

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

For the transition period from to

Commission file number: 001-34785

**VRINGO, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

20-4988129

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

780 3rd Avenue, 15th Floor, New York, NY

(Address of principal executive offices)

10017

(Zip Code)

(212) 309-7549

(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 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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

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

As of April 24, 2014, 86,531,094 shares of the registrant's common stock were outstanding.

VRINGO, INC.

Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <a href="#">Financial Statements</a>	3
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	20
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	33
Item 4. <a href="#">Controls and Procedures</a>	33
<u>PART II. OTHER INFORMATION</u>	33
Item 1. <a href="#">Legal Proceedings</a>	33
Item 1A. <a href="#">Risk Factors</a>	36
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	42
Item 3. <a href="#">Defaults Upon Senior Securities</a>	42
Item 4. <a href="#">Mine Safety Disclosures</a>	42
Item 5. <a href="#">Other Information</a>	42
Item 6. <a href="#">Exhibits</a>	43

Part I — FINANCIAL INFORMATION

Item 1. Financial Statements

Vringo, Inc. and Subsidiaries  
(a Development Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
<b>Current assets</b>		
Cash and cash equivalents	\$ 27,818	\$ 33,586
Assets held for sale	—	787
Other current assets	729	455
<b>Total current assets</b>	<u>28,547</u>	<u>34,828</u>
Property and equipment, at cost, net of \$318 and \$134 accumulated depreciation, as of March 31, 2014 and December 31, 2013, respectively	118	230
Intangible assets, net	21,791	22,748
Goodwill	65,757	65,757
Other assets	1,034	247
<b>Total assets</b>	<u>\$ 117,247</u>	<u>\$ 123,810</u>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 2,650	\$ 5,146
Accrued employee compensation	224	299
Derivative warrant liabilities	54	43
<b>Total current liabilities</b>	<u>2,928</u>	<u>5,488</u>
<b>Long-term liabilities</b>		
Derivative warrant liabilities	4,359	4,040
Other liabilities	32	—
<b>Commitments and contingencies (Note 10)</b>		
<b>Stockholders' equity</b>		
Series A Convertible Preferred stock, \$0.01 par value per share; 5,000,000 authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value per share 150,000,000 authorized; 86,458,959 and 84,502,653 issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	865	845
Additional paid-in capital	196,200	189,465
Deficit accumulated during the development stage	<u>(87,137)</u>	<u>(76,028)</u>
<b>Total stockholders' equity</b>	<u>109,928</u>	<u>114,282</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 117,247</u>	<u>\$ 123,810</u>

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

**Vringo, Inc. and Subsidiaries**  
**(a Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(In thousands, except share and per share data)**

	For the quarter ended March 31,		Cumulative from June 8, 2011 (Inception) through March 31,
	2014	2013	2014
<b>Revenue</b>	\$ 250	\$ —	\$ 1,450
<b>Costs and Expenses*</b>			
Operating legal costs	4,875	5,399	37,708
Amortization of intangibles	957	839	6,422
Research and development	225	270	2,280
General and administrative	4,018	3,991	30,759
<b>Total operating expenses</b>	<u>10,075</u>	<u>10,499</u>	<u>77,169</u>
<b>Operating loss from continuing operations</b>	<u>(9,825)</u>	<u>(10,499)</u>	<u>(75,719)</u>
Non-operating income	6	17	269
Non-operating expenses	(5)	(1)	(53)
Gain (loss) on revaluation of warrants	(1,076)	(376)	4,575
Issuance of warrants	—	—	(2,883)
<b>Loss from continuing operations before income taxes</b>	<u>(10,900)</u>	<u>(10,859)</u>	<u>(73,811)</u>
Income tax expense	—	—	—
<b>Loss from continuing operations</b>	<u>(10,900)</u>	<u>(10,859)</u>	<u>(73,811)</u>
<b>Loss from discontinued operations before income taxes*</b>	<u>(209)</u>	<u>(1,089)</u>	<u>(13,014)</u>
Income tax expense	—	(16)	(312)
<b>Loss from discontinued operations</b>	<u>(209)</u>	<u>(1,105)</u>	<u>(13,326)</u>
<b>Net loss</b>	<u>\$ (11,109)</u>	<u>\$ (11,964)</u>	<u>\$ (87,137)</u>
<b>Loss per share:</b>			
Basic			
Loss per share from continuing operations	\$ (0.13)	\$ (0.13)	\$ (1.39)
Loss per share from discontinued operations	(0.00)	(0.02)	(0.25)
<b>Total net loss per share</b>	<u>\$ (0.13)</u>	<u>\$ (0.15)</u>	<u>\$ (1.64)</u>
Diluted			
Loss per share from continuing operations	\$ (0.13)	\$ (0.13)	\$ (1.39)
Loss per share from discontinued operations	(0.00)	(0.02)	(0.25)
<b>Total net loss per share</b>	<u>\$ (0.13)</u>	<u>\$ (0.15)</u>	<u>\$ (1.64)</u>
<b>Weighted-average number of shares outstanding during the period:</b>			
Basic	<u>85,457,670</u>	<u>82,389,353</u>	<u>53,255,928</u>
Diluted	<u>85,457,670</u>	<u>82,389,353</u>	<u>54,752,466</u>
<b>* Includes stock-based compensation expense, as follows:</b>			
Operating legal costs	\$ 343	\$ 294	\$ 2,087
Research and development	107	134	943
General and administrative	2,199	2,528	19,441
Discontinued operations	151	138	983
	<u>\$ 2,800</u>	<u>\$ 3,094</u>	<u>\$ 23,454</u>

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

**Vringo, Inc. and Subsidiaries**  
**(a Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**(In thousands)**

	Common stock	Additional paid-in capital	Deficit accumulated during the development stage	Total
<b>Balance as of June 8, 2011 (Inception)</b>	\$ —	\$ —	\$ —	\$ —
Issuance of shares of common stock	170	4,975	—	5,145
Stock-based compensation	—	474	—	474
Net loss for the period	—	—	(2,754)	(2,754)
<b>Balance as of December 31, 2011</b>	<b>170</b>	<b>5,449</b>	<b>(2,754)</b>	<b>2,865</b>
Conversion of Series A Preferred Convertible Preferred stock, classified as mezzanine equity	8	68	—	76
Stock-based compensation	3	8,084	—	8,087
Recording of equity instruments upon Merger, net of fair value of issued warrants \$21,954 and issuance cost of \$463	152	54,809	—	54,961
Issuance of warrants	—	2,883	—	2,883
Conversion of Series A Preferred Convertible Preferred stock, classified as equity	201	(201)	—	—
Exercise of warrants	76	22,856	—	22,932
Exercise of stock options	8	501	—	509
Issuance of shares in connection with a financing round, net of issuance cost of \$52	96	31,052	—	31,148
Shares issued for acquisition of patents	2	748	—	750
Issuance of shares in connection with a financing round, net of issuance cost of \$39	103	44,859	—	44,962
Net loss for the year	—	—	(20,841)	(20,841)
<b>Balance as of December 31, 2012</b>	<b>819</b>	<b>171,108</b>	<b>(23,595)</b>	<b>148,332</b>
Exercise of stock options and vesting of Restricted Stock Units ("RSU")	22	952	—	974
Exercise of warrants	4	1,394	—	1,398
Conversion of derivative warrants into equity warrants	—	3,918	—	3,918
Stock-based compensation	—	12,093	—	12,093
Net loss for the year	—	—	(52,433)	(52,433)
<b>Balance as of December 31, 2013</b>	<b>845</b>	<b>189,465</b>	<b>(76,028)</b>	<b>114,282</b>
Exercise of stock options and vesting of Restricted Stock Units ("RSU")	13	1,931	—	1,944
Exercise of warrants	7	2,004	—	2,011
Stock-based compensation	—	2,800	—	2,800
Net loss for the period	—	—	(11,109)	(11,109)
<b>Balance as of March 31, 2014</b>	<b>\$ 865</b>	<b>\$ 196,200</b>	<b>\$ (87,137)</b>	<b>\$ 109,928</b>

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

**Vringo, Inc. and Subsidiaries**  
**(a Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	Three months ended March 31,		Cumulative from June 8, 2011 (Inception) through March 31,
	2014	2013	2014
<b>Cash flows from operating activities</b>			
Net loss	\$ (11,109)	\$ (11,964)	\$ (87,137)
Adjustments to reconcile net cash flows used in operating activities:			
<b>Items not affecting cash flows</b>			
Depreciation and amortization	1,141	1,281	9,191
Impairment loss	—	—	7,253
Change in deferred tax assets and liabilities	—	—	(58)
Stock-based compensation	2,800	3,094	23,454
Issuance of warrants	—	—	2,883
Assignment of patents	—	—	(100)
Change in fair value of warrants	1,076	376	(4,575)
Exchange rate loss (gain), net	20	4	(69)
<b>Changes in current assets and liabilities</b>			
Decrease (increase) in other current assets	139	109	(230)
Increase (decrease) in payables and accruals	(2,560)	2,228	1,434
<b>Net cash used in operating activities</b>	<u>(8,493)</u>	<u>(4,872)</u>	<u>(47,954)</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	(72)	(28)	(312)
Deposit in short-term investments	—	(3,120)	—
Acquisition of patents	—	—	(27,364)
Decrease (increase) in deposits	—	8	(239)
Cash acquired as part of acquisition of Vringo (1)	—	—	3,326
<b>Net cash used in investing activities</b>	<u>\$ (72)</u>	<u>\$ (3,140)</u>	<u>\$ (24,589)</u>

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

**Vringo, Inc. and Subsidiaries**  
**(a Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	Three months ended March 31,		Cumulative from June 8, 2011 (Inception) through March 31,
	2014	2013	2014
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock, net of issuance cost of \$52	\$ —	\$ —	\$ 31,148
Proceeds from issuance of common stock, net of issuance cost of \$39	—	—	44,962
Proceeds from issuance (repayment) of note payable—related party	—	—	—
Proceeds from issuance of preferred stock	—	—	1,800
Proceeds from issuance of common stock	—	—	5,145
Exercise of stock options	1,531	9	3,014
Exercise of warrants	1,265	165	14,130
<b>Net cash provided by financing activities</b>	<b>2,796</b>	<b>174</b>	<b>100,199</b>
Effect of exchange rate changes on cash and cash equivalents	1	6	162
Increase (decrease) in cash and cash equivalents	(5,768)	(7,832)	27,818
Cash and cash equivalents at beginning of period	33,586	56,960	—
Cash and cash equivalents at end of period	<u>\$ 27,818</u>	<u>\$ 49,128</u>	<u>\$ 27,818</u>
<b>Supplemental disclosure of cash flows information</b>			
Interest paid	—	—	17
Income taxes paid	—	3	41
<b>Non-cash investing and financing transactions</b>			
Non-cash acquisition of cost method investment	787	—	787
Non-cash acquisition of patents through issuance of common stock shares	—	—	750
Conversion of Series A Convertible Preferred stock, classified as mezzanine equity, into common stock, prior to the Merger	—	—	76
Conversion of Series A Convertible Preferred stock, classified as mezzanine equity, into common stock, upon Merger	—	—	1,724
Conversion of Series A Convertible Preferred stock, classified as equity, into common stock, post-Merger	—	—	201
Conversion of derivative warrants into common stock	746	69	12,221
Conversion of derivative warrants into equity warrants	—	—	3,918
<b>(1) Cash acquired as part of acquisition of Vringo</b>			
Working capital (excluding cash and cash equivalents)			\$ 740
Long-term deposit			(8)
Fixed assets, net			(124)
Goodwill			(65,965)
Technology			(10,133)
Fair value of Legal Parent's shares of common stock and vested \$0.01 options			58,211
Fair value of warrants and vested stock options			17,443
Long-term liabilities			3,162
			<u>\$ 3,326</u>

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

**Vringo, Inc. and Subsidiaries**  
**(a Development Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(In thousands, except for share and per share data)**

**Note 1. General**

Vringo, Inc., together with its consolidated subsidiaries (the “Company”), is engaged in the development and monetization of intellectual property worldwide. The Company’s intellectual property portfolio consists of over 600 patents and patent applications covering telecom infrastructure, internet search and mobile technologies. The Company’s patents and patent applications have been developed internally and / or acquired from third parties. Prior to December 31, 2013, the Company operated a global platform for the distribution of mobile social applications and the services that it developed.

On July 19, 2012, Vringo, Inc., a Delaware corporation (“Vringo” or “Legal Parent”), closed a merger transaction (the “Merger”) with Innovate/Protect, Inc., a privately held Delaware corporation (“I/P”), pursuant to an Agreement and Plan of Merger, dated as of March 13, 2012 (the “Merger Agreement”), by and among Vringo, I/P and VIP Merger Sub, Inc., a wholly-owned subsidiary of Vringo (“Merger Sub”). Pursuant to the Merger Agreement, I/P became a wholly-owned subsidiary of Vringo through a merger of I/P with and into Merger Sub, and the former stockholders of I/P received shares of Vringo that constituted a majority of the outstanding shares of Vringo.

Immediately following the Merger, approximately 67.61% of the combined company was owned by I/P stockholders on a fully diluted basis, and as a result of this and other factors, I/P was deemed to be the acquiring company for accounting purposes and the transaction was accounted for as a reverse acquisition in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Accordingly, the Company’s financial statements for periods prior to the Merger reflect the historical results of I/P, and the Company’s financial statements for all periods from July 19, 2012 reflect the results of the combined company. Unless specifically noted otherwise, as used throughout these consolidated financial statements, the term “Company” refers to the combined company after the Merger, and the business of I/P before the Merger. The terms I/P and Vringo or Legal Parent refer to such entities’ standalone businesses prior to the Merger.

On February 18, 2014, the Company executed the sale of its mobile social application business to InfoMedia Services Limited (“Infomedia”), in exchange for an 8.25% ownership interest (refer to Note 5).

**Note 2. Accounting and Reporting Policies**

***(a) Basis of presentation and principles of consolidation***

The accompanying consolidated financial statements include the accounts of the Legal Parent, I/P and their wholly-owned subsidiaries, and are presented in accordance with instructions to Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. GAAP. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2013 included in the Company’s Annual Report on Form 10-K. The results of operations for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the entire fiscal year or for any other interim period. All significant intercompany balances and transactions have been eliminated in consolidation.

***b) Use of estimates***

The preparation of accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from such estimates. Significant items subject to such estimates and assumptions include the valuation of the assets acquired and the liabilities assumed as part of the Merger, the useful lives of the Company’s tangible and intangible assets, the valuation of the Company’s derivative warrants, the valuation of stock-based compensation, the valuation of goodwill, deferred tax assets and liabilities, income tax uncertainties and other contingencies.



**(c) Development stage enterprise**

The Company's principal activities to date have been focused on development and enforcement of its intellectual property. To date, the Company has not generated significant revenues from its planned principal operations. Accordingly, the Company's consolidated financial statements are presented as those of a development stage enterprise.

**(d) Translation into U.S. dollars**

The Company conducts significant transactions in foreign currencies, which are recorded at the exchange rate as of the transaction date. All exchange gains and losses occurring from the remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected as non-operating income or expense in the consolidated statements of operations.

**(e) Cash and cash equivalents**

The Company invests its cash in money market deposits and money market funds with financial institutions. The Company has established guidelines relating to diversification and maturities of its investments in order to minimize credit risk and maintain high liquidity of funds. All highly liquid investments with original maturities of three months or less at acquisition date are considered cash equivalents.

**(f) Derivative instruments**

The Company recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values. The Company's derivative instruments include its Special Bridge Warrants, Conversion Warrants, Preferential Reload Warrants and certain of its Series 1 Warrants (as defined in Note 8), all of which have been recorded as a liability at fair value, and are revalued at each reporting date, with changes in the fair value of the instruments included in the consolidated statements of operations as non-operating income (expense).

**(g) Revenue recognition**

Revenue from patent licensing and enforcement is recognized if collectability is reasonably assured, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and delivery of the service has been rendered. The Company uses management's best estimate of selling price for individual elements in multiple-element arrangements, where vendor specific evidence or third party evidence of selling price is not available.

