

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1995-12-31**
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FILER

DIGITAL DATA NETWORKS INC

CIK: **949371** | IRS No.: **911426372** | State of Incorpor.: **WA** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-27704** | Film No.: **96666179**
SIC: **4812** Radiotelephone communications

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 1996.

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: 0-27704

DIGITAL DATA NETWORKS, INC.
(Name of small business issuer in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-1426372
(IRS Employer
Identification No.)

3102 Maple Avenue, Suite 230
Dallas, Texas
(Address of principal executive offices)

75201
(Zip Code)

(214) 969-7200
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 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

As of September 30, 1996, 2,271,355 shares of Common Stock and 1,840,000 Common Stock Purchase Warrants were outstanding.

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These items are inapplicable or have a negative response and have therefore been omitted.

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DIGITAL DATA NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in Thousands, Except Per Share Data)

<TABLE>
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	December 31, 1995 -----	September 30, 1996 -----
CURRENT ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	\$ 12	\$ 3,209
Short-term investments	-	325
Accounts receivable	14	87
Prepaid expenses and other current assets	3	123
	-----	-----
Total Current Assets	29	3,744
Equipment, net of accumulated depreciation of \$1,018 and \$1,263	445	496
Intangible Assets, net of accumulated amortization of \$159 and \$288	183	794
Other Assets	-	60
	-----	-----
TOTAL ASSETS	\$ 657 =====	\$ 5,094 =====
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 227	\$ 477
Notes payable and accrued interest	770	555

Current portion of long term debt	76	19
Unearned income	54	37
	-----	-----
Total Current Liabilities	1,127	1,088
	-----	-----
NONCURRENT LIABILITIES		
Long-term debt and accrued interest	947	48
Expanded software license commitment	250	75
Other noncurrent liabilities	-	65
	-----	-----
Total Noncurrent Liabilities	1,197	188
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred Stock, 1 million shares authorized, none issued	-	-
Common Stock, no par value, 10 million shares authorized, 704,547 and 2,271,355 shares issued and outstanding	6,359	13,278
Accumulated Deficit	(8,026)	(9,460)
	-----	-----
Total Stockholders' Equity (Deficit)	(1,667)	3,818
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 657	\$ 5,094
	=====	=====

</TABLE>

DIGITAL DATA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1996	1995	1996
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
REVENUES	\$ 148	\$ 179	\$ 350	\$ 406
	-----	-----	-----	-----
EXPENSES:				
Direct operating costs	122	82	357	327
Product development costs (Note4)	-	-	-	303
Salaries and related	151	212	474	770
Marketing, general and administrative	63	257	221	460
Financing, legal and other consulting	202	12	325	51
	-----	-----	-----	-----
Total Expenses	538	563	1,377	1,911
	-----	-----	-----	-----
Loss Before Interest Expense	390	384	1,027	1,505
	-----	-----	-----	-----
INTEREST EXPENSE (INCOME):				
Interest expense	26	18	95	55
Interest income	-	(60)	-	(126)

Net Interest Expense (Income)	26	(42)	95	(71)
NET LOSS	\$ (416)	\$ (342)	\$ (1,122)	\$ (1,434)
NET LOSS PER SHARE	\$ (.61)	\$ (.16)	\$ (1.77)	\$ (.76)

</TABLE>

DIGITAL DATA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

<TABLE>
<CAPTION>

	Nine Months Ended September 30,	
	1995	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (1,121)	\$ (1,434)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	242	351
Product development costs	-	303
Other non-cash operating expenses	163	-
Non-cash compensation expense relating to Common Stock issued to employees	-	95
Increase (decrease) in accrued interest	61	(120)
Increase in accounts payable	40	57
Other	92	(159)
Net Cash Used by Operating Activities	(523)	(907)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(19)	(192)
Purchases of investments	-	(367)
Net Cash Used by Investing Activities	(19)	(559)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of stock issue costs	25	5,823
Proceeds from issuance of notes payable	555	90
Repayment of expanded license commitment	-	(225)
Repayment of notes payable	(9)	(1,025)
Net Cash Provided by Financing Activities	571	4,663
Net Increase (Decrease) in Cash and Cash Equivalents	29	3,197

CASH AND CASH EQUIVALENTS		
Beginning of Period	29	12
	-----	-----
End of Period	\$ 58	\$ 3,209
	=====	=====
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS		
Exchange of debt for equity	\$ 3,120	\$ 124
Common Stock issued in business acquisitions	\$ -	\$ 868

</TABLE>

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Digital Data Networks, Inc.
Notes to Consolidated Financial Statements

Note 1 Description of Business

Digital Data Networks, Inc. (the "Company"), a wireless, passenger communication and advertising company, is principally engaged in development, design, installation and operation of the "digital information network", a network of computerized electronics message displays that deliver news, information and advertising to riders on-board public transit vehicles. The digital information network consists of a series of electronic information displays utilizing digital radio transmission technology. The Company currently operates the digital information network on the entire bus fleet of Dallas Area Rapid Transit ("DART") and on a portion of the buses of Rhode Island Public Transit Authority.

