

NEOMEDIA TECHNOLOGIES INC
Form 10-Q
October 30, 2015

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 September 30, 2015

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 000-21743

NeoMedia Technologies, Inc.

(Exact Name of Issuer as Specified In Its Charter)

Delaware

36-3680347

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1515 Walnut Street, Suite 100, Boulder, Colorado 80302

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

303-546-7946

(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 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 (§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 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

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

The number of outstanding shares of the registrant's Common Stock on October 30, 2015 was 5,088,415,155.

NeoMedia Technologies, Inc.

Form 10-Q

For the Quarterly Period Ended September 30, 2015

Index

| | Page |
|--|------|
| PART I <u>Financial Information</u> | |
| ITEM 1. <u>Financial Statements</u> | 3 |
| ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
| ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 21 |
| ITEM 4. <u>Controls and Procedures</u> | 21 |
| PART II <u>Other Information</u> | |
| ITEM 1. <u>Legal Proceedings</u> | 23 |
| ITEM 1A. <u>Risk Factors</u> | 23 |
| ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 23 |
| ITEM 3. <u>Defaults upon Senior Securities</u> | 23 |
| ITEM 4. <u>Mine Safety Disclosures</u> | 23 |
| ITEM 5. <u>Other Information</u> | 23 |
| ITEM 6. <u>Exhibits</u> | 23 |
| <u>Signatures</u> | 25 |

Page 2

PART I — FINANCIAL INFORMATION**ITEM 1. Financial Statements****NeoMedia Technologies, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)**

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 34 | \$ 75 |
| Accounts receivable | 334 | 214 |
| Prepaid expenses and other current assets | 30 | 32 |
| Total current assets | 398 | 321 |
| Patents and other intangible assets, net | 764 | 947 |
| Other long-term assets | 15 | 16 |
| Total assets | \$ 1,177 | \$ 1,284 |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 328 | \$ 463 |
| Accrued expenses | 313 | 303 |
| Deferred revenues and customer prepayments | 325 | 1,151 |
| Notes payable | 242 | 242 |
| Derivative financial instruments – warrants | 1 | 2 |
| Derivative financial instruments - Series C and D preferred stock and debentures payable | 33 | 6 |
| Debentures payable - carried at fair value | 40,392 | 37,384 |
| Total current liabilities | 41,634 | 39,551 |
| Commitments and contingencies | | |
| Series C convertible preferred stock, \$0.01 par value, 27,000 shares authorized, 4,317 and 4,332 shares issued and outstanding, and a liquidation value of \$4,317 and \$4,332 at September 30, 2015 and December 31, 2014, respectively | 4,317 | 4,332 |

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Series D convertible preferred stock, \$0.01 par value, 25,000 shares authorized, 3,481 and 3,481 shares issued and outstanding, and a liquidation value of \$348 and \$348, respectively, at September 30, 2015 and December 31, 2014

| | | |
|--|-----|-----|
| | 348 | 348 |
|--|-----|-----|

Shareholders' deficit:

| | | |
|---|-----------------|-----------------|
| Common stock, no par value, 7,500,000,000 shares authorized, 5,088,415,155 and 4,166,142,620 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively | 4,985 | 4,985 |
| Additional paid in capital | 192,308 | 192,224 |
| Accumulated deficit | (241,636) | (239,377) |
| Treasury stock, at cost, 2,012 shares of common stock | (779) | (779) |
| Total shareholders' deficit | (45,122) | (42,947) |
| Total liabilities and shareholders' deficit | \$ 1,177 | \$ 1,284 |

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except share and per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-------------------|---------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$ 737 | \$ 1,002 | \$ 1,990 | \$ 2,659 |
| Cost of revenue | 33 | 193 | 129 | 438 |
| Gross profit | 704 | 809 | 1,861 | 2,221 |
| Operating expenses: | | | | |
| Sales and marketing expenses | 4 | 22 | 12 | 77 |
| General and administrative expenses | 315 | 493 | 811 | 1,838 |
| Research and development costs | 53 | 80 | 160 | 402 |
| Operating income (loss) | 332 | 214 | 878 | (96) |
| Gain (loss) from change in fair value of hybrid financial instruments | 154 | (1,369) | (3,077) | (2,542) |
| Gain (loss) from change in fair value of derivative liability – warrants | 2 | 38 | 1 | 618 |
| Gain (loss) from change in fair value of derivative liability - Series C and D preferred stock and debentures | (17) | 29 | (27) | 273 |
| Gain on extinguishment of Debt | — | — | — | 4,247 |
| Interest expense | (8) | — | (34) | — |
| Net income (loss) | \$ 463 | \$(1,088) | \$(2,259) | \$ 2,500 |
| Net income (loss) per common share: | | | | |
| Basic | \$ 0.000 | \$(0.001) | \$(0.000) | \$ 0.003 |
| Fully diluted | 0.000 | (0.001) | (0.000) | 0.003 |
| Weighted average number of common shares: | | | | |
| Basic | 4,900,892,387 | 1,357,349,653 | 4,770,891,318 | 810,443,147 |
| Fully diluted | 4,939,324,087 | 1,357,349,653 | 4,770,891,318 | 848,874,847 |

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

| | Nine months ended September 30, | |
|---|------------------------------------|---------------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$ (2,259 |) \$ 2,500 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 183 | 201 |
| (Gain) loss from change in fair value of hybrid financial instruments | 3,077 | 2,542 |
| (Gain) loss from change in fair value of derivative liability – warrants | (1 |) (618 |
| (Gain) loss from change in fair value of derivative liability - Series C and D preferred stock and debentures | 27 | (273 |
| Gain on extinguishment of Debt | — | (4,247 |
| Stock-based compensation | — | 1 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (120 |) 80 |
| Prepaid expenses and other assets | 3 | 37 |
| Accounts payable and accrued expenses | (125 |) 236 |
| Deferred revenues and customer prepayments | (826 |) (792 |
| Net cash used in operating activities | (41 |) (333 |
| Cash Flows from Financing Activities: | | |
| Borrowings under short-term debenture note payable | — | 292 |
| Payments on short-term notes payable | — | (56 |
| Net cash used in financing activities | — | 236 |
| Net change in cash and cash equivalents | (41 |) (97 |
| Cash and cash equivalents, beginning of period | 75 | 267 |
| Cash and cash equivalents, end of period | \$ 34 | \$ 170 |
| Supplemental cash flow information: | | |
| Non-cash financing activities: | | |
| Series C preferred stock converted to common stock | \$ 15 | \$ 459 |
| Convertible debentures converted to common stock | 69 | 758 |

See accompanying notes.

Page 5

NeoMedia Technologies, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

September 30, 2015

(Unaudited)

Note 1 – General

NeoMedia Technologies, Inc. a Delaware corporation (the “Company,” “NeoMedia,” “we,” “us,” “our,” and similar terms), was founded in 1989 and is headquartered in Boulder, Colorado. We have positioned ourselves to lead the development of 2D mobile barcode technology and services solutions that enable the mobile barcode ecosystem world-wide. NeoMedia harnesses the power of the mobile phone in innovative ways with state-of-the-art mobile barcode solutions. With this technology, mobile devices with cameras become barcode scanners, enabling a range of practical applications including mobile marketing and mobile commerce. In addition, we offer licensing of our extensive intellectual property portfolio.