Currently, the Company's revenue arrangements provide for the payment of contractually determined fees and other consideration for the grant of certain intellectual property rights related to the Company's patents. These rights 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 patents, (ii) the release of the licensee from certain claims, and (iii) the dismissal of any pending litigation. The intellectual property rights granted typically extend until the expiration of the related patents. Pursuant to the terms of these agreements, the Company has no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company's part to maintain or upgrade the related technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement, or upon receipt of the upfront payment. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, upon receipt of the upfront fee, and when all other revenue recognition criteria have been met.

**(h) Operating legal costs**

Operating legal costs mainly include the costs and expenses incurred in connection with the Company's patent licensing and enforcement activities, patent-related legal expenses paid to external patent counsel (including contingent legal fees), licensing and enforcement related research, consulting and other expenses paid to third parties, as well as internal payroll expenses and stock-based compensation.

**(i) Recently Issued Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which provides guidance on the presentation of unrecognized tax benefits. This guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective beginning January 1, 2014 and is to be applied prospectively with retroactive application permitted. The Company adopted this guidance as of January 1, 2014, as required. There was no material impact of the consolidated financial statements resulting from the adoption.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This guidance changes the criteria for reporting a discontinued operation while enhancing disclosures in this area. This standard will be effective for the Company beginning January 1, 2015. Early adoption of the standard is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company is currently evaluating the impact of the adoption on its consolidated financial statements.

**(j) Reclassification**

Certain balances have been reclassified to conform to presentation requirements including discontinued operations.

**Note 3. Computation of Net Loss per Common Share**

Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock plus dilutive potential common stock considered outstanding during the period. However, as the Company generated net losses in all periods presented, some potentially dilutive securities, that relate to the continuing operations, including certain warrants and stock options, were not reflected in diluted net loss per share, because the impact of such instruments was anti-dilutive. The table below presents the computation of basic and diluted net losses per common share:

	Three months ended March 31,		Cumulative from June 8, 2011 (Inception) through March 31, 2014
	2014	2013	
<b>Basic Numerator:</b>			
Loss from continuing operations attributable to shares of common stock	\$ (10,900)	\$ (10,859)	\$ (73,811)
Loss from discontinued operations attributable to shares of common stock	\$ (209)	\$ (1,105)	\$ (13,326)
<b>Net loss attributable to shares of common stock</b>	<b>\$ (11,109)</b>	<b>\$ (11,964)</b>	<b>\$ (87,137)</b>
<b>Basic Denominator:</b>			
Weighted average number of shares of common stock outstanding during the period	85,428,830	82,185,649	53,150,923
Weighted average number of penny stock options	28,840	203,704	105,005
<b>Basic common stock shares outstanding</b>	<b>85,457,670</b>	<b>82,389,353</b>	<b>53,255,928</b>
Basic loss per common stock share from continuing operations	\$ (0.13)	\$ (0.13)	\$ (1.39)
Basic loss per common stock share from discontinued operations	\$ (0.00)	\$ (0.02)	\$ (0.25)
<b>Basic net loss per common stock share</b>	<b>\$ (0.13)</b>	<b>\$ (0.15)</b>	<b>\$ (1.64)</b>
<b>Diluted Numerator:</b>			
Net loss from continuing operations attributable to shares of common stock	\$ (10,900)	\$ (10,859)	\$ (73,811)
Increase in net loss attributable to derivative warrants	\$ —	\$ —	\$ (2,488)
<b>Diluted net loss from continuing operations attributable to shares of common stock</b>	<b>\$ (10,900)</b>	<b>\$ (10,859)</b>	<b>\$ (76,299)</b>
<b>Diluted net loss from discontinued operations attributable to shares of common stock</b>	<b>\$ (209)</b>	<b>\$ (1,105)</b>	<b>\$ (13,326)</b>
<b>Diluted net loss attributable to shares of common stock</b>	<b>\$ (11,109)</b>	<b>\$ (11,964)</b>	<b>\$ (89,625)</b>
<b>Diluted Denominator:</b>			
Basic common stock shares outstanding	85,457,670	82,389,353	53,255,928
Weighted average number of derivative warrants outstanding during the period	—	—	1,496,538
<b>Diluted common stock shares outstanding</b>	<b>85,457,670</b>	<b>82,389,353</b>	<b>54,752,466</b>
<b>Diluted loss per common stock share from continuing operations</b>	<b>\$ (0.13)</b>	<b>\$ (0.13)</b>	<b>\$ (1.39)</b>
<b>Diluted loss per common stock share from discontinued operations</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>	<b>\$ (0.25)</b>
<b>Diluted net loss per common stock share</b>	<b>\$ (0.13)</b>	<b>\$ (0.15)</b>	<b>\$ (1.64)</b>
<b>Net loss per share data presented excludes from the calculation of diluted net loss the following potentially dilutive securities, as they had an anti-dilutive impact:</b>			
Both vested and unvested options at \$0.96-\$5.50 exercise price, to purchase an equal number of shares of common stock of the Company	10,331,409	11,583,888	10,331,409
Unvested penny options to purchase an equal number of shares of common stock of the Company	—	12,125	—
Unvested Restricted Stock Units (“RSUs”) to issue an equal number of shares of common stock of the Company	1,890,738	3,336,375	1,890,738
Common stock shares granted, but not yet vested	14,331	77,193	14,331
Warrants to purchase an equal number of shares of common stock of the Company	17,708,713	18,769,114	14,812,508
<b>Total number of potentially dilutive instruments, excluded from the calculation of net loss per share</b>	<b>29,945,191</b>	<b>33,778,695</b>	<b>27,048,986</b>

#### Note 4. Business Combination

On July 19, 2012, I/P consummated the Merger with the Legal Parent, as also described in Note 1. The consideration consisted of various equity instruments, including: shares of common stock, options, preferred stock and warrants. The purpose of the Merger was to increase the combined company's intellectual property portfolio and array of products, to gain access to capital markets, and for other reasons. Upon completion of the Merger, (i) all then outstanding 6,169,661 common stock shares of I/P, par value \$0.0001 per share, were exchanged for 18,617,569, shares of the Company's common stock, par value \$0.01 per share, and (ii) all outstanding shares of Series A Convertible Preferred Stock of I/P, par value \$0.0001 per share, were exchanged for 6,673 shares of the Legal Parent's Series A Convertible Preferred Stock, par value \$0.01 per share, which shares were convertible into 20,136,445 shares of common stock of the Legal Parent. In addition, the Legal Parent issued to the holders of I/P capital stock an aggregate of 15,959,838 warrants to purchase an aggregate of 15,959,838 shares of the Company's common stock with an exercise price of \$1.76 per share. The Company recorded such warrants as a derivative long-term liability in the total amount of \$21,954 (refer to Note 8). In addition, all outstanding and unexercised options to purchase I/P common stock, whether vested or unvested, were converted into 41,178 options to purchase the Company's common stock. Immediately following the completion of the Merger, the former stockholders of I/P owned approximately 55.04% of the outstanding common stock of the combined company (or 67.61% of the outstanding shares of the Company's common stock, calculated on a fully diluted basis), and the Legal Parent's stockholders prior to the Merger owned approximately 44.96% of the outstanding common stock of the combined company (or 32.39% of the outstanding shares of its common stock calculated on a fully diluted basis). For accounting purposes, I/P was identified as the accounting "acquirer," as it is defined in FASB Accounting Standards Codification ("ASC") 805, *Business Combinations*. The total purchase price of \$75,654 was allocated to the assets acquired and liabilities assumed of the Legal Parent. Registration and issuance cost, in the total amount of \$463, was recorded against the additional paid-in capital.

	Allocation of purchase price
Current assets, net of current liabilities	\$ 2,586
Long-term deposit	8
Property and equipment	124
Acquired technology	10,133
Goodwill	65,965
Total assets acquired, net	78,816
Fair value of outstanding warrants granted by Legal Parent prior to the Merger, classified as a long-term derivative liability	(3,162)
Total liabilities assumed, net	(3,162)
	75,654
Measurement of consideration:	
Fair value of vested stock options granted to employees, management and consultants, classified as equity	7,364
Fair value of outstanding warrants granted by the Legal Parent prior to the Merger, classified as equity	10,079
Fair value of Vringo shares of common stock and vested \$0.01 options granted to employees, management and consultants	58,211
Total estimated purchase price	\$ 75,654

The fair values of the identified intangible assets were estimated by the Company using an income approach valuation model. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. The goodwill recognized as a result of the acquisition is primarily attributable to the value of the workforce and other intangible asset arising as a result of operational synergies, products, and similar factors which could not be separately identified. The useful life of the intangible assets for amortization purposes was determined considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors including legal, regulatory, contractual, competitive economic or other factors that may limit the useful life of intangible assets. Goodwill recognized is not deductible for income tax purposes.

#### Note 5. Discontinued Operations and Assets Held For Sale

On December 31, 2013, the Company entered into a definitive asset purchase agreement with Infomedia for the sale of all assets and the assignment of all agreements related to the Company's mobile social application business. The closing of the transaction, which was subject to the satisfaction or waiver of certain conditions, occurred on February 18, 2014 ("Closing").

Upon Closing, in exchange for the assets and agreements related to the Company's mobile social application business, the Company received 18 Class B shares of Infomedia, which represent an 8.25% ownership interest in Infomedia. Additionally, the Company's CEO was appointed as a full voting member on Infomedia's board of directors and the Company received a number of customary protective and anti-dilution rights. The Infomedia Class B shares were accounted for as a cost-method investment at the carrying amount of \$787 and are included in Other assets in the consolidated balance sheet as of March 31, 2014. During the quarter ended March 31, 2014, there were no events or changes in circumstances that would indicate that the carrying amount of this investment may no longer be recoverable.

In connection with the asset purchase agreement, a non-cash impairment loss of \$7,253 was recorded during the fourth quarter of 2013 and the requirement to report the results of the Company's mobile social application business as discontinued operations was triggered. The following table represents the components of operating results from discontinued operations, as presented in the consolidated statements of operations:

	Three months ended March 31,		Cumulative from Inception through
	2014	2013	March 31, 2014
Revenue	\$ 37	\$ 65	\$ 530
Operating expenses	(266)	(1,145)	(6,266)
Loss on impairment	—	—	(7,253)
Operating loss	(229)	(1,080)	(12,989)
Non-operating income (expense)	20	(9)	(25)
Loss before taxes on income	(209)	(1,089)	(13,014)
Income tax expense	—	(16)	(312)
Loss from discontinued operations	<u>\$ (209)</u>	<u>\$ (1,105)</u>	<u>\$ (13,326)</u>

In addition, the following table presents the carrying amounts of the major classes of assets from the discontinued mobile social application business in the Company's consolidated balance sheet as of December 31, 2013. These assets were transferred to Infomedia upon Closing. As of December 31, 2013, there were no liabilities classified as held for sale and no liabilities were transferred to Infomedia upon Closing.

	As of December 31, 2013
Cash	\$ 48
Accounts receivable	102
Goodwill at carrying amount of \$208, net of \$208 loss on impairment	—
Acquired technology at carrying amount of \$10,133, net of \$2,451 accumulated amortization and \$7,045 loss on impairment	637
<b>Total assets held for sale</b>	<b>\$ 787</b>

#### Note 6. Intangible Assets

	As of March 31, 2014	As of December 31, 2013	Weighted average amortization period (years)
Patents	28,213	28,213	8.3
Less: accumulated amortization	(6,422)	(5,465)	
	<b>\$ 21,791</b>	<b>\$ 22,748</b>	

The Company's intangible assets consist of its patents which are amortized over their expected useful lives (i.e., through the expiration date of the patent). During the quarters ended March 31, 2014 and 2013, the Company recorded amortization expense of \$957 and \$839, respectively, related to its intangible assets. The amortization expense for the three month period ended March 31, 2013 excludes \$416 of amortization expense recorded related to the Company's acquired technology which has been presented as discontinued operations. During the period from June 8, 2011 ("Inception") through March 31, 2014, total amortization expense of \$6,422 was recorded related to the Company's intangible assets, which excludes \$2,451 of amortization expense recorded related to the Company's acquired technology prior to December 31, 2013 that has been presented as discontinued operations.

#### Note 7. Fair Value Measurements

The Company measures fair value in accordance with FASB ASC 820-10, *Fair Value Measurements and Disclosures*. FASB ASC 820-10 clarifies that fair value is an exit price, representing the amount that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, FASB ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

**Level 2:** Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3 Inputs:** Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following table presents the placement in the fair value hierarchy of liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013:

		Fair value measurement at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative warrant liabilities	Balance			
As of March 31, 2014	\$ 4,413	—	—	\$ 4,413
As of December 31, 2013	\$ 4,083	—	—	\$ 4,083

The Company measures its derivative liabilities at fair value. The Special Bridge Warrants, Conversion Warrants, Preferential Reload Warrants and the derivative Series 1 Warrants (as defined in Note 8) are classified within Level 3 because they are valued using the Black-Scholes-Merton and the Monte-Carlo models (as these warrants include down-round protection clauses), which utilize significant inputs that are unobservable in the market.

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a non-recurring basis as of December 31, 2013 (there were no such assets or liabilities as of March 31, 2014):

	Fair value measurement at reporting date using			
	Balance	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets held for sale	\$ 787	\$ 150	—	\$ 637

In addition to the above, the Company's financial instruments as of March 31, 2014 and December 31, 2013 consisted of cash, cash equivalents, receivables, accounts payable and long term deposits. The carrying amounts of all the aforementioned financial instruments approximate fair value. The following table summarizes the changes in the Company's liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period from Inception through March 31, 2014:

	Level 3
Balance at Inception	\$ —
Balance at December 31, 2011	—
Derivative warrants issued to I/P's shareholders in connection with the Merger, July 19, 2012	21,954
Fair value of derivative warrants issued by Legal Parent	3,162
Fair value adjustment, prior to exercise of warrants, included in Consolidated Statement of Operations	156
Exercise of derivative warrants	(10,657)
Fair value adjustment at end of period, included in Consolidated Statement of Operations	(7,003)
Balance at December 31, 2012	7,612
Net impact of removal of down-round clause in Series 1 Warrant (refer to Note 8)	(2,300)
Fair value adjustment, prior to exercise of warrants, included in Consolidated Statement of Operations	9
Exercise of derivative warrants	(808)
Fair value adjustment at end of period, included in Consolidated Statement of Operations	(430)
Balance at December 31, 2013	\$ 4,083
Fair value adjustment, prior to exercise of warrants, included in Consolidated Statement of Operations	210
Exercise of derivative warrants	(746)
Fair value adjustment at end of period, included in Consolidated Statement of Operations	866
Balance at March 31, 2014	\$ 4,413

#### Valuation processes for Level 3 Fair Value Measurements

Fair value measurement of the derivative warrant liabilities related to the Special Bridge Warrants, Conversion Warrants, Preferential Reload Warrants and Series 1 Warrants (as defined in Note 8) fall within Level 3 of the fair value hierarchy. The fair value measurements are evaluated by management to ensure that changes are consistent with expectations of management based upon the sensitivity and nature of the inputs.

Description	Valuation technique	Unobservable inputs	Range
Special Bridge Warrants, Conversion Warrants, Preferential Reload Warrants and the outstanding derivative Series 1 Warrants	Black-Scholes-Merton and the Monte-Carlo models	Volatility	40.59% – 50.29%
		Risk free interest rate	0.09% – 1.05%
		Expected term, in years	0.75 – 3.30
		Dividend yield	0%
		Probability and timing of down-round triggering event	5% occurrence in December 2014

The fair value of the assets held for sale as of December 31, 2013 (refer to Note 5) was determined by estimating the present value of the expected future cash flows associated with that asset or asset group by using certain unobservable market inputs. These inputs included discount rates, estimated future cash flows and certain continuing growth rate assumptions. The discount rates are intended to reflect the risk inherent in the projected future cash flows generated by the respective asset or asset group. The inputs used in the valuation were sensitive to certain factors related to mobile social application technology such as rapid changes in the industry and technological advances.

