10-Q 1 wlkr20180331_10q.htm FORM 10-Q

Table of Contents

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, 2018

Or

☐ **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: 000-54638

WALKER INNOVATION INC.
(Exact name of registrant as specified in its charter)

Delaware	**30-0342273**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Two High Ridge Park, Stamford, Connecticut	**06905**
(Address of Principal Executive Offices)	(Zip Code)

(203) 263-9362
(Registrant's telephone number, including area code)

(Former name and former address, if changed since last report)

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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
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 Act): Yes ☐ No ☒

As of May 4, 2018, there were 20,094,314 shares of the issuer's common stock outstanding.

WALKER INNOVATION INC. AND SUBSIDIARIES
Form 10-Q
Table of Contents

WALKER INNOVATION INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands except share and per share amounts)

	March 31, 2018	December 31, 2017
ASSETS	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 3,313	$ 24,041
Short-term investment	20,000	25
Prepaid expenses and other current assets	92	73
Total current assets	23,405	24,139
TOTAL ASSETS	**$ 23,405**	**$ 24,139**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 66	$ 121
Accrued expenses	134	229
Total current liabilities	200	350
TOTAL LIABILITIES	**200**	**350**
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.001 par value, 15,000,000 shares authorized	--	--
Series B Convertible Preferred stock, $0.001 par value, 14,999,000 shares designated, issued and outstanding, as of March 31, 2018 and December 31, 2017 respectively	15	15
Common stock, $0.001 par value, 100,000,000 shares authorized; 21,184,744 shares issued and 20,094,314 shares outstanding as of March 31, 2018 and December 31, 2017 respectively	21	21
Treasury stock, 1,090,430 shares, at cost	(1,122)	(1,122)
Additional paid-in capital	47,381	47,350
Accumulated deficit	(23,090)	(22,475)
TOTAL STOCKHOLDERS' EQUITY	**23,205**	**23,789**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 23,405**	**$ 24,139**

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

WALKER INNOVATION INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues:		
Licensing fees	$ --	$ --
Total revenues	--	--
Cost of Revenue:		
Legal and consulting contingency fees	--	--
Total Cost of Revenue	--	--
Net revenue	--	--
Operating expenses:		
Other legal and consulting fees	2	100
Patent prosecution and maintenance fees	14	33
Compensation and benefits (includes non-cash stock based compensation of $32 and $248 for the three months ended March 31, 2018 and 2017, respectively)	301	679
Professional fees	216	278
General and administrative	123	194
Total operating expenses	656	1,284
Operating net loss	(656)	(1,284)
Other income		
Other income	--	120
Interest income	41	4
Net loss	**$ (615)**	**$ (1,160)**
Net loss per common share:		
Basic	$ (0.03)	$ (0.06)
Diluted	$ (0.03)	$ (0.06)
Weighted average common shares outstanding:		
Basic	20,094	20,742
Diluted	20,094	20,742

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

WALKER INNOVATION INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands except share and per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2018	**2017**
Cash Flows from Operating Activities:		
Net loss	$ (615)	$ (1,160)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	32	248
Depreciation and amortization	--	3
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Other receivable	(21)	--
Prepaid and other current assets	--	(10)
Increase (decrease) in:		
Accounts payable	(54)	(66)
Accrued expenses	(95)	(33)
Deferred liabilities	--	(84)
Net cash used in operating activities	**(753)**	**(1,102)**
Cash Flows from Investing Activities:		
Purchase of short-term investment	(20,000)	--
Sale of short-term investment	25	--
Net cash used in investing activities	**(19,975)**	**--**
Cash Flows from Financing Activities:		
	--	--
Net cash provided by financing activities	--	--
Net change in cash and cash equivalents	**(20,728)**	**(1,102)**
Cash and cash equivalents:		
Beginning	**$ 24,041**	**$ 10,285**
Ending	**$ 3,313**	**$ 9,183**

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

WALKER INNOVATION INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2018
(in thousands except share and per share amounts)

NOTE 1. THE COMPANY

Walker Innovation Inc., a Delaware corporation (collectively, with its subsidiaries, the "Company" or "Walker Innovation"), seeks to develop and commercialize its unique portfolio of intellectual property assets through licensing and enforcement operations ("Licensing and Enforcement"). In response to challenging developments in the patent licensing and enforcement environment and the cessation of the Company's custom innovation work, the Company's current plan of operations includes a carefully focused Licensing and Enforcement program, and an effort to acquire, through merger, share exchange, asset acquisition, plan of arrangement, recapitalization, reorganization or similar business combination, one or more operating businesses, either within its current verticals or in new industry segments, or control of such operating businesses through contractual arrangements. An investment bank has been retained to advise the Company on its acquisition process.

