NEOMEDIA TECHNOLOGIES INC
Form 10-Q
May 24, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended March 31, 2013

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 0-21743

NeoMedia Technologies, Inc.

(Exact Name of Issuer as Specified In Its Charter)

Delaware	**36-3680347**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 W Arapahoe Avenue, Suite 9, Boulder, Colorado 80302

(Address, including zip code, of principal executive offices)

(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§232.405 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 x 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company x

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

The number of outstanding shares of the registrant's Common Stock on May 24, 2013 was 4,099,707,434.

NeoMedia Technologies, Inc.

Form 10-Q

For the Quarterly Period Ended March 31, 2013

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PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements

NeoMedia Technologies, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share and per share data)

	March 31, 2013	December 31, 2012 (AUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$62	$611
Trade accounts receivable, net of allowance of $0 for both periods	283	217
Prepaid expenses and other current assets	20	120
Total current assets	365	948
Property and equipment, net	33	44
Goodwill	3,418	3,418
Proprietary software, net	-	99
Patents and other intangible assets, net	1,417	1,490
Other long-term assets	2	40
Total assets	$5,235	$6,039
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$652	$506
Accrued expenses	337	399
Deferred revenues and customer prepayments	3,348	3,735
Notes payable		50
Deferred tax liability	706	706
Derivative financial instruments – warrants	565	3,687
Derivative financial instruments - Series C and D preferred stock and debentures payable	2,446	2,147
Debentures payable - carried at amortized cost	53	53
Debentures payable - carried at fair value	54,403	64,292
Total current liabilities	62,510	75,575
Commitments and contingencies	-	-
Series C convertible preferred stock, $0.01 par value, 27,000 shares authorized, 4,840 shares issued and outstanding and a liquidation value of $4840 at March 31, 2013 and December 31, 2012.	4,840	4,840

Series D convertible preferred stock, $0.01 par value, 25,000 shares authorized, 3,481 shares issued and outstanding with a liquidation value of $348 at March 31, 2013 and December 31, 2012.	348	348
Shareholders’ deficit:		
Common stock, $0.001 par value, 5,000,000,000 shares authorized, 3,345,017,232 and 2,106,035,882 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	3,345	2,106
Additional paid-in capital	190,689	188,814
Accumulated deficit	(255,594)	(264,630)
Accumulated other comprehensive loss	(124)	(235)
Treasury stock, at cost, 2,012 shares of common stock	(779)	(779)
Total shareholders’ deficit	(62,463)	(74,724)
Total liabilities and shareholders’ deficit	$5,235	$6,039

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

NeoMedia Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

(in thousands, except share and per share data)

	For the three months ended March 31, 2013	2012
Revenues	$602	$726
Cost of revenues	(31)	(22)
Gross profit	571	704
Sales and marketing expenses	61	205
General and administrative expenses	857	1,000
Research and development costs	212	334
Operating loss	(559)	(835)
Gain/(loss) from change in fair value of hybrid financial instruments	(299)	(31,170)
Gain/(loss) from change in fair value of derivative liability - warrants	3,122	(41,488)
Gain/(loss) from change in fair value of derivative liability - Series C and D preferred stock and debentures	6,774	(89,649)
Interest expense related to convertible debt	-	(2,392)
Net Income (loss) available to common shareholders	$9,036	(165,534)
Comprehensive income (loss):		
Net income (loss)	9,036	(165,534)
Other comprehensive gain/(loss) - investment in GmbH and foreign currency adjustment	(111)	(8)
Comprehensive income (loss)	$8,925	(165,542)
Net income (loss) per share, basic and diluted:		
Basic	$0.003	$(0.25)
Fully diluted	$0.003	$(0.25)
Weighted average number of common shares:		
Basic	2,789,315,439	652,829,594
Fully diluted	3,302,657,994	652,829,594

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

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NeoMedia Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	March 31, 2013	2012
Cash Flows from Operating Activities:		
Net Income (loss)	$9,036	$(165,534)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	174	242
Retirement of equipment, net	8	-
(Gain)/Loss from change in fair value of hybrid financial instruments	299	31,170
(Gain)/Loss from change in fair value of derivative liability - warrants	(3,122)	41,488
(Gain)/Loss from change in fair value of derivative liability - Series C and D preferred stock and debentures	(6,774)	89,649
Interest expense related to convertible debt	-	2,392
Stock-based compensation expense	-	7
Increase/(decrease) in value of life insurance policies	-	34
Changes in operating assets and liabilities		
Trade and other accounts receivable	(65)	(300)
Prepaid expenses and other assets	137	(72)
Accounts payable and accrued expenses	34	17
Deferred revenue and customer prepayments	(387)	(59)
Net cash used in operating activities	(660)	(966)
Cash Flows used Investing Activities:		
Acquisition of property and equipment	-	(3)
Net cash used in investing activities	-	(3)
Cash Flows from Financing Activities:		
Borrowings under convertible debt instruments, net	-	1,225
Net cash provided by financing activities	-	1,225
Effect of exchange rate changes on cash	111	8
Net change in cash and cash equivalents	(549)	264
Cash and cash equivalents, beginning of period	611	30
Cash and cash equivalents, end of period	$62	$294
Supplemental cash flow information:		
Series C preferred stock converted to common stock	$-	$878
Series D preferred stock converted to common stock	$-	$776

Deemed dividend on Series D preferred stock issued	$-	$5,530
Convertible debentures converted to common stock	$320	$-

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

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NeoMedia Technologies, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2013

(Unaudited)

Note 1 - General

***Business* –** NeoMedia Technologies, Inc., a Delaware corporation ("NeoMedia", and also referred to herein as "us", "we" and "our"), was founded in 1989 and is headquartered in Boulder, Colorado. We have pioneered 2D mobile barcode technology and infrastructure solutions that enable the mobile barcode ecosystem world-wide. NeoMedia strives to harness the power of the mobile phone in innovative ways with state-of-the-art mobile barcode technology. With this technology, mobile phones with cameras become barcode scanners and this enables a range of practical applications including mobile marketing, mobile commerce and advertising. In addition, we offer barcode management reader solutions as well as intellectual property licensing.