Note 2 – Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared without audit pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. We believe these statements include all adjustments, which are of a normal and recurring nature, considered necessary for a fair presentation of the financial statements. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K filed with the SEC on March 3, 2015. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Basis of Presentation – The condensed consolidated financial statements include the accounts of NeoMedia and its wholly owned subsidiaries. We operate as one reportable segment. All intercompany accounts, transactions and profits have been eliminated in consolidation.

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. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

Going Concern – We have historically incurred operating losses, and we may continue to generate 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 condensed consolidated financial statements have been prepared in conformity with US GAAP, which contemplates our continuation as a going concern. Our net loss for the nine months ended September 30, 2015 was \$2,259 as compared to net income of \$2,500 for the same period in 2014. The operating results for the nine months ended September 30, 2015 and 2014, respectively, included \$3,103 and \$1,651 of net expense related to financing instruments, and a gain on the settlement of debt of \$4,247 in 2014.

Net cash used by operations during the nine months ended September 30, 2015 and 2014, respectively, was \$41 and \$333. As of September 30, 2015, we have an accumulated deficit of \$241.6 million, and a working capital deficit of \$41.2 million, including \$40.4 million in current liabilities for our derivative and debenture financing instruments.

We currently do not have sufficient cash or commitments for financing to sustain our operations for the next twelve months if we are unable to generate sufficient cash flows from operations. Our plan is to develop new client and customer relationships and substantially increase our revenue derived from our products/services and IP licensing. If our revenues do not reach the level anticipated in our plan, we will require additional financing in order to execute our operating plan. 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 financing sources are not available, 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 would have a material adverse effect on our business, prospects, financial condition and results of operations, and our ability to continue as a going concern.

The maturity date of our convertible debentures was extended from August 1, 2015, to February 5, 2016. 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 shares of common stock outstanding. During the first nine months of 2015, there were 768 million shares of common stock issued for these conversions. We cannot predict if or when each holder may or may not elect to convert into shares of common stock.

Our financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Basic and Diluted Net Income (Loss) Per Common Share – Basic net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share includes all outstanding stock options, warrants and convertible instruments, except in the case where doing so would be anti-dilutive, such as when we have a net loss. The weighted average shares outstanding for 2014 reflect the fifteen to one reverse stock split as though it had occurred on January 1, 2014. The components of basic and diluted income (loss) per share attributable to common stock shareholders were as follows (in thousands, except share and per share data):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|---------------|---------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Basic income (loss) per common share: | | | | |
| Numerator: Net income (loss) available to common shareholders | \$ 463 | \$ (1,088 |) \$ (2,259 |) \$ 2,500 |
| Denominator: Weighted average shares outstanding | 4,900,892,387 | 1,357,349,653 | 4,770,891,318 | 810,443,147 |
| Basic income (loss) per common share | \$ 0.000 | \$ (0.001 |) \$ (0.000 |) \$ 0.003 |

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Diluted income (loss) per common share:

Numerator:

| | | | | |
|--|--------|----------|------------|------------|
| Net income (loss) available to common shareholders | \$ 463 | \$(1,088 |) \$(2,259 |) \$ 2,500 |
|--|--------|----------|------------|------------|

| | | | | |
|-------------------------------|---|---|---|---|
| Effect of dilutive securities | — | — | — | — |
|-------------------------------|---|---|---|---|

| | | | | |
|--|--------|----------|------------|------------|
| Diluted net income (loss) available to common shareholders | \$ 463 | \$(1,088 |) \$(2,259 |) \$ 2,500 |
|--|--------|----------|------------|------------|

Denominator:

| | | | | |
|-------------------------------------|---------------|---------------|---------------|-------------|
| Weighted average shares outstanding | 4,900,892,387 | 1,357,349,653 | 4,770,891,318 | 810,443,147 |
|-------------------------------------|---------------|---------------|---------------|-------------|

| | | | | |
|-------------------------------|------------|---|---|------------|
| Effect of dilutive securities | 38,431,700 | — | — | 38,431,700 |
|-------------------------------|------------|---|---|------------|

| | | | | |
|---|---------------|---------------|---------------|-------------|
| Diluted weighted average shares outstanding | 4,939,324,087 | 1,357,349,653 | 4,770,891,318 | 848,874,847 |
|---|---------------|---------------|---------------|-------------|

| | | | | |
|--|----------|----------|------------|------------|
| Diluted income (loss) per common share | \$ 0.000 | \$(0.001 |) \$(0.000 |) \$ 0.003 |
|--|----------|----------|------------|------------|

Page 7

Recent Accounting Pronouncements – From time to time, new accounting pronouncements are issued that we adopt as of the specified effective date. We believe that the impact of recently issued standards that are not yet effective may have an impact on our results of operations and financial position. ASU Update 2014-09 Revenue from Contracts with Customers (Topic 606) issued May 28, 2014 by FASB and IASB converged guidance on recognizing revenue in contracts with customers, effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, will be evaluated as to impact and implemented accordingly. In addition, ASU Update 2014-15 Presentation of Financial Statements-Going Concern (Sub Topic 205-40) issued August 27, 2014 by FASB defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern. The additional disclosure requirement is effective after December 15, 2016 and will be evaluated as to impact and implemented accordingly.

Note 3 – Accrued Liabilities

The following summarizes our accrued liabilities (in thousands):

| | September 30, December 31, | |
|--------------------------|--------------------------------------|-------------|
| | 2015 | 2014 |
| Operating expenses | \$ 206 | \$ 176 |
| Payroll related expenses | 37 | 82 |
| Legal fees | 36 | 45 |
| Interest | 34 | — |
| Total | \$ 313 | \$ 303 |

Note 4 – Financing

At September 30, 2015, financial instruments arising from our financing transactions with YA Global Investments, L.P. (“YA Global”), an accredited investor, included shares of our Series C preferred stock issued in February 2006, Series D preferred stock issued in January 2010, a series of six consolidated secured convertible debentures (the “Consolidated Debentures”) issued July 1, 2013 and various warrants to purchase shares of our common stock. All of our assets are pledged to secure our obligations under the debt securities. At various times, YA Global has assigned or distributed portions of its holdings of these securities to other holders, including persons who are officers of YA Global and its related entities, as well as to other holders who are investors in YA Global’s funds.

Secured Debentures – We had originally entered into financing transactions with YA Global, which included a series of twenty-seven secured convertible debentures issued between August 2006 and July 2012. Effective July 1, 2013,

the terms of the debentures held by YA Global were modified to consolidate the principal and interest amounts outstanding under all of the outstanding secured convertible debentures previously issued by us to YA Global, such that, upon the issuance of the Consolidated Debentures and cancellation of the prior debentures, the amount of outstanding debentures issued to YA Global decreased from twenty-seven to six debentures. The maturity dates of these secured convertible debentures were also extended from August 1, 2014 to August 1, 2015 and, most recently, extended to February 5, 2016.