Walker Digital, LLC ("Walker Digital"), a related party, is the owner of approximately 82% of the voting interest in the Company and owns approximately 48% of the economic interest in the Company (approximately 42% on a fully diluted basis).

NOTE 2. NATURE OF BUSINESS

Licensing and Enforcement

The Company seeks to develop, license and otherwise enforce patented technologies through its wholly owned subsidiaries. Historically, the Company generated revenues from the granting of intellectual property rights for the use of, or pertaining to, its patented technologies. The Company may also monetize its intellectual property through the sale of patent assets. Patent protection is a key part of the Company's business model, because it provides the Company with a period of exclusive ownership during which the Company has the opportunity to recoup risk capital and generate a profit from inventions.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and pursuant to the instructions on Form 10Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. Additionally, operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2018. For further information, refer to the financial statements and footnotes included in the Company's annual financial statements for the year ended December 31, 2017, which are included in the Company's annual report on Form 10-K filed with the SEC on February 2, 2018.

The accompanying unaudited condensed consolidated financial statements of the Company were prepared in accordance with GAAP and include the assets, liabilities, revenues and expenses of the Company's wholly-owned subsidiaries over which the Company exercises control. Intercompany transactions and balances were eliminated in consolidation.

Use of Estimates

The preparation of unaudited condensed financial statements in conformity with US GAAP requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Financial Statements. Actual results could differ from these estimates. The Company's significant estimates and assumptions include stock-based compensation and the valuation allowance related to the Company's deferred tax assets, revenue recognition and establishing the fair value of its investments. Certain of the Company's estimates could be affected by external conditions, including those unique to the Company and general economic conditions. It is reasonably possible that these external factors could have an effect on the Company's estimates and could cause actual results to differ from those estimates and assumptions.

Cash and Cash Equivalents

The Company maintains its cash in bank deposit and money market accounts that, at times, may exceed federally insured limits. The Company considers money market accounts that have maturity dates of three months or less from the purchase date to be cash equivalents.

Short term Investment

The Company classifies its investment consisting of certificates of deposit with a maturity greater than thirty days but less than one year as a short-term investment.

Earnings (Loss) per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) applicable to common stock by the weighted-average number of shares of common stock outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other instruments that are convertible into common stock were exercised/converted or could result in the issuance of common stock. As of March 31, 2018 and 2017, the following common stock equivalents were outstanding:

	2018	**2017**
Common Stock options	4,875,498	4,795,500
Convertible Preferred Stock	14,999,000	14,999,000
Potentially dilutive securities	19,874,498	19,794,500

Revenue Recognition

The Company derives its revenue from patent licensing and enforcement. In general, these revenue arrangements provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. A significant number of the patent licenses are granted on the entire portfolio rather than individual patents. Most of the intellectual property rights granted are perpetual in nature, extending until the expiration of the related patents, although they can be granted for a defined, relatively short period of time. Revenue will be recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Costs Associated with Revenue

Contingent legal and consulting fees are expensed in the Unaudited Condensed Consolidated Statements of Operations in the period that the related revenues are recognized. In instances where there are no recoveries from potential infringers, no contingent legal and consulting fees are required to be paid; however, the Company may be liable for certain out of pocket legal and consulting costs incurred pursuant to the underlying legal and consulting services agreement. Legal fees advanced to contingent law firms, if any, that are required to be paid in the event that no license recoveries are obtained are expensed as incurred and included in liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Fair Value Measurements

The carrying amounts of cash and cash equivalents, short term investment, accounts receivable, accounts payable and other current liabilities, approximate fair value due to the short-term nature of these instruments.

Fair value is defined as an exit price, representing the amount that would be received upon the sale of an asset or payment to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3. Significant unobservable inputs that cannot be corroborated by market data.

