**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 July 31, 2017

Commission file number 0-11254

# ITUS Corporation

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 11-2622630 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3150 Almaden Expressway, Suite 250 San Jose, CA | 95118 |
| (Address of principal executive offices) | (Zip Code) |

(408) 708-9808
(Registrant's telephone number, including area code)

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

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [ ] (Do not check if a smaller reporting company) | Smaller reporting company [X] |
| Emerging growth company [ ] | |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

On September 8, 2017, the registrant had outstanding 15,120,239 shares of Common Stock, par value $.01 per share, which is the registrant's only class of common stock.

TABLE OF CONTENTS

Table of content

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements.**

ITUS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| ASSETS | | (Unaudited) July 31, 2017 | | October 31, 2016 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ | 1,833,768 | $ | 2,488,323 |
| Short-term investments in certificates of deposit | | 4,251,000 | | 750,000 |
| Accounts receivable | | 221,049 | | - |
| Prepaid expenses and other current assets | | 140,274 | | 162,069 |
| Total current assets | | 6,446,091 | | 3,400,392 |
| | | | | |
| Patents, net of accumulated amortization of $1,209,013 and $965,040, respectively | | 1,827,098 | | 2,071,071 |
| Property and equipment, net of accumulated depreciation of $79,046 and $46,950, respectively | | 141,433 | | 156,644 |
| Total assets | $ | 8,414,622 | $ | 5,628,107 |
| | | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | $ | 926,688 | $ | 468,756 |
| Secured debenture (Note 7) | | 2,000,000 | | - |
| Total current liabilities | | 2,926,688 | | 468,756 |
| | | | | |
| Patent acquisition obligation | | - | | 4,171,876 |
| Total liabilities | | 2,926,688 | | 4,640,632 |
| | | | | |
| Commitments and contingencies (Note 11) | | | | |
| | | | | |
| Shareholders' equity: | | | | |
| Preferred stock, par value $100 per share; 19,860 shares authorized; no shares issued or outstanding | | - | | - |
| Series A convertible preferred stock, par value $100 per share; 140 shares authorized; -0- and 140 shares issued and outstanding, respectively | | - | | 14,000 |
| Common stock, par value $.01 per share; 24,000,000 shares authorized; 15,120,239 and 8,752,387 shares issued and outstanding, respectively | | 151,202 | | 87,524 |
| Additional paid-in capital | | 159,725,096 | | 152,051,144 |
| Accumulated deficit | | (154,388,364) | | (151,165,193) |
| Total shareholders' equity | | 5,487,934 | | 987,475 |
| | | | | |
| Total liabilities and shareholders' equity | $ | 8,414,622 | $ | 5,628,107 |

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

Table of content

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

| | For the Nine Months Ended July 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenue | $ 362,500 | $ 100,000 |
| Operating costs and expenses: | | |
| Litigation and licensing expenses | 2,022 | 83,713 |
| Inventor royalties and contingent legal fees | 141,451 | 61,720 |
| Amortization of patents | 243,973 | 243,972 |
| Research and development expenses (including non-cash stock option compensation expenses of $213,333 and $171,241, respectively) | 1,245,722 | 1,142,973 |
| Marketing, general and administrative expenses (including non-cash stock option compensation expenses of $719,440 and $398,949, respectively) | 3,067,235 | 2,163,332 |
| Total operating costs and expenses | 4,700,403 | 3,695,710 |
| Loss from operations | (4,337,903) | (3,595,710) |
| Gain on extinguishment of patent acquisition obligation (Note 6) | 1,547,608 | - |
| Interest expense | (442,693) | (383,238) |
| Interest income | 9,817 | 10,190 |
| Loss before income taxes | (3,223,171) | (3,968,758) |
| Provision for income taxes | - | - |
| Net loss | (3,223,171) | (3,968,758) |
| Deemed dividend to preferred stockholder (Note 7) | (2,008,775) | - |
| Net loss attributable to common stockholders | $ (5,231,946) | $ (3,968,758) |
| Net loss per common share: | | |
| Basic and diluted | $ (0.47) | $ (0.45) |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 11,030,992 | 8,736,167 |

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 July 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenue | $ 362,500 | $ 100,000 |
| | | |
| Operating costs and expenses: | | |
| Litigation and licensing expenses | - | 8,551 |
| Inventor royalties and contingent legal fees | 141,451 | 61,720 |
| Amortization of patents | 81,325 | 81,324 |
| Research and development expenses (including non-cash stock option compensation expenses of $64,705 and $84,316, respectively) | 362,968 | 292,063 |
| Marketing, general and administrative expenses (including non-cash stock option compensation expenses of $416,411 and $156,125 respectively) | 1,507,681 | 631,226 |
| Total operating costs and expenses | 2,093,425 | 1,074,884 |
| | | |
| Loss from operations | (1,730,925) | (974,884) |
| | | |
| Interest expense | (71,667) | (132,357) |
| | | |
| Interest income | 8,192 | 3,466 |
| | | |
| Loss before income taxes | (1,794,400) | (1,103,775) |
| | | |
| Provision for income taxes | - | - |
| | | |
| Net loss | $ (1,794,400) | $ (1,103,775) |
| | | |
| Net loss per common share: | | |
| Basic and diluted | $ (0.12) | $ (0.13) |
| | | |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 14,561,754 | 8,745,423 |