The underlying agreements for each of the Consolidated Debentures are very similar in form. The Consolidated Debentures are convertible into our common stock, at the option of the holder, at the lower of a fixed conversion price per share or a percentage of the lowest volume-weighted average price ("VWAP") for a specified number of days prior to the conversion (the "look-back period"). The conversion is limited such that the holder cannot exceed 9.99% ownership of the outstanding common stock, unless the holder waives their right to such limitation. All of the debentures are secured according to the terms of a Security Pledge Agreement dated August 23, 2006, which was entered into in connection with the first convertible debenture issued to YA Global and which provides YA Global with a security interest in substantially all of our assets. The debentures are also secured by a Patent Security Agreement dated July 29, 2008. On August 13, 2010, our wholly owned subsidiary, NeoMedia Europe GmbH, became a guarantor of all outstanding financing transactions between us and YA Global, through pledges of their intellectual property and other movable assets. As security for our obligations to YA Global, all of our Pledged Property, Patent Collateral and other collateral is affirmed through the several successive Ratification Agreements executed in connection with each of the 2010, 2011 and 2012 financings. The 2013 modification and consolidation of the outstanding secured convertible debentures as well as the execution of an Amended and Restated Patent Security Agreement in 2013 reaffirmed the Pledged Property, Patent Collateral and other collateral pledged as security for our obligations to YA Global.

We evaluated the financing transactions in accordance with ASC 815, *Derivatives and Hedging*, and determined that the conversion features of the Series C and Series D preferred stock and the Consolidated Debentures were not afforded the exemption for conventional convertible instruments due to their variable conversion rates. The contracts have no explicit limit on the number of shares issuable, so they did not meet the conditions set forth in current accounting standards for equity classification. Accordingly, either the embedded derivative instruments, including the conversion option, must be bifurcated and accounted for as derivative instrument liabilities or, as permitted by ASC 815-15-25-4, *Recognition of Embedded Derivatives*, the instruments may be carried in their entirety at fair value.

At inception, we elected to bifurcate the embedded derivatives related to the Series C and Series D preferred stock, while electing the fair value option for the Consolidated Debentures. ASC 825, *Financial Instruments*, allows us to elect the fair value option for recording financial instruments when they are initially recognized or if there is an event that requires re-measurement of the instruments at fair value, such as a significant modification of the debt.

On February 4, 2013, we entered into a Debenture Extension Agreement with YA Global to extend the maturity dates of the secured convertible debentures to August 1, 2014. Because the effect of the extension did not exceed a significance threshold relative to cash flows prescribed by ASC 470-50, *Debt Modifications and Extinguishments*, extinguishment accounting was not applicable. On July 1, 2013, in addition to consolidating the secured debentures into six Consolidated Debentures, the maturity date was extended to August 1, 2015. On August 5, 2015, the maturity date was extended to February 5, 2016. Four of the Consolidated Debentures are non-interest bearing while the remaining two Consolidated Debentures accrue interest at 9.5% as outlined in further detail below. Debentures assigned to other investors by YA Global were also modified effective July 1, 2013 to extend the maturity date to August 1, 2015 and as indicated above, these debentures also have a maturity date of February 5, 2016. We evaluated the impact of the modification on the accounting for the Consolidated Debentures in accordance with ASC 470-50-40-6 through 12 to determine whether extinguishment accounting was appropriate. Because the effect of the extension did not exceed a significance threshold relative to cash flows prescribed by ASC 470-50, *Debt Modifications and Extinguishments*, extinguishment accounting was not applicable.

The following table summarizes the significant terms of each of the debentures for which the entire hybrid instrument is recorded at fair value as of September 30, 2015:

| Debenture Issuance Year | Face Amount (in thousands) | Interest Rate | Fixed Price | Conversion Price – Lower of Fixed Price or Percentage of VWAP for Look-back period | | Look-back Period |
|-------------------------|-------------------------------|---------------|-------------|--|------|------------------|
| | | | | Adjusted Price | % | |
| 2006 | \$ 1,961 | 9.5 % | \$2.00 | \$ 0.000090 | 90 % | 125 Days |

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| | | | | | | | | | |
|-------|-----------|-----|---|--------|----|----------|----|---|----------|
| 2007 | 542 | 9.5 | % | \$2.00 | \$ | 0.000090 | 90 | % | 125 Days |
| 2007 | 272 | - | | \$2.00 | \$ | 0.000095 | 95 | % | 125 Days |
| 2008 | 1,095 | 9.5 | % | \$2.00 | \$ | 0.000090 | 90 | % | 125 Days |
| 2008 | 830 | - | | \$2.00 | \$ | 0.000095 | 95 | % | 125 Days |
| 2011 | 794 | 9.5 | % | \$2.00 | \$ | 0.000090 | 90 | % | 125 Days |
| 2012 | 762 | 9.5 | % | \$2.00 | \$ | 0.000090 | 90 | % | 125 Days |
| 2012 | 210 | - | | \$2.00 | \$ | 0.000095 | 95 | % | 125 Days |
| 2013 | 22,063 | 9.5 | % | \$2.00 | \$ | 0.000090 | 90 | % | 125 Days |
| 2013 | 7,127 | - | | \$2.00 | \$ | 0.000095 | 95 | % | 125 Days |
| 2014 | 150 | - | | \$2.00 | \$ | 0.000095 | 95 | % | 125 Days |
| Total | \$ 35,806 | | | | | | | | |

Page 9

We bifurcate the compound embedded derivatives related to the Series C and Series D preferred stock and carry these financial instruments as liabilities in the accompanying balance sheet. Election to carry the instruments at fair value in their entirety is not available since their terms have not been modified. Significant components of the compound embedded derivative include (i) the embedded conversion feature, (ii) down-round anti-dilution protection features and (iii) default, non-delivery and buy-in puts, all of which were combined into one compound instrument that is carried at fair value as a derivative liability. Changes in the fair value of the compound derivative liability are recorded within income each period.

Conversions and Repayments – Our preferred stock and convertible debentures are convertible into shares of our common stock. Upon conversion of any of the convertible financial instruments in which the compound embedded derivative is bifurcated, the carrying amount of the debt, including any unamortized premium or discount, and the related derivative instrument liability are credited to the capital accounts upon conversion to reflect the stock issued and no gain or loss is recognized. For instruments that are recorded in their entirety at the fair value of the hybrid instrument, the fair value of the hybrid instrument converted is credited to the capital accounts upon conversion to reflect the stock issued and no gain or loss is recognized. Beginning in April 2013, the trading market price of our common stock (and the conversion price) was less than its par value. We are limited to issuing shares of common stock at no less than the par value, and all shares of our common stock issued in those conversions were issued at par value. However, the methodology used to estimate the number of shares of convertible debentures and preferred stock converted during this time are based upon the value received for the shares issued, with the difference between that value and the par value recorded as a deemed dividend.