***Sensitivity of Level 3 measurements to changes in significant unobservable inputs***

The inputs to estimate the fair value of the Company's derivative warrant liability are the current market price of the Company's common stock, the exercise price of the warrant, its remaining expected term, the volatility of the Company's common stock price, the Company's assumptions regarding the probability and timing of a down-round protection triggering event and the risk-free interest rate. Significant changes in any of those inputs in isolation can result in a significant change in the fair value measurement. Generally, an increase in the market price of the Company's common stock, an increase in the volatility of the Company's shares of common stock, an increase in the remaining term of the warrant, or an increase of a probability of a down-round triggering event would each result in a directionally similar change in the estimated fair value of the Company's warrants. Such changes would increase the associated liability while decreases in these assumptions would decrease the associated liability. An increase in the risk-free interest rate or a decrease in the positive differential between the warrant's exercise price and the market price of the Company's shares of common stock would result in a decrease in the estimated fair value measurement of the warrants and thus a decrease in the associated liability. The Company has not, and does not plan to, declare dividends on its common stock, and as such, there is no change in the estimated fair value of the warrants due to the dividend assumption.

**Note 8. Stockholders' Equity**

**(a) Common Stock**

The following table summarizes information about the Company's issued and outstanding common stock from Inception through March 31, 2014:

	Shares of common stock
<b>Balance as of June 8, 2011 (Inception)</b>	<b>—</b>
Grant of shares at less than fair value to officers, directors and consultants	8,768,014
Issuance of shares of common stock	8,204,963
<b>Balance as of December 31, 2011</b>	<b>16,972,977</b>
Conversion of Series A Preferred Convertible Preferred stock, classified as mezzanine equity	890,192
Grant of shares to consultants	265,000
Legal Parent's shares of common stock, recorded upon Merger	15,206,118
Exercise of 250,000 warrants, issued and exercised prior to the Merger	754,400
Post-Merger exercise of warrants	6,832,150
Exercise of stock options and vesting of RSUs	726,346
Conversion of Series A Preferred Convertible Preferred stock, classified as equity	20,136,445
Issuance of shares of common stock in connection with \$31,148 received in a private financing round, net of issuance cost of \$52	9,600,000
Issuance of shares of common stock in connection with \$44,962 received in a private financing round, net of issuance cost of \$39	10,344,998
Shares issued for acquisition of patents (refer to Note 4)	160,600
<b>Balance as of December 31, 2012</b>	<b>81,889,226</b>
Exercise of warrants	435,783
Exercise of stock options and vesting of RSUs	2,177,644
<b>Balance as of December 31, 2013</b>	<b>84,502,653</b>
Exercise of warrants	718,766
Exercise of stock options and vesting of RSUs	1,237,540
<b>Balance as March 31, 2014</b>	<b>86,458,959</b>

## (b) Equity Incentive Plan

In August 2011, I/P adopted its 2011 Equity and Performance Incentive Plan (the "I/P 2011 Plan"). The I/P 2011 Plan provided for the issuance of stock options and restricted stock to the Company's directors, employees and consultants. Cancelled, expired or forfeited grants may be reissued under the I/P 2011 Plan. The number of shares available under I/P 2011 Plan was subject to adjustments for certain changes. Following the Merger with the Legal Parent, the I/P 2011 Plan was assumed by the Company.

On July 19, 2012, following the Merger with the Legal Parent, the Company's stockholders approved the 2012 Employee, Director and Consultant Equity Incentive Plan ("2012 Plan"), replacing the existing 2006 Stock Option Plan of the Legal Parent, and the remaining 9,100,000 authorized shares thereunder were cancelled. The Company's 2012 Plan was approved in order to ensure full compliance with legal and tax requirements under U.S. law. The number of shares subject to the 2012 Plan is the sum of: (i) 15,600,000 shares of common stock, which constitutes 6,500,000 new shares and 9,100,000 previously authorized but unissued shares under the 2006 Stock Option Plan and (ii) any shares of common stock that are represented by awards granted under the Legal Parent's 2006 Stock Option Plan that are forfeited, expired or are cancelled without delivery of shares of common stock or which result in the forfeiture of shares of common stock back to the Company, or the equivalent of such number of shares after the administrator, in its sole discretion, has interpreted the effect of any stock split, stock dividend, combination, recapitalization or similar transaction in accordance with the 2012 Plan; provided, however, that no more than 3,200,000 shares shall be added to the 2012 Plan. As of March 31, 2014, 3,647,837 shares were available for future grants under the 2012 Plan.

## (c) Stock options and RSUs

The following table illustrates the stock options granted for the three month period ended March 31, 2014:

Title	Grant date	No. of options	Exercise price	FMV at grant date	Vesting terms	Assumptions used in Black-Scholes option pricing model
Directors, Management, and Employees	February 2014	1,025,000	\$ 4.10	\$ 4.10	Over 1 year for Directors; Over 3 years for Management and Employees	Volatility: 57.75% – 61.17% Risk free interest rate: 1.82% - 1.96% Expected term, in years: 5.31-5.81 Dividend yield: 0.00%

Certain options granted to officers, directors and certain key employees are subject to acceleration of vesting of 75% - 100% (according to the agreement signed with each grantee), upon a subsequent change of control.

The following table summarizes information about stock options and RSU activity for the three month period ended March 31, 2014:

	RSUs		Options			
	No. of RSUs	Weighted average grant date fair value	No. of options	Weighted average exercise price	Exercise price range	Weighted average grant date fair value
Outstanding at January 1, 2014	2,161,403	\$ 3.61	10,457,159	\$ 3.23	\$0.01 – \$5.50	\$ 2.50
Granted	—	—	1,025,000	\$ 4.10	\$ 4.10	\$ 2.21
Vested/Exercised	(267,539)	\$ 3.60	(970,001)	\$ 2.00	\$0.01 – \$3.72	\$ 1.42
Forfeited	(3,125)	\$ 3.72	(93,750)	\$ 3.72	\$ 3.72	\$ 2.20
Expired	—	—	(66,166)	\$ 5.41	\$4.50 – \$5.50	\$ 2.48
Outstanding at March 31, 2014	1,890,739	\$ 3.62	10,352,242	\$ 3.41	\$0.01 – \$5.50	\$ 2.32
Exercisable at March 31, 2014	—	—	5,716,131	\$ 3.32	\$0.01 – \$5.50	—

The Company did not recognize tax benefits related to its stock-based compensation as there is a full valuation allowance recorded.

## (d) Warrants

The following table summarizes information about warrant activity for the three month period ended March 31, 2014:

	No. of warrants	Weighted average exercise price	Exercise price range
Outstanding at January 1, 2014	18,427,478	\$ 3.15	\$ 0.94 – \$5.06
Exercised	(718,766)	\$ 1.76	\$ 1.76
Outstanding at March 31, 2014	17,708,712	\$ 3.21	\$ 0.94 – \$5.06



The Company's outstanding warrants consisted of the following:

**(1) Series 1 and Series 2 Warrants**

As part of the Merger, on July 19, 2012, the Legal Parent issued to I/P's stockholders 8,299,115 warrants at an exercise price of \$1.76 per share and contractual term of 5 years ("Series 1 Warrant"). These warrants bear down-round protection clauses and as a result, they were initially classified as a long-term derivative liability and recorded at fair value. In addition, I/P's stockholders received another 7,660,722 warrants at an exercise price of \$1.76 per share and contractual term of 5 years ("Series 2 Warrant"). As the Series 2 Warrants do not have down-round protection clauses, they were classified as equity.

As part of the issuance of October 2012 Warrants, the down-round protection clause in 2,173,852 then outstanding Series 1 Warrants was removed. Because such warrants were no longer subject to down-round protection they were re-measured at fair value and classified as equity instruments. The overall impact of the removal of the down-round warrant protection, which was not material, was recorded during the year ended December 31, 2013. As a result, during the year ended December 31, 2013, the Company recorded an additional non-operating expense of \$1,617, and re-classified \$3,918 from derivative warrant liabilities to stockholders' equity.

During the quarter ended March 31, 2014, 328,760 Series 1 Warrants and 352,532 Series 2 Warrants were exercised. From Inception and through March 31, 2014, 5,150,307 Series 1 Warrants and 1,678,592 Series 2 Warrants were exercised.

**(2) Conversion Warrants, Special Bridge Warrants and Reload Warrants**

On July 19, 2012, the date of the Merger, the Legal Parent's outstanding warrants included: (i) 148,390 derivative warrants, at an exercise price of \$0.94 per share, with a remaining contractual term of 2.44 years (the "Special Bridge Warrants"); (ii) 101,445 derivative warrants, at an exercise price of \$0.94 per share, with a remaining contractual term of 2.44 years (the "Conversion Warrants"); (iii) 887,330 derivative warrants, at an exercise price of \$1.76 per share, with a remaining contractual term of 4.55 years (the "Preferential Reload Warrants"); and (iv) 814,408 warrants, classified as equity, at an exercise price of \$1.76 per share, with a remaining contractual term of 4.55 years (the "non-Preferential Reload Warrants").

During the quarter ended March 31, 2014, 37,474 non-Preferential Reload Warrants were exercised. During the period from Inception through March 31, 2014, 127,192 Special Bridge Warrants and 86,954 Conversion Warrants were exercised. From Inception and through March 31, 2014, 216,994 non-Preferential Reload Warrants and 726,721 Preferential Reload Warrants were exercised.

**(3) Initial Public Offering Warrants**

Upon completion of its initial public offering, in June 2010, the Legal Parent issued 4,784,000 warrants at an exercise price of \$5.06 per share. These warrants are publicly traded and are exercisable until June 21, 2015, at an exercise price of \$5.06 per share. As of March 31, 2014, all of these warrants were outstanding and classified as equity instruments.

**(4) October 2012 Warrants**

On October 12, 2012, the Company entered into an agreement with certain of its warrant holders, pursuant to which, on October 23 and 24, 2012, the holders exercised in cash 3,721,062 of their outstanding warrants, with an exercise price of \$1.76 per share. In exchange, the Company granted such warrant holders unregistered warrants of the Company to purchase an aggregate of 3,000,000 shares of the Company's common stock, par value \$0.01 per share, at an exercise price of \$5.06 per share (the "October 2012 Warrants"). The contractual life of these warrants is 2.66 years and because such warrants do not bear any down-round protection clauses they were classified as equity instruments. October 2012 Warrants were valued using the following assumptions: volatility: 68.1%, share price: \$3.50-\$3.77, risk free interest rate: 0.724% and dividend yield: 0%. The fair value of warrants issued in exchange for the exercise of the Company's derivative warrants was accounted for as an inducement, therefore an amount of \$2,883 was recorded as a non-operating expense. As of March 31, 2014, all October 2012 warrants were outstanding.

**Note 9. Revenue from Settlement and Licensing Agreement**

On May 30, 2013, the Company's subsidiary entered into a settlement and license agreement with Microsoft Corporation to resolve its patent litigation pending in the U.S. District Court for the Southern District of New York (I/P Engine, Inc. v. Microsoft Corporation, Case No. 1:13-cv-00688 (SDNY)). According to the agreement, Microsoft Corporation paid the Company \$1,000 and agreed to pay 5% of any future amount Google pays for its use of the patents acquired from Lycos. The parties also agreed to a limitation on Microsoft Corporation's total liability, which would not impact the Company unless the amounts received from Google substantially exceed the judgment previously awarded. In addition, the parties also entered into a patent assignment agreement, pursuant to which Microsoft Corporation assigned six patents to I/P Engine. The assigned patents relate to telecommunications, data management, and other technology areas.

## **Note 10. Commitments and Contingencies**

### **(a) Litigation and legal proceedings**

The Company retains the services of professional service providers, including law firms that specialize in intellectual property licensing, enforcement and patent law. These service providers are often retained on an hourly, monthly, project, contingent or a blended fee basis. In contingency fee arrangements, a portion of the legal fee is based on predetermined milestones or the Company's actual collection of funds. The Company accrues contingent fees when it is probable that the milestones will be achieved and the fees can be reasonably estimated.

The Company's subsidiaries have filed patent infringement lawsuits against the subsidiaries of ZTE Corporation in the United Kingdom, France, Germany, Australia, India, and Brazil and against ASUSTeK Computer, Inc. and ASUS Computer GmbH in Germany, Spain and India. In such jurisdictions, an unsuccessful plaintiff may be required to pay a portion of the other party's legal fees. Pursuant to negotiation with ZTE's United Kingdom subsidiary, the Company placed two written commitments, in November 2012 and May 2013, to ensure payment should a liability by Vringo Infrastructure arise as a result of the two cases it has filed. The defendants estimated the total possible liability to be no more than approximately \$2,900 for each case. In addition, ZTE's German subsidiary started three revocation (invalidity) proceedings against the Company; two in the first half of 2013 and one in the first quarter of 2014. Should ZTE be successful in any of those actions, the Company would liable for some portion of ZTE's fees. The total amount the Company would have to pay is a statutorily determined percentage based on the estimated the value in dispute for these proceedings. ZTE has estimated the value of the revocation proceeding at approximately \$1,700 for each of the three revocation cases on file; the Company assesses the likelihood of such payment as remote. The value of each of the four infringement proceedings against ZTE on file and of each of the two infringement proceedings against ASUS on file has been estimated at approximately \$1,400 by the Company. On May 5, 2014, the Company deposited a bond of approximately \$1,400 to allow it to enforce an injunction against ZTE. Should the injunction be successfully overturned on appeal, the Company may be obligated to compensate ZTE for any damages allegedly suffered as a result of the enforcement of the injunction, which would be ascertained through separate damages proceedings. Should the judgment which granted the injunction be affirmed on appeal, however, the amount paid as security would be returnable to the Company in full.

Pursuant to negotiations with ZTE's Australian subsidiary, the Company placed a written commitment in April 2014 to ensure payment should a liability by Vringo Infrastructure arise as a result of the case filed. The amount of such commitment cannot be reasonably estimated at this time and the Company assesses the likelihood of such payment as remote. In addition, in Brazil as a condition of the relief requested, the Company deposited approximately \$900 as a surety against the truth of allegations contained in the complaint. Unless ZTE is the prevailing party and proves that actual material damages were suffered while the requested relief was in place, the funds are returnable at the end of the litigation.

In addition, the Company may be required to grant additional written commitments, as necessary, in connection with its commenced proceedings against ZTE Corporation and its subsidiaries in various countries. It should be noted, however, that if the Company were successful on any court applications or the entirety of any litigation, ZTE Corporation would be responsible for a substantial portion of the Company's legal fees.

### **(b) Leases**

In July 2012, the Company signed a rental agreement for its corporate executive office in New York for an annual rental fee of approximately \$137 (subject to certain adjustments) which was to expire in September 2015. However in January 2014, the Company entered into an amended lease agreement with the landlord for a different office space within the same building. The initial annual rental fee for this new office is approximately \$403 (subject to certain future escalations and adjustments) beginning when the new office space is available which is expected to be the third quarter of 2014. This lease will expire five years and three months after the new office space is available. Rent expense for operating leases for the quarters ended March 31, 2014, and 2013, and cumulative from Inception until March 31, 2014 was \$112, \$53 and \$473, respectively.

## **Note 11. Risks and Uncertainties**

- (a) New legislation, regulations or rulings that impact the patent enforcement process or the rights of patent holders, could negatively affect the Company's current business model. For example, limitations on the ability to bring patent enforcement claims, limitations on potential liability for patent infringement, lower evidentiary standards for invalidating patents, increases in the cost to resolve patent disputes and other similar developments could negatively affect the Company's ability to assert its patent or other intellectual property rights.
- (b) The patents owned by the Company are presumed to be valid and enforceable. As part of the Company's ongoing legal proceedings, the validity and/or enforceability of its patents is often challenged in a court or an administrative proceeding. To date, none of the Company's patents have been declared to be invalid or unenforceable.

- (c) Financial instruments which potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains its cash and cash equivalents with various major financial institutions. These major financial institutions are located in the United States and the Company's policy is designed to limit exposure to any one institution.
  
- (d) A portion of the Company's expenses are denominated in foreign currencies. If the value of the U.S. dollar weakens against the value of these currencies, there will be a negative impact on the Company's operating costs. In addition, the Company is subject to the risk of exchange rate fluctuations to the extent it holds monetary assets and liabilities in these currencies.

**Note 12. Subsequent Events**

On April 28, 2014, Vringo Infrastructure, Inc., a wholly-owned subsidiary of Vringo, Inc., entered into a confidential agreement with Tyco to resolve litigation on mutually acceptable terms that was pending between the parties in the United States District Court for the Southern District of Florida and the Regional Court of Mannheim, Germany.

On May 6, 2014, the United States Court of Appeals for the Federal Circuit heard oral argument in I/P Engine, Inc., Plaintiff-Cross Appellant v. AOL Inc., Google Inc., IAC Search & Media, Inc., Gannett Company, Inc. and Target Corporation, Defendants-Appellants, Appeal Nos. 13-1307 and 13-1313. The Court's decision in the case is pending as of the filing date of this Form 10-Q.