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

Table of content

ITUS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED JULY 31, 2017 (UNAUDITED)

| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | | | |
| Balance, October 31, 2016 | 140 | $ 14,000 | 8,752,387 | $ 87,524 | $ 152,051,144 | $ (151,165,193) | $ 987,475 |
| Stock option compensation to employees and directors | - | - | - | - | 932,773 | - | 932,773 |
| Common stock issued upon exercise of stock options | - | - | 2,200 | 22 | 5,643 | - | 5,665 |
| Common stock issued to consultants | - | - | 3,463 | 35 | 17,776 | - | 17,811 |
| Redemption of convertible preferred stock (Note 7) | (140) | (14,000) | - | - | (3,486,000) | - | (3,500,000) |
| Common stock issued to repay patent acquisition obligation (Note 6) | - | - | 947,606 | 9,476 | 2,842,818 | - | 2,852,294 |
| Common stock issued in shareholder rights offering | - | - | 1,989,207 | 19,892 | 4,183,410 | - | 4,203,302 |
| Common stock issued in public offering | - | - | 3,425,376 | 34,253 | 3,177,532 | - | 3,211,785 |
| Net loss | - | - | - | - | - | (3,223,171) | (3,223,171) |
| Balance, July 31, 2017 | - | $ - | 15,120,239 | $ 151,202 | $ 159,725,096 | $ (154,388,364) | $ 5,487,934 |

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 nine months ended July 31, 2017 | For the nine months ended July 31, 2016 |
|---|---|---|
| Reconciliation of net loss to net cash used in operating activities: | | |
| Net loss | $ (3,223,171) | $ (3,968,758) |
| Stock option compensation to employees and directors | 932,773 | 570,190 |
| Common stock issued to consultants | 17,811 | 27,996 |
| Depreciation of property and equipment | 32,096 | 24,915 |
| Amortization of patents | 243,973 | 243,972 |
| Accretion of interest on patent acquisition obligations to interest expense | 228,026 | 383,238 |
| Accrued interest on secured debenture | 20,667 | - |
| Gain on extinguishment of patent acquisition obligation | (1,547,608) | - |
| Common stock issued to acquire patent license | - | 11,800 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (221,049) | - |
| Prepaid expenses and other current assets | 21,795 | 70,100 |
| Accounts payable and accrued expenses | 437,265 | 150,859 |
| Royalties and contingent legal fees payable | - | (213,017) |
| Net cash used in operating activities | (3,057,422) | (2,698,705) |
| | | |
| Cash flows from investing activities: | | |
| Disbursements to acquire short-term investments in certificates of deposit | (4,251,000) | (1,900,000) |
| Proceeds from maturities of short-term investments in certificates of deposit | 750,000 | 2,400,000 |
| Purchase of property and equipment | (16,885) | (144,650) |
| Net cash (used in) provided by investing activities | (3,517,885) | 355,350 |
| | | |
| Cash flows from financing activities: | | |
| Redemption of convertible preferred stock | (500,000) | - |
| Payments made on secured debenture | (1,000,000) | - |
| Proceeds from sale of common stock through a rights offering to shareholders | 4,203,302 | - |
| Proceeds from sale of common stock through a public offering | 3,211,785 | - |
| Proceeds from exercise of employee stock options | 5,665 | 23,381 |
| Net cash provided by financing activities | 5,920,752 | 23,381 |
| | | |
| Net decrease in cash and cash equivalents | (654,555) | (2,319,974) |
| Cash and cash equivalents at beginning of period | 2,488,323 | 4,369,219 |
| Cash and cash equivalents at end of period | $ 1,833,768 | $ 2,049,245 |
| | | |
| Supplemental disclosure of non-cash financing activities: | | |
| Redemption of Series A convertible preferred stock into secured debenture (Note 7) | $ (3,000,000) | $ - |
| Common stock issued to pay patent acquisition obligation (Note 6) | $ (2,852,294) | $ - |

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. Beginning in October of 2012 under the leadership of a new management team, we recapitalized the Company, changed the Company’s name and ticker symbol, relocated the Company’s headquarters, and modernized its systems. 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 the formation of a new subsidiary, Anixa Diagnostics Corporation (“Anixa”), to develop a platform for non-invasive blood tests for the early detection of cancer. That platform is called CchekÔ. In July of 2015, ITUS announced a collaborative research agreement with The Wistar Institute (“Wistar”), the nation’s first independent biomedical research institute and a leading National Cancer Institute designated cancer research center, for the purpose of validating our cancer detection methodologies and establishing protocols for identifying certain biomarkers in the blood which we identified and which are known to be associated with malignancies. In August of 2016, ITUS announced the renewal and expansion of our relationship with Wistar. Further, in July of 2017, ITUS and Wistar announced that they renewed and expanded their relationship once more.