The following table provides a summary of the preferred stock conversions that have occurred since inception and the number of common shares issued upon conversion through September 30, 2015.

| | Preferred shares issued | Preferred shares converted | Preferred shares remaining | Common shares issued |
|--------------------------|--|---|---|-------------------------------------|
| | (in thousands) | | | |
| Series C Preferred Stock | 22 | 18 | 4 | 1,264,419 |
| Series D Preferred Stock | 25 | 22 | 3 | 16,344 |

The outstanding principal and accrued interest for the debentures as of September 30, 2015 is reflected in the following table in addition to the principal and interest converted since inception and the number of common shares issued upon conversion.

| Outstanding principal | Principal and accrued interest | Common Shares |
|----------------------------------|---|--------------------------|
|----------------------------------|---|--------------------------|

accrued interest since issued
 at September 30,
 2015

(in thousands)

| | | | |
|------------|----------|-----------|-----------|
| Debentures | \$41,534 | \$ 12,599 | 2,996,437 |
|------------|----------|-----------|-----------|

Warrants – YA Global holds warrants to purchase shares of our common stock that were issued in connection with the convertible debentures and the Series C and Series D preferred stock. The warrants are exercisable at a fixed exercise price which, from time to time, has been reduced due to anti-dilution provisions when we have entered into subsequent financing arrangements with a lower price. The exercise prices may be reset again in the future if we subsequently issue stock or enter into a financing arrangement with a lower price. In addition, upon each adjustment in the exercise price, the number of warrant shares issuable is adjusted to the number of shares determined by multiplying the warrant exercise price in effect prior to the adjustment by the number of warrant shares issuable prior to the adjustment divided by the warrant exercise price resulting from the adjustment.

The warrants issued to YA Global do not meet all of the established criteria for equity classification in ASC 815-40, *Derivatives and Hedging – Contracts in Entity’s Own Equity*, and accordingly, are recorded as derivative liabilities at fair value. Changes in the fair value of the warrants are charged or credited to income each period.

Effective February 1, 2013, 1.4 billion of the 1.9 billion warrants held by YA Global were cancelled and the remaining 500 million had their exercise price reduced to \$0.0001 per share. These changes resulted in a decrease in fair value of the warrants of approximately \$1.6 million during the first quarter of 2013.

Fair value disclosures for Series C and D Bifurcated Embedded Derivative Instruments – For financings in which the embedded derivative instruments are bifurcated and recorded separately, the compound embedded derivative instruments are valued using a Monte Carlo Simulation methodology because that model embodies certain relevant assumptions (including, but not limited to, interest rate risk, credit risk, and conversion/redemption privileges) that are necessary to value these complex derivatives.

The conversion price in each of the convertible debentures is subject to adjustment for down-round, anti-dilution protection. Accordingly, if we sell common stock or common share indexed financial instruments below the stated or variable conversion price of the debenture, the conversion price adjusts to that lower amount.

The assumptions included in the calculations are highly subjective and subject to interpretation. Assumptions used as of September 30, 2015 included exercise estimates/behaviors and the following other significant estimates for valuing the preferred stock embedded derivatives: remaining term of four months, equivalent volatility of 285%, stated dividend of 8%, equivalent credit-risk adjusted rate of 13.0% and conversion price of \$0.000097. Equivalent amounts reflect the net results of multiple modeling simulations that the Monte Carlo Simulation methodology applies to underlying assumptions.

Due to the variability of the conversion prices, fluctuations in the trading market price of our common stock may result in significant variations to the calculated conversion price. For each debenture, we analyze the ratio of the conversion price (as calculated based on the percentage of VWAP for the appropriate look-back period) to the trading market price for a period of time equal to the term of the debenture to determine the average ratio for the term of the note. Each quarter, the ratio in effect on the date of the valuation is compared with the average ratio over the term of the debenture to determine if the calculated conversion price is representative of past trends or if it is considered unrepresentative due to a large fluctuation in the common stock price over a short period of time. If the calculated conversion price results in a ratio that deviates significantly from the average ratio over the term of the agreement, the average ratio of the conversion price to the trading market price is then multiplied by the current trading market price to determine the variable conversion price for use in the fair value calculations. This variable conversion price is then compared with the fixed conversion price and, as required by the terms of the debentures, the lower of the two amounts is used as the conversion price in the Monte Carlo Simulation model used for valuation purposes. On September 30, 2015, the fixed conversion price for each of the debentures was equal to or higher than the calculated variable conversion price. Accordingly, the variable conversion price was used in the Monte Carlo Simulation model. This analysis is performed each quarter to determine if the calculated conversion price is reasonable for purposes of determining the fair value of the embedded conversion features (for instruments recorded under ASC 815-15-25-1) or the fair value of the hybrid instrument (for instruments recorded under ASC 815-15-25-4).

The following table reflects the face value of the instruments, their amortized carrying value and the fair value of the separately-recognized compound embedded derivative, as well the number of common shares into which the instruments are convertible as of September 30, 2015 and December 31, 2014:

September 30, 2015

| | Face Value | Carrying Value | Embedded Conversion Feature | Common Stock Shares |
|--------------------------|-----------------------|---------------------------|--|------------------------------------|
| | (in thousands) | | | |
| Series C Preferred Stock | \$4,317 | \$ 4,317 | \$ 31 | 44,505,154 |
| Series D Preferred Stock | 348 | 348 | 2 | 3,588,660 |
| Total | \$4,665 | \$ 4,665 | \$ 33 | 48,093,814 |

December 31, 2014

| | Face Value | Carrying Value | Embedded Conversion Feature | Common Stock Shares |
|--------------------------|-----------------------|---------------------------|--|------------------------------------|
| | (in thousands) | | | |
| Series C Preferred Stock | \$4,332 | \$ 4,332 | \$ 5 | 44,659,794 |
| Series D Preferred Stock | 348 | 348 | — | 3,588,660 |
| Total | \$4,680 | \$ 4,680 | \$ 5 | 48,248,454 |

The terms of the embedded conversion features in the convertible instruments presented above provide for variable conversion rates that are indexed to our quoted common stock price. As a result, the number of indexed shares is subject to continuous fluctuation. For presentation purposes, the number of shares of common stock into which the embedded conversion feature of the Series C and Series D preferred stock was convertible as of September 30, 2015 and December 31, 2014 was calculated as face value plus assumed dividends (if declared), divided by the lesser of the fixed rate or the calculated variable conversion price using the 125 day look-back period.

Changes in the fair value of derivative instrument liabilities related to the bifurcated embedded derivative features of convertible instruments not carried at fair value are reported as Loss from Change in Fair Value of Derivative Liability – Series C and Series D Preferred Stock and Debentures in the accompanying consolidated statements of operations. The change in fair value during the nine months ended September 30, 2015, includes the expiration of 15,454,503 warrants that were not exercised.

Gain (loss) from change in fair value of derivative liability – Series C and D Preferred Stock and debentures

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Series C Preferred Stock | \$ (16) | \$ 27 | \$ (26) | \$ 255 |
| Series D Preferred Stock | (1) | 2 | (1) | 18 |
| Debentures: | | | | |
| 2006 | — | — | — | — |
| Gain (loss) from change in fair value of derivative liability | \$ (17) | \$ 29 | \$ (27) | \$ 273 |

Hybrid Financial Instruments Carried at Fair Value – At inception, the March 2007, August 2007, April 2008, May 2008 and April 2012 convertible debentures were recorded in their entirety at fair value as hybrid instruments in

accordance with ASC 815-15-25-4 with subsequent changes in fair value charged or credited to income each period. As of May 25, 2012, we elected the fair value option for all other convertible debentures held by YA Global upon a re-measurement date that was triggered by significant modifications of the financial instruments. The convertible debentures continued to be recorded in their entirety at fair value upon their consolidation into six Consolidated Debentures effective July 1, 2013.

