

Straight Path Communications Inc.
Second Quarter Fiscal 2016 Earnings Call
March 11, 2016

Operator: Good afternoon and welcome to the Straight Path Communications Second Quarter Fiscal 2016 Earnings Call and Webcast. All participants will be in listen-only mode. Should you need assistance, please signal an operator by pressing star, followed by zero. Please note, this event is being recorded.

As a reminder, some of the matter Straight Path management will discuss on this call are forward-looking statements. You should keep in mind that these forward-looking statements are subject to known and unknown risks and uncertainties that could actual results to differ materially from those expressed or implied by such statement, and as such statements are not a guarantee of future performance. In addition to the factors specifically noted in the forward-looking statement, such risks and uncertainties include but are not limited to general economic conditions and those factors discussed under the risk factors section of our annual report on Form 10-K and quarterly reports on Form 10-Q and other SEC filings.

The forward-looking statements are made of this date and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Representing Straight Path today are Davidi Jonas, Chief Executive Officer, and Jonathan Rand, Chief Financial Officer. Let me quickly outline the agenda for today's call. Davidi will discuss Straight Path's achievements and overall strategy. Then Jonathan will outline the Company's financials and outlook. There will not be an opportunity to ask questions on today's call.

Now allow me to turn the call over to Straight Path's CEO, Davidi Jonas. Davidi, the floor is yours.

Davidi Jonas: Thank you, and thank you all for joining today's call.

I want to provide you an update of the progress at both of our divisions. I'll start with Straight Path Spectrum and our long term goals related to 5G. We have seen continued progress in three critical areas: the FCC rule-making process, the continued progress towards international standards, and the development of our proprietary 39 GHz 5G transceiver.

The announced acquisition of XO by Verizon clearly demonstrates the import and growing demand for licensed millimeter wave spectrum. We are thus heavily focused on positioning ourselves to be the premier incumbent holder of large contiguous blocks of licensed millimeter wave spectrum, which brings us to the FCC and the spectrum frontier's NPRM.

The comment and reply comment phases have concluded. Straight Path is proud to have played a vital role in the proceeding. As we have said in the past, our work was cut out for us, and we worked diligently to advance our agenda, which we feel is in the best interest of the public. This was done through our submitted comments, in-person advocacy with Commission staff, as well as consensus-building with leading industry participants.

Coming into the proceeding, we had a number of major goals:

- Mobile rights should be granted to incumbents and an overlay licensing scheme rejected.
- The 39 GHz band should be repacked to allow for larger contiguous blocks of spectrum. We proposed a voluntary pre-auction swap to allow incumbents to exchange licenses with the FCC and/or each other so as to achieve larger, presumably more valuable, contiguous blocks for incumbents as well as for auction.
- We proposed larger geographic service areas to be employed and delineations by county to be rejected.
- We proposed that satellite activity in the band should not be permitted to cause meaningful interference with terrestrial services.
- We proposed that incumbent licensees should have the flexibility to demonstrate substantial service at an earlier time, to expedite the usage of the licenses for 5G.
- We expect that the technical rules will allow for a broad range of use cases, including wide area coverage.

It has appeared to us from the outset that the FCC preferred to grant mobile rights to incumbents, rejecting an overlay scheme, as indicated in the NPRM. Further, there was broad industry support for this approach, with almost no parties advocating for an overlay scheme. You can review our reply comments for more specifics. The link to the FCC's electronic comments filing system is available on this morning's earnings release. Our proceeding is number 14-177.

With regard to repacking the 39 GHz band and a pre-auction swap, again there was broad support from the industry. We invite you to read through both the comments and reply comments in the proceeding. You may find the reply comments of Intel particularly illustrative.

With regard to rejecting counties in favor of larger geographic areas, yet again there was broad support from industry commenters. Again the record is quite enlightening.

As far as the issue of satellite interference, there seems to be agreement that satellite services should not be allowed to cause material interference to terrestrial services. There are a number of proposals for how to move forward in a way that protects the rights of terrestrial services. We will continue to advocate for the Commission to make sure that whatever resolution is employed, it does not compromise the integrity of terrestrial services.

With regard to incumbent licensees electing to demonstrate substantial service at an earlier date, there was no resistance, and in fact it was supported by some in the industry.

With regard to the technical rules, we feel that the power limits being advocated are sufficient for a plethora of services including wide area coverage.

On the standards-setting front, we continue to play an important role in ensuring that 39 GHz is a primary focus of 5G standards. As I was representing Straight Path at the FCC's 5G workshop yesterday, Jerry was representing us in Sweden at the 3GPP Plenary meeting.