These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability.

Investment

In cases where the Company's investment is less than 20% of the outstanding voting stock and significant influence does not exist, the investment is carried at cost, and evaluated for impairment at each reporting period.

The Company elected the fair value option for its investment in The Upside Commerce Group, LLC formerly known as Flexible Travel Company, LLC ("Upside").

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The decision to elect the fair value option, which is irrevocable once elected, is determined on an instrument by instrument basis and applied to an entire instrument. The net gains or losses, if any, on an investment for which the fair value option has been elected, are recognized as an unrealized gain on investment in the Unaudited Condensed Consolidated Statements of Operations.

Stock Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally measured on the measurement date and re-measured on each financial reporting date and vesting date until the service period is complete. The fair value amount is then recognized over the period services are required to be provided in exchange for the award, usually the vesting period. The Company recognizes employee stock-based compensation expense on a straight-line basis over the requisite service period for each separately vesting tranche of each award. Stock-based compensation expense is reflected within operating expenses in the Unaudited Condensed Consolidated Statements of Operations.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible. The benefit of tax positions taken or expected to be taken in the Company's income tax returns are recognized in the Consolidated Financial Statements if such positions are more likely than not of being sustained.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU No. 2016-13"). ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU No. 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for the Company on January 1, 2020. Early adoption will be available on January 1, 2019. The Company is currently evaluating the effect that the updated standard will have on its Consolidated Financial Statements and related disclosures.

In July 2017, the FASB issued ASU 2017-11, Earnings per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). ASU 2017-11 consists of two parts. The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position and results of operations.

NOTE 4 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of March 31, 2018 and December 31, 2017 prepaid expenses and other current assets consist of the following:

	2018 (Unaudited)	2017
Prepaid insurance	$ 39	$ 42
Prepaid patent costs	3	3
Due from Walker Digital	--	1
Other prepaid expenses and receivables	50	27
Total prepaid expenses and other current assets	$ 92	$ 73

NOTE 5 - INVESTMENTS

Investment in The Upside Commerce Group, LLC

In December 2015, the Company entered into the Upside Services Agreement with Upside (the "Upside Services Agreement"), a company affiliated with Walker Digital, the Company's controlling stockholder, regarding the provision of executive management, marketing, legal and financial consulting services. There are no set deliverables contemplated by the Upside Services Agreement, and services are provides as needed pursuant to the hourly rates (approximately equal to the Company's cost) specified in the Upside Services Agreement.

In connection with the Upside Services Agreement, the Company was granted the Upside Warrant to purchase limited liability company interests in Upside at an exercise price of $0.06 per Class A common share (the "Upside Warrant"), which amount has been determined to equal the fair market value of such shares as of the date of issuance of the Upside Warrant. The Upside Warrant was issued to the Company by Jay Walker, who at the time of issuance, beneficially owned approximately 37% of the aggregate outstanding limited liability company interests of Upside on a fully diluted basis, and controls Walker Digital, the Company's controlling stockholder. The total Class A common shares that may be purchased pursuant to the exercise of the Upside Warrant was originally 16,400,000 shares, equal to approximately 16% of the aggregate outstanding limited liability company interests of Upside, on a fully diluted basis, at the time of issuance, and the transfer of such shares to the Company was subject to certain requirements, including the provision of an opinion of counsel that such would not result in Upside being deemed to be a publicly traded partnership for purposes of U.S. federal income tax law.

The Company entered into a Securities Purchase Agreement dated as of November 21, 2016 (the "November Purchase Agreement") in connection with the sale of an aggregate of 2,500,000 Class A Common Shares (the "November Shares") of Upside at $2.00 per share to a group of accredited investors (the "Investors") in private resales not requiring registration under the Securities Act of 1933. The November Shares were issued upon exercise of the Upside Warrant, granted to the Company by Jay S. Walker, the controlling stockholder of the Company, Walker Digital and Upside. The total Class A Common Shares that could be purchased pursuant to the exercise of the Upside Warrant was originally 16,400,000 and, following the exercise in connection with the November Purchase Agreement, was 13,900,000. The sale of the November Shares to the Investors was consummated concurrently with entering into the November Purchase Agreement.