As more fully described in Note 4, as a result of recent acquisitions of three Internet related businesses, the Company is also engaged in other operating and development activities. The Company's subsidiary, Pro.Net Communications, Inc. ("Pro.Net"), provides a range of Internet offerings to business customers, including connectivity services to local subscribers, intranet services to corporations, and the development of on-line working programs for commercial clients. Pro.Net's present primary operations are in Vancouver, British Columbia, Canada. The Company's subsidiary, Cyber America Corporation ("Cyber America"), is a primary services provider to the Internet, presently in the development stage of implementation and marketing its service capabilities. The Company's subsidiary, hip Communications, Inc. ("hip"), is a Web page design and development company targeting high-end corporate customers. The Company's financial statements are consolidated and include the results of operations of its acquired subsidiaries from the date of their acquisition. Pro.Net and Cyber America were acquired in June 1996, hip was acquired in September, 1996. Intercompany account balances and transactions are eliminated in consolidation.

The consolidated financial statements presented herein include all adjustments which are, in the opinion of management, necessary to present fairly the operating results for the interim periods reported. The financial statements should be read in conjunction with the audited, annual financial statements for the year ended December 31, 1995, included in the Company's Annual Report on Form 10-KSB.

Certain reclassifications have been made to prior period financial statements in order to conform to current period classifications.

Note 2 Initial Public Offering and Repayment of Certain Indebtedness

In February 1996, the Company closed its initial public offering and received net cash proceeds of approximately \$5.8 million, after deduction for underwriters commissions and certain other offering related costs, from the issuance of 1,322,500 shares of its common stock and 1,840,000 of its common stock purchase warrants. The Company has reported proceeds received from the sale of common stock and warrants, net of related stock issue costs, as an increase in common stock. The warrants are redeemable after one year, under certain circumstances, and entitle the holder to purchase one share of the Company's common stock at an exercise price of \$6 per share during five years commencing upon issuance.

During the three months ended March 31, 1996, as a result of the closing of its initial public offering, the Company paid \$225,000 representing the Expanded License Payment obligation due to its software supplier. This payment included an additional \$50,000 over the minimum payment obligation originally recorded as an intangible asset. This increment has been recorded as an intangible asset and is being amortized straight line over the remaining estimated useful life.

Additionally, during February and March 1996, as a result of the closing of its initial public offering the Company repaid in full, totaling approximately \$548,000, its 10% promissory notes due December 1995 (which had been extended to March 1996), and in accordance with certain mandatory prepayment conditions, repaid certain of its other promissory notes payable, including approximately \$48,000 of its 5% demand notes, \$125,000 of its 8% notes, \$150,000 of its 10% notes due March 1997, \$50,000 of its secured notes, and approximately \$57,000 of its 11% to 12% notes.

The Company's proforma supplemental loss per share for the nine months ended September 30, 1996 approximates \$(.66) presented on a basis as if the 1996 public offering and related interest-bearing debt repayment with a portion of the proceeds therefrom, had occurred at the beginning of such period.

Note 3 Exchange of Debt for Common Stock

During the six months ended June 30, 1995, certain holders of the Company's 5% Convertible Promissory Notes having a combined principal and accrued interest total approximating \$2.9 million, and the holder of a Company 5% \$150,000 promissory note agreed to exchange such debt and related accrued interest for approximately 232,500 shares of Company common stock. During the three months ended September 30, 1996, the holder of a Company 5% promissory note agreed to exchange such debt and related accrued interest which together totaled \$124,000, for approximately 31,000 shares of the Company's Common Stock. On a supplemental basis, giving effect to the exchange of debt for common stock as if it had occurred at the beginning of such period, loss per share would have approximated \$(1.68) for the nine months ended September 30, 1995.