Other activities in the industry have clearly demonstrated that the 5G race is on and that there is broad support that licensed millimeter waves should play an important role. The Mobile World Congress was replete with focus on 5G and many millimeter wave demos from leading OEMs were showcased. Just as recently as yesterday, much of this was on display at the FCC.

I mentioned earlier that we have continued to advocate at the FCC, and we were honored to be invited by the Commission to represent incumbent license holders at yesterday's 5G workshop.

In Q2 we filed our substantial service demonstration for our New York City 28 GHz license and requested renewal of that license. Our request is pending.

We are hard at work and progressing nicely at our Gigabit Mobility Lab in Texas. We expect to have a working prototype of our 39 GHz 5G transceiver as early as the end of this calendar year. Numerous parties, including some of the most recognized OEMs, have expressed interest in working with us. We are considering the best approach as we make progress.

The production of a 39 GHz point-to-multipoint radio from our partner CBNL is proceeding on schedule. We see many opportunities for the utilization of this equipment. Especially with the Nextlink-Verizon deal tying up much of the 28 GHz spectrum, there is even greater interest from independent operators in 39 GHz for point-to-multipoint with CBNL equipment.

As we noted publicly late in 2015, we promptly retained third party experts to conduct a thorough investigation of matters raised in anonymous postings in November and December. We are working with counsel and others and the investigation is still ongoing. We will report on the results when it's complete, which we are hopeful will be by June. In the meantime, we continue to execute on our plans for deployment of our spectrum for our own and our customers' use. During the pendency of the investigation, we will not be responding to questions on the topic, and we will refrain from providing updates until we have final definitive information. We have retained leading counsel to represent us in the putative class action lawsuit filed in Federal Court in Newark, New Jersey.

Before I move on to discuss our IP division, I want to take a few moments to highlight some important recognition of our technical team. Our CTO Jerry Pi was recently elected as an IEEE fellow for his work in millimeter waves. Our VP of Technology, Farshid Aryanfar, who is working with Jerry at our Gigabit Mobility Lab, was recognized for his co-authorship of three papers selected by the International Microwave Symposium and the Radio Frequency Integrated Circuits conferences. Given the low level of acceptance of papers and the thorough double-blind review process, the selection of Farshid's work is yet another testament of the technical excellence of Straight Path's technology team. Furthermore, our Strategic Technology Advisory Board ("STAB") member Gabriel Rebeiz was elected to the National Academy of Engineering for his leadership in phased arrays, and our other STAB member Ted Rappaport was awarded the IEEE Edwin Howard Armstrong Achievement Award, one of the greatest honors for an engineer. Ted was also the keynote speaker at the FCC 5G workshop yesterday and did a great job. Congratulations to Jerry, Farshid, Ted and Gabriel.

Following the ruling of the Court of Appeals for the Federal Circuit, pending IPRs against our patent had to be considered in light of the claim construction consistent with the Federal Circuit's findings.

The PTAB allowed additional briefing for Samsung, LG and Cisco, and we had an opportunity to respond. On February 9, oral argument was held in the LG IPRs and nearly the entire focus was how the prior art must be viewed in light of the Federal Circuit's claim construction. On March 4, we received a positive determination of the Patent Trial and Appeal Board in the Samsung IPRs, upholding the validity of nearly all claims at issue.

Given that the PTAB has ruled in our favor in this matter, we believe that it will act consistently in other proceedings where the same claim language is at issue. We are evaluating next steps and are prepared to enforce our rights and uphold the validity of our patents.

We expect that our spend for the year will increase due to unforeseen but necessary expenses related to the legal action and on the Spectrum side of the business. We will continue to maintain a disciplined approach to maintaining our cash and feel that any increased spending is in the best interest of our shareholders.

As we move forward, we will continue to try and position ourselves for great success. We thank you for your continued support, engagement and encouragement.

With that, allow me to turn the call over to our CFO Jonathan Rand for an overview of our financials. Jonathan...

Jonathan Rand: Thank you, Davidi.

It's certainly an exciting time to be a part of the telecommunications industry, particularly with Straight Path playing a role in the march towards greater wireless connectivity and 5G technology. With the great news about the PTAB's ruling against Samsung in their challenge to our patents, both of our divisions are well-positioned for the future.

I am pleased to outline our financial results for the second quarter of our fiscal year 2016, the quarter ended January 31, 2016.

We recognized revenue of \$112,000 for the quarter, all from our Spectrum business. While this revenue is down dramatically from the previous quarter's \$1.7 million, and year-ago revenue of \$2.8 million, it represents a nearly 6% increase in spectrum leasing revenue over last quarter. This overall drop in revenue has been projected and described for nearly a year and a half, and is due to the expiration of our key patents which ended in September 2015. Under GAAP accounting rules, we recognized the revenue from settlement and license agreements we entered into in fiscal 2014 and 2015 over the term of such arrangements.