In December 2016, the Company entered into a Securities Purchase Agreement (the "December Purchase Agreement") in connection with the sale of an aggregate of 1,250,000 Class A Common Shares (the "December Shares") of Upside, at $2.00 per share to an existing investor in Upside in a private resale not requiring registration under the Securities Act of 1933. The Shares were issued upon exercise of the Upside Warrant at a price of $0.06 per share. Giving effect to the sale of the November Shares and December Shares, the Company raised gross proceeds of $7.5 million and retained the ability to purchase 12,650,000 Shares of Upside pursuant to the Upside Warrant (then 11% of Upside on a fully diluted basis).

On June 2, 2017, the Company entered into a Redemption Agreement with Upside to redeem the remaining 12,650,000 Upside Class A Common Shares. Simultaneously with the redemption on June 2, 2017, the Company acquired the Upside Class A Common Shares at a price of $0.06 per share pursuant to the Upside Warrant previously granted to the Company. The Upside Class A Common Shares were redeemed at $1.43182745 per share as approved by the Company's Audit Committee. Net proceeds from the transaction after giving effect to fees and the exercise price was approximately $16.8 million. After giving effect to the transaction described above, the Company no longer retains an equity interest in Upside.

In connection with the issuance of the Upside Warrant in December of 2015, the Company recorded deferred revenue of $646 for the year ended December 31, 2015 and has amortized $0 and $84 of this deferred revenue into Other Income for the three months ended March 31, 2018 and 2017, respectively.

Investment in Tagged

The Company received 57,000 shares of common stock in Tagged, Inc. ("Tagged") as partial payment in connection with a license agreement. If on liquidation date (i.e. public offering or change of control), the then current fair value of the stock is less than $250 ("floor value"), Tagged will pay the Company the difference between the $250 floor value and the then current fair value. The investment is carried at cost. In April 2017 Tagged was the subject of an acquisition pursuant to which the Company received $71 in exchange for its shares in Tagged and expects to receive an additional $6 during the second quarter. Also in April 2017, the Company received $173 pursuant to the license agreement (the difference between the $250 floor value and the acquisition proceeds).

NOTE 6 - SHARED SERVICES AGREEMENT

Walker Digital

The Company has a Shared Services Agreement ("WDM Shared Services Agreement") with Walker Digital Management ("WDM"). The cost of such services varies monthly based on the terms of the WDM Shared Services Agreement. The incurred expenses include but are not limited to executive compensation, information technology services and supplies, administrative and general services and supplies and rent and utilities, and are based either on specific attribution of those expenses or, where necessary and appropriate, based on the Company's best estimate of an appropriate proportional allocation.

The following table represents operating expenses contributed by WDM on behalf of the Company and expenses incurred under the WDM Shared Services Agreement for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating Expenses:		
Compensation expenses	$ --	$ 3
Rent and utilities	17	45
Office services and supplies	1	7
Other	5	15
Total operating expenses	$ 23	$ 70

As of March 31, 2018 and December 31, 2017, due to WDM included in accounts payable/accrued expenses on the Condensed Balance Sheet was $7 and $12, respectively.

Upside Commerce Group, LLC

In December 2015, the Company entered into the Upside Services Agreement with Upside to provide executive management, marketing, legal, financial consulting and other services, this agreement expired in December 2017. For the three months ended March 31, 2017 the Company provided approximately $35 of expenses related to such services and these amounts are included in Other Income on the Unaudited Condensed Consolidated Statement of Operations.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to claims, counterclaims and legal actions that arise in the ordinary course of business. The plaintiff in a patent suit may have defenses to any counterclaim. In addition, defendants in a patent suit may file motions seeking costs and fees against the plaintiff, which may be opposed. Management believes that the ultimate liability with respect to these claims and legal actions, if any, will not have a material effect on the Company's financial position, results of operations or cash flows. The Company recognizes a liability for a contingency when it is probable that liability has been incurred and when the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount of such loss, at no less than the minimum of the range. As of March 31, 2018 and December 31, 2017, the litigation accrual was not material.

Accrued Bonuses

As of March 31, 2018 and December 31, 2017, accrued bonuses were $0 and $18, respectively. Most accrued bonuses are discretionary in nature, although some are based on specific performance goals. These amounts are included in accrued expenses on the condensed consolidated balance sheets.