Going Concern – We have historically incurred net losses from operations and we expect that we will continue to have negative cash flows as we implement our business plan. There can be no assurance that our continuing efforts to execute our business plan will be successful and that we will be able to continue as a going concern. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which contemplates our continuation as a going concern. Net income/(loss) for the three months ended March 31, 2013 and 2012, respectively, was $9.0 million and $(165.5) million, of which $9.6 million and $(164.7) million, respectively, were non-cash net income/(loss) related to our financing instruments. Net cash used by operations during the three months ended March 31, 2013 and 2012 was $660,000 and $966,000, respectively. At March 31, 2013, we have an accumulated deficit of $255.6 million. We also have a working capital deficit of $57.3 million, of which $57.5 million is related to our financing instruments which includes the fair value of warrants and those debentures that are recorded as hybrid financial instruments.

The items discussed above raise doubt about our ability to continue as a going concern.

We currently do not have sufficient cash, or commitments for financing to sustain our operations for the next twelve months. Our plan is to develop new client and customer relationships and substantially increase our revenue derived from improved products and IP licensing. If our revenues are not to plan and our operating expenses cannot be reduced to sustain our operations, we may require additional financing in order to execute our operating plan; however, we believe that such additional financing will not be necessary. If additional financing is required, we cannot predict whether this additional financing will be in the form of equity, debt, or another form and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In the event that these financing sources do not materialize, or that we are unsuccessful in increasing our revenues and profits, we may be unable to implement our current plans for expansion, repay our debt obligations or respond to competitive pressures, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations.

The Convertible Debentures and preferred stock used to finance the Company, which may be converted into common stock at the sole option of the holders, have a highly dilutive impact when they are converted, greatly increasing the number of common shares outstanding. During the three months ended March 31, 2013, there were 1,238,981,350 shares of common stock issued for these conversions. The Company cannot predict if and when each holder may or may not elect to convert into common shares.

Note 2 - Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP for interim financial information and Rule 8.03 of Regulation S-X. They do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. For further information, refer to our financial statements as of December 31, 2012 and 2011, and for the years then ended, including notes thereto, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Basis of Presentation – The consolidated financial statements include the accounts of NeoMedia Technologies, Inc. and our wholly-owned subsidiaries. We operate as one reportable segment. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates – The preparation of consolidated financial statements in conformity with US GAAP requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

Stock-Based Compensation - FASB ASC 718, *Stock Compensation*, requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the grant date fair value of the award. We account for modifications of the terms of existing option grants as exchanges of the existing equity instruments for new instruments. The fair value of the modified option at the grant date is compared with the value at that date of the original option immediately before its terms are modified. Any excess fair value of the modified option over the original option is recognized as additional compensation expense.

Basic and Diluted Net Income (Loss) Per Share – Basic net income (loss) per share is computed by dividing net income/(loss) attributable to common shareholders by the weighted average number of shares of our common stock outstanding during the period. During the three months ended March 31, 2013, we reported net income per share and included dilutive instruments in the fully diluted net income per share calculation below. For the three months ended March 31, 2012, approximately 1,912,850,500 of potentially dilutive shares were excluded from the calculation as they were anti-dilutive. For the March 31, 2013 dilutive EPS calculation, there were approximately 3,302,657,994 per share-adjusted weighted average shares outstanding included in the calculation.

	Three Months Ended March 31,	
	2013	2012
Numerator:		
Net income (loss) available to common shareholders	$9,036	$(165,534)
Numerator for diluted earnings per share- income (loss) available to common stockholders after assumed conversions of debentures and exercise of warrants	$9,036	$(165,534)
Denominator		
Weighted average shares used to compute basic EPS	2,789,315,439	652,829,594
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions and exercise of options	3,302,657,994	652,829,594
Basic earnings per share	$0.003	$(0.25)
Diluted earnings per share	$0.003	$(0.25)

Goodwill –Goodwill represents the excess of the purchase price paid for NeoMedia Europe over the fair value of the identifiable net assets and liabilities acquired, based on an independent appraisal of the assets and liabilities acquired.

In accordance with FASB Accounting Standards Codification (ASC) 350, *Intangibles - Goodwill and Other* goodwill is not amortized, but is tested for impairment, at least annually, by applying the recognition and measurement provisions of FASB ASC 350, which requires that we first assess qualitative factors in our evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test of a reporting unit. Our last test for impairment was completed as of December 31, 2012, and no adjustment was deemed needed.

Recent Accounting Pronouncements – In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, which is included in ASC 220, Comprehensive Income. This update improves the reporting of reclassification out of accumulated other comprehensive income. The guidance is effective for the Company's interim and annual reporting periods beginning January 1, 2013, and applied prospectively. Management does not anticipate that the accounting pronouncement will have any material future effect on our consolidated financial statements.

Note 3 – Financing