

**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, 2016

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)

12100 Wilshire Boulevard, Suite 1275

Los Angeles, CA

(Address of principal executive offices)

11-2622630

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

90025

(Zip Code)

(310) 484-5200

(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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

Accelerated filer

Smaller reporting company

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 May 16, 2016, the registrant had outstanding 8,739,659 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)       |                     |
|--|-------------------|---------------------|
|  | April 30,<br>2016 | October 31,<br>2015 |
| <b>ASSETS</b>  |                   |                     |
| Current assets:  |                   |                     |
| Cash and cash equivalents  | \$ 2,612,321      | \$ 4,369,219        |
| Short-term investments in certificates of deposit  | 2,150,000         | 2,400,000           |
| Prepaid expenses and other current assets  | 39,032            | 126,528             |
| Total current assets   | 4,801,353         | 6,895,747           |
| Patents, net of accumulated amortization of \$802,393 and \$639,744, respectively  | 2,233,719         | 2,396,367           |
| Property and equipment, net of accumulated depreciation of \$27,473 and \$13,617 respectively  | 170,685           | 43,456              |
| Total assets   | \$ 7,205,757      | \$ 9,335,570        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                     |
| Current liabilities:   |                   |                     |
| Accounts payable and accrued expenses  | \$ 512,796        | \$ 380,765          |
| Royalties and contingent legal fees payable  | 194,134           | 213,017             |
| Total current liabilities  | 706,930           | 593,782             |
| Patent acquisition obligation  | 3,939,068         | 3,688,187           |
| Total liabilities  | 4,645,998         | 4,281,969           |
| Commitments and contingencies (Note 9)   |                   |                     |
| 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 issued and outstanding, respectively                           | 14,000            | 14,000              |
| Common stock, par value \$.01 per share; 24,000,000 shares authorized; 8,739,659 and 8,724,878 shares issued and outstanding, respectively | 87,397            | 87,249              |
| Additional paid-in capital   | 151,472,110       | 151,101,117         |
| Accumulated deficit  | (149,013,748)     | (146,148,765)       |
| Total shareholders' equity   | 2,559,759         | 5,053,601           |
| Total liabilities and shareholders' equity   | \$ 7,205,757      | \$ 9,335,570        |

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<br>April 30, |              |
|---|---------------------------------------|--------------|
|   | 2016                                  | 2015         |
| Revenue:  |                                       |              |
| Revenue from patent licensing activities  | \$ -                                  | \$ 160,000   |
| Settlement with AU Optronics Corporation  | -                                     | 9,000,000    |
| Total revenue   | -                                     | 9,160,000    |
| Operating costs and expenses:   |                                       |              |
| Inventor royalties and contingent legal fees  | -                                     | 103,944      |
| Litigation and licensing expenses   | 75,162                                | 3,440,272    |
| Amortization of patents   | 162,648                               | 162,648      |
| Marketing, general and administrative expenses (including non-cash stock option compensation expenses of \$329,749 and \$1,557,708, respectively) | 2,383,016                             | 3,729,645    |
| Total operating costs and expenses  | 2,620,826                             | 7,436,509    |
| (Loss) income from operations   | (2,620,826)                           | 1,723,491    |
| Interest expense  | (250,881)                             | (217,798)    |
| Interest income   | 6,724                                 | 9,856        |
| (Loss) income before income taxes   | (2,864,983)                           | 1,515,549    |
| Provision for income taxes  | -                                     | -            |
| Net (loss ) income  | \$ (2,864,983)                        | \$ 1,515,549 |
| Net (loss) income per common share:   |                                       |              |
| Basic   | \$ (0.33)                             | \$ 0.17      |
| Diluted   | \$ (0.33)                             | \$ 0.16      |
| Weighted average common shares outstanding:   |                                       |              |
| Basic   | 8,731,489                             | 8,778,737    |
| Diluted   | 8,731,489                             | 9,657,835    |

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<br>April 30, |                       |
|--|---|-----------------------|
|  | 2016                                    | 2015                  |
| Revenue:   |   |                       |
| Revenue from patent licensing activities   | \$ -                                    | \$ 25,000             |
| Total revenue  | <u>-</u>                                | <u>25,000</u>         |
| Operating costs and expenses:  |   |                       |
| Inventor royalties and contingent legal fees   | -                                       | 15,067                |
| Litigation and licensing expenses  | 15,521                                  | 105,570               |
| Amortization of patents  | 81,324                                  | 81,324                |
| Marketing, general and administrative expenses (including non-cash stock option compensation expenses of \$217,254 and \$1,065,929 respectively) | 1,051,542                               | 1,956,277             |
| Total operating costs and expenses   | <u>1,148,387</u>                        | <u>2,158,238</u>      |
| Loss from operations   | (1,148,387)                             | (2,133,238)           |
| Interest expense   | (126,980)                               | (108,612)             |
| Interest income  | 3,473                                   | 5,179                 |
| Loss before income taxes   | (1,271,894)                             | (2,236,671)           |
| Provision for income taxes   | -                                       | -                     |
| Net loss   | <u>\$ (1,271,894)</u>                   | <u>\$ (2,236,671)</u> |
| Net loss per common share:   |   |                       |
| Basic and diluted  | \$ (0.15)                               | \$ (0.26)             |
| Weighted average common shares outstanding:  |   |                       |
| Basic and diluted  | 8,736,024                               | 8,768,775             |