Because these debentures are carried in their entirety at fair value, the value of the embedded conversion feature is embodied in those fair values. We estimate the fair value of the hybrid instrument as the present value of the cash flows of the instrument, using a risk-adjusted interest rate, enhanced by the value of the conversion option, valued using a Monte Carlo model. This method was considered by our management to be the most appropriate method of encompassing the credit risk and exercise behavior that a market participant would consider when valuing the hybrid financial instrument. Inputs used to value the hybrid instruments as of September 30, 2015 included: (i) present value of future cash flows for the debentures using an effective market interest rate of 13.0%, (ii) remaining term of four months, (iii) equivalent volatility of 285% and anti-dilution adjusted conversion prices ranging from \$0.000090 - \$0.000097.

The following table reflects the face value of the financial instruments, the fair value of the hybrid financial instrument and the number of common shares into which the instruments are convertible as of September 30, 2015 and December 31, 2014.

September 30, 2015

| | Face Value | Fair Value | Common Stock Shares |
|--------------|-----------------------|-----------------------|------------------------------------|
| | (in thousands) | | |
| Debtentures: | | | |
| 2006 | \$ 1,961 | \$ 2,210 | 25,242,791 |
| 2007 | 814 | 1,070 | 12,006,008 |
| 2008 | 1,925 | 2,093 | 23,463,424 |
| 2009 | — | 30 | 331,733 |
| 2011 | 794 | 893 | 10,200,234 |
| 2012 | 972 | 1,199 | 13,527,912 |
| 2013 | 29,190 | 32,737 | 369,946,171 |
| 2014 | 150 | 160 | 1,831,512 |
| Total | \$35,806 | \$40,392 | 456,549,785 |

December 31, 2014

| | Face Value | Fair Value | Common Stock Shares |
|--------------|-----------------------|-----------------------|------------------------------------|
| | (in thousands) | | |
| Debtentures: | | | |
| 2006 | \$ 1,961 | \$ 2,019 | 23,871,436 |
| 2007 | 814 | 1,000 | 11,549,397 |
| 2008 | 1,925 | 1,949 | 22,598,665 |
| 2009 | 7 | 46 | 517,119 |
| 2011 | 785 | 800 | 9,469,332 |
| 2012 | 972 | 1,111 | 12,926,448 |
| 2013 | 29,211 | 30,297 | 354,041,487 |
| 2014 | 170 | 162 | 1,930,434 |
| Total | \$35,845 | \$37,384 | 436,904,318 |

Changes in the fair value of convertible instruments that are carried in their entirety at fair value are reported as Gain (loss) from change in fair value of hybrid financial instruments in the accompanying consolidated statements of operations. The changes in fair value of these hybrid financial instruments were as follows:

Gain (loss) from change in fair value of hybrid financial instruments

| | Three months ended | | Nine months ended | |
|--|---------------------------|----------------------|--------------------------|----------------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | (in thousands) | |
| 2006 | \$ 8 | \$ (83) | \$ (169) | \$ (144) |
| 2007 | 3 | (35) | (70) | (49) |
| 2008 | 8 | (82) | (165) | (140) |
| 2009 | — | (1) | — | (6) |
| 2011 | 3 | (35) | (69) | (61) |
| 2012 | 4 | (41) | (84) | (86) |
| 2013 | 127 | (1,092) | (2,508) | (2,056) |
| 2014 | 1 | — | (12) | — |
| Gain (loss) from changes in fair value of hybrid instruments | \$ 154 | \$ (1,369) | \$ (3,077) | \$ (2,542) |

Warrants – The following table summarizes the warrants outstanding, their fair value and their exercise price after adjustment for anti-dilution provisions:

| | Expiration | September 30, 2015 | | December 31, 2014 | | Fair Value | Fair Value |
|--|-------------------|--|-----------------------|--|-----------------------|-------------------|-------------------|
| | | Anti-Dilution Adjusted Exercise Price | Warrants | Anti-Dilution Adjusted Exercise Price | Warrants | | |
| | Year | (\$) | (in thousands) | (\$) | (in thousands) | | |
| Warrants issued with preferred stock: | | | | | | | |
| Series D Preferred Stock | 2017 | 0.0015 | 5,825 | \$ 1 | 0.0015 | 5,825 | \$ — |
| Warrants issued with debentures: | | | | | | | |
| 2008 | 2015 | 0.0015 | - | — | 0.0015 | 15,871 | 1 |
| 2010 | 2015 | 0.0015 | 634 | — | 0.0015 | 5,423 | 1 |
| 2011 | 2016 | 0.0015 | 3,884 | — | 0.0015 | 3,884 | — |
| 2012 | 2017 | 0.0015 | 2,330 | — | 0.0015 | 2,330 | — |
| Total | | | 12,673 | \$ 1 | | 33,333 | \$ 2 |

There were 15,454,503 warrants that expired during the nine months ended September 30, 2015.

The warrants are valued using a binomial lattice option valuation methodology because that model embodies all of the significant relevant assumptions that address the features underlying these instruments. Significant assumptions used in this model as of September 30, 2015 included an expected life equal to the remaining term of the warrants, an expected dividend yield of zero, estimated volatility ranging from 274% to 1,112%, and risk-free rates of return ranging from 0.0% to 0.58%. For the risk-free rates of return, we use the published yields on zero-coupon Treasury Securities with maturities consistent with the remaining term of the warrants and volatility is based upon our expected common stock price volatility over the remaining term of the warrants. As a result of the repricing on February 1, 2013, the exercise price of the warrants is currently \$0.0015. The anti-dilution provisions are still applicable so in the future the fixed exercise price of the warrants may be reset to equal to the lowest price of any subsequently issued common share indexed instruments with a conversion price below the current exercise price of the warrant.