Note 4 Business Acquisitions

On June 3, 1996, the Company acquired all of the outstanding common stock of Pro.Net for 100,000 shares of the Company's common stock valued at approximately \$480,000. Shares of Company common stock issued are subject to a two year resale restriction, and were recorded at their estimated fair value determined on the basis of discounting (for, among other things, resale restrictions) the closing price of Company common stock at the acquisition date. The total purchase price, including assumed liabilities at their estimated fair values (which approximate book value), is allocated to assets acquired based on preliminary estimates of fair value. Assets acquired include tangible assets (which fair values are estimated to approximate book value) and identifiable intangible assets, a customer subscription base. The excess of purchase price over fair value of current assets has been allocated to non-current tangible and intangible assets based upon their relative estimated fair values. Intangible assets recorded in purchase accounting approximate \$612,000 and are amortized over five years.

On June 14, 1996, the Company acquired all of the outstanding common stock of Cyber America for 50,000 shares of the Company's common stock valued at approximately \$280,000. One of the Company's Directors had a family member who was a majority shareholder of Cyber America. Shares of Company common stock issued are subject to a two year resale restriction, and were recorded at their

estimated fair value determined on the basis of discounting (for, among other things, resale restrictions) the closing price of Company common stock at the acquisition date. The total purchase price, including assumed liabilities at their estimated fair values (which approximate book value), is allocated to assets acquired based on preliminary estimates of fair value. Assets acquired include tangible assets (which fair values are estimated to approximate book value) and identifiable intangible assets, products in development. The estimated value of products in development which are not deemed to have attained technological feasibility, as defined, are capitalized in purchase accounting at their estimated fair values of approximately \$303,000 and immediately expensed as product development cost subsequent to recording the business combination.

On September 27, 1996, the Company acquired all of the outstanding common stock of hip for 30,000 shares of the Company's common stock valued at approximately \$107,000. Shares of Company common stock issued are subject to a two year resale restriction, and were recorded at their estimated fair value determined on the basis of discounting (for, among other things, resale restrictions) the closing price of Company common stock at the acquisition date. The total purchase price, including assumed liabilities at their estimated fair values (which approximate book value), is allocated to assets acquired based on preliminary estimates of fair value. Assets acquired include tangible assets (which fair values are estimated to approximate book value) and identifiable intangible assets, a customer subscription base. The excess of purchase price over fair value of current assets has been allocated to non-current tangible and intangible assets based upon their relative estimated fair values. Intangible assets recorded in purchase accounting approximate \$118,000 and are amortized over five years.

The following unaudited pro forma summary presents financial information on the basis as if the business combinations of Pro.Net, Cyber America and hip had occurred at the beginning of the periods presented. The pro forma information is based on historical information and is not necessarily indicative of results of operations that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies (in thousands, except per share data):

<TABLE>
<CAPTION>

	Year Ended December 31, 1995 -----	Nine Months Ended September 30, 1996 -----
<S>	<C>	<C>
Revenues	\$ 949	\$ 735
	=====	=====
Net loss	\$ (1,629)	\$ (1,613)
	=====	=====
Net loss per share	\$ (2.04)	\$ (0.79)
	=====	=====

</TABLE>

The above pro forma financial information does not include non-recurring expenses of approximately \$303,000 recorded in June 1996 immediately subsequent to recording the Cyber America business combination relating to the estimated fair value of intangible assets acquired associated with products in development which have not been determined to have yet attained technological feasibility.

Note 5 Income Taxes

As a result of losses for each of the interim periods, there was no provision for income taxes recorded.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Results of Operations

Revenues increased \$56,000 from \$350,000 to \$406,000 during the nine months ended September 30, 1996, as compared to the prior year period. This increase is primarily the result of contributions from Pro.Net Communications, Inc. which was acquired in June 1996, and which has generated revenues of \$51,000 since the acquisition. Cyber America Corporation, which was acquired in June 1996, and hip Communications, Inc., which was acquired in September 1996, had no revenues during this period. Revenue from the Company's Transit Network Division increased slightly, from \$350,000 to \$355,000. Total expenses increased from \$1,377,000 to \$1,911,000 during the nine months ended September 30, 1996 as compared to the prior year period, due primarily to a one-time charge of \$303,000 taken in connection with the acquisition of Cyber America Corporation, and a \$296,000 increase in salaries and related, which has increased primarily because of the Company's three acquisitions during 1996. During this same comparative period, marketing, general and administrative increased by \$239,000, due primarily to additional working capital requirements of the Company's three acquisitions, while financing, legal and other consulting expenses decreased \$274,000, the result of decreased requirements for these services since the Company successfully completed its public offering in 1996.