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, 2016  
(UNAUDITED)

|  | <u>Preferred Stock</u> |                  | <u>Common Stock</u> |                  | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Total<br/>Shareholders'<br/>Equity</u> |
|--|------------------------|------------------|---------------------|------------------|---|--------------------------------|---|
|  | <u>Shares</u>          | <u>Par Value</u> | <u>Shares</u>       | <u>Par Value</u> |   |                                |   |
| Balance, October 31, 2015                            | 140                    | \$ 14,000        | 8,724,878           | \$ 87,249        | \$ 151,101,117                            | \$ (146,148,765)               | \$ 5,053,601                              |
| Stock option compensation to employees and directors | -                      | -                | -                   | -                | 329,749                                   | -                              | 329,749                                   |
| Common stock issued upon exercise of stock options   | -                      | -                | 7,080               | 71               | 18,160                                    | -                              | 18,231                                    |
| Common stock issued to consultants                   | -                      | -                | 3,701               | 37               | 11,324                                    | -                              | 11,361                                    |
| Common stock issued to acquire patents               | -                      | -                | 4,000               | 40               | 11,760                                    | -                              | 11,800                                    |
| Net income   | -                      | -                | -                   | -                | -   | (2,864,983)                    | (2,864,983)                               |
| Balance, April 30, 2016                              | 140                    | \$ 14,000        | 8,739,659           | \$ 87,397        | \$ 151,472,110                            | \$ (149,013,748)               | \$ 2,559,759                              |

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,                |                     |
|   | 2016                     | 2015                |
| Reconciliation of net (loss) income to net cash (used in) provided by operating activities:                                   |                          |                     |
| Net (loss) income   | \$ (2,864,983)           | \$ 1,515,549        |
| Stock option compensation to employees, directors and consultants   | 329,749                  | 1,557,708           |
| Common stock issued to consultants  | 11,361                   | 6,100               |
| Amortization of patents   | 162,648                  | 162,648             |
| Accretion of interest on patent acquisition obligations to interest expense   | 250,881                  | 217,798             |
| Common stock issued to acquire patent license   | 11,800                   |                     |
| Loss on acquisition of 800,000 shares of common stock and cancellation of warrants to purchase 400,000 shares of common stock | -                        | 101,280             |
| Other   | 13,881                   | 15,532              |
| Change in operating assets and liabilities:   |                          |                     |
| Accounts receivable   | -                        | 400,000             |
| Prepaid expenses and other current assets   | 87,496                   | 18,051              |
| Accounts payable and accrued expenses   | 132,031                  | (803,989)           |
| Royalties and contingent legal fees payable   | (18,883)                 | (316,837)           |
| Net cash (used in) provided by operating activities   | <u>(1,884,019)</u>       | <u>2,873,840</u>    |
| Cash flows from investing activities:   |                          |                     |
| Disbursements to acquire short-term investments in certificates of deposit  | (1,550,000)              | (2,400,000)         |
| Proceeds from sales of short-term investments in certificates of deposit  | 1,800,000                | 2,500,000           |
| Purchases of property and equipment   | (141,110)                | (54,776)            |
| Net cash provided by investing activities   | <u>108,890</u>           | <u>45,224</u>       |
| Cash flows from financing activities:   |                          |                     |
| Proceeds from exercise of employee stock options  | 18,231                   | -                   |
| Payments to acquire 800,000 share common stock and cancellation of warrants to purchase 400,000 shares common stock           | -                        | (200,000)           |
| Net cash provided by (used in) financing activities   | <u>18,231</u>            | <u>(200,000)</u>    |
| Net (decrease) increase in cash and cash equivalents  | (1,756,898)              | 2,719,064           |
| Cash and cash equivalents at beginning of period  | 4,369,219                | 3,361,246           |
| Cash and cash equivalents at end of period  | <u>\$ 2,612,321</u>      | <u>\$ 6,080,310</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. In October of 2012, under the leadership of a new management team, the Company undertook a transformation process to recapitalize the Company, unencumber the Company’s assets, seek reparations from a previous joint development partner, change the Company’s name and ticker symbol, relocate the Company’s headquarters and modernize its systems, and monetize patented technologies developed by the Company, or acquired from third parties. In July of 2015, the Company’s stock was accepted for listing and began trading on the NASDAQ Capital Market.

