

NETWORK 1 TECHNOLOGIES INC
Form 10-Q
August 14, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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 1-15288

NETWORK-1 TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware

11-3027591

(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)

445 Park Avenue, Suite 912
New York, New York
10022
(Address of Principal Executive Offices) (Zip Code)

212-829-5770
(Registrant's Telephone Number)

Edgar Filing: NETWORK 1 TECHNOLOGIES INC - Form 10-Q

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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405) of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth Company

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

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

The number of shares of the registrant's common stock, \$.01 par value per share, outstanding as of August 14, 2018 was 23,835,916.

NETWORK-1 TECHNOLOGIES, INC.

Form 10-Q Index

	<u>Page</u> <u>No.</u>
PART I. Financial Information	
Item 1. Condensed Consolidated Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	3
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	34
PART II. Other Information	
Item 1. Legal Proceedings	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	38

Item 3. Defaults Upon Senior Securities	39
Item 5. Other Information	39
Item 6. Exhibits	39
Signatures	40

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NETWORK-1 TECHNOLOGIES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)

	June 30, 2018	December 31, 2017
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 32,959,000	\$ 51,101,000
Other investments	26,997,000	3,054,000
Royalty receivables, net	448,000	575,000
Prepaid taxes	—	125,000
Other current assets	44,000	83,000
Total Current Assets	60,448,000	54,938,000
OTHER ASSETS:		
Deferred tax assets	168,000	168,000
Patents, net of accumulated amortization	2,083,000	2,169,000
Security deposits	19,000	19,000
Total Other Assets	2,270,000	2,356,000
TOTAL ASSETS	\$ 62,718,000	\$ 57,294,000
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	\$ 234,000	\$ 244,000
Income taxes payable	1,164,000	—
Accrued contingency fees and related costs	737,000	1,780,000
Accrued payroll	58,000	709,000
Other accrued expenses	191,000	149,000
TOTAL LIABILITIES	2,384,000	2,882,000

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock, \$0.01 par value, authorized 10,000,000 shares;
 none issued and outstanding at June 30, 2018

Edgar Filing: NETWORK 1 TECHNOLOGIES INC - Form 10-Q

December 31, 2017	—	—
Common stock, \$0.01 par value; authorized 50,000,000 shares; 23,633,229 and 23,843,915 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	236,000	238,000
Additional paid-in capital	64,916,000	64,435,000
Accumulated deficit	(4,742,000)	(10,219,000)
Accumulated other comprehensive loss	(76,000)	(42,000)
TOTAL STOCKHOLDERS' EQUITY	60,334,000	54,412,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$62,718,000	\$57,294,000

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

- 3 -

NETWORK-1 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE	\$471,000	\$4,862,000	\$19,934,000	\$11,083,000
OPERATING EXPENSES:				
Costs of revenue	133,000	1,583,000	7,392,000	3,375,000
Professional fees and related costs	586,000	215,000	1,104,000	620,000
General and administrative	462,000	440,000	969,000	924,000
Amortization of patents	69,000	50,000	139,000	100,000
Stock-based compensation	225,000	237,000	451,000	474,000
TOTAL OPERATING EXPENSES	1,475,000	2,525,000	10,055,000	5,493,000
OPERATING INCOME (LOSS)	(1,004,000)	2,337,000	9,879,000	5,590,000
OTHER INCOME:				
Interest income, net	203,000	25,000	346,000	34,000
INCOME (LOSS) BEFORE INCOME TAXES	(801,000)	2,362,000	10,225,000	5,624,000
INCOME TAXES (BENEFIT):				
Current	(237,000)	818,000	2,188,000	1,773,000
Deferred taxes, net	—	—	—	39,000
Total income taxes (benefit)	(237,000)	818,000	2,188,000	1,812,000
NET INCOME (LOSS)	\$(564,000)	\$1,544,000	\$8,037,000	\$3,812,000
Net Income (Loss) Per Share				
Basic	\$(0.02)	\$0.06	\$0.34	\$0.16
Diluted	\$(0.02)	\$0.06	\$0.31	\$0.14
Weighted average common shares outstanding:				
Basic	23,713,827	24,285,803	23,760,163	24,202,788
Diluted	23,713,827	26,693,310	25,599,581	26,514,620
Cash dividends declared per share	—	—	\$0.05	\$0.05
NET INCOME (LOSS)	\$(564,000)	\$1,544,000	\$8,037,000	\$3,812,000
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized holding loss on securities available-for-sale arising during the period	(9,000)	2,000	(34,000)	1,000

COMPREHENSIVE INCOME (LOSS)	\$(573,000) \$1,546,000	\$8,003,000	\$3,813,000
-----------------------------	------------	---------------	-------------	-------------

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

- 4 -

NETWORK-1 TECHNOLOGIES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$8,037,000	\$3,812,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of patents	139,000	100,000
Stock-based compensation	451,000	474,000
Deferred tax provision	—	39,000
Changes in operating assets and liabilities:		
Royalty receivables	127,000	(1,518,000)
Prepaid taxes	125,000	1,195,000
Other current assets	39,000	39,000
Accounts payable	(10,000)	(15,000)
Income taxes payable	1,164,000	640,000
Accrued expenses	(1,693,000)	(2,598,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,379,000	2,168,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of other investments	(23,977,000)	—
Development of patents	(53,000)	(8,000)
CASH USED IN INVESTING ACTIVITIES	(24,030,000)	(8,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid		