate the fair value of the net assets associated with the goodwill. If the fair value of these net assets is greater than the carrying value of the net assets, including goodwill, then there will be no impairment. If the fair value is less than the carrying value, then we would perform a second step and determine the fair value of the goodwill. In this second step, the fair value of goodwill is determined by deducting the fair value of the identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if that reporting unit had just been acquired and the purchase price were being initially allocated. If the fair value of the goodwill is less than its carrying value for a reporting unit, an impairment charge would be recorded to earnings in the Company's Consolidated Statements of Operations.

In addition, the Company would evaluate goodwill for impairment if events or circumstances change between annual tests indicating a possible impairment. Examples of such events or circumstances include the following:

- a significant adverse change in legal factors or in the business climate;
- a more likely than not expectation that a segment or a significant portion thereof will be sold; or
- the testing for recoverability of a significant asset group within the segment.

Share-Based Payments

We account for share-based compensation in accordance with ASC 718 *"Compensation – Stock Compensation."* Under the provisions of ASC 718, share-based compensation cost is generally estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The BSM option-pricing model requires various highly judgmental assumptions including expected option life, volatility, and forfeiture rates. If any of the assumptions used in the BSM option-pricing model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. Generally, compensation cost is recognized over the requisite service period. However, to the extent performance conditions affect the vesting of an award, compensation cost will be recognized only if the performance condition is satisfied. Compensation cost will not be recognized, and any previously recognized compensation cost will be reversed, if the performance condition is not satisfied.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted, beginning in Q1 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our condensed Consolidated Financial Statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Summary of Significant Accounting Policies (continued)

On January 9, 2015, the FASB unanimously voted to approve Accounting Standards Update (ASU) 2015-01, which eliminates the concept of extraordinary items in an entity's income statement. The changes in ASU 2015-01 are effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this standard did not have a material effect on the Company.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 835-30), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. In August 2015, the FASB issued ASU 2015-15, which clarified that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The requirements are effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2015, and require retrospective application. The adoption of this standard did not have a material effect on the Company.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2016. The adoption of this standard did not have a material effect on the Company.

In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of this standard did not have a material effect on the Company.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation* (Topic 718)*: Improvements to Employee Share-Based Payment Accounting*, related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. The pronouncement is effective for annual periods (and for interim periods within those annual periods) beginning after December 15, 2016. The Company is currently evaluating the potential impact, if any, to its Consolidated Financial Statements and related disclosures.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Acquisition and Purchase Accounting

On the Closing Date, the Company completed its acquisition of Prism LLC pursuant to the terms of the Merger Agreement. Prism LLC was acquired for a purchase price of $58.3 million paid in a combination of cash, stock and potential contingent earn-out payments as discussed further below.

The maximum purchase price, exclusive of the discounting or probability reductions associated with the contingent consideration, is $75.4 million as of the Closing Date. The $75.4 million maximum purchase price is comprised of: (a) $16.5 million in cash ($1.3 million paid at Closing and $15.2 million paid in April, 2015); (b) $9.4 million associated with the issuance of 3.5 million shares of our common stock at Closing; and (c) a total of up to $49.5 million in cash in future contingent consideration.

Contingent Consideration

The contingent consideration payable to Prism LLC's former members consists of a share of future proceeds from lawsuits filed by Prism LLC prior to the Closing Date ("Open Suits"). Under the terms of the Merger Agreement, we will retain the first $16.5 million in litigation or settlement proceeds received from Open Suits after closing (the "Sharing Threshold"), less any cash remaining in Prism LLC at the time of closing. Prism LLC's former members will receive 70% of the litigation and settlement proceeds related to Open Suits in excess of the Sharing Threshold, up to $49.5 million.

As of the Closing Date, the estimated fair values of the Prism LLC purchase price is comprised of the following (in thousands):

<u>Consideration paid on the Closing Date:</u>	
Cash payment (portion of $16.5 million cash consideration)	$1,343

Common stock	9,380
Consideration paid after the Closing Date:	
Payable to former Prism LLC shareholders (remaining portion of $16.5 million cash consideration paid in April, 2015)	15,157
Contingent consideration expected to be paid	49,500
Discount on contingent consideration	(17,089)
Total purchase price	$58,291

Purchase Price Allocation

The Company recognized $0.1 million in goodwill in 2015, representing the excess purchase consideration over acquired tangible and intangible assets and liabilities assumed. The goodwill relates to expected synergies and the assembled workforce of Prism LLC.

The acquired intangible assets included a patent portfolio valued, for purchase price allocation purposes, at $59.0 million with a weighted average useful life of 3.7 years and $2.5 million of non-compete agreements with a weighted average useful life of three years.

In performing its purchase price allocation, management determined the fair value of intangible assets based on a number of factors, including a third-party valuation, utilizing the income approach in conjunction with discussions with Prism LLC's management and certain forecasts prepared by Prism LLC. The rate utilized to discount net cash flows to their present values was approximately 32% for the non-compete agreements and a range of 34-35% for the patent portfolio. The discount rates were determined using a weighted-average cost of capital which incorporated a number of factors which included the risk-free rate, the market premium, a company size premium and a company-specific premium for the non-compete agreements. In addition, for the patent portfolio, there was an additional premium applied.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Acquisition and Purchase Accounting (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at December 31, 2015.

	(in thousands)
Acquired assets:	
Cash and cash equivalents	$ 369
Intangible assets, net	58,961
Covenant not to compete	2,457
Other assets	61
Goodwill	54
Total assets acquired	61,902
Assumed liabilities:	
Notes payable	(3,570)
Accounts payable and other liabilities	(41)
Total liabilities assumed	(3,611)
Total purchase price	$ 58,291

Subsequent to the original purchase price allocation, impairments of intangible assets were recognized. Please see Note 8 to the condensed consolidated financial statements for a description of the impairments recognized.

The Company incurred approximately $0 in acquisition-related expenses for the three and nine months ended September 30, 2016 and $0 and $219,000 for the three and nine months September 30, 2015, respectively. These costs are included in the consolidated statement of operations in general and administrative operating expenses for the three and nine months ended September 30, 2015.

4. Fair Value Measurements

The following table presents the assets measured at fair value on a recurring basis as of September 30, 2016 (in thousands):

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$209	$209	$ —	$ —
Restricted cash equivalents	400	400	—	—
Total assets at fair value	$609	$609	$ —	$ —

The following table presents the financial assets measured at fair value on a recurring basis as of December 31, 2015 (in thousands):

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$1,613	$1,613	$ —	$ —
Short-term investments	1,494	1,494	—	—
Restricted cash equivalents	600	600	—	—
Total assets at fair value	$3,707	$3,707	$ —	$ —