From October of 2015 through January of 2017, ITUS announced that we had demonstrated the efficacy of our Cchek Ô early cancer detection platform with Breast Cancer, Lung Cancer Melanoma, Ovarian Cancer, Liver Cancer, Thyroid Cancer, Pancreatic Cancer, Appendiceal Cancer (cancer of the appendix), Uterine Cancer, Osteosarcoma (cancer of the bone), Leiomyosarcoma (cancer of the soft tissue), Liposarcoma (cancer of the connective tissue), Vulvar Cancer (cancer of the vulva), and Prostate Cancer, bringing the number of cancer types for which the efficacy of CchekÔ has been validated thus far to fifteen.

Over the next several quarters, we expect Cchek™ to be the primary focus of the Company. As part of our legacy operations, the Company remains engaged in limited patent licensing activities in the area of encrypted audio/video conference calling. We do not expect these activities to be a significant part of the Company’s ongoing operations.

In the past, our revenue has been derived from technology licensing and the sale of patented technologies, including in connection with the settlement of litigation. In addition to Anixa, the Company may make investments in and form new companies to develop additional emerging technologies.

Funding and Management's Plans

During the nine months ended July 31, 2017, cash used in operating activities was approximately $3,057,000. Net cash used by investing activities was approximately $3,518,000, which reflects the purchase of certificates of deposit totaling $4,251,000, offset by proceeds from the sale or maturity of certificates of deposit totaling $750,000 and the purchase of property and equipment of approximately $17,000. Cash provided by financing activities was approximately $5,921,000, representing net proceeds from the sale of shares of common stock to Company shareholders through a rights offering receiving proceeds of approximately $4,203,000, net proceeds from the sale of shares of common stock in a registered public offering receiving proceeds of approximately $3,212,000 and the exercise of stock options, offset by payments of $1,000,000 under the secured debenture and the redemption of our Series A Convertible Preferred Stock (the "Series A Preferred") of $500,000. As a result, our cash, cash equivalents and short-term investments at July 31, 2017 increased by approximately $2,846,000 to approximately $6,085,000 from approximately $3,238,000 at the end of fiscal year 2016.

Based on currently available information as of September 8, 2017, we believe that our existing cash, cash equivalents, short-term investments and expected cash flows from operations will be sufficient to fund our activities and debt obligations for the next 12 months. However, our projections of future cash needs and cash flows may differ from actual results. To date, we have relied primarily upon cash from the public and private sale of equity and debt securities to generate the working capital needed to finance our operations. If current cash on hand, cash equivalents, short term investments and cash that may be generated from our business operations are insufficient to continue to operate our business and repay our indebtedness, we will be required to obtain more working capital. We may seek to obtain working capital through sales of our equity securities or through bank credit facilities or public or private debt from various financial institutions where possible and as permitted pursuant to our existing indebtedness. We cannot be certain that additional funding will be available on acceptable terms, or at all. If we do identify sources for additional funding, the sale of additional equity securities or convertible debt could result in dilution to our stockholders. Additionally, the sale of equity securities or issuance of debt securities may be subject to certain security holder approvals or may result in the downward adjustment of the exercise or conversion price of our outstanding securities. We can give no assurance that we will generate sufficient cash flows in the future to satisfy our liquidity requirements or sustain future operations, or that other sources of funding, such as sales of equity or debt, would be available or would be approved by our security holders, if needed, on favorable terms or at all. If we fail to obtain additional working capital as and when needed, it could have a material adverse impact on our business, results of operations and financial condition. Furthermore, such lack of funds may inhibit our ability to respond to competitive pressures or unanticipated capital needs, or may force us to reduce operating expenses, which would significantly harm the business and development of operations.

Table of content

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, 2016, as reported by us in our Annual Report on Form 10-K. The October 31, 2016 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 July 31, 2017, and results of operations and cash flows for the interim periods represented. The results of operations for the nine and three months ended July 31, 2017 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 nine months ended July 31, 2017 and 2016. We recorded patent amortization expense of approximately $244,000 during each of the nine month periods ended July 31, 2017 and 2016 and approximately $81,000 during each of the three month periods ended July 31, 2017 and 2016, 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 $933,000 and $570,000 during the nine months ended July 31, 2017 and 2016, respectively, and approximately $481,000 and $240,000 during the three months ended July 31, 2017 and 2016, respectively. Associated with the resignation of the Company's former chief executive officer (the "Executive"), all unvested options held by the Executive became fully vested upon Executive's resignation. This acceleration of vesting terms resulted in an expense of approximately $285,000 during the three and nine month periods ended July 31, 2017.