NOTE 8 - EQUITY

As of March 31, 2018, the Company had authorized an aggregate of 100,000,000 shares of common stock, par value $0.001 per share. The Company, had authorized an aggregate of 15,000,000 shares of preferred stock, par value $0.001 per share, 14,999,000 shares of which have been designated Series B Convertible Preferred Stock. As of March 31, 2018, there were 21,184,744 shares of the Company's common stock issued and 20,094,314 outstanding. As of March 31, 2018, 14,999,000 shares of the Company's Series B Convertible Preferred Stock were issued and outstanding.

NOTE 9 - STOCK-BASED COMPENSATION

Option Repricing

On January 12, 2017, compensation committee of the Company's Board of Directors, and Walker Digital, a stockholder entitled to vote 2,358,500 shares of the Company's Common Stock and 14,999,000 shares of Series B Preferred Stock, representing, collectively, approximately 82.3% of the outstanding voting stock of the Company entitled to vote on such date with respect to such corporate actions, approved a one-time stock Option Repricing program (the "Option Repricing") to permit the Company to reprice certain options to purchase the Company's Common Stock held by its current directors, officers and employees (the "Eligible Options"), which actions became effective on February 19, 2017. Under the Option Repricing, as of the date the Option Repricing became effective, Eligible Options with an exercise price at or above $1.37 per share (representing an aggregate of 2,743,000 options, or 58% of the total outstanding) were amended to reduce such exercise price to $0.43.

The impact of the repricing was a one time incremental non cash charge of approximately $216, of which $114 was expensed in the first quarter of 2017 and an additional $102 of expense which is being charged to operations over the remaining term of the options.

Total stock-based compensation to employees and non-employees for the three months ended March 31, 2018 and 2017, respectively, is presented in the following table:

	Three Months Ended March 31,	
	2018	**2017**
Employee option awards	$ 32	$ 134
Employee option awards in connections with Repricing	--	114
Total stock-based compensation expense	$ 32	$ 248

Stock-based Compensation

During the first quarter of 2018 the Company granted no new options.

A summary of the status of the Company's stock option plans and the changes during the three months ended March 31, 2018, is presented in the table below:

	Number of Shares	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2017	4,928,832	$ 0.64	$ --	6.37
Options Granted	--	--	--	--
Options Exercised	--	--	--	--
Options Cancelled/Forfeited	(53,334)	0.32	--	--
Outstanding at March 31, 2018	4,875,498	0.65	400	6.43
Options vested and exercisable	4,173,824	$ 0.69	$ 325	6.04

As of March 31, 2018, the Company had unrecognized stock-based compensation expense related to all unvested stock options of $101, which is expected to be recognized over the remaining weighted-average vesting period of 2.1 years.

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

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our financial statements and the notes to those statements. This discussion contains forward-looking statements reflecting our management's current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 2, 2018.

Narrative discussions of dollar figures are in thousands, except share and per share data and where the context indicates otherwise.

General

Through our wholly-owned subsidiaries, we historically have created, commercialized, licensed and, when necessary, legally enforced our homegrown portfolio of business innovations, which we acquired from our affiliate Walker Digital, LLC ("Walker Digital"), and are actively engaged in identifying new synergies for our assets and operations. In response to challenging developments in the patent licensing and enforcement environment and the cessation of the Company's custom innovation work, the Company's current plan of operations includes a carefully focused Licensing and Enforcement program, and an effort to acquire, through merger, share exchange, asset acquisition, plan of arrangement, recapitalization, reorganization or similar business combination, one or more operating businesses, either within its current verticals or in new industry segments, or control of such operating businesses through contractual arrangements. An investment bank has been retained to advise the Company on its acquisition process and other opportunities to create shareholder value.

The Company's Executive Chairman is entrepreneur and inventor Jay Walker, who is best known as the founder of Priceline.com and has twice been named by TIME magazine as "one of the top 50 business leaders of the digital age." Mr. Walker currently ranks as the world's 12th most patented living individual, based on U.S. patent issuances according to Wikipedia.