In June of 2015, the Company announced its intention to develop non-invasive blood tests for the early detection of solid tumor based cancers. In July of 2015, the Company entered into a collaborative research agreement with The Wistar Institute, the nation’s first independent biomedical research institute and a leading National Cancer Institute designated cancer research center, for the purpose of validating the Company’s cancer detection methodologies and establishing protocols for identifying certain biomarkers in the blood stream identified by the Company and associated with solid tumors. In October of 2015, the Company and Wistar announced very favorable results from initial testing of a small group of breast cancer patients and healthy controls. One hundred percent (100%) of the blood samples tested from breast cancer patients showed the presence of the biomarkers identified by the Company, and none of the healthy patient blood samples contained the biomarkers. A more extensive clinical study is currently being conducted.

Over the next several quarters, we expect the blood test for early cancer detection to be the primary focus of the Company. As part of our legacy operations, the Company had outsourced a small development project in connection with one of the Company’s thin-film display technologies which was discontinued in February 2016, and through certain of its subsidiary companies, the Company remains engaged in limited patent licensing activities. We do not expect these activities to be a significant part of the Company’s ongoing operations.

Over the past several quarters, our revenue has been derived from technology licensing and the sale of patented technologies, including in connection with the settlement of litigation. The Company expects to make investments in and form new companies to develop additional emerging technologies.

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AUO Lawsuit and Settlement

On December 29, 2014, the Company settled a lawsuit filed by the Company against AU Optronics Corporation ( "AUO") in connection with the joint development and commercialization of certain of the Company's patented technologies and received an aggregate of \$9,000,000 from AUO. For more information regarding the settlement with AUO, please refer to our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") December 23, 2015.

Funding and Management's Plans

During the six months ended April 30, 2016, cash used in operating activities was approximately \$1,884,000. Net cash provided by investing activities was approximately \$109,000, which reflected proceeds from the sale or maturity of certificates of deposit totaling \$1,800,000, which was offset by the purchase of certificates of deposit totaling \$1,550,000 and the purchase of property and equipment of approximately \$141,000. Cash provided by financing activities was approximately \$18,000, representing proceeds from the exercise of stock options. As a result, our cash, cash equivalents and short-term investments at April 30, 2016 decreased by approximately \$2,007,000 to approximately \$4,762,000 from approximately \$6,769,000 at the end of fiscal year 2015.

Based on currently available information as of May 20, 2016, we believe that our existing cash, cash equivalents, short-term investments and expected cash flows will be sufficient to enable us to continue our business activities for at least 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 satisfy our liquidity requirements, we may seek to sell equity securities or obtain loans from various financial institutions where possible. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. Additionally, the sale of equity securities or issuance of debt securities may be subject to certain security holder approvals or may result in 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 cannot obtain such funding if needed or if we cannot sufficiently reduce operating expenses, we would need to curtail or cease some or all of our operations.

Reverse Stock Split

On June 26, 2015, we effected a 1-for-25 reverse stock split (the "Stock Split") of our issued common stock and preferred stock. Each shareholders' percentage ownership and proportional voting power remained unchanged as a result of the Stock Split. All applicable share data, per share amounts and related information in the condensed consolidated financial statements and notes thereto have been adjusted retroactively to give effect to the Stock Split. As a result of the Stock Split, the number of shares of our common stock and preferred stock authorized was also decreased by the same proportion as the outstanding shares.

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### Basis of Presentation

The accompanying 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 footnotes 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 consolidated financial statements and notes thereto for the year ended October 31, 2015, as reported by us in our Annual Report on Form 10-K filed with the SEC on December 23, 2015. The October 31, 2015 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, 2016, and results of operations and cash flows for the interim periods represented. The results of operations for the six and three months ended April 30, 2016 are not necessarily indicative of the results to be expected for the entire year.

### 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

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 30, 2016 and 2015. We recorded patent amortization expense of approximately \$163,000 and \$163,000 during the six months ended April 30, 2016 and 2015, respectively, and approximately \$81,000 and \$81,000 during the three months ended April 30, 2016 and 2015, respectively.

2. STOCK-BASED COMPENSATION

The Company maintains stock equity incentive plans under which the Company grants 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 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 \$330,000 and \$1,225,000 during the six months ended April 30, 2016 and 2015, respectively, and approximately \$217,000 and \$683,000 during the three months ended April 30, 2016 and 2015, respectively.

The compensation cost for stock options granted to consultants is measured based on fair value at each reporting period, using the Black-Scholes pricing model, and is recognized as an expense over the requisite service period of the grant. We recorded stock-based compensation expense, related to stock options granted to consultants, of approximately \$-0- and \$332,000 during the six months ended April 30, 2016 and 2015, respectively, and approximately \$-0- and \$383,000 during the three months ended April 30, 2016 and 2015, respectively.