Changes in the fair value of the warrants are reported as Gain from change in fair value of derivative liability – warrants in the accompanying consolidated statement of operations. The changes in the fair value of the warrants were as follows:

Gain from change in fair value of derivative liability – warrants

| | Three months ended September 30, 2015 | | Nine months ended September 30, 2015 | |
|---|--|-------|---|--------|
| | 2014 | | 2014 | |
| | (in thousands) | | (in thousands) | |
| Warrants issued with preferred stock: | | | | |
| Series D Convertible Preferred Stock | \$ — | \$ 7 | \$ — | \$ 108 |
| Warrants issued with debentures: | | | | |
| 2008 | 2 | 18 | 1 | 294 |
| 2010 | — | 6 | — | 101 |
| 2011 | — | 4 | — | 72 |
| 2012 | — | 3 | — | 43 |
| Gain from change in fair value of derivative liability – warrants | \$ 2 | \$ 38 | \$ 1 | \$ 618 |

Reconciliation of changes in fair value – Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments that are measured at fair value on a recurring basis are all measured at fair value using Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following represents a reconciliation of the changes in fair value of financial instruments measured at fair value using Level 3 inputs and changes in the fair value of hybrid instruments carried at fair value during the nine months ended September 30, 2015 (in thousands):

| | Compound Embedded Derivatives | Warrant Derivatives | Hybrid Instruments | Total |
|---------------------------------------|--|--------------------------------|-------------------------------|--------------|
| Beginning balance, December 31, 2014: | \$ 6 | \$ 2 | \$ 37,385 | \$37,393 |
| Fair value adjustments: | | | | |
| Compound embedded derivatives | 27 | (1) | — | 26 |

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| | | | | |
|------------------------------------|-------|------|-----------|----------|
| Warrant derivatives | — | — | — | — |
| Hybrid instruments | — | — | 3,077 | 3,077 |
| Conversions: | | | | |
| August 24, 2006 financing | — | — | (12) | (12) |
| August 14, 2009 financing | — | — | (16) | (16) |
| July 1, 2013 financing | — | — | (22) | (22) |
| September 15, 2014 financing | — | — | (20) | (20) |
| Ending balance, September 30, 2015 | \$ 33 | \$ 1 | \$ 40,392 | \$40,426 |

Page 15

Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, valuation techniques are sensitive to changes in the trading market price of our common stock, which has a high estimated historical volatility. Because derivative financial instruments are initially and subsequently carried at fair values, our income will reflect the volatility in these estimate and assumption changes.

Note Payable – In 2014, we received financing of \$242,000 from YA Global to meet short term cash needs related to legal expenses. The financing was through secured debentures in the form of a line of credit with varying maturity dates in 2016. The interest rate is 12% payable annually on the anniversary of the individual debenture.

Note 5 – Contingencies

From time to time, we are involved in various legal actions arising in the normal course of business, both as claimant and defendant. Although it is not possible to determine with certainty the outcome of these matters, we believe the eventual resolution of any ongoing legal actions is unlikely to have a material effect on our financial position or operating results.

Other – On February 21, 2014, the Company received a correspondence (the “Delta Notice”) from Delta Capital Partners LLC (“Delta”), asserting a claim for certain amounts owed under a secured convertible debenture. The principal amount outstanding and conversion rights under such instrument had been assigned to Delta by YA Global (the “Assignment”), several years subsequent to the original issuance of the instrument by the Company to YA Global. The Company’s understanding is that pursuant to the terms of the Assignment, YA Global, as collateral agent, retained all rights in connection with the enforcement of any claims under Delta’s secured convertible debenture. YA Global has indicated that it does not intend to assert any of the claims described by Delta in the Delta Notice.

Note 6 - Subsequent Events

The Company evaluated subsequent events through the date of issuance of the financial statements. There were no reportable subsequent events.

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

Overview

NeoMedia has positioned itself to lead the world in mobile barcode technology and solutions that enable the mobile ecosystem. NeoMedia harnesses the power of the mobile device in innovative ways with state-of-the-art mobile barcode technology. With this technology, mobile devices with cameras become barcode scanners, enabling a range of practical applications including mobile marketing and mobile commerce. In addition, we offer licensing of our extensive intellectual property portfolio. We are focusing our activities primarily in the United States and Europe, although we are also active in other markets via partners or our self-service products.

Our key focus areas are to: 1) maximize our patent portfolio through IP licensing monetization and enforcement; 2) provide services to enterprises, brands and retailers to maximize the reach of our barcode creation and reader solutions; and, 3) partner with key mobile marketing entities to expand the depth of our offering to provide end-to-end solutions for our customers.

NeoMedia has been active in, and strives to be an innovator in, the mobile barcode field since the mid-1990s, and during that time has spearheaded the development of a robust IP portfolio. In September 2011, we announced an agreement with Global IP Law Group to help further monetize our patent portfolio globally. Since the launch of our monetization efforts in 2011, NeoMedia has closed one hundred and twenty-one (121) IP agreements.

On the product side of our business, our barcode solutions include our barcode reader (NeoReader and NeoReader SDK) as well as our barcode creation and management services (NeoSphere and QodeScan). Mobile barcodes continue to be an increasingly important activation element for brands and marketers and we continue to see growth in terms of new customer additions and traffic across our network.

We believe that NeoMedia remains consistent in its approach to the market and that we will continue to differentiate ourselves on the basis of our high quality service offerings, our responsive customer service and support organization, our customizable and full service solutions and our robust intellectual property portfolio.

NeoReader has experienced continued growth particularly in enterprise implementations. NeoReader is available for download from the key "app stores" including Apple App Store™, Google Play™, BlackBerry App World™, Windows® Marketplace, Facebook and Amazon. Our barcode reader has approximately 80+ million installations world-wide.

Our reader is offered to consumers free of charge, leveraging an ad supported model. We anticipate the growth in consumer utilization will continue as barcodes continue to be utilized for a wide variety of vertical applications. We also offer NeoReader SDK for enterprise opportunities. Our research suggests that we are one of the few providers in the global ecosystem to offer Aztec code support, in addition to QR, Data Matrix, Code 39, PDF417 and a variety of 1D symbologies on iOS, Android and Windows Phone 8. We have also concluded our pre-installation agreement for NeoReader with Sony Mobile.

We continue to offer our NeoSphere and QodeScan products for QR creation and campaign management. We have many Fortune 500 brands using our NeoSphere product in their global barcode operations and QodeScan tends to be used by small and medium sized businesses. We have over 19,500 users of our QR creation services. Our QR creation services utilize an indirect methodology for our customers, which is also embodied in our intellectual property.

Results of Operations**Income from Operations**

The following table sets forth certain data derived from our condensed consolidated statements of operations (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|----------------------------------|----------|---------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$ 737 | \$ 1,002 | \$ 1,990 | \$ 2,659 |
| Cost of revenue | 33 | 193 | 129 | 438 |
| Gross profit | 704 | 809 | 1,861 | 2,221 |
| Operating expenses: | | | | |
| Sales and marketing expenses | 4 | 22 | 12 | 77 |
| General and administrative expenses | 315 | 493 | 811 | 1,838 |
| Research and development costs | 53 | 80 | 160 | 402 |
| Operating income | \$ 332 | \$ 214 | \$ 878 | \$ (96) |

Revenue. Revenue for the three months ended September 30, 2015 and 2014 was \$737,000 and \$1,002,000, respectively, a decrease of \$265,000, or 26%. Revenue for the nine months ended September 30, 2015 and 2014 was \$1,990,000 and \$2,659,000, respectively, a decrease of \$669,000, or 25%. The decrease in revenue for the nine months ended September 30, 2015, compared to 2014, was primarily due to our reduced focus on sales activities during the first three months of 2015, as the management team worked on refinancing the company and securing new investment partners. The decrease in revenue for the three months ended September 30, 2015, compared to 2014, was due to a decline in the number of IP agreements for the quarter.