Stock Option Activity

During the nine months ended July 31, 2017 and 2016, we granted options to purchase 352,000 shares and 545,000 shares of common stock, respectively, to employees and directors at weighted average exercise prices of $2.18 and $2.92 per share, respectively, pursuant to the ITUS Corporation 2010 Share Incentive Plan (the "2010 Share Plan"). During the nine months ended July 31, 2017 and 2016, stock options to purchase 2,200 and 9,080 shares of common stock, respectively, were exercised with aggregate proceeds of approximately $6,000 and $23,000, respectively.

Stock Option Plans

As of July 31, 2017, 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 nine months ended July 31, 2017 is as follows:

| | Shares | Weighted Average Exercise Price Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Options Outstanding at October 31, 2016 | 225,600 | $ 18.69 | |
| Exercised | (2,200) | $ 2.58 | |
| Forfeited | (34,400) | $ 17.85 | |
| Options Outstanding and exercisable at July 31, 2017 | 189,000 | $ 19.03 | $ - |

The following table summarizes information about stock options outstanding and exercisable under the 2003 Share Plan as of July 31, 2017:

| Range of Exercise Prices | Number Outstanding and Exercisable | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
|---|---|---|---|
| $ 1.79 - $ 7.75 | 39,000 | 1.06 | $ 2.92 |
| $13.50 - $17.50 | 21,400 | .20 | $ 16.46 |
| $18.75 - $23.00 | 88,600 | .11 | $ 22.13 |
| $29.25 | 40,000 | .06 | $ 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 July 31, 2017, the 2010 Share Plan had 541,266 shares available for future grants. Information regarding the 2010 Share Plan for the nine months ended July 31, 2017 is as follows:

| | Shares | Weighted Average Exercise Price Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Options Outstanding at October 31, 2016 | 1,080,872 | $ 3.12 | |
| Granted | 352,000 | $ 2.18 | |
| Forfeited | (23,266) | $ 4.68 | |
| Options Outstanding at July 31, 2017 | 1,409,606 | $ 2.86 | $ - |
| Options Exercisable at July 31, 2017 | 950,467 | $ 3.13 | $ - |

The following table summarizes information about stock options outstanding and exercisable under the 2010 Share Plan as of July 31, 2017:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
| $0.82 - $0.96 | 246,000 | 9.94 | $ 0.96 | - | - | $ - |
| $2.58 - $9.25 | 1,163,606 | 6.45 | $ 3.26 | 950,467 | 5.92 | $ 3.13 |

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 nine months ended July 31, 2017 is as follows:

| | Shares | Weighted Average Exercise Price Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Options Outstanding at October 31, 2016 | 1,780,000 | $ 2.70 | |
| Options Outstanding and exercisable at July 31, 2017 | 1,780,000 | $ 2.70 | $ - |

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 July 31, 2017:

| Range of Exercise Prices | Number Outstanding and Exercisable | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
|---|---|---|---|
| \$2.58 - \$5.56 | 1,780,000 | 4.94 | $ 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 nine months ended July 31, 2017 and 2016, we issued 3,463 shares and 9,795 shares, respectively, of common stock to consultants for services rendered. We recorded consulting expense for the nine months ended July 31, 2017 and 2016 of approximately \$18,000 and \$28,000, 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:

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 July 31, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds – Cash equivalents | $ 1,588,116 | $ - | $ - | $ 1,588,116 |
| Certificates of deposit – Short-term investments | - | 4,251,000 | - | 4,251,000 |
| Total financial assets | $ 1,588,116 | $ 4,251,000 | $ - | $ 5,839,116 |

The following table presents the hierarchy for our financial assets measured at fair value on a recurring basis as of October 31, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds – Cash equivalents | $ 1,899,136 | $ - | $ - | $ 1,899,136 |
| Certificates of deposit – Short term investments | - | 750,000 | - | 750,000 |
| Total financial assets | $ 1,899,136 | $ 750,000 | $ - | $ 2,649,136 |

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, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Patent acquisition obligation | $ - | $ - | $ 4,171,876 | $ 4,171,876 |

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:

| Patent acquisition obligation | |
|---|---|
| Balance October 31, 2016 | $ 4,171,876 |
| Accreted interest on patent obligation | 228,026 |
| Extinguishment of patent obligation | (4,399,902) |
| Balance July 31, 2017 | $ - |

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 July 31, 2017 and October 31, 2016, we had certificates of deposit of $4,251,000 and $750,000, 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:

| | July 31, 2017 | October 31, 2016 |
|---|---|---|
| Accounts payable | $ 444,749 | $ 373,224 |
| Accrued severance costs | 352,928 | - |
| Payroll and related expenses | 48,084 | 49,901 |
| Accrued interest on secured debenture | 20,667 | - |
| Accrued other | 60,260 | 45,631 |
| | $ 926,688 | $ 468,756 |

Accrued severance costs primarily result from the severance arrangement between the Company and its former chief executive officer, and include one year's salary and associated taxes. Severance benefits will be paid out in four equal installments from August 2017 through June 2018.