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

*This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained herein that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipates,” “believes,” “can,” “continues,” “could,” “estimates,” “expects,” “intends,” “may,” “will be,” “plans,” “projects,” “seeks,” “should,” “targets,” “will,” “would,” and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included in our Annual Report on Form 10-K filed on March 10, 2014 and any future reports we file with the Securities and Exchange Commission. The forward-looking statements set forth herein speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements, except as required by law.*

*All references in this Quarterly Report on Form 10-Q to “we,” “us” and “our” refer to Vringo, Inc., a Delaware corporation, and its consolidated subsidiaries for periods after the closing of the Merger, and to I/P and its consolidated subsidiaries for periods prior to the closing of the Merger unless the context requires otherwise.*

### Overview

Vringo, Inc. (“Vringo”) strives to develop, acquire, license and protect innovation worldwide. We are currently focused on identifying, generating, acquiring, and deriving economic benefits from intellectual property assets. We plan to continue to expand our portfolio of intellectual property assets through acquiring and internally developing new technologies. We intend to monetize our technology portfolio through a variety of value enhancing initiatives, including, but not limited to:

- licensing,
- strategic partnerships, and
- litigation.

We were incorporated in Delaware on January 9, 2006 and commenced operations during the first quarter of 2006. In March 2006, we formed a wholly-owned subsidiary, Vringo (Israel) Ltd., for the primary purpose of providing research and development services. On July 19, 2012, Innovate/Protect, Inc. (“I/P”) merged with us through an exchange of equity instruments of I/P for those of Vringo (the “Merger”). The Merger was accounted for as a reverse acquisition pursuant to which I/P was considered the accounting acquirer of Vringo. As such, the financial statements of I/P are treated as the historical financial statements of the combined company, with the results of Vringo included from July 19, 2012 (the effective date of the Merger) through December 31, 2013. Moreover, common stock amounts presented for comparative periods differ from those previously presented by I/P, due to application of accounting requirements applicable to a reverse acquisition. The accompanying unaudited consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). All significant intercompany balances and transactions have been eliminated in consolidation.

We are a development stage company and until now, we have not yet generated any significant revenues. From the inception of I/P on June 8, 2011 (“Inception”) to date, we have raised approximately \$100,199,000, which has been used to finance our operations.

### Our Strategy

We manage an intellectual property portfolio consisting of over 600 patents and patent applications, covering telecom infrastructure, internet search and mobile technologies. These patents and patent applications have been developed internally and acquired from third parties. We innovate, acquire, license and protect technology and intellectual property rights worldwide. We seek to expand our portfolio of intellectual property through acquisition and development both internally and with third parties. Our goal is to partner with innovators of compelling technologies.

In potential acquisitions, we seek to purchase all of, or interests in, technology and intellectual property in exchange for cash, our securities and/or interests in the monetization of those assets. Our revenue from this aspect of our business can be generated through licensing and litigation efforts. We engage in robust due diligence and a principled risk underwriting process to evaluate the merits and potential value of any acquisition or partnership. We seek to structure the terms of our acquisitions and partnerships in a manner that will achieve the highest risk-adjusted returns possible. We believe that our capital resources and potential access to capital, together with the experience of our management team and board of directors, will allow us to assemble a portfolio of quality assets with short and long-term revenue opportunities.

## **Intellectual Property**

### **Search Patents**

In June 2011, I/P Engine acquired eight patents from Lycos, Inc. ("Lycos") through its wholly-owned subsidiary, I/P Engine. On September 15, 2011, I/P Engine initiated litigation in the United States District Court, Eastern District of Virginia, against Google Inc., and certain of its customers ("Defendants") for infringement of two of the patents acquired from Lycos.

On November 6, 2012, a jury in Norfolk, Virginia unanimously returned a verdict in favor of I/P Engine. The jury verdict is available at <http://bit.ly/QBRt5S>. On November 20, 2012, the District Court issued a ruling that asserted patents were not invalid as obvious, and the Court entered final judgment which can be found at <http://bit.ly/1hq1UpD>.

On January 3, 2014, the District Court ordered that I/P Engine recover an additional sum from the Defendants for supplemental damages and prejudgment interest. This ruling can be found at <http://bit.ly/1iRY5rc>. On January 21, 2014, the District Court ruled that the Defendants' alleged design-around was "nothing more than a colorable variation of the system adjudged to infringe," and accordingly I/P Engine "is entitled to ongoing royalties as long as [the] Defendants continue to use the modified system." This ruling can be found at <http://bit.ly/1rpVeZp>. On January 28, 2014, the District Court ruled that the appropriate ongoing royalty rate for Defendants' continued infringement of the patents-in-suit that "would reasonably compensate [I/P Engine] for giving up [its] right to exclude yet allow an ongoing willful infringer to make a reasonable profit" is a rate of 6.5% of the 20.9% royalty base previously set by the District Court.

Both I/P Engine and the Defendants have appealed the case to the U.S. Court of Appeals for the Federal Circuit. The case number for the District Court case is 2:11 CV 512-RAJ. The case numbers for the cases in the Court of Appeals for the Federal Circuit are 13-1307, 13-1313, 14-1233 and 14-1289. On May 6, 2014, the United States Court of Appeals for the Federal Circuit heard oral argument in I/P Engine, Inc., Plaintiff-Cross Appellant v. AOL Inc., Google Inc., IAC Search & Media, Inc., Gannett Company, Inc. and Target Corporation, Defendants-Appellants, Appeal Nos. 13-1307 and 13-1313. The Court's decision in the case is pending as of the filing date of this Form 10-Q.

Requests for reexamination are a standard tactic used by defendants in patent litigation cases. Google has filed four separate requests for reexamination of the two asserted patents at the USPTO, with the two requests on one of the patents being merged. To date, three of the reexaminations have been resolved in I/P Engine's favor. One reexamination remains pending and I/P Engine continues to vigorously defend the validity of its patent before the USPTO. Documents regarding USPTO proceedings are publicly available on the Patent Application Information Retrieval website, <http://portal.uspto.gov/pair/PublicPair>, which is operated by the USPTO.

On January 31, 2013, I/P Engine initiated litigation in the United States District Court, Southern District of New York, against Microsoft Corporation ("Microsoft"). On May 30, 2013, I/P Engine entered into a settlement and license agreement with Microsoft to resolve the litigation. According to the agreement, Microsoft paid I/P Engine \$1,000,000 and agreed to pay 5% of any future amount Google pays for its use of the patents acquired from Lycos. The parties also agreed to a limitation on Microsoft's total liability, which would not impact us unless the amounts received from Google substantially exceed the judgment previously awarded. In addition, the parties entered into a patent assignment agreement, pursuant to which Microsoft assigned six patents to I/P Engine. The assigned patents relate to telecommunications, data management, and other technology areas. The case number was 1:13 CV 00688.

### **Infrastructure Patents**

On August 9, 2012, we entered into a patent purchase agreement with Nokia Corporation ("Nokia"), comprising of 124 patent families with counterparts world-wide. The total consideration paid for the portfolio was \$22,000. Under the terms of the purchase agreement, to the extent that the gross revenue generated by such portfolio exceeds \$22,000, the Company is obligated to pay a royalty of 35% of such excess. The portfolio encompasses technologies relating to telecom infrastructure, including communication management, data and signal transmission, mobility management, radio resources management and services. Declarations were filed by Nokia indicating that 31 of the 124 patent families acquired may be essential to wireless communications standards. Copies of the declarations are available on our website at [http://www.vringoip.com/documents/FG/vringo/ip/99208\\_Nokia\\_ETSI\\_Declarations.pdf](http://www.vringoip.com/documents/FG/vringo/ip/99208_Nokia_ETSI_Declarations.pdf).

As one of the means of realizing the value of the patents on telecom infrastructure, our wholly-owned subsidiaries, Vringo Infrastructure, Inc. ("Vringo Infrastructure"), Vringo, Inc. and Vringo Germany GmbH ("Vringo Germany") have filed a number of suits against ZTE Corporation ("ZTE"), ASUSTeK Computer Inc. ("ASUS"), ADT Corporation ("ADT") and Tyco Integrated Security, LLC ("Tyco") and their subsidiaries and affiliates in the United States, European jurisdictions, India, Australia and Brazil, alleging infringement of certain U.S., European, Indian, Australian and Brazilian patents.

## ZTE

### *United Kingdom*

On October 5, 2012, Vringo Infrastructure, filed a suit in the UK High Court of Justice, Chancery Division, Patents Court, alleging infringement of certain European patents. Subsequently, ZTE responded to the complaint on December 19, 2012 with a counterclaim for invalidity of the patents in suit. Vringo Infrastructure filed a further UK suit on December 3, 2012, alleging infringement of additional European patents. In the first UK suit, trial is scheduled for October 2014 and in the second UK suit, trial is scheduled for June 2015.

### *Germany*

On November 15, 2012, Vringo Germany filed a suit in the Mannheim Regional Court in Germany, alleging infringement of a European patent. The litigation was expanded to include a second European patent on February 21, 2013. On November 4, 2013, we filed a further brief with respect to the proceedings of the first European patent suit, asserting infringement by ZTE eNode B infrastructure equipment used in 4G networks.

The hearing for the first European patent case has been postponed by mutual agreement with ZTE; no date has been set for reinstatement. On December 17, 2013, the Court issued its judgment in the second European patent case, finding that ZTE infringed that patent and ordered an accounting and an injunction upon payment of the appropriate bonds. On February 19, 2014, Vringo Germany filed suit in the Mannheim Regional Court seeking enforcement of the accounting ordered and a further order that non-compliance be subject to civil and criminal penalties. On May 5, 2014, we paid a bond of approximately \$1,400,000 to the Court in order to enforce the injunction against ZTE. Trial in the suit to enforce the accounting is scheduled for September 2014.

On December 27, 2013, ZTE filed a notice of appeal of the Mannheim Regional Court's judgment in the second European patent case, and on January 24, 2014, ZTE filed an emergency motion with the Court of Appeals seeking a stay of the judge's order pending appeal. On February 24, 2014, ZTE's motion was denied.

On September 13, 2013 and January 28, 2014, Vringo Germany filed two suits in the Regional Court of Düsseldorf, alleging infringement of two additional European patents. Both cases are scheduled to be heard in November 2014. On April 23, 2014, Google commenced the process to intervene in the fourth filed suit as an interested third party. As a result of this process Google will be entitled to file defensive briefs in tandem with ZTE.

ZTE filed nullity suits with respect to the first and second European patents in the Federal Patents Court in Munich, Germany during the second and fourth quarters, respectively, of 2013. Trials in the nullity suits have not been scheduled but are not anticipated before the third quarter of 2014. In addition, ZTE filed a nullity suit with respect to the third European patent in the Federal Patents Court in Munich, Germany, in the fourth quarter of 2013. A schedule has not yet been set and the trial is not anticipated before the third quarter of 2015.

### *China*

In November and December 2012, ZTE filed reexamination requests in China against three Chinese patents owned by Vringo before the Patent Reexamination Board of the Patent Office of the People's Republic of China. On July 3, 2013, the patent rights for one of those patents was upheld. Oral hearings for the remaining two patents occurred on May 9, 2013 and December 23, 2013, respectively, for which the rulings are still pending. Between December 20 and December 28, 2013, ZTE filed four more additional reexamination requests against the four other Chinese patents owned by Vringo. Vringo's initial responses are due in early May 2014. The remaining schedule in these four new re-examinations is not yet available.

### *France*

On March 29, 2013, Vringo Infrastructure filed a patent infringement lawsuit in France in the Tribunal de Grande Instance de Paris, alleging infringement of the French part of two European patents. Vringo Infrastructure filed the lawsuit based on particular information uncovered during a seizure to obtain evidence of infringement, known as a saisie-contrefaçon, which was executed at two of ZTE's facilities in France. The oral hearing in relation to these patents has been scheduled for December 2014 before the 3<sup>rd</sup> division of the 3<sup>rd</sup> chamber of the Tribunal de Grande Instance de Paris (specializing in IP matters).

### *Australia*

On June 11, 2013, Vringo Infrastructure filed a patent infringement lawsuit in the Federal Court of Australia in the New South Wales registry, alleging infringement by ZTE of two Australian patents. We currently anticipate that the Court will set a trial date in the second half of 2014.

## *Spain*

On September 6, 2013, Vringo Infrastructure filed a preliminary inquiry order against ZTE in the Commercial Court of Madrid, Spain, requiring ZTE to provide discovery relating to alleged infringement of a patent which is the Spanish counter-part of the second European patent filed in Germany. In light of ZTE's non-responsiveness to the order, on March 24, 2014 the Court granted our request to seek discovery of four of ZTE's Spanish customers. To date, we have received responses from two of the four customers.

## *India*

On November 7, 2013, we, along with our subsidiary, Vringo Infrastructure, filed a patent infringement lawsuit in the High Court of Delhi at New Delhi, India, alleging infringement of an Indian patent related to CDMA. On November 8, 2013, the Court granted an ex-parte preliminary injunction and appointed commissioners to inspect ZTE's facilities and collect evidence. ZTE appealed the preliminary injunction and, on December 12, 2013, the appellate panel instituted an interim arrangement, requiring ZTE to file an accounting affidavit disclosing the number of CDMA devices sold by its entities in India, revenue derived therefrom, and other supporting documentation. The Court also required ZTE to pay a bond approximately \$800,000, directed Indian customs authorities to notify us when all relevant ZTE goods are imported into India, and required ZTE to give us the opportunity to inspect those goods. ZTE filed its accounting affidavit on January 13, 2014.

On February 3, 2014, we filed a motion for contempt for ZTE's failure to comply with the Court's order, and requested that the Court order ZTE to pay an increased bond. A hearing on the contempt motion is scheduled for May 20, 2014.

On January 31, 2014, we and our subsidiary, Vringo Infrastructure, filed a patent infringement lawsuit in the High Court of Delhi at New Delhi, alleging infringement of a second Indian patent related to GSM Infrastructure. The Court, finding a *prima facie* case of infringement, granted an ex-parte preliminary injunction, restraining ZTE and its officers, directors, agents, distributors and customers from importing, selling, offering for sale, advertising, installing, or operating any infringing products, and giving us the right to inspect any infringing goods arriving in India, which are to be detained by customs authorities. The judge granted the injunction after ruling that we would suffer an irreparable loss if such an injunction were not put into place. ZTE subsequently appealed the injunction. The court heard the parties' arguments and reserved decision. The injunction remains in place at least until the judge issues his decision.

## *Brazil*

On April 14, 2014, Vringo Infrastructure filed a patent infringement lawsuit in the 5th Trial Court of Rio de Janeiro State Court in Brazil, alleging infringement of a Brazilian patent related to 3G/4G/LTE infrastructure. On April 15, 2014, the court granted an ex-parte preliminary injunction restraining ZTE from manufacturing, using, offering for sale, selling, installing, testing, or importing such infrastructure equipment, subject to a fine. To enforce the injunction, the Company posted a bond of approximately \$900,000 with the court on April 17, 2014.

## **ASUS**

### *Germany*

On October 4, 2013 and January 29, 2014, Vringo Germany filed two patent infringement lawsuits against ASUS in the Düsseldorf Regional Court, alleging infringement of two European patents. The cases are scheduled to be heard in November 2014.

### *Spain*

On February 7, 2014, Vringo Infrastructure filed suit in the Commercial Court of Barcelona alleging infringement of a patent which is the Spanish counter-part of the first European patent filed in Germany. A schedule for the case has not yet been set.

### *India*

On April 15, 2014, Vringo Infrastructure filed suit in the High Court of Delhi, New Delhi alleging infringement of a patent related to use of dictionaries in search engines preloaded on certain ASUS devices. A schedule for the case has not yet been set.

## **ADT/Tyco**

On September 12, 2013, Vringo Infrastructure filed a patent infringement lawsuit against ADT and Tyco in the United States District Court for the Southern District of Florida.

On January 15, 2014, Vringo Germany filed a patent infringement lawsuit against Tyco in the Regional Court of Mannheim, alleging infringement of a European patent.

