

Straight Path Communications Inc.
Third Quarter Fiscal 2016 Earnings Call
June 9, 2016

Operator:

Good afternoon and welcome to the Straight Path Communications Third Quarter Fiscal 2016 Earnings Call and Webcast. All participants are in listen-only mode. Should you need assistance, please signal a Conference Specialist by pressing the star key, followed by zero. Please note this event is being recorded.

As a reminder, some of the matters 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 cause actual results to differ materially from those expressed or implied by such statements, and that such statements are not a guarantee of future performance. In addition to the factors specifically noted in the forward-looking statements, 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 CEO, Davidi Jonas. Davidi, the floor is yours.

Davidi Jonas:

Thank you and thank you all for joining us on today's call.

I would like to discuss some recent developments in our subsidiaries, as well as provide some outlook regarding where we are heading. Allow me to begin with Straight Path IP Group.

On the heels of the Federal Circuit's decision in our favor on the Sipnet appeal last November, the Patent Trial and Appeals Board has now ruled largely in our favor in all of the pending *inter partes* review proceedings that had been filed against our patents.

In addition to the Sipnet case itself in which the PTAB ruled in our favor on remand from the Federal Circuit's decision, the PTAB also ruled in our favor in pending or requested IPRs by Samsung, LG, and Cisco. While a few ancillary claims were held invalid, the core claims of our patents survived as the PTAB rightly reversed course following the Federal Circuit's proper claim construction.

Although Samsung and LG have filed notices to appeal to the Federal Circuit, we believe that our position has been greatly strengthened. Following these positive rulings, we have resumed our enforcement efforts in the federal district courts. We have updated the Courts and asked them to lift the stays in our actions against LG and Samsung. We refiled our case against Verizon and intend to refile our cases against Apple, Avaya and Cisco in the coming weeks.

We recognize that our successful defense against the challenges, the defensibility of our claims at the PTAB, does not guarantee success in our enforcement efforts. As we continue to vigorously litigate these

cases, we remain receptive to opportunities to enter into settlement and license agreements that would maximize benefits to our shareholders while reducing risk and uncertainty.

Moving on to Straight Path Spectrum.

Since the FCC issued its Notice of Proposed Rulemaking last October, participants in the proceeding including Straight Path have developed a robust record. The industry's sustained attention and the efficiency and thoroughness of the FCC have exceeded our expectations. I encourage everyone to go on to the FCC's website and review the record of the proceeding for themselves.

While we conservatively projected that a Report and Order might issue 16 to 18 months following the issuance of the NPRM, the FCC has indicated that it expects to issue a Report and Order this summer, perhaps as early as mid-July, less than nine months after issuing the NPRM. The Commission said it intended to keep America in the lead for 5G and it appears that they are delivering on that promise. We commend the Chairman, Commissioners and staff for their tireless work to make millimeter wave 5G possible.

The approach of the mobile communications industry has also been impressive. All four major mobile network operators have announced plans to test 5G in 2016 and 2017, with some already saying that they intend to utilize millimeter wave spectrum for commercial deployment, even prior to conclusive mobile standards being set for 5G.

We are seeing a lot of focus on certain underlying 5G technologies that will likely be used for fixed offerings, what we refer to as "Fixed 5G" or "5G to the Home." We discussed these technologies on a past conference call and our Chief Technology Officer, Jerry Pi, coauthored a paper on the topic in July 2015 in the *IEEE Communications Magazine*. We are pleased to see the industry, most notably Verizon and AT&T, leaning toward this approach and it confirms our decision to invest in technology designed to help bring these offerings to market in 39 GHz as quickly as possible.

Turning back to the FCC rulemaking.

When we were preparing to comment on the NPRM, we identified our goals in order to ensure that our advocacy would be focused.

We identified seven primary goals:

1. Flexible use rights for incumbents
2. Repacking the 39 GHz band to allow for large contiguous blocks
3. Channel sizes of 200 MHz or more
4. Geographic areas meaningfully larger than counties; we pushed for Economic Areas but are open to a middle ground
5. Technical rules that would allow for flexible service offerings
6. The opportunity to demonstrate substantial service prior to the current deadline, or an alternative approach that would allow licensees to demonstrate substantial service at a later date based on reissued licenses and perhaps new performance metrics
7. Ensuring that terrestrial services continue to have primary access to the band and that any satellite access, whether secondary or primary, not impede the development of terrestrial millimeter wave services.

We hope that many, if not all of our goals, will be achieved. We feel the proposals that we made to the FCC are in the best interest of the public and further the Commission's stated goal of achieving 5G leadership. Of course, we do not know which of the four bands specified in the NPRM will be included in the Report and Order that the FCC is expected to release this summer.

I want to spend a short time on the other bands in the proceeding, namely, 28, 37, and 60 GHz. It seems likely that 60 GHz will be unlicensed; 28 GHz has been hotly contested between terrestrial and satellite, and that debate may impact the rules such as geographic area size of licenses in the 28 GHz band; 37 GHz is up in the air, if you'll pardon the pun, between licensed and something of a hybrid or shared access licensing model. Again, I encourage everyone to review the comments on the FCC's website.