6. PATENT ACQUISITION OBLIGATION

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

7. PREFERRED STOCK REDEMPTION

On November 11, 2016, the holder of all our outstanding Series A Preferred with an aggregate stated value of $3,500,000 exercised its right of redemption to receive such amount from proceeds from the sale of the Company's equity securities. On December 6, 2016, we entered into an agreement with the holder of the Series A Preferred setting forth the terms under which such redemption would take place (the "Series A Redemption Terms"). Pursuant to the Series A Redemption Terms, on December 9, 2016 the holder of the Series A Preferred received (i) $500,000 in cash, (ii) a 12% secured debenture evidencing the remaining $3,000,000 amount to be redeemed, $1,000,000 of which was due on or before June 1, 2017 and the remainder of which is due November 11, 2017 (the "Redemption Debenture"), and (iii) a 5 year warrant to purchase 500,000 shares of the Company's common stock at an exercise price equal to 10% below the thirty (30) day volume weighted average closing price of our common stock at closing (the "Redemption Warrant"). The Redemption Debenture is secured by a lien on the Company's assets and prohibits the Company from incurring any senior indebtedness other than equipment financing in connection with the Company's business .

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

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

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

Diluted EPS for all periods presented 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 nine and three months ended July 31, 2017 and 2016, were stock options to purchase 3,378,606 and 3,088,072 shares, respectively, and warrants to purchase 829,400 and 707,387 shares, respectively.

9. EFFECT OF RECENTLY ADOPTED AND ISSUED PRONOUNCEMENTS

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

In 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 ending after December 15, 2016 and are to be applied retrospectively or the cumulative effect as of the date of adoption. The adoption of this amendment on November 1, 2016 did not have an impact on our consolidated financial statements and related disclosures.

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 do not anticipate that the adoption of this amendment will have an impact on our consolidated financial statements and related disclosures.

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

In March 2016, the FASB issued Accounting Standards Update 2016-09 (“ASU 2016-09”) that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee’s shares than it 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 began a detailed assessment of the impact that this guidance will have on our consolidated financial statements and related disclosures, and our analysis is ongoing.

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

In July 2017, the FASB issued Accounting Standards Update 2017-11 ("ASU 2017-11") which changes the accounting for equity instruments that include a down round feature. For public entities, this update is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. We began a detailed assessment of the impact that this guidance will have on our consolidated financial statements and related disclosures, and our analysis is ongoing.

10. INCOME TAXES

We file Federal, New York, California and Pennsylvania state income tax returns. Due to net operating losses, the statute of limitations for Federal and New York State income tax returns remains open to examination by taxing authorities since the fiscal year ended October 31, 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 July 31, 2017 and October 31, 2016.

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. These net operating loss carryforwards could be subject to limitations under Internal Revenue Code section 382. We have provided a full valuation allowance against our deferred tax asset due to our historical pre-tax losses and the uncertainty regarding the realizability of these deferred tax assets.

11. COMMITMENT AND CONTINGENCES

Litigation Matters

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

Market for Company Stock

On August 18, 2017, we received a staff deficiency notice from The Nasdaq Stock Market informing us that our common stock failed to comply with the $1.00 minimum bid price required for continued listing on The Nasdaq Capital Market. Nasdaq's notice has no immediate effect on the listing of our common stock and we have been provided with an initial compliance period of 180 calendar days, or until February 14, 2018, to regain compliance with the minimum bid price requirement.

12. SUBSEQUENT EVENT

On September 6, 2017, the compensation committee of the Company re-priced certain issued and outstanding stock options to purchase in the aggregate 2,029,600 shares of Company common stock for all of the current officers, directors and employees of the Company along with certain consultants (the"Re-Priced Options") pursuant to the authority granted to the compensation committee by the Board of Directors of the Company. The new exercise price of the Re-Priced Options is $0.67, the closing sales price of the Company's common stock on September 6, 2017.

All other terms of the previously granted Re-Priced Options remain the same, including without limitation, the number of shares underlying the options granted, the vesting periods of the options, and the expiration dates of the options.

The Company expects to record additional stock-based compensation expense resulting from the incremental value of the fair value of the Re-Priced Options compared to the fair value of the original options immediately prior to the re-pricing, in the fourth quarter of the fiscal year ended October 31, 2017. The Company has not yet determined the amount of this non-cash charge.

**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. Beginning in October of 2012 under the leadership of a new management team, we recapitalized the Company, changed the Company’s name and ticker symbol, relocated the Company’s headquarters, and modernized its systems. 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 the formation of a new subsidiary, Anixa Diagnostics Corporation (“Anixa”), to develop a platform for non-invasive blood tests for the early detection of cancer. That platform is called CchekÔ. In July of 2015, ITUS announced a collaborative research agreement with The Wistar Institute (“Wistar”), the nation’s first independent biomedical research institute and a leading National Cancer Institute designated cancer research center, for the purpose of validating our cancer detection methodologies and establishing protocols for identifying certain biomarkers in the blood which we identified and which are known to be associated with malignancies. In August of 2016 and again in July of 2017 ITUS announced the renewal and expansion of our relationship with Wistar. In October of 2015, ITUS and Wistar announced 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 patients with varying stages of Breast Cancer showed the presence of the biomarkers we identified, and none of the healthy patient blood samples contained the biomarkers. Breast Cancer is the second most common cancer in the United States and throughout the world.

In April of 2016, ITUS announced that we had demonstrated the efficacy of our Cchek Ô early cancer detection platform with Lung Cancer. Lung cancer is the leading cause of death among cancers in the U.S. and throughout the world, accounting for approximately 27 percent of all cancer related deaths in the U.S. and 19 percent worldwide. In September of 2016, ITUS announced that we had demonstrated the efficacy of our CchekÔ early cancer detection platform with Colon Cancer. Colon Cancer is the third most common cancer in men and the second most common cancer in woman worldwide, with approximately 1.4 million new cases diagnosed each year, and approximately 700,000 deaths. At the end of September 2016 through the end of October 2016, the Company made similar announcements with respect to the efficacy of our CchekÔ early cancer detection platform for Melanoma, Ovarian Cancer, Liver Cancer, Thyroid Cancer, and Pancreatic Cancer. On November 15, 2016, ITUS announced that we had demonstrated the efficacy of our CchekÔ early cancer detection platform with six additional cancer types including Appendiceal Cancer (cancer of the appendix), Uterine Cancer, Osteosarcoma (cancer of the bone), Leiomyosarcoma (cancer of the soft tissue), Liposarcoma (cancer of the connective tissue), and Vulvar Cancer (cancer of the vulva). On January 30, 2017, the Company announced that we had demonstrated the efficacy of CchekÔ for Prostate Cancer, bringing the number of cancer types for which the efficacy of CchekÔ has been validated thus far to fifteen.

Over the next several quarters, we expect Cchek™ to be the primary focus of the Company. As part of our legacy operations, the Company remains engaged in limited patent licensing activities in the area of encrypted audio/video conference calling. We do not expect these activities to be a significant part of the Company's ongoing operations.

In the past, our revenue has been derived from technology licensing and the sale of patented technologies, including in connection with the settlement of litigation. In addition to Anixa, the Company may make investments in and form new companies to develop additional emerging technologies.

**RESULTS OF OPERATIONS**

**Nine months ended July 31, 2017 compared with nine months ended July 31, 2016**

***Revenue***

During the nine months ended July 31, 2017 and 2016, we recorded revenue from patent licensing activities of approximately $363,000 and $100,000, respectively. The full amount of revenue in each of these periods was the result of a single license agreement in each period. The license agreements provided for one-time, non-recurring, lump sum payments in exchange for non-exclusive retroactive and future licenses and covenants not to sue. Accordingly, the earnings process from these licenses was complete and 100% of the revenue was recognized upon execution of the license agreements.

***Litigation and Licensing Expenses***

Litigation and licensing expenses were approximately $2,000 in the nine months ended July 31, 2017 compared to approximately $84,000 in the comparable prior year period. Litigation and licensing expenses in the prior period were primarily related to our encrypted audio/video conference calling patents. Litigation and licensing expenses, other than contingent legal fees, are expensed in the period incurred.

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

Inventor royalties and contingent legal fees were approximately $141,000 in the nine months ended July 31, 2017 compared to approximately $62,000 in the comparable prior year period. Inventor royalties and contingent legal fees are expensed in the period that the related revenues are recognized. The economic terms of patent agreements and contingent legal fee arrangements vary across the patent portfolios owned or controlled by our operating subsidiaries.

***Amortization of Patents***

Amortization of patents was approximately $244,000 in each of the nine month periods ended July 31, 2017 and 2016, respectively. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life.

***Research and Development Expenses***

Research and development expenses related primarily to the development of our Cchek™ early cancer detection platform and increased by approximately $103,000 to approximately $1,246,000 in the nine months ended July 31, 2017, from approximately $1,143,000 in the nine months ended July 31, 2016. The increase in research and development expenses was primarily due to an increase in costs related to our collaboration with Wistar of approximately $139,000 as a result of greater involvement by Wistar under the renewed collaboration agreement and an increase in patent development costs related to our Cchek™ platform of approximately $89,000, offset by a decrease in employee compensation and related costs of approximately $84,000 and reduced development costs associated with our thin-film display technology of approximately $58,000.

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

Marketing, general and administrative expenses increased by approximately $904,000 to approximately $3,067,000 in the nine months ended July 31, 2017, from approximately $2,163,000 in the nine months ended July 31, 2016. The increase in marketing, general and administrative expenses was principally due to an increase in employee compensation expense of approximately $647,000 resulting from one-time severance arrangement costs of approximately $598,000 which included the non-cash cost of accelerated vesting of stock options of approximately $285,000, an increase in investor relations and public relations consulting expenses of approximately $178,000 and an increase in legal fees of approximately $74,000.