All improvements to the intellectual property assets that were primary to Walker Licensing's business, together with any of the intellectual property associated with Haystack IQ, have been assigned to our subsidiary Inventor Holdings, LLC pursuant to an Invention Assignment Agreement with Mr. Walker. While the terms of the Invention Assignment Agreement do not entitle us to any other intellectual property Mr. Walker may develop in the future, in view of his significant equity position in the Company and the Company's platform for the protection of the intellectual property it holds, Mr. Walker may nevertheless determine to develop and commercialize intellectual property through the Company. The terms and conditions of any such transaction would be negotiated between Mr. Walker and our Audit Committee at the time of such determination.

All of our intellectual property assets were created with the goal of solving business problems, with the intent to achieve commercial status. However, it is our belief that some of our inventions have become part of the commercial activities of other businesses without having been licensed, depriving us of financial value. Our monetization efforts include the possible sale or licensing of all or part of the relevant patent portfolio. We are also considering enforcement activities for certain patents, although the timing and extent of these activities depends upon many factors affecting the market for patents and the patent enforcement industry that are beyond our control.

On November 28, 2016, the Company entered into a Release and Settlement Agreement with Walker Digital (the "Settlement Agreement") relating to rights to indemnification from Walker Digital as a consequence of a settlement with a third party. The terms of the Settlement Agreement were approved by the Audit Committee of the Company. The Settlement Agreement required Walker Digital to pay the Company $125 in cash, or to return to the Company shares of its common stock having a value of $125 within six months following the date of the Settlement Agreement and acknowledged the direct and indirect benefits received by the Company from Walker Digital in connection with the sale of shares of Upside by the Company in the November Purchase Agreement (as described below) as part of the consideration received in connection with the release of the Company's indemnification claims against Walker Digital. On May 24, 2017, Walker Digital returned to the Company shares of its Common Stock having a value of $125. On December 18, 2017, pursuant to an agreement approved by the Audit Committee on December 6, 2017, Walker Digital returned to the Company shares of its Common Stock having a value of $157, in reimbursement of legal fees and expenses paid by the company on behalf of Walker Digital in connection with the Third Party Settlement.

Overview

Operating activities of the first quarter of 2018 were principally focused on the development, licensing and enforcement of our patent portfolios and continuing our efforts to acquire, through merger, share exchange, asset acquisition, plan of arrangement, recapitalization, reorganization or similar business combination, one or more operating businesses, either within our current verticals or in new industry segments, or control of such operating businesses through contractual arrangements, continuing efforts to improve operational efficiencies and preserve cash, as well as the development of our patent portfolio and select patent monetization and enforcement related activities.

Current Plan of Operation

The Company's current plan of operations includes a carefully focused Licensing and Enforcement program, continuing efforts to improve the operational efficiencies and preserve cash, and an effort to acquire, through merger, share exchange, asset acquisition, plan of arrangement, recapitalization, reorganization or similar business combination, one or more operating businesses, either within its current verticals or in new industry segments, or control of such operating businesses through contractual arrangements. The Company expects to consider acquisition opportunities, if any, based on the circumstances presented by the business trends discussed above and the potential benefits to stockholders.

Licensing and Enforcement

Our Licensing and Enforcement revenues historically have fluctuated period to period, and can vary significantly, based on a number of factors including the following:

- the dollar amount of agreements executed each period, which can be driven by the nature and characteristics of the technology or technologies being licensed and the magnitude of infringement associated with a specific licensee;
- the specific terms and conditions of agreements executed each period including the nature and characteristics of rights granted, and the periods of infringement or term of use contemplated by the respective payments;
- fluctuations in the total number of agreements executed each period;
- the timing, results and uncertainties associated with patent filings and other enforcement proceedings relating to our intellectual property rights;
- the ageing of the patent portfolio; and
- other external factors, including developments in the law affecting patent enforcement.

All of the Licensing and Enforcement revenues were generated through settlement and non-exclusive license agreements. All of the agreements provide for a one-time payment to the Company. Generally we are willing to engage in settlement discussions with defendants at any appropriate time during the course of litigation. We will agree to settle a dispute with a defendant when we believe that such a settlement and the terms of the agreement are in the best interest of the Company and its shareholders. The environment for entering into such patent sale agreements or license agreements in the first quarter of 2018 continues to be adversely affected by several significant developments in the intellectual property industry, including the continued effect of the Leahy-Smith America Invents Act of 2011 (including several new means by which challenges of the validity of our patents may be effected, including inter partes review proceedings) and the Supreme Court holding in the Alice Corp. v. CLS Bank International case, which called into question the patentability of certain types of inventions. In view of these trends, we are anticipating that the revenues from Licensing and Enforcement will continue to be minimal.