The non-recurring product development costs charge of \$303,000 relates to the expensing of the estimated fair value of intangible assets acquired as it relates to products in development acquired in the Cyber America acquisition. Under generally accepted accounting principles, such product development costs are required to be expensed until technological feasibility, as defined, has been attained.

The \$534,000 increase in total expenses, which was offset by the \$56,000 increase in revenues, resulted in a loss before interest in the amount of \$478,000. Interest expense decreased \$40,000 due to the retirement of certain short-term and long-term debt obligations, while interest income, derived from the investment of the public offering proceeds, increased \$126,000, resulting in a net loss of \$312,000 for the nine months ended September 30, 1996 as compared to the prior year period.

Financial Condition, Liquidity and Capital Resources

In February 1996, the Company closed its initial public offering and realized cash proceeds of approximately \$5.9 million, net of underwriter's commissions and certain offering related costs. Approximately \$1 million of offering proceeds was utilized for the repayment of certain notes payable and \$225,000 of offering proceeds was utilized for the payment of amounts due relating to expanded software license obligations. Cash used by operating activities for the nine months ended September 30, 1996 approximated \$907,000 and included payment from offering proceeds of approximately \$70,000 of accrued interest and \$60,000 of accounts payable for which payment had been deferred beyond normal terms as a result of creditors' forbearance, as well as approximately \$375,000 in working capital to fund the on-going operations of the three companies the Company acquired in 1996.

Although the Company has no present commitments to do so, as described more fully in the prospectus relating to the stock offering, estimates of anticipated uses of proceeds include approximately \$1 million for capital expenditures. Pending use of offering proceeds to fund operating activities, capital expenditures, and potential future business acquisitions, the Company has invested such proceeds in short-term, interest-bearing investments primarily with banks and other commercial financial institutions.

At September 30, 1996, the Company's principal assets consisted of approximately \$3.2 million of cash, of which approximately \$3.1 million was invested in short-term, interest-bearing investments with banks and other financial institutions, and from which interest income is earned. The Company's

total obligations of approximately \$1.3 million consisted primarily of \$477,000 in accrued expenses, \$555,000 in short-term notes payable incurred by the Company's Transit Network Division, and \$48,000 in long-term debt.

The Company believes that its future operating results, liquidity, and capital resources will improve, the result of anticipated revenue growth by Pro.Net Communications, Inc. and the commencement of revenue generation by Cyber America Corporation in the near future.

The Company believes that with the cash it has invested in short-term financial instruments, interest earned from these investments, and anticipated revenues from operations, the Company's working capital requirements will be sufficient for at least the next 24 months.

Effect of Recently Issued Accounting Standards

Recently issued accounting standards having relevant applicability to the Company consist primarily of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), which establishes standards for accounting for stock-based compensation. SFAS No. 123 is effective for financial statements for fiscal years beginning after December 15, 1995. It is not expected that the Company will adopt the "fair value based method" of accounting for stock options, which is encouraged by SFAS No. 123, but rather will continue to account for such, utilizing the "intrinsic value based method" as is allowed by that statement.

Item 5. Other Information

Pursuant to a Stock Purchase Agreement dated September 12, 1996 and a subsequent Amendment to the Stock Purchase Agreement dated September 25, 1996, the Registrant acquired all of the outstanding capital stock of hip Communications, Inc., a British Columbia, Canada corporation. The Registrant issued 30,000 shares of its Common Stock, no par value, to the sole shareholder of hip Communications, Inc. in exchange for all of its outstanding capital stock.

The sole shareholder who received shares of the Registrant's Common Stock relating to this transaction did so for investment purposes and without a view toward distribution. Further, the stock certificate issued in connection with this transaction was stamped with a restrictive legend prohibiting transfer of said shares for a period of twenty-four (24) months.

hip Communications, Inc. is a Web page design and development company targeting high-end corporate customers.

Item 6. Exhibits and Reports on Form 8-K

Exhibits - none filed with this report.

(b) No Form 8-K was filed by the Registrant during the three months ended September 30, 1996. The Registrant filed a Form 8-K/A with the Securities and Exchange Commission on October 24, 1996, to report the audited financial statements of Pro.Net Communications, Inc. for the fiscal years ended September 30, 1995 and 1994, and the unaudited six-month interim period ended March 31, 1996, as reported in the Registrant's Form 8-K dated June 18, 1996.

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.

Digital Data Networks, Inc.
(Registrant)

Date: November 14, 1996

By: /s/ Donald B. Scott, Jr. _____

Donald B. Scott, Jr., President

Date: November 14, 1996

By: /s/ Richard J. Boeglin _____

Richard J. Boeglin
Vice President, Finance & Operations

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