Stock Option Activity

During the six months ended April 30, 2016 and 2015, we granted options to purchase 545,000 shares and 52,000 shares of common stock, respectively, to employees and directors at exercise prices of \$2.92 and \$2.80 per share, respectively, pursuant to the ITUS Corporation 2010 Share Incentive Plan (the "2010 Share Plan"). During the six months ended April 30, 2016, stock options to purchase 7,080 shares of common stock were exercised with aggregate proceeds of approximately \$18,000. During the six months ended April 30, 2015, no stock options to purchase shares of common stock were exercised.

Stock Option Plans

As of April 30, 2016, we have two stock option plans: the ITUS Corporation 2003 Share Incentive Plan (the "2003 Share Plan") and the 2010 Share Plan, which were adopted by our Board of Directors on April 21, 2003 and July 14, 2010, respectively.

The 2003 Share Plan provided for the grant of nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to key 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, 2016 is as follows:

|   | Shares   | Weighted<br>Average Exercise<br>Price Per Share | Aggregate<br>Intrinsic<br>Value |
|---|----------|---|---------------------------------|
| Options Outstanding at October 31, 2015               | 366,200  | \$ 17.86  |                                 |
| Exercised   | (7,080)  | \$ 2.58   |                                 |
| Forfeited   | (71,920) | \$ 17.16  |                                 |
| Options Outstanding and exercisable at April 30, 2016 | 287,200  | \$ 18.41  | \$ 9,730                        |

The following table summarizes information about stock options outstanding and exercisable under the 2003 Share Plan as of April 30, 2016:

| Range of<br>Exercise Prices | Number<br>Outstanding<br>and<br>Exercisable | Weighted Average<br>Remaining<br>Contractual Life<br>(in years) | Weighted<br>Average<br>Exercise Price |
|-----------------------------|---|---|---------------------------------------|
| \$ 1.79 - \$ 7.75           | 50,000                                      | 1.91  | \$ 2.95                               |
| \$13.50 - \$17.50           | 59,600                                      | .83   | \$ 16.75                              |
| \$18.75 - \$23.00           | 137,600                                     | .94   | \$ 21.60                              |
| \$29.25                     | 40,000                                      | 1.31  | \$ 29.25                              |

The 2010 Share Plan provides for the grant of nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to key employees, directors and consultants. As of April 30, 2016, the 2010 Share Plan had 443,955 shares available for future grants. Information regarding the 2010 Share Plan for the six months ended April 30, 2016 is as follows:

|   | Shares    | Weighted<br>Average Exercise<br>Price Per Share | Aggregate<br>Intrinsic<br>Value |
|---|-----------|---|---------------------------------|
| Options Outstanding at October 31, 2015 | 526,272   | \$3.33  |                                 |
| Granted                                 | 545,000   | \$2.92  |                                 |
| Options Outstanding at April 30, 2016   | 1,071,272 | \$3.12  | \$ 100,673                      |
| Options Exercisable at April 30, 2016   | 506,539   | \$3.26  | \$ 88,573                       |

The following table summarizes information about stock options outstanding and exercisable under the 2010 Share Plan as of April 30, 2016:

| Range of<br>Exercise Prices | Options Outstanding   |  |                                       | Options Exercisable   |  |                                       |
|-----------------------------|-----------------------|--|---------------------------------------|-----------------------|--|---------------------------------------|
|                             | Number<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(in years) | Weighted<br>Average<br>Exercise Price | Number<br>Exercisable | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(in years) | Weighted<br>Average<br>Exercise Price |
| \$2.58 - \$9.25             | 1,071,272             | 7.09   | \$3.12                                | 506,539               | 6.45   | \$3.26                                |

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In addition to options granted under the 2003 Share Plan and the 2010 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 Plan or the 2010 Plan for the six months ended April 30, 2016 is as follows:

|   | Shares    | Weighted<br>Average Exercise<br>Price Per Share | Aggregate<br>Intrinsic<br>Value |
|---|-----------|---|---------------------------------|
| Options Outstanding at October 31, 2015               | 1,780,000 | \$2.70  |                                 |
| Options Outstanding and exercisable at April 30, 2015 | 1,780,000 | \$2.70  | \$ 416,010                      |

The following table summarizes information about stock options outstanding and exercisable that were not granted under the 2003 Share Plan or the 2010 Share Plan as of April 30, 2016:

| Range of<br>Exercise Prices | Number<br>Outstanding<br>and<br>Exercisable | Weighted Average<br>Remaining<br>Contractual Life<br>(in years) | Weighted<br>Average<br>Exercise Price |
|-----------------------------|---|---|---------------------------------------|
| \$2.58-\$5.56               | 1,780,000                                   | 6.26  | \$2.70                                |

Stock Awards

We account for stock awards granted to employees and consultants based on the grant date market price of the underlying common stock. During the six months ended April 30, 2016 and 2015, we issued 3,701 shares and 1,600 shares, respectively, of common stock to consultants for services rendered. We recorded consulting expense for the six months ended April 30, 2016 and 2015 of approximately \$11,000 and \$6,000, respectively, for the shares of common stock issued to consultants.