On January 28, 2014, Vringo Infrastructure entered into a confidential agreement with ADT that resolved the litigation pending between the parties in the United States District Court for the Southern District of Florida. On April 28, 2014, the Company entered into a confidential agreement with Tyco that resolved all pending litigation pending between the parties.

### **Sale of mobile social application business to InfoMedia Services Limited (“Infomedia”)**

On December 31, 2013, we entered into a definitive asset purchase agreement with Infomedia for the sale of certain assets (mostly comprised of acquired technology) and the assignment of certain agreements related to our mobile social application business. The closing of the transaction, which was subject to the satisfaction or waiver of certain conditions, occurred on February 18, 2014 (“Closing”). Upon Closing, in exchange for the assets and agreements related to our mobile social application business, we received 18 Class B shares of Infomedia, which represent an 8.25% ownership interest in Infomedia.

Infomedia is a privately owned, UK based, provider of customer relationship management and monetization technologies to mobile carriers and device manufacturers. As part of the transaction, we will have the opportunity to license certain intellectual property assets and support Infomedia to identify and protect new intellectual property. Additionally, Vringo’s CEO was appointed as a full voting member on Infomedia’s board of directors and we received a number of customary protective and anti-dilution rights.

In connection with this sale of our mobile social application business, an impairment loss of \$7,253,000 was recorded during the fourth quarter of 2013 representing the excess of the carrying value over the estimated fair value of the asset group.

### **Revenue**

Revenue from patent licensing and enforcement is recognized when collection is reasonably assured, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and delivery of the service has been rendered. We use management’s best estimate of selling price for individual elements in multiple-element arrangements, where vendor specific evidence or third party evidence of selling price is not available.

Currently, our revenue arrangements provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights related to our patents. These rights 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 patents, (ii) the release of the licensee from certain claims, and (iii) the dismissal of any pending litigation. The intellectual property rights granted may be perpetual in nature, extending until the expiration of the related patents, or can be granted for a defined, relatively short period of time, with the licensee possessing the right to renew the agreement at the end of each contractual term for an additional minimum upfront payment. Pursuant to the terms of these agreements, we have no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on our part to maintain or upgrade the related technology, or provide future support or services. Generally, the agreements provide for the grant of the licenses, covenants-not-to-sue, releases, and other significant deliverables upon execution of the agreement, or upon receipt of the minimum upfront payment for term agreement renewals. As such, the earnings process is complete and revenue is recognized upon the execution of the agreement, upon receipt of the minimum upfront fee for term agreement renewals, and when all other revenue recognition criteria have been met.

### **Operating legal costs**

Operating legal costs mainly include the costs and expenses incurred in connection with our patent licensing and enforcement activities, patent-related legal expenses paid to external patent counsel (including contingent legal fees), licensing and enforcement related research, consulting and other expenses paid to third parties, as well as internal payroll expenses and stock-based compensation.

### **Amortization of intangibles**

Amortization of intangibles represents the amortization expense of our acquired patents which is recognized on a straight-line basis over the remaining legal life of the patents.

### **Research and development expenses**

Research and development expenses consisted primarily of the cost of our development personnel, as well as of the cost of outsourced development services.



## General and administrative expenses

General and administrative expenses include management and administrative personnel, public and investor relations, overhead/office costs and various professional fees, as well as insurance, non-operational depreciation and amortization.

## Non-operating income (expenses)

Non-operating income (expenses) includes transaction gains (losses) from foreign exchange rate differences, interest on deposits, bank charges, as well as fair value adjustments of derivative warrant liabilities related to the Preferential Reload Warrants, Special Bridge Warrants, Conversion Warrants, and certain of our Series 1 Warrants. The value of such derivative warrants is highly influenced by assumptions used in its valuation, as well as by our stock price at the period end (revaluation date).

## Income taxes

Our effective tax rate differs from the statutory federal rate primarily due to differences between income and expense recognition prescribed by income tax regulations and generally accepted accounting principles. We utilize different methods and useful lives for depreciating and amortizing property and equipment and different methods and timing for certain expenses. Furthermore, permanent differences arise from certain income and expense items recorded for financial reporting purposes but not recognizable for income tax purposes. At March 31, 2014, deferred tax assets generated from our U.S. activities were mostly offset by a valuation allowance because realization depends on generating future taxable income, which, in our estimation, is not more likely than not to be generated before such net operating loss carryforwards expire.

Prior to the sale of our mobile social application business, our subsidiary in Israel generated net taxable income from services it provided to us. The subsidiary in Israel charged us for research, development, certain management and other services provided to us, plus a profit margin on such costs, which was 8%. In the zone where the production facilities of the subsidiary in Israel were located, the statutory tax rate was 12.5% in 2013. The deferred tax assets and liabilities generated from our subsidiary in Israel's operations are not offset by an allowance, as in our estimation, they are more likely than not to be realized.

## Results of Operations

*Three month period ended March 31, 2014 compared to the three month period ended March 31, 2013 and the development stage period (cumulative from Inception through March 31, 2014)*

### Revenue

	Quarter ended March 31,			Cumulative from Inception through March 31,
	2014	2013	Change	2014
Revenue	\$ 250,000	\$ —	\$ 250,000	\$ 1,450,000

During the quarter ended March 31, 2014, net cash used in operating activities totaled \$8,493,000. During the quarter ended March 31, 2013, net cash used in operating activities totaled \$4,872,000. The \$3,621,000 increase in net cash used in operating activities was mainly due to increased litigation costs described above, as well as an increase in cost of our in-house staff, which was expanded during the second half of 2013.

Cumulative revenue from Inception through March 31, 2014 also includes \$1,100,000 from a one-time payment in connection with the license and settlement agreement entered into with Microsoft and proceeds from a partial settlement with AOL during 2012 in the total amount of \$100,000.

We seek to generate revenue through the monetization of our intellectual property through licensing, strategic partnerships and litigation, when required, which may be resolved through a settlement or collection. We also intend to continue to expand our planned operations through acquisitions and monetization of additional patents, other intellectual property or operating businesses. In particular, following the incorporation of our subsidiary in Germany and the acquisition of a patent portfolio from Nokia, we intend to continue to expand our intellectual property monetization efforts worldwide.

We anticipate that our legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses. Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical.

### Operating legal costs

	Quarter ended March 31,			Cumulative from Inception through March 31,
	2014	2013	Change	2014
Operating legal costs	<u>\$ 4,875,000</u>	<u>\$ 5,399,000</u>	<u>\$ (524,000)</u>	<u>\$ 37,708,000</u>

During the quarter ended March 31, 2014, our operating legal costs were \$4,875,000, which represents a decrease of \$524,000 (or 9.7%) from operating legal costs recorded for the quarter ended March 31, 2013. This decrease was primarily due to the timing and nature of consulting and patent litigation costs related to legal proceedings against Google and ZTE. Further, we expanded our in-house legal department staff during the second half of 2013 which allowed for more cost efficiency during the current quarter. The overall decrease is partially offset by a slight increase in stock-based compensation costs (approximately \$50,000) due to our efforts to expand our in-house legal department staff.

From Inception through March 31, 2014, operating legal costs expenses amounted to \$37,708,000 which is primarily attributed to consulting and patent litigation costs in connection with our legal proceedings against Google and ZTE, payroll expense of our in-house legal department staff, and stock-based compensation to employees, management and consultants.

It is not certain whether our operating legal costs will increase over time. Though we aim to diversify our portfolio of products and increase our intellectual property monetization efforts, we have also increased the size of our in-house legal department staff as mentioned above. The goal is to decrease our overall legal expenses by bringing more work in-house, which we believe will cost less than outsourcing to external firms. There is no guarantee, however, that an in-house team will be less expensive or more efficient than outsourcing this work. Moreover, as we expand the scope of our monetization efforts, the amount of legal work will increase leading to a concomitant increase in our operating legal costs, regardless of if such work is performed in-house or outsourced.

### Amortization of intangibles

	Quarter ended March 31,			Cumulative from Inception through March 31,
	2014	2013	Change	2014
Amortization of intangibles	<u>\$ 957,000</u>	<u>\$ 839,000</u>	<u>\$ 118,000</u>	<u>\$ 6,422,000</u>

During the quarter ended March 31, 2014, amortization expense related to our intangibles was \$957,000 which represents an increase of \$118,000 (or 14.1%) from amortization of intangibles recorded for the quarter ended March 31, 2013. Currently, our intangible assets consist of our patent portfolios which are amortized over their remaining useful lives (i.e., through the expiration date of the patent). The increase during the current quarter was due to the additional patent portfolios that were acquired during 2013.

From Inception through March 31, 2014, amortization of intangibles amounted to \$6,422,000 which is related to our patent portfolios.

### Research and development

	Quarter ended March 31,			Cumulative from Inception through March 31,
	2014	2013	Change	2014
Research and development	<u>\$ 225,000</u>	<u>\$ 270,000</u>	<u>\$ (45,000)</u>	<u>\$ 2,280,000</u>

During the quarter ended March 31, 2014 and 2013, our research and development expenses amounted to \$225,000 and \$270,000, respectively. These amounts exclude research and development expenses related to our mobile social application business which is presented in discontinued operations. The decrease of \$45,000 (or 16.7%) is primarily due to a decrease in stock-based compensation costs of approximately \$27,000 related to the timing of vesting in connection with outstanding stock-based awards. In addition, there was a decrease in costs related to third party consultants who were no longer utilized in 2014.

From Inception through March 31, 2014, research and development expenses, in the total amount of \$2,280,000, consist primarily of labor related costs, consulting expenses, and related stock-based compensation costs.

As mentioned above, in February 2014, we sold our mobile social application business to Infomedia. As part of the sale agreement, our former remaining research and development personnel were assumed by Infomedia. Should we seek to introduce new products or new business opportunities, such as a merger or acquisition relating to our intellectual property or other technology, we expect that our research and development costs would increase.

**General and administrative**

	Quarter ended March 31,			Cumulative from Inception through March 31,
	2014	2013	Change	2014
General and administrative	\$ 4,018,000	\$ 3,991,000	\$ 27,000	\$ 30,759,000

During the quarter ended March 31, 2014, general and administrative expenses slightly increased by \$27,000 (or 0.7%), to \$4,018,000, compared to \$3,991,000 that was recorded during the quarter ended March 31, 2013. The overall increase in general and administrative expenses was primarily due to increased payroll expenses and an increase in depreciation expense related to our fixed assets. Such increases are due to our efforts to consolidate our executive management and finance functions under a centralized location. The overall increase is partially offset by a decrease in external corporate consulting costs (such as corporate legal consulting fees) in connection with our efforts to utilize our internal corporate staff. In addition, there was a decrease in stock-based compensation costs during the current quarter.

From Inception through March 31, 2014, general and administrative expenses amounted to \$30,759,000. This amount is primarily attributed to salaries and related payroll expenses, stock-based compensation expenses, and various professional fees.

We expect that our general and administrative expenses will increase, as our expenses will incorporate full costs of our management and administration, as well as increased office, accounting, legal and insurance costs. New merger and acquisition opportunities, should such arise, may also significantly increase our general and administrative costs.

**Non-operating income (expense), net**

	Quarter ended March 31,			Cumulative from Inception through March 31,
	2014	2013	Change	2014
Non-operating income (expense), net	\$ (1,075,000)	\$ (360,000)	\$ (715,000)	\$ 1,908,000

During the quarter ended March 31, 2014, we recorded non-operating expense in the amount of \$1,075,000 compared to non-operating expense in the amount of \$360,000 recorded in the quarter ended March 31, 2013. During the quarter ended March 31, 2014, we recorded approximately \$1,076,000 of expense related to an increase in the fair value of our derivative warrant liabilities.

During the cumulative period from Inception through March 31, 2014, as part of the issuance of October 2012 Warrants, the down-round protection clauses in certain then outstanding Series 1 Warrants were removed. The impact of the removal of the down-round warrant protection, which was not material, was recorded during the year ended December 31, 2013. As a result of the removal of the down-round warrant protection, we recorded an additional, non-operating expense of \$1,617,000 during the year ended December 31, 2013. Following the Merger, our non-operating income, net, included mainly the impact of changes in the fair value of derivative warrants, the fair value of which is highly affected by our share price at the measurement date. Consequently, as of December 31, 2012, we recorded income of \$6,847,000 due to the decrease of our share price, compared to the share price on the date of the Merger.

In addition, in October 2012, we entered into an agreement with certain of our warrant holders, pursuant to which such warrant holders exercised in cash 3,721,062 of their outstanding warrants, with an exercise price of \$1.76 per share, and we issued such warrant holders unregistered warrants to purchase an aggregate of 3,000,000 of our shares of common stock, par value \$0.01 per share, at an exercise price of \$5.06 per share. The newly issued warrants do not bear down-round protection clauses. As a result of this issuance, additional non-operational expense in the total amount of \$2,883,000 was recorded.

We expect that our non-operating income (expense) will remain highly volatile, and we may choose to fund our operations through additional financing. In particular, non-operating income (expense) will be affected by the adjustments to fair value of our derivative instruments. Fair value of these derivative instruments depends on a variety of assumptions, such as estimations regarding triggering of down-round protection and estimated future share price. An estimated increase in the price of our common stock increases the value of the warrants and thus results in a loss on our statement of operations. In addition, high estimated probability of a down-round protection increases the value of the warrants and again results in a loss on our statement of operations. Also refer to Note 8 to the accompanying unaudited consolidated financial statements.

**Loss from discontinued mobile social application operations**

	Quarter ended March 31,			Cumulative from
	2014	2013	Change	Inception through March 31, 2014
Revenue	\$ 37,000	\$ 65,000	\$ (28,000)	\$ 530,000
Operating expenses	(266,000)	(1,145,000)	879,000	(6,266,000)
Loss on impairment	—	—	—	(7,253,000)
Operating loss	(229,000)	(1,080,000)	851,000	(12,989,000)
Non-operating income (expense)	20,000	(9,000)	29,000	(25,000)
Loss before taxes on income	(209,000)	(1,089,000)	880,000	(13,014,000)
Income tax expense	—	(16,000)	16,000	(312,000)
Loss from discontinued operations	\$ (209,000)	\$ (1,105,000)	\$ 896,000	\$ (13,326,000)

On February 18, 2014, we executed the sale of our mobile social application business to Infomedia, in exchange for 18 Class B shares of Infomedia, which represent an 8.25% ownership interest. Additionally, Vringo's CEO was appointed as a full voting member on Infomedia's board of directors and we received a number of customary protective and anti-dilution rights. The Infomedia Class B shares are accounted for as a cost-method investment. Cash requirements for termination of mobile operations include mainly post-employment obligations, were incurred in the quarter ended March 31, 2014, and are considered to be immaterial. We expect the consummation of the sale agreement to reduce our annual cost and cash used in operations, by approximately \$3,000,000 per annum.

During the quarter ended March 31, 2014, we recorded \$37,000 revenue which represents a decrease of \$28,000 (or 43%) from revenues recorded for the quarter ended March 31, 2013.

During the quarter ended March 31, 2014, operating expenses decreased by \$879,000 (or 76.8%), to \$266,000, from \$1,145,000 recorded during the quarter ended March 31, 2013. This decrease is primarily due to the fact that there was no amortization related to acquired technology during the current quarter as the related asset was classified as held for sale as of December 31, 2013 and was subsequently sold to Infomedia in February 2014.

From Inception through March 31, 2014, loss from the discontinued mobile social application business amounted to \$13,326,000. This amount is primarily attributed to operating expenses such as salaries and related payroll expenses, stock-based compensation expenses, and various professional fees. In addition, during the fourth quarter of 2013, an impairment loss of \$7,253,000 was recorded in connection with the sale of our mobile social application business.

**Taxes on Income**

As of December 31, 2013, we had approximately \$88,204,000 in aggregate total net tax loss carryforwards ("NOL") for U.S. federal, state and local purposes expiring 20 years from the respective tax years to which they relate (beginning with 2006 for the Legal Parent and 2011 for I/P). The Tax Reform Act of 1986 imposed substantial restrictions on the utilization of NOL and tax credits in the event of an ownership change of a corporation. Thus, in accordance with Internal Revenue Code, Section 382, our initial public offering, financing activities, as well as the Merger, may limit the Company's ability to utilize all such NOL and credit carryforwards.

A valuation allowance has been recorded against the net deferred tax asset in the U.S., as it is in the opinion of the Company's management that it is more likely than not that the operating loss carryforwards will not be utilized in the foreseeable future. No valuation allowance has been provided for the deferred tax assets of the Israeli subsidiary, since they are more likely than not to be realized.