Our total costs and expenses for the quarter were \$2.7 million, consisting of direct costs, research and development expense and SG&A. This compares to \$2.4 million in Q1 and \$2.9 million a year ago. Both prior periods contain the recognition of expenses related to the IP settlements entered into in prior periods, which were fully amortized by Q1 of this fiscal year.

Our costs and expenses have expanded this quarter to reflect new spending. We now recognize research and development expense. In Q2, we incurred \$374,000 of R&D expense, including

\$300,000 triggered because CBNL achieved an important milestone in the development of the 39 GHz point-to-multipoint wireless platform. We previously paid CBNL \$1 million under our arrangement, and will recognize those costs as R&D expense, as they are earned by CBNL achieving developmental milestones. This quarter's R&D expenses also include approximately \$74,000 related to our Gigabit Mobility Lab, which is running full steam ahead in Plano, Texas, and currently well within its annual budget.

Our SG&A spending totaled \$2.4 million for the second quarter, but included non-cash compensation of approximately \$1 million. The final category of costs and expenses is for direct costs of revenue which came at \$13,000 this quarter, all Spectrum-related, as the direct costs related to the prior IP settlements has now been fully recognized as of last quarter.

We have \$112,000 of revenue and \$2.7 million in costs and expenses. We reported an operating loss of \$2.6 million for Q2. This compares to a \$700,000 loss last quarter and a \$200,000 loss in the year-ago quarter.

We closed the quarter with \$15.4 million of cash and cash equivalents versus \$16.3 million at the end of the previous quarter and \$21.1 million one year ago. It's helpful to note that, although we incurred a \$2.7 million net loss, we actually spent less than \$1 million in cash net this quarter.

Now I'd like to provide some insight into how we understand the impact of these results and some important trends and expectations we have for the balance of fiscal year 2016.

As always, we like to maintain a high level of fiscal discipline with regards to our SG&A budget. I have stated in earlier calls that our SG&A budget for fiscal 2016, excluding non-cash compensation, is \$6 million. This consists of approximately \$1 million per quarter of our general operations and \$2 million for two strategic projects in this fiscal year: \$1 million to launch and operate our Gigabit Mobility Lab in Plano, Texas, and \$1 million to fund the one-time payment to CBNL to port its point-to-multipoint platform to 39 GHz spectrum.

In this Q2, excluding certain litigation costs, we spent approximately \$732,000 on the general operations portion of our SG&A. We modified our budget and spent an additional \$500,000 approximately, relating to defending the Samsung and other IPRs and related to the class action litigation that has been filed.

Looking forward for the balance of fiscal 2016, we do expect to spend an increased amount to defend against these allegations and in activities at Straight Path Spectrum, for fees to advisors, replacement equipment to be procured and deployed when necessary, and other related items. We estimate that this activity will start to increase in our fiscal Q3 and result in additional spending between \$2 million and \$3 million. Other spending remains on track with our previously stated budget.

Overall, including this additional spending, we are very comfortable with our cash and cash equivalents balance of \$15.4 million at the end of Q2 to carry us through this year and well beyond. Additionally, we are actively focused on growing revenue from spectrum leasing and restarting our IP enforcement activity.

In our spectrum leasing business, we are getting strong early interest and results from US-based operators requesting to learn more about the CBNL point-to-multipoint platform. I mentioned on our last call that a major US operator is deploying this combined solution in New York City and there are indications that other operators, both large and small, are interested in gaining the advantages that a point-to-multipoint solution can bring to wireless network profitability, return on investment and deployment flexibility. We are working with CBNL to pre-sell, prior to the commercial availability of these 39 GHz systems, which is currently slated for late summer or early fall.

As with all businesses, and certainly new technology developments, it is impossible to predict with certainty when the commercially ready CBNL systems will be ready to deploy and what their actual performance will be. Based on this assessment, we expect Spectrum revenue to continue to rise modestly per quarter, as it did this quarter, until the CBNL 39 GHz systems are deployed, and then we expect revenue to grow at a stronger rate, most likely not having significant impact until calendar 2017.

To summarize the quarter, we have spent carefully within our modified budget, we have maintained a strong cash position, and we anticipate some additional spending that we are comfortable we can absorb. We are excited about the progress of two important strategic projects, one of which shows strong prospects to directly accelerate revenue growth within several quarters. I hope this provides you with good insight into our fiscal status and forward-looking vision.

There will not be a question and answer session on this call. Davidi and I thank you for joining Straight Path Communications' Second Quarter Fiscal 2016 Conference Call.

Operator: This concludes today's conference call. Thank you for participating and have a pleasant day.