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:

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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, 2016:

|  | Level 1      | Level 2      | Level 3 | Total        |
|--|--------------|--------------|---------|--------------|
| Money market funds – Cash equivalents            | \$ 2,047,039 | \$ -         | \$ -    | \$ 2,047,039 |
| Certificates of deposit - Short-term investments | -            | 2,150,000    | -       | 2,150,000    |
| Total financial assets                           | \$ 2,047,039 | \$ 2,150,000 | \$ -    | \$ 4,197,039 |

The following table presents the hierarchy for our financial assets measured at fair value on a recurring basis as of October 31, 2015:

|  | Level 1    | Level 2      | Level 3 | Total        |
|--|------------|--------------|---------|--------------|
| Money market funds – Cash equivalents            | \$ 467,967 | \$ -         | \$ -    | \$ 467,967   |
| Certificates of deposit - Short-term investments | -          | 2,400,000    | -       | 2,400,000    |
| Total financial assets                           | \$ 467,967 | \$ 2,400,000 | \$ -    | \$ 2,867,967 |

The following table presents the hierarchy for our financial liabilities measured at fair value on the transaction date and then adjusted for the subsequent accretion of interest as of April 30, 2016:

|                               | Level 1 | Level 2 | Level 3      | Total        |
|-------------------------------|---------|---------|--------------|--------------|
| Patent acquisition obligation | \$ -    | \$ -    | \$ 3,939,068 | \$ 3,939,068 |

The following table presents the hierarchy for our financial liabilities measured at fair value on the transaction date and then adjusted for the subsequent accretion of interest as of October 31, 2015:

|                               | Level 1 | Level 2 | Level 3      | Total        |
|-------------------------------|---------|---------|--------------|--------------|
| Patent acquisition obligation | \$ -    | \$ -    | \$ 3,688,187 | \$ 3,688,187 |

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The following table sets forth the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

| <u>Patent acquisition obligation</u>   |              |
|--|--------------|
| Balance October 31, 2015               | \$ 3,688,187 |
| Accreted interest on patent obligation | 250,881      |
| Balance April 30, 2016                 | \$ 3,939,068 |

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. INVESTMENTS

At April 30, 2016 and October 31, 2015, we had certificates of deposit of \$2,150,000 and \$2,400,000, respectively, which were classified as short-term investments and reported at fair value.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expense consist of the following as of:

|                              | April 30,<br>2016 | October 31,<br>2015 |
|------------------------------|-------------------|---------------------|
| Accounts payable             | \$ 418,111        | \$ 374,703          |
| Payroll and related expenses | 49,126            | -                   |
| Accrued other                | 45,559            | 6,062               |
|                              | \$ 512,796        | \$ 380,765          |

6. NET 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 and three months ended April 30, 2016 and for the three months ended April 30, 2015 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, 2016 were stock options to purchase 3,138,472 shares, warrants to purchase 707,387 shares and preferred stock convertible into 739,958 shares and for the three months ended April 30, 2015 were stock options to purchase 2,730,605 shares, warrants to purchase 1,044,931 shares and preferred stock convertible into 739,958 shares.

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Dilutive EPS for the six months ended April 30, 2015 excluded stock options to purchase 554,080 shares and warrants to purchase 1,044,931 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 six months ended April 30, 2015:

|   | For the Six<br>Months Ended<br>April 30, 2015 |
|---|---|
| Basic weighted average common shares outstanding    | 8,778,737                                     |
| Effect of Series A convertible preferred stock      | 461,067                                       |
| Effect of stock options                             | 418,031                                       |
| Dilutive weighted average common shares outstanding | 9,657,835                                     |

7. 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 are 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 are currently evaluating the impact ASU 2014-09 will have on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued Accounting Standards Update 2014-12 ( "ASU 2014-12"), Compensation – Stock Compensation. This amendment requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. Adoption of this standard is required for annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact ASU 2014-12 will have on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update 2014-15 ( "ASU 2014-15"). This amendment requires management to assess an entity's ability to continue as a going concern every reporting period including interim periods, and to provide related footnote disclosure in certain circumstances. Adoption of this standard is required for annual periods beginning after December 15, 2016 and are to be applied retrospectively or the cumulative effect as of the date of adoption. We do not expect this update to have a significant impact on our consolidated financial statements.

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In April 2015, the FASB issued Accounting Standards Update 2015-03 ( "ASU 2015-03") to simplify the presentation of debt issuance costs. This amendment requires debt issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. Adoption of this standard is required for interim and annual periods beginning after December 15, 2015 and is to be applied retrospectively. The adoption of this amendment did not have an impact on our financial position or results of operations.