We file our tax returns in the U.S. federal jurisdiction, as well as in various state and local jurisdictions. Vringo, Inc. has open tax years for 2010 through 2013. As of March 31, 2014, all tax years for Innovate/Protect are still open. The Israeli subsidiary files its income tax returns in Israel. As of March 31, 2014, the Israeli subsidiary has open tax years for 2010 through 2013.

We did not have any material unrecognized tax benefits as of March 31, 2014. We do not expect to record any additional material provisions for unrecognized tax benefits within the next year.

## Liquidity and Capital Resources

As of March 31, 2014, we had a cash balance of \$27,818,000 and \$25,619,000 in net working capital. The decrease of \$5,768,000 in our cash balance from December 31, 2013, was mainly due to net cash used by us in our business operations of approximately \$8,493,000 during the quarter ended March 31, 2014. The majority of these expenditures consisted of costs related to our four litigation campaigns. In our case against Google et al., we incurred costs related to the preparation for the oral argument, which was heard before the United States Court of Appeals for the Federal Circuit on May 6, 2014, in addition to other related costs. In our cases against ZTE and ASUS, we incurred costs related to the preparation and filing of briefs and other court documents, as well as case preparation and management. A large percentage of these costs were incurred in the United Kingdom, Australia, Germany, and France. In civil law jurisdictions, such as Germany, France, Spain, and others, the majority of costs are incurred in the early stages of litigation and we anticipate that the costs in these jurisdictions will be lower in future periods. In our case against Tyco, we incurred costs related to the preparation and filing of briefs and other court documents, case preparation and management, and the worldwide resolution of litigation between the parties.

The overall decrease in our cash balance from expenditures related to our litigation campaigns was partially offset by approximately \$2,800,000 that was received in connection with the exercises of warrants and stock options that occurred during the quarter ended March 31, 2014, as described below. As of March 31, 2014, our total stockholders' equity was \$109,928,000 which mainly decreased by continuing operation deficits from Inception to date.

During the quarter ended March 31, 2014, a total of 718,766 warrants to purchase an aggregate of 718,766 shares of our common stock, at an exercise price range from \$0.94 to \$1.76 per share, were exercised by our warrant holders, pursuant to which we received \$1,265,000. In addition 1,237,540 options to purchase 1,237,540 shares of our common stock were exercised during the quarter ended March 31, 2014. As a result, we received \$1,531,000 through March 2014 and an additional \$413,000 in April 2014.

Based on current operating plans, we expect to have sufficient funds for our operations for at least the next twelve months. In addition, until we generate sufficient revenue, we may need to raise additional funds, which can be achieved through the exercise of our outstanding warrants and options, the issuance of additional equity or through loans from financial institutions. There can be no assurance, however, that any such opportunities will materialize.

We anticipate that we will continue to search for additional sources of liquidity, when needed, until we generate positive cash flows to support our operations. We cannot give any assurance that the necessary capital will be raised or that, if funds are raised, it will be on favorable terms. Any future sales of securities to finance our operations may require stockholder approval and will dilute existing stockholders' ownership. We cannot guarantee when or if we will ever generate positive cash flows.

## Cash flows

	Quarter ended March 31,			Cumulative
	2014	2013	Change	from Inception through March 31, 2014
Net cash used in operating activities	\$ (8,493,000)	\$ (4,872,000)	\$ (3,621,000)	\$ (47,954,000)
Net cash used in investing activities	\$ (72,000)	\$ (3,140,000)	\$ 3,068,000	\$ (24,589,000)
Net cash provided by financing activities	\$ 2,796,000	\$ 174,000	\$ 2,622,000	\$ 100,199,000

## Operating activities

During the quarter ended March 31, 2014, net cash used in operating activities totaled \$8,493,000. During the quarter ended March 31, 2013, net cash used in operating activities totaled \$4,872,000. The \$3,621,000 increase in net cash used in operating activities was mainly due to increased litigation costs described above, as well as an increase in cost of our in-house staff, which was expanded during the second half of 2013.

We expect our net cash used in operating activities to increase due to further development of our business. As we expect to move towards greater revenue generation, we expect that these amounts will be offset over time by the collection of revenues.

### **Investing activities**

During the quarter ended March 31, 2014, net cash used in investing activities totaled \$72,000. During the quarter ended March 31, 2013, net cash used in investing activities totaled \$3,140,000. The decrease in cash used in investing activities, in the total amount of \$3,068,000, was primarily due to the fact that we had invested in commercial paper during the quarter ended March 31, 2013 in the amount of \$3,120,000. This decrease is partially offset by an increase in fixed asset purchases during the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013.

We expect that net cash used in investing activities will increase as we intend to continue to acquire additional intellectual property assets and invest surplus cash, according to our investment policy.

### **Financing activities**

During the quarter ended March 31, 2014, net cash provided by financing activities totaled \$2,796,000, which relates to funds that we received from the exercises of warrants and stock options in the total amount of \$1,265,000 and \$1,531,000, respectively. During the quarter ended March 31, 2013, net cash provided by financing activities totaled \$174,000, which relates to funds received from the exercises of warrants and stock options in the total amount of \$165,000 and \$9,000, respectively.

A significant portion of our issued and outstanding warrants are currently “in the money” and the underlying shares of common stock held by non-affiliates are freely tradable, with the potential of up to \$17,438,086 of additional incoming funds as of March 31, 2014. We may choose to raise additional funds in connection with any acquisitions of patent portfolios or other intellectual property assets that we may pursue. There can be no assurance, however, that any such opportunity will materialize, and moreover, that any such financing would likely be dilutive to our current stockholders.

### **Future operations**

We are currently pursuing several potential strategic partners and have identified patent portfolios, other intellectual property assets and operating businesses that we may wish to acquire. In addition, we are continuing to explore further opportunities for strategic business alliances. However, there can be no assurance that any such opportunities will be consummated.

### **Off-Balance Sheet Arrangements**

From October 2012 through the filing date of this Form 10-Q, our subsidiaries filed patent infringement lawsuits against the subsidiaries of ZTE Corporation in the United Kingdom, France, Germany, Australia, India, and Brazil. Should we be deemed the losing party in any of its applications to the court in the UK, we may be held responsible for a portion of the defendant’s legal fees for the relevant application or for the litigation. Pursuant to negotiation with ZTE’s UK subsidiary, in the United Kingdom, we placed two written commitments to ensure the payment of a potential liability by Vringo Infrastructure resulting for the two cases filed in the fourth quarter of 2012 and second quarter of 2013, which the defendants estimated to be approximately \$2,900,000 each. In addition, we may be required to grant additional written commitments, as necessary, in connection with our commenced proceedings against ZTE Corporation in Europe, Brazil, India and Australia. It should be noted, however, that if we were successful on any court applications or the entirety of any litigation, ZTE Corporation would be responsible for a substantial portion of our legal fees.

Other than the arrangements described in the preceding paragraph, we have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

### **Contractual Obligations**

The following table summarizes our future contractual obligations beginning on April 1, 2014:

	<b>Remainder of 2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Operating leases	\$ 135,000	\$ 403,000	\$ 403,000	\$ 408,000	\$ 416,000	\$ 312,000	\$ 2,077,000

In July 2012, the Company signed a rental agreement for its corporate executive office in New York for an annual rental fee of approximately \$137,000 (subject to certain adjustments) which was to expire in September 2015. However in January 2014, the Company entered into an amended lease agreement with the landlord for newly renovated office within the same building. The initial annual rental fee for this new office is approximately \$403,000 (subject to certain future escalations and adjustments) beginning when the renovations are completed and the new office is available. Until the new office is available, the monthly rent payments are based on the previous annual rental fee. The lease for the New York office will expire 5 years and 3 months after the new office is available.

## Critical Accounting Estimates

While our significant accounting policies are more fully described in the notes to our audited consolidated financial statements for the year ended December 31, 2013, we believe the following accounting policies to be the most critical in understanding the judgments and estimates we use in preparing our consolidated financial statements.

### Impairment of Long-Lived Assets

Our long-lived assets include property and equipment and amortizable intangible assets. In assessing the recoverability of these long-lived assets, we must make estimates and assumptions regarding future cash flows and other factors to determine the fair value of the respective assets. These estimates and assumptions could have a significant impact on whether an impairment charge is recognized and also the magnitude of any such charge. Fair value estimates are made at a specific point in time, based on relevant information. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. If these estimates or material related assumptions change in the future, we may be required to record impairment charges related to our long-lived assets.

### Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually, and when triggering events occur, in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles - Goodwill and Other*. Based on our evaluation, we have one reporting unit for purposes of evaluating goodwill impairment.

We have the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If we can support the conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we would not need to perform the two-step impairment test for the reporting unit. If we cannot support such a conclusion or we do not elect to perform the qualitative assessment then the first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, then step two of the impairment test (measurement) does not need to be performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to an acquisition price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using certain valuation techniques in addition to our market capitalization.

We performed our annual impairment test of goodwill as of December 31, 2013. Based on this test, we did not recognize an impairment charge related to goodwill since the fair value of the reporting unit significantly exceeded its carrying value. The fair value as of December 31, 2013 was approximated to be \$250,127,000, exceeding the carrying value by 118%.

### Valuation of Financial Instruments

As of March 31, 2014, we had 21,198 Special Bridge Warrants and 14,491 Conversion Warrants at an exercise price of \$0.94, with a fair value of \$54,000 and \$37,000, respectively. In addition, we had 160,609 Preferential Reload Warrants and 1,974,957 Series 1 Warrants at an exercise price of \$1.76, with a fair value of \$313,000 and \$4,009,000, respectively. (Refer to Note 8 to the accompanying unaudited consolidated financial statements). The following table represents the assumptions, valuation models and inputs used, as of March 31, 2014:

Description	Valuation Technique	Unobservable Inputs	Range
Special Bridge Warrants, Conversion Warrants, Preferential Reload Warrants and the outstanding derivative Series 1 Warrants	Black-Scholes-Merton and the Monte-Carlo models	Volatility Risk free interest rate Expected term, in years Dividend yield Probability and timing of down-round triggering event	40.59% – 50.29% 0.09% – 1.05% 0.75 – 3.30 0% 5% occurrence in December 2014



Had we made different assumptions about the risk-free interest rate, volatility, the impact of the down-round provision, or the estimated time that the abovementioned warrants will be outstanding before they are ultimately exercised, the recorded expense, our net loss and net loss per share amounts could have been significantly different.

### ***Accounting for Stock-based Compensation***

We measure compensation cost for stock-based awards at fair value on the date of grant and recognize the cost over the service period in which the awards are expected to vest. For options granted to consultants, the measurement date of the option is the earlier of counterparty performance or performance commitment. Such options are revalued at every reporting date until the measurement date. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. Actual results may differ substantially from these estimates.

We determine the fair value of stock options granted to employees, directors and consultants using the Black-Scholes-Merton and the Monte-Carlo (for grants that include market conditions) valuation models. Those models require us to make significant assumptions regarding the expected stock price volatility, the risk-free interest rate and the dividend yield, and the estimated period of time option grants will be outstanding before they are ultimately exercised. Since the Merger occurred on July 19, 2012, we still lack sufficient history to use our own historical volatility; as a result, we estimate our expected stock volatility based on historical stock volatility from comparable companies. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant.

The various inputs and assumptions utilized in connection with our option pricing models are highly subjective. Had we made different assumptions about the risk-free interest rate, expected stock price, volatility, or the estimated time that the options will be outstanding before they are ultimately exercised, the recorded expense, our net loss and net loss per share amounts could have been significantly different.

### ***Accounting for Income Taxes***

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves management estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. As part of the Merger purchase price allocation, we recorded a deferred tax liability in connection with the acquired technology. This deferred tax liability was offset by a deferred tax asset in the same amount. The deferred tax asset in respect of the remaining tax loss carryforwards has been offset by a valuation allowance. Our lack of earnings history and the uncertainty surrounding our ability to generate U.S. taxable income prior to the expiration of such deferred tax assets were the primary factors considered by management in establishing the valuation allowance.

FASB ASC 740, *Income Taxes*, prescribes how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Additionally, for tax positions to qualify for deferred tax benefit recognition under ASC 740, the position must have at least a “more likely than not” chance of being sustained upon challenge by the respective taxing authorities, which criteria is a matter of significant judgment.

### ***Recently Adopted Accounting Pronouncements***

In July 2013, FASB issued Accounting Standards Update (“ASU”) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which provides guidance on the presentation of unrecognized tax benefits. This guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective beginning January 1, 2014 and is to be applied prospectively with retroactive application permitted. We have adopted this guidance as of January 1, 2014, as required. There was no material impact of the consolidated financial statements resulting from the adoption.



In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This guidance changes the criteria for reporting a discontinued operation while enhancing disclosures in this area. This standard will be effective for us beginning January 1, 2015. Early adoption of the standard is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We are currently evaluating the impact of the adoption on our consolidated financial statements.

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

Financial instruments which potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We maintain our cash and cash equivalents with various major financial institutions. These major financial institutions are located in the United States and our policy is designed to limit exposure to any one institution.

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. To minimize risks in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in securities such as commercial paper and money market funds. As of March 31, 2014 and December 31, 2013, our cash was mostly held in money market funds. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. Accordingly, a 100 basis point increase in interest rates or a 10% decline in the value of the United States equity markets would not be expected to have a material impact on the value of such money market funds.

A portion of our expenses are denominated in foreign currencies. If the value of the U.S. dollar weakens against the value of these currencies, there will be a negative impact on our operating costs. In addition, we are subject to the risk of exchange rate fluctuations to the extent we hold monetary assets and liabilities in these currencies.

**Item 4. Controls and Procedures.**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2014, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II— OTHER INFORMATION**

**Item 1. Legal Proceedings.**

**Search Patents**

In June 2011, I/P Engine acquired eight patents from Lycos, Inc. (“Lycos”) through its wholly-owned subsidiary, I/P Engine. On September 15, 2011, I/P Engine initiated litigation in the United States District Court, Eastern District of Virginia, against Google Inc., and certain of its customers (“Defendants”) for infringement of two of the patents acquired from Lycos.

On November 6, 2012, a jury in Norfolk, Virginia unanimously returned a verdict in favor of I/P Engine. The jury verdict is available at <http://bit.ly/QBRt5S>. On November 20, 2012, the District Court issued a ruling that asserted patents were not invalid as obvious, and the Court entered final judgment which can be found at <http://bit.ly/1hqIUxD>.

On January 3, 2014, the District Court ordered that I/P Engine recover an additional sum from the Defendants for supplemental damages and prejudgment interest. This ruling can be found at <http://bit.ly/1iRY5rc>. On January 21, 2014, the District Court ruled that the Defendants' alleged design-around was "nothing more than a colorable variation of the system adjudged to infringe," and accordingly I/P Engine "is entitled to ongoing royalties as long as [the] Defendants continue to use the modified system." This ruling can be found at <http://bit.ly/1rpVeZp>. On January 28, 2014, the District Court ruled that the appropriate ongoing royalty rate for Defendants' continued infringement of the patents-in-suit that "would reasonably compensate [I/P Engine] for giving up [its] right to exclude yet allow an ongoing willful infringer to make a reasonable profit" is a rate of 6.5% of the 20.9% royalty base previously set by the District Court.

Both I/P Engine and the Defendants have appealed the case to the U.S. Court of Appeals for the Federal Circuit. The case number for the District Court case is 2:11 CV 512-RAJ. The case numbers for the cases in the Court of Appeals for the Federal Circuit are 13-1307, 13-1313, 14-1233 and 14-1289. On May 6, 2014, the United States Court of Appeals for the Federal Circuit heard oral argument in I/P Engine, Inc., Plaintiff-Cross Appellant v. AOL Inc., Google Inc., IAC Search & Media, Inc., Gannett Company, Inc. and Target Corporation, Defendants-Appellants, Appeal Nos. 13-1307 and 13-1313. The Court's decision in the case is pending as of the filing date of this Form 10-Q.