Cost of Revenues. Cost of revenue for the three months ended September 30, 2015 and 2014 was \$33,000 and \$193,000, respectively, a decrease of \$160,000, or 83%. Cost of revenue for the nine months ended September 30, 2015 and 2014 was \$129,000 and \$438,000, respectively, a decrease of \$309,000, or 71%. Cost of revenue relates primarily to third-party professional fees incurred in connection with the sale of our IP licenses, and revenues from IP licenses decreased.

Sales and Marketing. Sales and marketing expenses were \$4,000 and \$22,000 for the three months ended September 30, 2015 and 2014, respectively, a decrease of \$18,000, or 82%. Sales and marketing expenses were \$12,000 and

\$77,000 for the nine months ended September 30, 2015 and 2014, respectively, a decrease of \$65,000, or 84%. The decrease in sales and marketing expenses related to continued cost containment.

General and Administrative. General and administrative expenses were \$315,000 and \$493,000 for the three months ended September 30, 2015 and 2014, respectively, a decrease of \$178,000, or 36%. General and administrative expenses were \$811,000 and \$1,838,000 for the nine months ended September 30, 2015 and 2014, respectively, a decrease of \$1,027,000, or 56%. General and administrative expenses were higher during the second quarter of 2014 due to higher public company costs incurred in connection with our merger. General and administrative expenses decreased in 2015 due to reduced legal fees associated with litigation activities efforts, which concluded in the fourth quarter of 2014.

Research and Development. Research and development expenses were \$53,000 and \$80,000 for the three months ended September 30, 2015 and 2014, respectively, a decrease of \$27,000, or 34%. Research and development expenses were \$160,000 and \$402,000 for the nine months ended September 30, 2015 and 2014, respectively, a decrease of \$242,000, or 60%. Research and development expenses decreased due to cost containment efforts and reduction in customized software projects.

Other Income (Expenses)

The following table sets forth certain data derived from our condensed consolidated statements of operations (in thousands):

| | Three months ended | | Nine months ended | |
|---|-----------------------|-------------|-----------------------|-------------|
| | September 30, 2015 | 2014 | September 30, 2015 | 2014 |
| Gain (loss) from change in fair value of hybrid financial instruments | \$ 154 | \$ (1,369) | \$ (3,077) | \$ (2,542) |
| Gain (loss) from change in fair value of derivative liability – warrants | 2 | 38 | 1 | 618 |
| Gain (loss) from change in fair value of derivative liability - Series C and D preferred stock and debentures | (17) | 29 | (27) | 273 |
| Gain on extinguishment of debt | — | — | — | 4,247 |
| Interest expense | (8) | — | (34) | — |
| Total other income (expense) | \$ 131 | \$ (1,302) | \$ (3,137) | \$ 2,596 |

Gain (Loss) from Change in Fair Value of Hybrid Financial Instruments. We carry certain of our debentures at fair value in accordance with the applicable accounting codification and do not separately account for the embedded conversion feature. The change in the fair value of these liabilities includes changes in the value of the accrued interest due under these instruments, as well as changes in the fair value of the common stock underlying the instruments. For the three months ended September 30, 2015 and 2014, the liability related to these hybrid instruments fluctuated, resulting in a gain of \$154,000 and a loss of \$1,369,000, respectively. For the nine months ended September 30, 2015 and 2014, the liability related to these hybrid instruments fluctuated, resulting in losses of \$3,077,000 and \$2,542,000, respectively.

Gain (Loss) from Change in Fair Value of Derivative Liabilities – Warrants. We account for our outstanding common stock warrants that were issued in connection with our preferred stock and our debentures at fair value. For the three months ended September 30, 2015 and 2014, the liability related to these instruments fluctuated, resulting in gains of \$2,000 and \$38,000, respectively. For the nine months ended September 30, 2015 and 2014, the liability related to these instruments fluctuated, resulting in gains of \$1,000 and \$618,000, respectively.

Gain (Loss) from Change in Fair Value of Derivative Liabilities – Series C and D Preferred Stock and Debentures. For our Series C and D Preferred Stock, and certain of our debentures, we account for the embedded conversion feature separately as a derivative financial instrument. We carry these derivative financial instruments at fair value. For the three months ended September 30, 2015 and 2014, the liability related to these hybrid instruments fluctuated, resulting in a loss of \$17,000 and a gain of \$29,000, respectively. For the nine months ended September 30, 2015 and

2014, the liability related to these hybrid instruments fluctuated, resulting in a loss of \$27,000 and a gain of \$273,000.

The changes in the fair values of our hybrid financial instruments and our derivative liabilities were primarily the result of fluctuations in the value of our common stock during the period as well as changes in the terms of the related security agreements. Because our common stock price has been volatile and because many of our derivative financial instruments include relatively low fixed conversion or exercise prices, it is possible that further fluctuations in the market price of our common stock could cause the fair value of these instruments to increase or decrease significantly in future periods. The fair values of these instruments are subject to volatility so long as the preferred stock, debentures and warrants are outstanding. These instruments will no longer be volatile upon their conversion or exercise into common stock.

While we expect our common stock price to remain volatile as described above, we do not anticipate this volatility to impact our revenues or operating income. Further, it should be noted that the Company does not have any off balance sheet arrangements that would have an effect on its financial condition.

Gain (Loss) on Extinguishment of Debt. During the second quarter of 2014, we modified and consolidated our outstanding debentures resulting in a \$4,247,000 gain on extinguishment.

Liquidity and Capital Resources

September
30, December 31,
2014

2015
(in thousands)

Cash and cash equivalents \$ 34 \$ 75

| | Nine months ended September 30, | |
|---|---------------------------------|-----------|
| | 2015 | 2014 |
| | (in thousands) | |
| Net cash used in operating activities | \$ (41) | \$ (333) |
| Net cash used in investing activities | — | — |
| Net cash used in financing activities | — | 236 |
| Net change in cash and cash equivalents | \$ (41) | \$ (97) |

We funded our liquidity requirements during the quarter ended September 30, 2015 with funds from operations.

Going Concern – We have historically incurred operating losses, and we may continue to generate 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. Our net loss for the nine months ended September 30, 2015 was \$2,259,000 as compared to net income of \$2,500,000 for the same period in 2014. The operating results for the nine months ended September 30, 2015 and 2014, respectively, included \$3,103,000 and \$1,651,000 of net expense related to financing instruments, and a gain on the settlement of debt of \$4,247,000 in 2014.

Net cash used by operations during the nine months ended September 30, 2015 and 2014, respectively, was \$41,000 and \$333,000. As of September 30, 2015, we have an accumulated deficit of \$241.6 million, and a working capital deficit of \$41.2 million, including \$40.4 million in current liabilities for our derivative and debenture financing instruments.

We currently do not have sufficient cash or commitments for financing to sustain our operations for the next twelve months if we are unable to generate sufficient cash flows from operations. Our plan is to develop new client and customer relationships and substantially increase our revenue derived from our products/services and IP licensing. If our revenues do not reach the level anticipated in our plan, we will require additional financing in order to execute our operating plan. 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 financing sources are not available, 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 would have a material adverse effect on our business, prospects, financial condition and results of operations and our ability to continue as a going concern.