Turning to our own spectrum related activity.

This past quarter, we successfully renewed our New York City 28 GHz license for an additional 10-year period. Under the current rules, none of our other licenses are up for renewal until 2018 or later.

We made a strategic decision to invest in increased market adoption of 39 GHz in advance of the commercial availability of the 39 GHz point-to-multipoint radios from Cambridge Broadband Networks, which we expect in late 2016 or early 2017.

We invested in currently available technology at 39 GHz, and offered radios and spectrum to new customers throughout the country. This was not intended as a direct revenue generation opportunity, but rather, as an investment in our future, and the response has been promising. We have attracted dozens of new users in over one hundred markets covering over 90% of our 39 GHz holdings by MHz-pop. We saw the deployment as an opportunity to engage a broad customer base in anticipation of rolling out our 39 GHz point-to-multipoint offering and we hope that many of these operators will become revenue-generating customers when the 39 GHz point-to-multipoint is rolled out. Over the past few months, Straight Path has filed hundreds of notifications with the FCC covering its leases of spectrum to these operators to utilize our spectrum.

With regard to the independent investigation into allegations made against the Company, which is being led by Morgan Lewis and assisted by Kroll, we initially expected that it would be completed by mid-June. However, the investigators required additional time to conclude their inquiry and now expect to report their findings to us within the next two months.

As we previously disclosed, the results of a preliminary investigation indicated that a significant amount of equipment installed in connection with the substantial service showing was no longer present at the original locations. We continue to believe that the required showing of substantial service was met. We also previously disclosed that we were arranging for replacement equipment to be procured and deployed. However, rather than wait for the results of the investigation, we decided that it would be more prudent to deploy new equipment across 100% of our 39 GHz holdings. Therefore, in addition to engaging a broad customer base for our 39 GHz point-to-multipoint rollout, we also aim to increase the market adoption in each of our 39 GHz license areas.

Looking at the changes underway in the wireless industry, now is a truly exciting time to be involved in millimeter wave. It is clear that next generation technologies in the millimeter wave are likely to have a profound impact in the fixed and mobile markets.

We continue to proactively position Straight Path to be at the forefront of this developing opportunity. We have been a key contributing member of 3GPP, where the standards for 5G are being determined.

We have also been working on next generation technology for a 39 GHz transceiver at our Gigabit Mobility Lab in Texas. We hope to test the technology – perhaps with other parties and partners – in 2016. We are also looking to leverage our capabilities for fixed service offerings with potential partners. We will keep you updated in the coming quarters.

We hope the recent success of our IP Group will lead to additional revenue from that side of our Company. We are excited about the new wireless technology we are bringing to market and hope it will

add value and drive revenue as well. We will continue to advocate in the standards community as well as at the FCC, and hope our efforts will be a vital element for next generation wireless services.

I'll now hand the call over to our CFO, Jonathan Rand, for financial results and analysis.

Jonathan Rand:

Thank you, Davidi. It's certainly an exciting time to be a part of the wireless communications industry, particularly with Straight Path playing a significant role in both the regulatory process and technical development of next generation wireless technology. Additionally, with the good news from the Federal Circuit confirmed by the PTAB's rejection of challenges to the key claims of our patents, we are well positioned for the future, both for potential revenue generation as well as value creation.

Before I describe this quarter's financial results and outlook, I'd like to step back and outline the history of the Straight Path IP Group. Straight Path IP Group initiated its patent enforcement program on the day we became an independent public company in the first quarter of our fiscal 2014. Through Q1 of our fiscal 2015, we secured settlement and licensing agreements with 12 companies, including Google, Sony, Panasonic, Sharp, Netflix, and others, which generated \$18.3 million in gross payments. After direct costs, primarily payments to law firms and litigation expenses, these efforts netted approximately \$9 million to the IP Group, of which we own 84.5%. After a hiatus on the efforts due to an adverse ruling that has now been reversed, we are resuming our enforcement program and proceeding against companies such as LG, Samsung, Verizon, Apple, Avaya, and Cisco. Of course, resumption does not mean success and we will have to see how these efforts develop.

Now I am pleased to outline our financial results for the third quarter of our fiscal year 2016, the quarter ended April 30, 2016.

We closed the quarter with \$13.2 million of cash and cash equivalents, versus \$15.4 million at the end of the previous quarter, and \$19 million one year ago.

We recognized revenue of \$219,000 for the quarter, consisting of \$97,000 from our IP Group and \$122,000 from our Spectrum subsidiary. The spectrum revenue is an increase of approximately 10% over the previous quarter. This is due primarily to the major US operator who in the previous quarter leased a small portion of our LMDS spectrum for utilization in New York City, as mentioned on previous calls. This quarter, we recognized a full three months' worth of revenue from this spectrum lease. The IP Group's revenue records the final payment received this quarter from a settlement and license agreement reached prior to our spinoff from IDT. This quarter's revenue is nearly double last quarter's revenue of \$112,000, and down from year ago revenue of \$2.9 million.