In November 2015, the FASB issued Accounting Standards Update 2015-17 ( "ASU 2015-17") to simplify the presentation of deferred taxes. This amendment requires that all deferred tax assets and liabilities, along with any related valuation allowances, be classified as noncurrent on the balance sheet. Adoption of this standard is required for annual periods beginning after December 15, 2016. We are currently evaluating the impact ASU 2015-17 will have 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 are currently evaluation the impact ASU 2016-02 will have on our consolidated financial statements and related disclosures.

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 can today 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. Early adoption is permitted. We are currently evaluation the impact ASU 2016-09 will have on our consolidated financial statements and related disclosures.

8. INCOME TAXES

We file Federal, New York State and California 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, 1997. We account for interest and penalties related to income tax matters, if any, in marketing, general and administrative expenses. There are no unrecognized income tax benefits as of April 30, 2016 and October 31, 2015.

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 and New York State income tax returns. 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.

On December 29, 2014, we reached a Settlement Agreement resulting in our receipt of an aggregate of \$9,000,000 in settlement of a dispute (Note 1). As a result we realized taxable income during the first quarter of fiscal year 2015, but not for the fiscal year ended October 31, 2015. Accordingly, we have not recorded a tax provision for the six months ended April 30, 2015.

9. COMMITMENT AND CONTINGENCES

Patent Acquisition Obligations

As of April 30, 2016, we have incurred obligations due no later than November 2017 related to the acquisition of patents, which have a discounted present value of approximately \$3,939,000, and which amount will be reduced by royalties paid during the period, if any. The payment due in November 2017 is payable at the option of the Company in cash or common stock. We recorded interest expense of approximately \$251,000 and \$218,000, respectively, for the six months ended April 30, 2016 and 2015, for the accretion of interest on patent acquisition obligations.

Litigation Matters

On December 29, 2014, we settled our lawsuit against AUO which had been filed on January 28, 2013 (Note 1).

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**

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. In October of 2012, under the leadership of a new management team, the Company undertook a transformation process to recapitalize the Company, unencumber the Company’s assets, seek reparations from a previous joint development partner, change the Company’s name and ticker symbol, relocate the Company’s headquarters and modernize its systems, and monetize patented technologies developed by the Company, or acquired from third parties. In July of 2015, the Company’s stock was accepted for listing and began trading on the NASDAQ Capital Market.

In June of 2015, the Company announced its intention to develop non-invasive blood tests for the early detection of solid tumor based cancers. In July of 2015, the Company entered into a collaborative research agreement with The Wistar Institute, the nation’s first independent biomedical research institute and a leading National Cancer Institute designated cancer research center, for the purpose of validating the Company’s cancer detection methodologies and establishing protocols for identifying certain biomarkers in the blood stream identified by the Company and associated with solid tumors. In October of 2015, the Company and Wistar announced very favorable results from initial testing of a small group of breast cancer patients and healthy controls. One hundred percent (100%) of the blood samples tested from breast cancer patients showed the presence of the biomarkers identified by the Company, and none of the healthy patient blood samples contained the biomarkers. A more extensive clinical study is currently being conducted.

Over the next several quarters, we expect the blood test for early cancer detection to be the primary focus of the Company. As part of our legacy operations, the Company had outsourced a small development project in connection with one of the Company’s thin-film display technologies which was discontinued in February 2016, and through certain of its subsidiary companies, the Company remains engaged in limited patent licensing activities. We do not expect these activities to be a significant part of the Company’s ongoing operations.

Over the past several quarters, our revenue has been derived from technology licensing and the sale of patented technologies, including in connection with the settlement of litigation. The Company expects to make investments in and form new companies to develop additional emerging technologies.

**RESULTS OF OPERATIONS**

**Six months ended April 30, 2016 compared with six months ended April 30, 2015**

***Revenue from Licensing Activities***

We did not record any revenue from licensing activities or otherwise during the six months ended April 30, 2016. During the six months ended April 30, 2015, we recorded revenue from licensing activities of \$160,000 from two license agreements. The license agreements provided for a one-time, non-recurring, lump sum payments in exchange for a non-exclusive retroactive and future licenses and covenants not to sue. Accordingly, the earning process from these licenses was complete and 100% of the revenue was recognized upon execution of the license agreement.

***Revenue from Settlement with AU Optronics Corporation***

We did not record any revenue from settlement with AUO during the six months ended April 30, 2016. Revenue from the settlement with AUO was \$9,000,000 for the six months ended April 30, 2015. On December 29, 2014, the Company and AUO entered into a Settlement Agreement (the "AUO Settlement Agreement") and a Patent Assignment Agreement (the "AUO Patent Assignment Agreement") pursuant to which the Company received an aggregate of \$9,000,000 from AUO. The AUO Settlement Agreement and the AUO Patent Assignment Agreement were entered into to resolve a lawsuit filed by the Company against AUO in January of 2013, in connection with the joint development and commercialization of two of the Company's thin-film display technologies.