The maturity date of our convertible debentures was extended from August 1, 2015, to February 5, 2016. 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 shares of common stock outstanding. During the first nine months of 2015, there were 768 million shares of common stock issued for these conversions. We cannot predict if or when each holder may or may not elect to convert into shares of common stock.

Sources of Cash and Projected Cash Requirements. As of September 30, 2015, our cash balance was \$34,000. The Company's past financing agreements with YA Global have certain restrictions that could affect future liquidity and business operations. For example, pursuant to the terms of the debenture agreements between us and YA Global, without YA Global's consent we cannot (i) issue or sell any shares of our common stock or our preferred stock without consideration or for consideration per share less than the closing bid price immediately prior to its issuance, (ii) issue or sell any preferred stock, warrant, option, right, contract, call, or other security or instrument granting the holder thereof the right to acquire our common stock for consideration per share less than the closing bid price immediately prior to its issuance, (iii) enter into any security instrument granting the holder a security interest in any of our assets or (iv) file any registration statements on Form S-8. In addition, pursuant to security agreements between us and YA Global, YA Global has a security interest in all of our assets. Such covenants could severely harm our ability to raise additional funds from sources other than YA Global, and would likely result in a higher cost of capital in the event we secured funding. Additionally, pursuant to the terms of the Investment Agreement between us and YA Global in connection with our Series C Preferred Stock, we cannot (i) enter into any debt arrangements in which we are the borrower, (ii) grant any security interest in any of our assets or (iii) grant any security below market price.

Critical Accounting Policies and Estimates

The significant accounting policies set forth in Note 2 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014, appropriately represent, in all material respects, the current status of our critical accounting policies and estimates, the disclosure with respect to which is incorporated herein by reference.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are a "smaller reporting company" as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures - We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under the SEC's rules and forms and that the information is gathered and communicated to our management, including our Chief

Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow for timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO" who is also the Company's principal financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, and taking the matters described below into account, the Company's CEO and CFO have concluded that our disclosure controls and procedures over financial reporting were effective during the reporting period ended September 30, 2015.

Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

_____ pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets,

_____ provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial -statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of our management and directors, and

_____ provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

In our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 3, 2015, we reported material weaknesses. During the six months ended June 30, 2015, we remediated these material weaknesses by engaging an outside review team with significant experience in (i) reviewing and recording complex debt and equity transactions, (ii) assessing revenue recognition concepts inherent in our transactions, and (iii) writing disclosures contained in financial statements filed in our interim and annual reports.

Management, including the Company's principal executive and principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (1992 version)*. Management's assessment of the effectiveness of the small business issuer's internal control over financial reporting as of September 30, 2015, concluded that the Company maintained effective internal control over financial reporting based on those criteria.

Changes in Internal Control over Financial Reporting — During the nine months ended September 30, 2015, we strengthened and increased our controls over financial reporting by engaging an outside review team with significant experience in (i) reviewing and recording complex debt and equity transactions, (ii) assessing revenue recognition concepts inherent in our transactions, and (iii) writing disclosures contained in financial statements filed in our interim and annual reports.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are involved in various legal actions arising in the normal course of business, both as claimant and defendant. We do not believe any current legal proceedings are material to our business. No material proceedings were terminated during the quarter ended September 30, 2015.

ITEM 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not Applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

| Exhibit No. | Description | Filed Herewith | Form | Exhibit | Filing Date |
|--------------------|---|-----------------------|-------------|----------------|--------------------|
| 3.1 | Articles of Incorporation of Dev-Tech Associates, Inc. and amendment thereto | | SB-2 | 3.1 | 11/25/1996 |
| 3.2 | By-laws of the Company | | 8-K | 3.2 | 12/21/2010 |
| 3.3 | Restated Certificate of Incorporation of DevSys, Inc. | | SB-2 | 3.3 | 11/25/1996 |
| 3.4 | Articles of Merger and Agreement and Plan of Merger of DevSys, Inc. and Dev-Tech Associates, Inc. | | SB-2 | 3.5 | 11/25/1996 |
| 3.5 | Certificate of Merger of Dev-Tech Associates, Inc. into DevSys, Inc. | | SB-2 | 3.6 | 11/25/1996 |
| 3.6 | Articles of Incorporation of Dev-Tech Migration, Inc. and amendment thereto | | SB-2 | 3.7 | 11/25/1996 |
| 3.7 | Restated Certificate of Incorporation of DevSys Migration, Inc. | | SB-2 | 3.9 | 11/25/1996 |
| 3.8 | Form of Agreement and Plan of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc. | | SB-2 | 3.11 | 11/25/1996 |
| 3.9 | Form of Certificate of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc. | | SB-2 | 3.12 | 11/25/1996 |
| 3.10 | Certificate of Amendment to Certificate of Incorporation of DevSys, Inc. changing our name to NeoMedia Technologies, Inc. | | SB-2 | 3.13 | 11/25/1996 |
| 3.11 | Form of Certificate of Amendment to Certificate of Incorporation of the Company authorizing a reverse stock split | | SB-2 | 3.14 | 11/25/1996 |
| 3.12 | Form of Certificate of Amendment to Restated Certificate of Incorporation of the Company increasing authorized capital and creating preferred stock | | SB-2 | 3.15 | 11/25/1996 |

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|------|--|------|------|-----------|
| 3.13 | Certificate of Designation of the Series C Convertible Preferred Stock dated February 17, 2006 | 8-K | 10.9 | 2/21/2006 |
| 3.14 | Certificate of Amendment to the Certificate of Designation of the Series C Convertible Preferred Stock dated January 5, 2010 | 8-K | 3.1 | 1/11/2010 |
| 3.15 | Certificate of Designation of the Series D Convertible Preferred Stock dated January 5, 2010 | 8-K | 10.1 | 1/11/2010 |
| 3.16 | Certificate of Amendment to the Certificate of Designation of the Series D Convertible Preferred Stock dated January 7, 2010 | 8-K | 3.3 | 1/11/2010 |
| 3.17 | Certificate of Amendment to the Certificate of Designation of the Series D Convertible Preferred Stock dated March 5, 2010 | 8-K | 3.1 | 3/11/2010 |
| 3.18 | Certificate of Merger of Qode Services Corporation into NeoMedia Technologies, Inc. | 10-Q | 3.18 | 8/14/2014 |
| 10.1 | Debenture Extension Agreement dated August 5, 2015 | 8-K | 10.1 | 8/06/2015 |
| 31.1 | Certification by Principal Executive Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | |
| 31.2 | Certification by Principal Financial and Principal Accounting Officer pursuant to Rule 13a-14(a)/ 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X | | |
| 32.1 | Certification by Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | |
| 32.2 | Certification by Principal Financial and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | |
| 101 | Interactive data. The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) related notes. | X | | |

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEOMEDIA TECHNOLOGIES, INC.
(Registrant)

Dated: October 30, 2015 /s/ *Laura A. Marriott*
Laura A. Marriott, Chief Executive Officer and Principal Executive Officer

Dated: October 30,
2015 /s/ *Colonel Barry S. Baer*
Colonel (Ret.) Barry S. Baer, Chief Financial Officer and Principal Financial and Accounting Officer