Requests for reexamination are a standard tactic used by defendants in patent litigation cases. Google has filed four separate requests for reexamination of the two asserted patents at the USPTO, with the two requests on one of the patents being merged. To date, three of the reexaminations have been resolved in I/P Engine's favor. One reexamination remains pending and I/P Engine continues to vigorously defend the validity of its patent before the USPTO. Documents regarding USPTO proceedings are publicly available on the Patent Application Information Retrieval website, <http://portal.uspto.gov/pair/PublicPair>, which is operated by the USPTO.

On January 31, 2013, I/P Engine initiated litigation in the United States District Court, Southern District of New York, against Microsoft Corporation ("Microsoft"). On May 30, 2013, I/P Engine entered into a settlement and license agreement with Microsoft to resolve the litigation. According to the agreement, Microsoft paid I/P Engine \$1,000,000 and agreed to pay 5% of any future amount Google pays for its use of the patents acquired from Lycos. The parties also agreed to a limitation on Microsoft's total liability, which would not impact us unless the amounts received from Google substantially exceed the judgment previously awarded. In addition, the parties entered into a patent assignment agreement, pursuant to which Microsoft assigned six patents to I/P Engine. The assigned patents relate to telecommunications, data management, and other technology areas. The case number was 1:13 CV 00688.

## **Infrastructure Patents**

On August 9, 2012, we entered into a patent purchase agreement with Nokia Corporation ("Nokia"), comprising of 124 patent families with counterparts world-wide. The total consideration paid for the portfolio was \$22,000. Under the terms of the purchase agreement, to the extent that the gross revenue generated by such portfolio exceeds \$22,000, the Company is obligated to pay a royalty of 35% of such excess. The portfolio encompasses technologies relating to telecom infrastructure, including communication management, data and signal transmission, mobility management, radio resources management and services. Declarations were filed by Nokia indicating that 31 of the 124 patent families acquired may be essential to wireless communications standards. Copies of the declarations are available on our website at [http://www.vringoip.com/documents/FG/vringo/ip/99208\\_Nokia\\_ETSI\\_Declarations.pdf](http://www.vringoip.com/documents/FG/vringo/ip/99208_Nokia_ETSI_Declarations.pdf).

As one of the means of realizing the value of the patents on telecom infrastructure, our wholly-owned subsidiaries, Vringo Infrastructure, Vringo, Inc. and Vringo Germany have filed a number of suits against ZTE, ASUS, ADT and Tyco and their subsidiaries and affiliates in the United States, European jurisdictions, India, Australia and Brazil, alleging infringement of certain U.S., European, Indian, Australian and Brazilian patents.

## **ZTE**

### *United Kingdom*

On October 5, 2012, Vringo Infrastructure, filed a suit in the UK High Court of Justice, Chancery Division, Patents Court, alleging infringement of certain European patents. Subsequently, ZTE responded to the complaint on December 19, 2012 with a counterclaim for invalidity of the patents in suit. Vringo Infrastructure filed a further UK suit on December 3, 2012, alleging infringement of additional European patents. In the first UK suit, trial is scheduled for October 2014 and in the second UK suit, trial is scheduled for June 2015.

### *Germany*

On November 15, 2012, Vringo Germany filed a suit in the Mannheim Regional Court in Germany, alleging infringement of a European patent. The litigation was expanded to include a second European patent on February 21, 2013. On November 4, 2013, we filed a further brief with respect to the proceedings of the first European patent suit, asserting infringement by ZTE eNode B infrastructure equipment used in 4G networks.

The hearing for the first European patent case has been postponed by mutual agreement with ZTE; no date has been set for reinstatement. On December 17, 2013, the Court issued its judgment in the second European patent case, finding that ZTE infringed that patent and ordered an accounting and an injunction upon payment of the appropriate bonds. On February 19, 2014, Vringo Germany filed suit in the Mannheim Regional Court seeking enforcement of the accounting ordered and a further order that non-compliance be subject to civil and criminal penalties. On May 5, 2014, we paid a bond of approximately \$1,400,000 to the Court in order to enforce the injunction against ZTE. Trial in the suit to enforce the accounting is scheduled for September 2014.

On December 27, 2013, ZTE filed a notice of appeal of the Mannheim Regional Court's judgment in the second European patent case, and on January 24, 2014, ZTE filed an emergency motion with the Court of Appeals seeking a stay of the judge's order pending appeal. On February 24, 2014, ZTE's motion was denied.

On September 13, 2013 and January 28, 2014, Vringo Germany filed two suits in the Regional Court of Düsseldorf, alleging infringement of two additional European patents. Both cases are scheduled to be heard in November 2014. On April 23, 2014, Google commenced the process to intervene in the fourth filed suit as an interested third party. As a result of this process Google will be entitled to file defensive briefs in tandem with ZTE.

ZTE filed nullity suits with respect to the first and second European patents in the Federal Patents Court in Munich, Germany during the second and fourth quarters, respectively, of 2013. Trials in the nullity suits have not been scheduled but are not anticipated before the third quarter of 2014. In addition, ZTE filed a nullity suit with respect to the third European patent in the Federal Patents Court in Munich, Germany, in the fourth quarter of 2013. A schedule has not yet been set and the trial is not anticipated before the third quarter of 2015.

#### *China*

In November and December 2012, ZTE filed reexamination requests in China against three Chinese patents owned by Vringo before the Patent Reexamination Board of the Patent Office of the People's Republic of China. On July 3, 2013, the patent rights for one of those patents was upheld. Oral hearings for the remaining two patents occurred on May 9, 2013 and December 23, 2013, respectively, for which the rulings are still pending. Between December 20 and December 28, 2013, ZTE filed four more additional reexamination requests against the four other Chinese patents owned by Vringo. Vringo's initial responses are due in early May 2014. The remaining schedule in these four new re-examinations is not yet available.

#### *France*

On March 29, 2013, Vringo Infrastructure filed a patent infringement lawsuit in France in the Tribunal de Grande Instance de Paris, alleging infringement of the French part of two European patents. Vringo Infrastructure filed the lawsuit based on particular information uncovered during a seizure to obtain evidence of infringement, known as a *saisie-contrefaçon*, which was executed at two of ZTE's facilities in France. The oral hearing in relation to these patents has been scheduled for December 2014 before the 3<sup>rd</sup> division of the 3<sup>rd</sup> chamber of the Tribunal de Grande Instance de Paris (specializing in IP matters).

#### *Australia*

On June 11, 2013, Vringo Infrastructure filed a patent infringement lawsuit in the Federal Court of Australia in the New South Wales registry, alleging infringement by ZTE of two Australian patents. We currently anticipate that the Court will set a trial date in the second half of 2014.

#### *Spain*

On September 6, 2013, Vringo Infrastructure filed a preliminary inquiry order against ZTE in the Commercial Court of Madrid, Spain, requiring ZTE to provide discovery relating to alleged infringement of a patent which is the Spanish counter-part of the second European patent filed in Germany. In light of ZTE's non-responsiveness to the order, on March 24, 2014 the Court granted our request to seek discovery of four of ZTE's Spanish customers. To date, we have received responses from two of the four customers.

#### *India*

On November 7, 2013, we, along with our subsidiary, Vringo Infrastructure, filed a patent infringement lawsuit in the High Court of Delhi at New Delhi, India, alleging infringement of an Indian patent related to CDMA. On November 8, 2013, the Court granted an ex-parte preliminary injunction and appointed commissioners to inspect ZTE's facilities and collect evidence. ZTE appealed the preliminary injunction and, on December 12, 2013, the appellate panel instituted an interim arrangement, requiring ZTE to file an accounting affidavit disclosing the number of CDMA devices sold by its entities in India, revenue derived therefrom, and other supporting documentation. The Court also required ZTE to pay a bond approximately \$800,000, directed Indian customs authorities to notify us when all relevant ZTE goods are imported into India, and required ZTE to give us the opportunity to inspect those goods. ZTE filed its accounting affidavit on January 13, 2014.

On February 3, 2014, we filed a motion for contempt for ZTE's failure to comply with the Court's order, and requested that the Court order ZTE to pay an increased bond. A hearing on the contempt motion is scheduled for May 20, 2014.

On January 31, 2014, we and our subsidiary, Vringo Infrastructure, filed a patent infringement lawsuit in the High Court of Delhi at New Delhi, alleging infringement of a second Indian patent related to GSM Infrastructure. The Court, finding a *prima facie* case of infringement, granted an ex-parte preliminary injunction, restraining ZTE and its officers, directors, agents, distributors and customers from importing, selling, offering for sale, advertising, installing, or operating any infringing products, and giving us the right to inspect any infringing goods arriving in India, which are to be detained by customs authorities. The judge granted the injunction after ruling that we would suffer an irreparable loss if such an injunction were not put into place. ZTE subsequently appealed the injunction. The court heard the parties' arguments and reserved decision. The injunction remains in place at least until the judge issues his decision.

#### *Brazil*

On April 14, 2014, Vringo Infrastructure filed a patent infringement lawsuit in the 5th Trial Court of Rio de Janeiro State Court in Brazil, alleging infringement of a Brazilian patent related to 3G/4G/LTE infrastructure. On April 15, 2014, the court granted an ex-parte preliminary injunction restraining ZTE from manufacturing, using, offering for sale, selling, installing, testing, or importing such infrastructure equipment, subject to a fine. To enforce the injunction, the Company posted a bond of approximately \$900,000 with the court on April 17, 2014.

#### **ASUS**

#### *Germany*

On October 4, 2013 and January 29, 2014, Vringo Germany filed two patent infringement lawsuits against ASUS in the Düsseldorf Regional Court, alleging infringement of two European patents. The cases are scheduled to be heard in November 2014.

#### *Spain*

On February 7, 2014, Vringo Infrastructure filed suit in the Commercial Court of Barcelona alleging infringement of a patent which is the Spanish counter-part of the first European patent filed in Germany. A schedule for the case has not yet been set.

#### *India*

On April 15, 2014, Vringo Infrastructure filed suit in the High Court of Delhi, New Delhi alleging infringement of a patent related to use of dictionaries in search engines preloaded on certain ASUS devices. A schedule for the case has not yet been set.

#### **ADT/Tyco**

On September 12, 2013, Vringo Infrastructure filed a patent infringement lawsuit against ADT and Tyco in the United States District Court for the Southern District of Florida.

On January 15, 2014, Vringo Germany filed a patent infringement lawsuit against Tyco in the Regional Court of Mannheim, alleging infringement of a European patent.

On January 28, 2014, Vringo Infrastructure entered into a confidential agreement with ADT that resolved the litigation pending between the parties in the United States District Court for the Southern District of Florida. On April 28, 2014, the Company entered into a confidential agreement with Tyco that resolved all pending litigation pending between the parties.

#### **Item 1A. Risk Factors.**

*The risk factors set forth below update the risk factors in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013. In addition to the risk factors below and the risk factors included in our Annual Report on Form 10-K, you should carefully consider the other risks highlighted elsewhere in this report or in our other filings with the Securities and Exchange Commission, which could materially affect our business, financial position and results of operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business, financial position and results of operations.*

#### **Our limited operating history makes it difficult to evaluate our current business and future prospects.**

We are a development stage company and we have generated no significant revenue to date. I/P, the accounting acquirer, was incorporated in June 2011, at which time it acquired patent assets from Lycos, Inc. To date, our business is focused on the assertion of these patents and other patents we acquired. Therefore, we not only have a very limited operating history, but also a limited track record in executing our business model which includes, among other things, creating, prosecuting, licensing, litigating or otherwise monetizing our patent assets. Our limited operating history makes it difficult to evaluate our current business model and future prospects.

In light of the costs, uncertainties, delays and difficulties frequently encountered by companies in the early stages of development with no operating history, there is a significant risk that we will not be able to:

- implement or execute our current business plan, or demonstrate that our business plan is sound; and/or
- raise sufficient funds in the capital markets to effectuate our long-term business plan.

If we are unable to execute any one of the foregoing or similar matters relating to our operations, our business may fail.

**We commenced legal proceedings against the major online search engines, security and communications companies, and we expect such proceedings to be time-consuming and costly, which may adversely affect our financial condition and our ability to operate our business.**

To license or otherwise monetize the patent assets that we own, we commenced legal proceedings against a number of large, multi-national companies, pursuant to which we allege that such companies infringe on one or more of our patents. Our viability is highly dependent on the outcome of these litigations, and there is a risk that we may be unable to achieve the results we desire from such litigation, failure from which would harm our business to a great degree. In addition, the defendants in these litigations have substantially more resources than we do, which could make our litigation efforts more difficult.

We anticipate that legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses. Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. Once initiated, we may be forced to litigate against other parties in addition to the originally named defendants. Our adversaries may allege defenses and/or file counterclaims for, inter alia, revocation of our patents or file collateral litigations or initiate investigations in the United States, Europe, India, and China or elsewhere in an effort to avoid or limit liability and damages for patent infringement. If such actions are successful, they may preclude our ability to derive licensing revenue from the patents currently being asserted.

Additionally, we anticipate that our legal fees and other expenses will be material and will negatively impact our financial condition and results of operations and may result in our inability to continue our business. We estimate that our legal fees over the next twelve months will be significant for these enforcement actions. Expenses thereafter are dependent on the outcome of the status of the litigation. Our failure to monetize our patent assets would significantly harm our business.

Further, should we be deemed the losing party in many of our litigations, we may be liable for some or all of our opponents' legal fees. In addition, in connection with litigation, we have made several affirmative financial guarantees to courts around the world, and might face the need to make additional guarantees in the future.

In any of our applications to the Court in the UK ZTE litigation or for the entire UK ZTE litigation, we may be held responsible for a substantial percentage of the defendant's legal fees for the relevant application or for the litigation. These fees may be substantial. Pursuant to negotiation with ZTE's United Kingdom subsidiary, we placed two written commitments, in November 2012 and May 2013, to ensure payment should a liability by Vringo Infrastructure arise as a result of the two cases we filed. To date, ZTE has asserted that its anticipated fees in defending the UK litigation may be approximately \$5,800,000.

In Australia, should we be deemed the losing party in any of our applications to the Court or for the entire litigation, we may be held responsible for a substantial percentage of the defendant's legal fees for the relevant application or for the litigation. These fees may be substantial. In addition, pursuant to negotiations with ZTE's Australian subsidiary, we placed a written commitment in April 2014 to ensure payment should a liability by Vringo Infrastructure arise as a result of the case filed. The amount of such commitment cannot be reasonably estimated at this time, and we assess the likelihood of such payment as remote.

In Germany, the amount of fees payable by a losing party is determined based on certain possible statutory levels of "value in dispute." The value in dispute is only very loosely correlated to the actual value of any potential final settlement or license. The estimated value in dispute for each of the four patent infringement cases we have filed against ZTE in Germany, and for each of the two patent infringement cases we have filed against ASUS in Germany is approximately \$1,400,000. The estimated value in dispute for each of the three invalidity cases which ZTE has filed against us in Germany is approximately \$1,700,000. Under the current statute, our risk is capped at approximately \$1,000,000 were the court to determine that the value in dispute is at the highest tier under law.

In Germany, should the court order an injunction, for it to be enforced, we will have to pay a security based on the relevant statutory rate. In our litigations against ZTE and ASUS the statutory rate is approximately \$1,400,000 for each patent asserted. The statutory rate is only loosely correlated to any actual harm the defendant may suffer from an injunction. The district court judge is entitled to increase the amount of the security. Generally, the courts take the value in dispute as the amount payable as security. Should the injunction be successfully overturned on appeal, we may be obligated to compensate the defendant for any damages allegedly suffered as a result of the enforcement of the injunction, which would be ascertained through separate damages proceedings. Should the judgment which granted the injunction be affirmed on appeal, however, the amount paid as security would be returnable to us in full.

In France, should we be deemed to be the losing party, it is more likely than not that we will be ordered to pay a contribution to ZTE's attorney and expert fees. The court in France will make an assessment of winning party's costs during the course of the proceeding on the merits, and at its discretion order the losing party to pay a portion of those costs, typically between 40-60%.

In Brazil, as a condition of the relief requested, we deposited approximately \$900,000 as a surety against the truth of the allegations contained in the complaint. Unless ZTE is the prevailing party and proves that actual material damages were suffered while the requested relief was in place, the funds are returnable at the end of the litigation.

In addition, we may be required to grant additional written commitments, as necessary, in connection with our commenced proceedings against ZTE Corporation and its subsidiaries in various countries. As of today, we cannot estimate our potential future liability. However, should we be successful on any court applications in the UK, Australia, France, or Germany or the entire litigation and/or litigations, our adversary may be responsible for a substantial percentage of our legal fees.