***Inventor Royalties and Contingent Legal Fees***

We did not incur any inventor royalties and contingent legal fees during the six months ended April 30, 2016. Inventor royalties and contingent legal fees are expensed in the period that the related revenues are recognized. Inventor royalties and contingent legal fees were approximately \$104,000 for the six months ended April 30, 2015. The economic terms of patent agreements and contingent legal fee arrangements vary across the patent portfolios owned or controlled by our operating subsidiaries.

***Litigation and Licensing Expenses***

Litigation and licensing expenses were approximately \$75,000 in the six months ended April 30, 2016 compared to approximately \$3,440,000 in the comparable prior year period. Litigation and licensing expenses in the prior year period were primarily related to the settlement with AUO. Litigation and licensing expenses, 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, 2016 and 2015, respectively. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life.

***Marketing, General and Administrative Expenses***

Marketing, general and administrative expenses decreased by approximately \$1,347,000 to approximately \$2,383,000 in the six months ended April 30, 2016, from approximately \$3,730,000 in the six months ended April 30, 2015. The decrease in marketing, general and administrative expenses was principally due to a decrease in employee stock option expense of approximately \$896,000, a decrease in consultant stock option expense of approximately \$332,000, a decrease in consulting and outside services expense, other than stock option expense, of approximately \$141,000, a decrease in legal and auditing fees of approximately \$135,000, a decrease in non-recurring costs associated with a former employee's severance arrangements of approximately \$101,000 and a decrease in other miscellaneous expenses of approximately \$90,000, offset by an increase in outside research and development expense of approximately \$167,000 and an increase in investor relations and public relations expense of approximately \$129,000.

***Interest Expense***

Interest expense increased by approximately \$33,000 to approximately \$251,000 for the six months ended April 30, 2016 from approximately \$218,000 in the six months ended April 30, 2015. Interest expense in both periods represents the accreted interest on our patent acquisition obligation.

***Interest Income***

Interest income decreased to approximately \$7,000 in the six months ended April 30, 2016 compared to approximately \$10,000 in the six months ended April 30, 2015 due to a decrease in the amount invested in money market funds and certificates of deposit during the current period.

**Three months ended April 30, 2016 compared with three months ended April 30, 2015**

***Revenue from Licensing Activities***

We did not record any revenue from licensing activities or otherwise during the three months ended April 30, 2016. During the three months ended April 30, 2015, we recorded revenue from licensing activities of \$25,000 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 and covenant not to sue. Accordingly, the earning process from this license was complete and 100% of the revenue was recognized upon execution of the license agreement.

***Inventor Royalties and Contingent Legal Fees***

We did not incur any inventor royalties and contingent legal fees during the three months ended April 30, 2016. Inventor royalties and contingent legal fees are expensed in the period that the related revenues are recognized. Inventor royalties and contingent legal fees were approximately \$15,000 for the three months ended April 30, 2015. The economic terms of patent agreements and contingent legal fee arrangements vary across the patent portfolios owned or controlled by our operating subsidiaries.

***Litigation and Licensing Expenses***

Litigation and licensing expenses were approximately \$15,000 in the three months ended April 30, 2016 compared to approximately \$106,000 in the comparable prior year period. Litigation and licensing expenses, 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, 2016 and 2015, respectively. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life.

***Marketing, General and Administrative Expenses***

Marketing, general and administrative expenses decreased by approximately \$904,000 to approximately \$1,052,000 in the three months ended April 30, 2016, from approximately \$1,956,000 in the three months ended April 30, 2015. The decrease in marketing, general and administrative expenses was principally due to a decrease in employee stock option expense of approximately \$465,000, a decrease in consultant stock option expense, of approximately \$383,000, a decrease in non-recurring costs associated with a former employee's severance arrangements of approximately \$101,000, a decrease in other miscellaneous expenses of approximately \$92,000 and a decrease in legal and auditing fees of approximately \$62,000, offset by a an increase in investor relations and public relations expense of approximately \$139,000 and an increase in outside research and development expense of approximately \$84,000.

***Interest Expense***

Interest expense increased by approximately \$18,000 to approximately \$127,000 for the three months ended April 30, 2016 from approximately \$109,000 in the three months ended April 30, 2015. Interest expense in both periods represents the accreted interest on our patent acquisition obligation.

***Interest Income***

Interest income decreased to approximately \$3,000 in the three months ended April 30, 2016 compared to approximately \$5,000 in the three months ended April 30, 2015 due to a decrease in the amount invested in money market funds and certificates of deposit during the current period.

**LIQUIDITY AND CAPITAL RESOURCES**

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

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Based on currently available information as of May 20, 2016, we believe that our existing cash, cash equivalents, short-term investments and expected cash flows will be sufficient to enable us to continue our business activities for at least 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 satisfy our liquidity requirements, we may seek to sell equity securities or obtain loans from various financial institutions where possible. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. Additionally, the sale of equity securities or issuance of debt securities may be subject to certain security holder approvals or may result in 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 cannot obtain such funding if needed or if we cannot sufficiently reduce operating expenses, we would need to curtail or cease some or all of our operations.