***Gain on Extinguishment of Patent Acquisition Obligation***

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

***Interest Expense***

Interest expense increased by approximately $59,000 to approximately $443,000 for the nine months ended July 31, 2017 from approximately $383,000 in the nine months ended July 31, 2016. The increase in interest expense was principally due to approximately $215,000 of interest related to the secured debenture issued in December 2016, offset by the early extinguishment of the patent acquisition obligation. The remaining interest expense for both periods presented represents the accreted interest on our patent acquisition obligation through the extinguishment date.

***Interest Income***

Interest income remained unchanged at approximately $10,000 for both periods presented.

***Deemed Dividend to Preferred Stockholder***

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

**Three months ended July 31, 2017 compared with three months ended July 31, 2016**

***Revenue***

During the three months ended July 31, 2017 and 2016, we recorded revenue from patent licensing activities of approximately $363,000 and $100,000, respectively. The full amount of revenue in each of these periods was the result of a single license agreement in each period. The license agreements provided for one-time, non-recurring, lump sum payments in exchange for non-exclusive retroactive and future licenses and covenants not to sue. Accordingly, the earnings process from these licenses was complete and 100% of the revenue was recognized upon execution of the license agreements.

***Litigation and Licensing Expenses***

No litigation and licensing expenses were incurred during the three months ended July 31, 2017. Litigation and licensing expenses were approximately $9,000 in the three months ended July 31, 2016. Litigation and licensing expenses, other than contingent legal fees, are expensed in the period incurred.

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

Inventor royalties and contingent legal fees were approximately $141,000 in the three months ended July 31, 2017 compared to approximately $62,000 in the comparable prior year period. Inventor royalties and contingent legal fees are expensed in the period that the related revenues are recognized. The economic terms of patent agreements and contingent legal fee arrangements vary across the patent portfolios owned or controlled by our operating subsidiaries.

***Amortization of Patents***

Amortization of patents was approximately $81,000 in each of the three month periods ended July 31, 2017 and 2016, respectively. We capitalize patent and patent rights acquisition costs and amortize the cost over the estimated economic useful life.

***Research and Development Expenses***

Research and development expenses related primarily to the development of our Cchek™ early cancer detection platform and increased by approximately $71,000 to approximately $363,000 in the three months ended July 31, 2017, from approximately $292,000 in the three months ended July 31, 2016. The increase in research and development expenses was primarily due to an increase in costs related to our collaboration with Wistar of approximately $86,000 as a result of greater involvement by Wistar under the renewed collaboration agreement.

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

Marketing, general and administrative expenses increased by approximately $876,000 to approximately $1,508,000 in the three months ended July 31, 2017, from approximately $631,000 in the three months ended July 31, 2016. The increase in marketing, general and administrative expenses was principally due to an increase in employee compensation expense of approximately $605,000 resulting from one time severance arrangement costs of approximately $598,000 which included the non-cash cost of accelerated vesting of stock options of approximately $285,000 and an increase in investor relations and public relations consulting expenses of approximately $199,000.

***Interest Expense***

Interest expense decreased by approximately $61,000 to approximately $72,000 for the three months ended July 31, 2017 from approximately $132,000 in the three months ended July 31, 2016. The decrease in interest expense was principally due to the early extinguishment of the patent acquisition obligation, offset by approximately $72,000 of interest related to the secured debenture issued in December 2016.

***Interest Income***

Interest income increased to approximately $8,000 in the three months ended July 31, 2017 compared to approximately $3,000 in the three months ended July 31, 2016 due to an increase 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.

Based on currently available information as of September 8, 2017, we believe that our existing cash, cash equivalents, short-term investments and expected cash flows from operations will be sufficient to fund our activities and debt obligations for the next 12 months. However, our projections of future cash needs and cash flows may differ from actual results. To date, we have relied primarily upon cash from the public and private sale of equity and debt securities to generate the working capital needed to finance our operations. If current cash on hand, cash equivalents, short term investments and cash that may be generated from our business operations are insufficient to continue to operate our business and repay our indebtedness, we will be required to obtain more working capital. We may seek to obtain working capital through sales of our equity securities or through bank credit facilities or public or private debt from various financial institutions where possible and as permitted pursuant to our existing indebtedness. We cannot be certain that additional funding will be available on acceptable terms, or at all. If we do identify sources for additional funding, the sale of additional equity securities or convertible debt could result in dilution to our stockholders. Additionally, the sale of equity securities or issuance of debt securities may be subject to certain security holder approvals or may result in the downward adjustment of the exercise or conversion price of our outstanding securities. We can give no assurance that we will generate sufficient cash flows in the future to satisfy our liquidity requirements or sustain future operations, or that other sources of funding, such as sales of equity or debt, would be available or would be approved by our security holders, if needed, on favorable terms or at all. If we fail to obtain additional working capital as and when needed, it could have a material adverse impact on our business, results of operations and financial condition. Furthermore, such lack of funds may inhibit our ability to respond to competitive pressures or unanticipated capital needs, or may force us to reduce operating expenses, which would significantly harm the business and development of operations.