Further, if any of the patents in suit are found not infringed or invalid, it is highly unlikely that the relevant patents would be viewed as essential and therefore infringed by all unlicensed market participants.

**While we believe that the patents we own are being infringed there is a risk that a court will find the patents invalid, not infringed or unenforceable and/or that the U.S. Patent and Trademark Office (USPTO) or other relevant patent office will either invalidate the patents or materially narrow the scope of their claims during the course of a reexamination, opposition or other such proceeding. In addition, even with a positive trial court verdict, the patents may be invalidated, found not infringed or rendered unenforceable on appeal. This risk may occur either presently or from time to time in connection with future litigations we may bring. If this were to occur, it would have a material adverse effect on the viability of our company and our operations.**

We believe that certain companies infringe our patents, but recognize that obtaining and collecting a judgment against such companies may be difficult or impossible. Patent litigation is inherently risky and the outcome is uncertain. Some of the parties that we believe infringe on our patents are large and well-financed companies with substantially greater resources than ours. We believe that these parties would devote a substantial amount of resources in an attempt to avoid or limit a finding that they are liable for infringing on our patents or, in the event liability is found, to avoid or limit the amount of associated damages. In addition, there is a risk that these parties may file reexaminations or other proceedings with the USPTO or other government agencies in the United States or abroad in an attempt to invalidate, narrow the scope or render unenforceable the patents we own.

Moreover, in connection with any of our present or future patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we violated relevant statutes, regulations, rules or standards relating to the substantive or procedural aspects of such enforcement actions in the United States or abroad. In such event, a court or other regulatory agency may issue monetary sanctions against us or our operating subsidiaries or award attorneys' fees and/or expenses to one or more defendants, which could be material, and if we or our subsidiaries are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and financial position.

In addition, it is difficult in general to predict the outcome of patent enforcement litigation at the trial or appellate level. In the United States, there is a higher rate of appeals in patent enforcement litigation than in standard business litigation. The defendant to any case we bring, may file as many appeals as allowed by right, including to the first, second and/or final courts of appeal (in the United States those courts would be the Federal Circuit and Supreme Court, respectively). Such appeals are expensive and time-consuming, and the outcomes of such appeals are sometimes unpredictable, resulting in increased costs and reduced or delayed revenue.

**We may not be able to successfully monetize the patents we acquired from Nokia, nor any of the other patent acquisitions, thus we may fail to realize all of the anticipated benefits of such acquisition.**

There is no assurance that we will be able to successfully monetize the patent portfolio that we acquired from Nokia, nor any of the other patent acquisitions. The patents we acquired from Nokia could fail to produce anticipated benefits, or could have other adverse effects that we currently do not foresee. Failure to successfully monetize these patent assets may have a material adverse effect on our business, financial condition and results of operations.

In addition, the acquisition of a patent portfolio is subject to a number of risks, including, but not limited to the following:

- There is a significant time lag between acquiring a patent portfolio and recognizing revenue from those patent assets, if at all. During that time lag, material costs are likely to be incurred that would have a negative effect on our results of operations, cash flows and financial position.
- The integration of a patent portfolio is a time consuming and expensive process that may disrupt our operations. If our integration efforts are not successful, our results of operations could be harmed. In addition, we may not achieve anticipated synergies or other benefits from such acquisition.

Therefore, there is no assurance that we will be able to monetize an acquired patent portfolio and recoup our investment.

**We may seek to internally develop new inventions and intellectual property, which would take time and would be costly. Moreover, the failure to obtain or maintain intellectual property rights for such inventions would lead to the loss of our investments in such activities.**

Members of our management team have experience as inventors. As such, part of our business may include the internal development of new inventions or intellectual property that we will seek to monetize. However, this aspect of our business would likely require significant capital and would take time to achieve. Such activities could also distract our management team from its present business initiatives, which could have a material and adverse effect on our business. There is also the risk that our initiatives in this regard would not yield any viable new inventions or technology, which would lead to a loss of our investments in time and resources in such activities.

In addition, even if we are able to internally develop new inventions, in order for those inventions to be viable and to compete effectively, we would need to develop and maintain them, and they would heavily rely on, a proprietary position with respect to such inventions and intellectual property. However, there are significant risks associated with any such intellectual property we may develop principally including the following:

- patent applications we may file may not result in issued patents or may take longer than we expect to result in issued patents;
- we may be subject to opposition proceedings in the U.S. or foreign countries;
- any patents that are issued to us may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- other companies may challenge patents issued to us;
- other companies may have independently developed and/or patented (or may in the future independently develop and patent) similar or alternative technologies, or duplicate our technologies;
- other companies may design around patents we have developed; and
- enforcement of our patents could be complex, uncertain and very expensive.

We cannot be certain that patents will be issued as a result of any future applications, or that any of our patents, once issued, will provide us with adequate protection from competing products. For example, issued patents may be circumvented or challenged, declared invalid or unenforceable, or narrowed in scope. In addition, since publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we will be the first to make our additional new inventions or to file patent applications covering those inventions. It is also possible that others may have or may obtain issued patents that could prevent us from commercializing our products or require us to obtain licenses requiring the payment of significant fees or royalties in order to enable us to conduct our business. As to those patents that we may license or otherwise monetize, our rights will depend on maintaining our obligations to the licensor under the applicable license agreement, and we may be unable to do so. Our failure to obtain or maintain intellectual property rights for our inventions would lead to the loss of our investments in such activities, which would have a material and adverse effect on our company.

Moreover, patent application delays could cause delays in recognizing revenue from our internally generated patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

## **New legislation, regulations or court rulings related to enforcing patents could harm our business and operating results.**

Intellectual property is the subject of intense scrutiny by the courts, legislatures and executive branches of governments around the world. Various patent offices, governments or intergovernmental bodies (like the European Commission) may implement new legislation, regulations or rulings that impact the patent enforcement process or the rights of patent holders and such changes could negatively affect our business model. For example, limitations on the ability to bring patent enforcement claims, limitations on potential liability for patent infringement, lower evidentiary standards for invalidating patents, increases in the cost to resolve patent disputes and other similar developments could negatively affect our ability to assert our patent or other intellectual property rights.

In September 2013, the Federal Trade Commission announced that it is planning to gather information from approximately 25 companies that are in the business of buying and asserting patents in order to develop a better understanding of how those companies do business and impact innovation and competition. Both the Federal Trade Commission and European Commission are actively considering what the appropriate restrictions are on the ability of owners of patents declared to technical standards to receive both injunctions and royalties.

Furthermore, United States patent laws have been amended by the Leahy-Smith America Invents Act, or the America Invents Act. The America Invents Act includes a number of significant changes to U.S. patent law. In general, the legislation attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual parties allegedly infringing by their respective individual actions or activities. At this time, it is not clear what, if any, impact the America Invents Act will have on the operation of our enforcement business. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition.

In addition, the U.S. Department of Justice (“DOJ”) has conducted reviews of the patent system to evaluate the impact of patent assertion entities on industries in which those patents relate. It is possible that the findings and recommendations of the DOJ could impact the ability to effectively license and enforce standards-essential patents and could increase the uncertainties and costs surrounding the enforcement of any such patented technologies.

Furthermore, in various pending litigation and appeals in the United States Federal courts, various arguments and legal theories are being advanced to potentially limit the scope of damages that a patent licensing company such as us might be entitled to. Any one of these pending cases could result in new legal doctrines that could make our existing or future patent portfolios less valuable or more costly to enforce.

Further, and in general, it is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become enacted as laws. Compliance with any new or existing laws or regulations could be difficult and expensive, affect the manner in which we conduct our business and negatively impact our business, prospects, financial condition and results of operations. That said, to date, we do not believe that any existing or proposed statutory or regulatory change has materially affected our business.

## **Acquisitions of additional patent assets may be time consuming, complex and costly, which could adversely affect our operating results.**

Acquisitions of patents or other intellectual property assets, which are and will be critical to our business plan, are often time consuming, complex and costly to consummate. We may utilize many different transaction structures in our acquisitions and the terms of such acquisition agreements tend to be heavily negotiated. As a result, we expect to incur significant operating expenses and will likely be required to raise capital during the negotiations even if the acquisition is ultimately not consummated. Even if we are able to acquire particular patents or other intellectual property assets, there is no guarantee that we will generate sufficient revenue related to those assets to offset the acquisition costs. While we will seek to conduct confirmatory due diligence on the patents or other intellectual property assets we are considering for acquisition, we may acquire such assets from a seller who does not have proper title to those assets. In those cases, we may be required to spend significant resources to defend our interest in such assets and, if we are not successful, our acquisition may be invalid, in which case we could lose part or all of our investment in those assets.

We may also identify patents or other intellectual property assets that cost more than we are prepared to spend with our own capital resources. We may incur significant costs to organize and negotiate a structured acquisition that does not ultimately result in an acquisition of any patents or other intellectual property assets or, if consummated, proves to be unprofitable for us. These higher costs could adversely affect our operating results, and if we incur losses, the value of our securities will decline.

In addition, we may acquire patents and technologies that are in the early stages of adoption in the commercial, industrial and consumer markets. Demand for some of these technologies will likely be untested and may be subject to fluctuation based upon the rate at which our licensees will adopt our patents and technologies in their products and services. As a result, there can be no assurance as to whether technologies we acquire or develop will have value that we can monetize.



**In certain acquisitions of patent assets, we may seek to defer payment or finance a portion of the acquisition price. This approach may put us at a competitive disadvantage and could result in harm to our business.**

We have limited capital and may seek to negotiate acquisitions of patent or other intellectual property assets where we can defer payments or finance a portion of the acquisition price. These types of debt financing or deferred payment arrangements may not be as attractive to sellers of patent assets as receiving the full purchase price for those assets in cash at the closing of the acquisition. As a result, we might not compete effectively against other companies in the market for acquiring patent assets, some of whom have greater cash resources than we have.

**Competition is intense in the industries in which our subsidiaries do business and as a result, we may not be able to grow or maintain our market share for our technologies and patents.**

We expect to encounter competition in the area of patent acquisition and enforcement as the number of companies entering this market is increasing. This includes competitors seeking to acquire the same or similar patents and technologies that we may seek to acquire. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to replace obsolete technologies with more technologically advanced patented technologies, then this obsolescence could have a negative effect on our ability to generate future revenues.

Our licensing business also competes with venture capital firms and various industry leaders for technology licensing opportunities. Many of these competitors may have more financial and human resources than we do. As we become more successful, we may find more companies entering the market for similar technology opportunities, which may reduce our market share in one or more technology industries that we currently rely upon to generate future revenue.

**Weak global economic conditions may cause infringing parties to delay entering into licensing agreements, which could prolong our litigation and adversely affect our financial condition and operating results.**

Our business plan depends significantly on worldwide economic conditions, and the United States and world economies have recently experienced weak economic conditions. Uncertainty about global economic conditions poses a risk as businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values. This response could have a material negative effect on the willingness of parties infringing on our assets to enter into licensing or other revenue generating agreements voluntarily. Entering into such agreements is critical to our business plan, and our failure to do so could cause material harm to our business.

**The exercise of a substantial number of warrants or options by our security holders may have an adverse effect on the market price of our common stock.**

Should our warrants outstanding as of April 24, 2014, be exercised, there would be an additional 17,708,712 shares of common stock eligible for trading in the public market. In addition, we currently have incentive equity instruments outstanding to purchase 10,330,119 shares of our common stock granted to our management, employees, directors and consultants. Certain options granted to officers, directors and certain key employees are subject to acceleration of vesting of 75% and 100% (according to the agreement signed with each grantee), upon a subsequent change of control. Certain options granted in prior years that are outstanding have exercise prices that are below recent market prices. Such securities, if exercised, will increase the number of issued and outstanding shares of our common stock. Therefore, the sale, or even the possibility of sale, of the shares of common stock underlying the warrants and options could have an adverse effect on the market price for our securities and/or on our ability to obtain future financing.

**Future sales of our shares of common stock by our stockholders could cause the market price of our common stock to drop significantly, even if our business is otherwise performing well.**

As of April 24, 2014, we had 86,531,094 shares of common stock issued and outstanding, excluding shares of common stock issuable upon exercise of warrants, options or restricted stock units ("RSUs"). As shares saleable under Rule 144 are sold or as restrictions on resale lapse, the market price of our common stock could drop significantly, if the holders of restricted shares sell them, or are perceived by the market as intending to sell them. This decline in our stock price could occur even if our business is otherwise performing well.

**Technology company stock prices are especially volatile, and this volatility may depress the price of our common stock.**

The stock market has experienced significant price and volume fluctuations, and the market prices of technology companies have been highly volatile. We believe that various factors may cause the market price of our common stock to fluctuate, perhaps substantially, including, among others, the following:

- developments or disputes concerning our patents;
- announcements of developments in our patent enforcement actions;
- additions to or departures of our key personnel;
- announcements of technological innovations by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, capital commitments, new technologies, or patents;
- new regulatory pronouncements and changes in regulatory guidelines;
- changes in financial estimates or recommendations by securities analysts; and
- general and industry-specific economic conditions.

The market prices of the securities of technology companies have been highly volatile and are likely to remain highly volatile in the future. The stock market as a whole also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies' operating performance. Furthermore, we believe that fluctuations in our stock price can also be impacted by court rulings and/or other developments in our patent licensing and enforcement actions and stock price may reflect certain future growth and profitability expectations. If we fail to meet these expectations then our stock price may significantly decline which could have an adverse impact on investor confidence.

**Our ability to raise capital through equity or equity-linked transactions may be limited.**

In order for us to raise capital privately through equity or equity-linked transactions, stockholder approval is required to enable us to issue more than 19.99% of our outstanding shares of common stock pursuant to the rules and regulations of the NASDAQ Capital Market. Should stockholders not approve such issuances, one means to raise capital would be through debt, which could have a material adverse effect on our consolidated balance sheet and overall financial condition.

**We may not be able to raise additional capital. Moreover, additional financing may have an adverse effect on the value of the equity instruments held by our stockholders.**

We may choose to raise additional funds in connection with any potential acquisition of patent portfolios or other intellectual property assets or operating businesses. In addition, we may also need additional funds to respond to business opportunities and challenges, including our ongoing operating expenses, protection of our assets, development of new lines of business and enhancement of our operating infrastructure. While we will need to seek additional funding, we may not be able to obtain financing on acceptable terms, or at all. In addition, the terms of our financings may be dilutive to, or otherwise adversely affect, holders of our common stock. We may also seek additional funds through arrangements with collaborators or other third parties. We may not be able to negotiate arrangements on acceptable terms, if at all. If we are unable to obtain additional funding on a timely basis, we may be required to curtail or terminate some or all of our business plans. Any such financing that we undertake will likely be dilutive to our current stockholders.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Lease, dated July 10, 2012, by and between Vringo, Inc. and Teachers Insurance and Annuity Association of America, for the benefit of its separate Real Estate Account Landlord (incorporated by reference from our Quarterly Report on Form 10-Q for the period ended September 30, 2012 filed on November 14, 2012), as amended on January 24, 2014 (incorporated by reference from our Annual Report on Form 10-K for the period ended December 31, 2013 filed on March 10, 2014)
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act, Rules 13a – 14(a) and 15d – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a – 14(a) and 15d – 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
*	Filed herewith.
**	Furnished herein.

**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 on the 8th day of May 2014.

**VRINGO, INC.**

By:

/s/ ANASTASIA NYRKOVSKAYA

---

**Anastasia Nyrkovskaya  
Chief Financial Officer  
(Principal Financial Officer)**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Andrew D. Perlman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vringo, Inc.;
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 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 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.

Dated: May 8, 2014

/s/ ANDREW D. PERLMAN

**Chief Executive Officer  
(Principal Executive Officer)**

---

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Anastasia Nyrkovskaya, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vringo, Inc.;
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 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 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.

Dated: May 8, 2014

/s/ ANASTASIA NYRKOVSKAYA

**Chief Financial Officer  
(Principal Financial Officer)**

---

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PERSUANT SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Vringo, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report for the quarter ended March 31, 2014 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2014

/s/ ANDREW D. PERLMAN

---

**Andrew D. Perlman**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

Date: May 8, 2014

/s/ ANASTASIA NYRKOVSKAYA

---

**Anastasia Nyrkovskaya**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

---