Total cost and expenses for the quarter were \$2.1 million, consisting of direct cost of revenue, research and development expense, and our SG&A. This compares to \$2.7 million in Q2 and \$2.7 million one year ago. Last quarter, we expanded our cost and expenses category to include research and development expense. This expense has grown in Q3, which indicates a sign of good progress, both in Cambridge's development of its 39 GHz point-to-multipoint wireless platform and specifically in regards to our Gigabit Mobility Lab. Because Cambridge achieved the second out of three development milestones towards its commercial prototype, we expensed an additional \$400,000 against the \$1 million prepaid under our development arrangement with Cambridge.

This quarter's R&D expenses also included \$105,000 of expenses for our Gigabit Mobility Lab. The Lab has achieved significant internal milestones and it now makes sense to provide better visibility by identifying the Lab as a third segment, which I'll describe further in a few moments. Our SG&A spend totaled \$1.5 million for the third quarter and includes non-cash compensation of approximately \$600,000. This is down from last quarter's SG&A spending of \$2.3 million, primarily due to a reduction of expenses for outside advisors and a decrease of \$400,000 in non-cash compensation.

With \$219,000 of revenue and \$2.1 million in cost and expenses, we reported an operating loss of \$1.9 million for Q3. This compares to a \$2.6 million operating loss last quarter and a \$200,000 operating profit in the year ago quarter.

Now I'd like to provide some insight into the impact of these results, including expectations we have for the upcoming quarters and to describe some changes we've made in our segment reporting.

A guiding principle for Straight Path is to maintain a high level of fiscal discipline. Our SG&A budget for fiscal 2016 excluding non-cash compensation is \$6 million, which consists of approximately \$1 million per quarter for our general operations and \$2 million for two strategic projects: \$1 million to launch and operate our Gigabit Mobility Lab in Plano, Texas, and \$1 million to fund the one-time payment to Cambridge to develop its point-to-multipoint platform for 39 GHz spectrum. The Gigabit Mobility Lab will not spend its full \$1 million budget allocation in fiscal year 2016. Even with the increased cost of advisors related to the shareholder litigation and the independent investigation, we expect to generally maintain this overall budget.

The Gigabit Mobility Lab has gained enough traction in regards to prototype development milestones and in early discussions with potential strategic partners, that we determined it's time to graduate the Lab in our financial reporting to be shown as an independent business segment. Hence you'll note in our financials in today's 10-Q, we have included a third business segment, Straight Path Ventures, in addition to our Spectrum and IP segments.

Another notable change in our financial statements is our spending in Q3 of approximately \$1.3 million to purchase hardware as our investment to increase market adoption of 39 GHz in advance of the availability of Cambridge's system. This shows as property and equipment, net of depreciation, in our balance sheet. Due to the success of this program, we increased our previously announced hardware order to Cambridge for the 39 GHz point-to-multipoint radios by approximately \$1.3 million, much of which will be occurring in fiscal 2017 and will be accounted for in next year's budget.

Bottom line, regarding our cash balance versus operational expenses and possible opportunistic spending, we feel that our currently available resources place us in a comfortable position for at least the next 12 months.

We've described how our IP Group is resuming its enforcement program. Although we hope that these efforts will be successful, there's a great deal of uncertainty regarding the outcome and timing of these efforts.

Regarding the prospects of our spectrum leasing business, we continue to see strong interest from US-based operators interested in learning more about point-to-multipoint solutions using 39 GHz spectrum. We have begun a soft marketing effort with Cambridge, primarily by supporting their efforts at trade shows for wireless operators. There is a long sales cycle for most operators, particularly large operators, to evaluate the equipment and solution as part of their network growth plans, so we do anticipate slow growth for these efforts to become a significant revenue source. In particular, until Cambridge launches its commercial-ready 39 GHz platform, which we currently expect to be in late 2016 or early 2017, we are limited to sales where we have 28 GHz spectrum available to work with Cambridge's existing 28 GHz point-to-multipoint platform, such as in New York City and San Francisco. We therefore maintain that this business will not make significant revenue contribution until at least calendar 2017.

To summarize the quarter, we believe Straight Path is in good fiscal shape to continue our strategic and operational efforts to generate value and revenue over the coming quarters. We've expanded our business segments to include our Gigabit Mobility Lab. We continue to spend carefully and strategically within our modified budget to achieve our goals and maximize shareholder value. We are excited about all three of our divisions and believe each one is poised for success in the coming quarters.

I hope this provides you with good insight into our fiscal status and forward-looking vision for Straight Path.

There will not be a Q&A session on today's call, so we are ending the call at this time.

Davidi and I thank you very much for joining Straight Path Communications' Third Quarter Fiscal 2016 Conference Call.

Operator:

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.