During the six months ended April 30, 2016, cash used in operating activities was approximately \$1,884,000. Net cash provided by investing activities was approximately \$109,000, which reflected proceeds from the sale or maturity of certificates of deposit totaling \$1,800,000, which was offset by the purchase of certificates of deposit totaling \$1,550,000 and the purchase of property and equipment of approximately \$141,000. Cash provided by financing activities was approximately \$18,000, representing proceeds from the exercise of stock options. As a result, our cash, cash equivalents and short-term investments at April 30, 2016 decreased by approximately \$2,007,000 to approximately \$4,762,000 from approximately \$6,769,000 at the end of fiscal year 2015.

**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 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, 2015, 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.

### **Stock-Based Compensation**

The compensation cost for 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 \$330,000 and \$1,225,000 during the six months ended April 30, 2016 and 2015, respectively.

The compensation cost for stock options granted to consultants is measured based on fair value at each reporting period, using the Black-Scholes pricing model, and is recognized as an expense over the requisite service period of the grant. We recorded stock-based compensation expense, related to stock options granted to consultants, of approximately \$-0- and \$332,000 during the six months ended April 30, 2016 and 2015, respectively.

### **EFFECT OF RECENTLY 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 are 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 are currently evaluating the impact ASU 2014-09 will have on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued Accounting Standards Update 2014-12 ( "ASU 2014-12"), Compensation – Stock Compensation. This amendment requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. Adoption of this standard is required for annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact ASU 2014-12 will have on our consolidated financial statements and related disclosures.

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In August 2014, the FASB issued Accounting Standards Update 2014-15 ( "ASU 2014-15"). This amendment requires management to assess an entity's ability to continue as a going concern every reporting period including interim periods, and to provide related footnote disclosure in certain circumstances. Adoption of this standard is required for annual periods beginning after December 15, 2016 and are to be applied retrospectively or the cumulative effect as of the date of adoption. We do not expect this update to have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03 ( "ASU 2015-03") to simplify the presentation of debt issuance costs. This amendment requires debt issuance costs be presented on the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. Adoption of this standard is required for interim and annual periods beginning after December 15, 2015 and is to be applied retrospectively. The adoption of this amendment did not have an impact on our financial position or results of operations.

In November 2015, the FASB issued Accounting Standards Update 2015-17 ( "ASU 2015-17") to simplify the presentation of deferred taxes. This amendment requires that all deferred tax assets and liabilities, along with any related valuation allowances, be classified as noncurrent on the balance sheet. Adoption of this standard is required for annual periods beginning after December 15, 2016. We are currently evaluating the impact ASU 2015-17 will have 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 and 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 are currently evaluating the impact ASU 2016-02 will have on our consolidated financial statements and related disclosures.

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 can today 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. Early adoption is permitted. We are currently evaluating the impact ASU 2016-09 will have on our consolidated financial statements and related disclosures.

**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, 2015 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, 2016, 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 Vice President – Finance 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 Vice President – Finance 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 2016 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, 2015.

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

During the three months ended April 30, 2016, the Company issued 1,701 shares of our common stock for payment of public relations and investor relations services. The common stock was issued in reliance on an exemption from registration under Section 4(a) (2) of the Securities Act.

**Item 3. Defaults Upon Senior Securities.** None.

**Item 4. Mine Safety Disclosures.** Not Applicable.

**Item 5. Other Information.**

- (a) None.
- (b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company 's board of directors.

**Item 6. Exhibits.**

- 31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 20, 2016.
- 31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 20, 2016.
- 32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated May 20, 2016.
- 32.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated May 20, 2016.

**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/ Robert A. Berman  
Robert A. Berman  
President and Chief Executive Officer  
(Principal Executive Officer)

May 20, 2016

By: /s/ Henry P. Herms  
Henry P. Herms  
Vice President - Finance and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

May 20, 2016

Exhibit 31.1

CERTIFICATION

I, Robert Berman, 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/ Robert A. Berman

Robert A. Berman  
President and Chief Executive Officer  
(Principal Executive Officer)

May 20, 2016



Exhibit 31.2

CERTIFICATION

I, Henry P. Herms, 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/ Henry P. Herms  
Henry P. Herms  
Vice President - Finance and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

May 20, 2016

Exhibit 32.1

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, Robert A. Berman, the 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, 2016 (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/ Robert A. Berman  
Robert A. Berman  
President and Chief Executive Officer  
(Principal Executive Officer)

May 20, 2016

Exhibit 32.2

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, Henry P. Herms, the Vice President - Finance 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, 2016 (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/ Henry P. Herms

Henry P. Herms

Vice President - Finance and

Chief Financial Officer

(Principal Financial and Accounting Officer)

May 20, 2016