During the nine months ended July 31, 2017, cash used in operating activities was approximately $3,057,000. Net cash used by investing activities was approximately $3,518,000, which reflects the purchase of certificates of deposit totaling $4,251,000, offset by proceeds from the sale or maturity of certificates of deposit totaling $750,000 and the purchase of property and equipment of approximately $17,000. Cash provided by financing activities was approximately $5,921,000, representing net proceeds from the sale of shares of common stock to Company shareholders through a rights offering receiving proceeds of approximately $4,203,000, net proceeds from the sale of shares of common stock in a registered public offering receiving proceeds of approximately $3,212,000 and the exercise of stock options, offset by payments of $1,000,000 under the secured debenture and the redemption of our Series A Convertible Preferred Stock (the "Series A Preferred") of $500,000. As a result, our cash, cash equivalents and short-term investments at July 31, 2017 increased by approximately $2,846,000 to approximately $6,085,000 from approximately $3,238,000 at the end of fiscal year 2016.

## 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 3 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016, 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. The Black-Scholes pricing model requires the input of highly subjective assumptions. These variables include, but are not limited to, our stock price volatility over the term of the stock options, and actual and projected employee stock option exercise behaviors. We recorded stock-based compensation expense, related to stock options granted to employees and directors, of approximately $933,000 and $570,000 during the nine months ended July 31, 2017 and 2016, respectively.

## EFFECT OF RECENTLY ISSUED PRONOUNCEMENTS

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

## FORWARD-LOOKING STATEMENTS

Information included in this Quarterly Report on Form 10-Q (this “Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results. We generally use the words “believes,” “expects,” “intends,” “plans,” “anticipates,” “likely,” “will” and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and factors include, but are not limited to, those factors set forth in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 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.

Table of content

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

As of July 31, 2017, 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 Chairman, President and Chief Executive Officer and our Chief Operating Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13-15(b) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chairman, President and Chief Executive Officer and our Chief Operating Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during the third quarter of fiscal year 2017 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, 2016.

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

During the three months ended July 31, 2017, the Company did not issue any unregistered shares.

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

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

**Item 5. Other Information**.

Option Re-Pricing

On September 6, 2017, the compensation committee of the Company re-priced certain issued and outstanding stock options to purchase in the aggregate 2,029,600 shares of Company common stock for all of the current officers, directors and employees of the Company along with certain consultants (the "Re-Priced Options") pursuant to the authority granted to the compensation committee by the Board of Directors of the Company. The new exercise price of the Re-Priced Options is $0.67, the closing sales price of the Company's common stock on September 6, 2017.

All other terms of the previously granted Re-Priced Options remain the same, including without limitation, the number of shares underlying the options granted, the vesting periods of the options, and the expiration dates of the options.

In the aggregate, options to purchase 1,470,400 shares of the Company's common stock issued to the Company's executive officers and directors are affected by the re-pricing:

| Name of Officer/Director | Number of Options |
|---|---|
| Dr. Amit Kumar | 880,000 |
| Lewis H. Titterton | 262,400 |
| Dr. Arnold Baskies | 18,000 |
| Dr. John Monahan | 18,000 |
| Dale Fox | 42,000 |
| Michael Catelani | 250,000 |

**Item 6. Exhibits.**

31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 8, 2017.

31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 8, 2017.

32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 8, 2017.

32.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 8, 2017.

Table of content

## SIGNATURES

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

ITUS CORPORATION

| | |
|---|---|
| | By: /s/ Dr. Amit Kumar |
| | Dr. Amit Kumar<br>Chairman, President and<br>Chief Executive Officer |
| September 8, 2017 | (Principal Executive Officer) |
| | By: /s/ Michael J. Catelani |
| | Michael J. Catelani<br>Chief Operating Officer and<br>Chief Financial Officer<br>(Principal Financial and |
| September 8, 2017 | Accounting Officer) |

**Exhibit 31.1**

CERTIFICATION

I, Dr. Amit Kumar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITUS Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   ( c ) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   ( d ) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

September 8, 2017

**Exhibit 31.2**

CERTIFICATION

I, Michael J. Catelani, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ITUS Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   ( c ) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   ( d ) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

September 8, 2017

**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, Dr. Amit Kumar , the Chairman, President and Chief Executive Officer of ITUS Corporation, hereby certifies that:

1. The Company's Form 10-Q Quarterly Report for the period ended July 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

September 8, 2017

**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, Michael J. Catelani, the Chief Operating Officer and Chief Financial Officer of ITUS Corporation, hereby certifies that:

1. The Company's Form 10-Q Quarterly Report for the period ended July 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

September 8, 2017