Results of Operations

For the Three Months Ended March 31, 2018 Compared with Three Months Ended March 31, 2017

Net Loss

Net loss for the three months ended March 31, 2018 was $615 compared to net loss of $1,160 for the three months ended March 31, 2017.

Operating expenses of $656 for the quarter ended March 31, 2018 included other legal and consulting fees of $2, patent prosecution and maintenance fees of $14, compensation and related benefits (including non-cash compensation of $32) of $301, professional fees of $216, and general and administrative expense of $123.

Operating expenses of $1,284 for the quarter ended March 31, 2017 included other legal and consulting fees of $100, patent prosecution and maintenance fees of $33, compensation and related benefits (including non-cash compensation of $248) of $679, professional fees of $278, general and administrative expense of $194. Included in non cash compensation is a one time non-recurring charge of $114 in connection with the repricing of certain options.

Revenues

We recorded no revenues for either the three months ended March 31, 2018 or the three months ended March 31, 2017.

Although we continue to engage in negotiations regarding licensing arrangements, pursue a carefully focused enforcement program, and conduct other activities intended to produce revenue, no revenue was recognizable for the periods presented.

Licensing and Enforcement Expenses

	Three Months Ended		
	March 31, 2018	March 31, 2017	% Change
Other legal and consulting fees	$ 2	$ 100	(98)%
Patent prosecution and maintenance costs	14	33	(58)%
Total licensing and enforcement expenses	$ 16	$ 133	(88)%

Other legal and consulting expenses for the three months ended March 31, 2018 and 2017 were $2 and $100, respectively. The decrease in other legal and consulting fees during the first quarter of 2018 as compared to the first quarter of 2017 was mainly attributable to our more focused licensing and enforcement efforts. Other legal and consulting expenses fluctuate from period to period based on patent enforcement and prosecution activity associated with ongoing licensing and enforcement programs and the timing of the commencement of new licensing and enforcement efforts in each period. We expect other legal and consulting expenses to continue to fluctuate period to period based on the factors summarized above, in connection with scheduled trial dates, if any, and our current and future patent development, licensing and enforcement activities.

Patent prosecution and maintenance expenses for the first quarter of 2018 decreased to $14 from $33 in first quarter 2017. Patent prosecution and maintenance expenses are related to legal fees and Patent Trademark Office expenses for reexaminations and patent prosecutions.

General and Administrative Expenses

	Three Months Ended		
	March 31, 2018	March 31, 2017	% Change
Compensation and benefits	$ 301	$ 679	(56)%
Professional fees	216	278	(22)%
General and administrative	123	194	(37)%
Total general & administrative expenses	$ 640	$ 1,151	(44)%

Compensation and benefits expense decreased by 56% for the three months ended March 31, 2018 from $679 to $301 and includes share based compensation of $32 and $248 for the first quarter ended March 31, 2018 and 2017, respectively. The decrease in compensation and benefits is related to an overall decrease in headcount from 7 in 2017 to 4 in 2018.

Professional fees for the first quarter of 2018 decreased by 22% and totaled $216 and related primarily to accounting and legal fees of $158, board fees of $39 and public company expenses of $19.

Total general and administrative expenses decreased by 37% to $123 for the quarter ended March 31, 2018 compared to $194 for the quarter ended March 31, 2017. The decrease is attributed to decreases of $23 of office space, utilities and telephone, $17 in computer and office expenses, insurance of $6 and corporate taxes of $53 and was offset slightly by an increase in corporate taxes of $18.

Other Income

Other income includes amortization incurred in connection with the Upside Warrant, as well as amounts received related to services provided in connection with the Upside Services Agreement. The Upside Services Agreement expired in the fourth quarter of 2017, and the Warrant was fully amortized in the fourth quarter of 2017. Accordingly, there was no other income in the first quarter of 2018, compared to the first quarter of 2017 where other income totaled $120, of which $36 was received from Upside in connection with services provided and $84 of amortization was recorded in connection with the Upside Warrant.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 3 to our Unaudited Condensed Consolidated Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions. The Company’s significant estimates and assumptions include stock-based compensation, the valuation allowance related to the Company’s deferred tax assets revenue recognition, and establishing the fair value of its investments.

Liquidity and Capital Resources

Our current assets were $23.4 million at March 31, 2018, including $20 million of short-term investments resulting from our investment of cash equivalents in highly liquid bank certificates of deposit. Working capital amounted to $23.2 million as of March 31, 2018. We have narrowed the focus of our litigation business to those patent families that we believe will yield the highest return and we have discretion as to whether the associated legal costs are incurred hourly or on a contingent basis. We believe we have the ability to manage our expenses while we invest in growing our top line and therefore believe that the Company's cash and cash equivalents are sufficient to meet our liquidity needs for at least the next twelve months from the issuance date of this filing. Cash used in operating activities was approximately $0.8 million for the quarter ended March 31, 2018.

Contractual Obligations

We had no significant commitments for capital expenditures and we have no committed lines of credit or other committed funding or long-term debt as of March 31, 2018.

Off-Balance Sheet Transactions

We are not party to any off-balance sheet transactions. We have no guarantees or obligations other than those which arise out of normal business operations.

Recently Issued Accounting Pronouncements

See Note 3 to our Unaudited Condensed Consolidated Financial Statements as of March 31, 2018, included elsewhere in this document.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of March 31, 2018, we conducted an evaluation, under the supervision and participation of management including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of March 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Below is a brief description of developments regarding material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries is a party or of which any of their property is the subject during the quarter ended March 31, 2018.

On February 23, 2018, Unified Patents Inc. filed a Petition with the United States Patent and Trademark Office before the Patent Trial and Appeal Board (“PTAB”) for an Inter Partes Review of one or more claims of US Patent 8,549,310. Certified Measurements, LLC estimates the PTAB will decide whether or not to institute the proceeding on or prior to the end of 2018.

Item 1A. Risk Factors.
Not required for a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None.

Item 3. Default Upon Senior Securities.
None.

Item 4. Mine Safety Disclosures.
None.

Item 5. Other information

Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Stockholders on May 3, 2018. At that meeting there were 11,642,780 shares of Common Stock and 14,999,000 shares of Series B Convertible Preferred Stock present in person or by proxy and entitled to vote. Each share of Common Stock entitles its holder to one vote on any matter submitted to the stockholders. The holder of the Series B Convertible Preferred Stock vote together with the Common Stock on all matters where stockholders are entitled to vote. The holders of the Series B Convertible Preferred Stock are entitled to cast an aggregate of 80% of the total votes that may be cast with respect to any such matter. The matters voted upon and the results of the vote (after giving effect to the foregoing weighting of votes cast) are set forth below.

***Proposal One*: Election of Directors.** Stockholders elected each of the following nominees as director to hold office until the 2019 Annual Meeting and until his or her successor is elected and qualified.

Directors	Votes For	Votes Withheld	Broker Non-Votes
Jay S. Walker	29,568,345	28,523	2,554,443
Jonathan Ellenthal	29,567,472	29,397	2,554,443
Jonathan A. Siegel	29,567,472	29,397	2,554,443
Nathaniel J. Lipman	29,554,567	42,301	2,554,443
Richard J. Salute	29,484,761	112,108	2,554,443

***Proposal Two*: Ratification of Appointment of Independent Auditors.** Stockholders approved the ratification of the appointment of Marcum, LLP as the Company's independent auditors for the fiscal year ending December 31, 2018.

Votes For	Votes Against	Abstentions	Broker Non-Votes
31,824,728	210,108	106,475	0

Item 6. Exhibits

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q.

Exhibit No.	
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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.

	WALKER INNOVATION INC.
Dated: May 7, 2018	By: /s/ Jonathan A. Siegel Jonathan A. Siegel Chief Executive Officer (Principal Executive Officer)
Dated: May 7, 2018	By: /s/ Kara B. Jenny Kara B. Jenny Chief Financial Officer (Principal Financial Officer and Accounting Officer)