NEOMEDIA TECHNOLOGIES INC
Form 10-Q
November 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 – Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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 incorporation or organization)	(I.R.S. Employer 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 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 Exchange Act). Yes ¨ No x

The number of outstanding shares of the registrant's Common Stock on October 20, 2014 was 3,454,429,862.

NeoMedia Technologies, Inc.

Form 10-Q

For the Quarterly Period Ended September 30, 2014

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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, 2014 (Unaudited)	December 31, 2013 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 170	$ 267
Accounts receivable	215	295
Prepaid expenses and other current assets	50	107
Total current assets	435	669
Property and equipment, net	1	5
Goodwill	3,418	3,418
Patents and other intangible assets, net	1,017	1,213
Other long-term assets	20	–
Total assets	$ 4,891	$ 5,305
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 395	$ 236
Accrued expenses	368	291
Deferred revenues and customer prepayments	1,511	2,252
Notes payable	242	56
Derivative financial instruments – warrants	2	620
Derivative financial instruments - Series C and D preferred stock and debentures payable	22	296
Debentures payable - carried at fair value	35,788	38,250
Total current liabilities	38,328	42,001
Commitments and contingencies		
Series C convertible preferred stock, $0.01 par value, 27,000 shares authorized, 4,357 and 4,816 shares issued and outstanding, respectively, and a liquidation value of $4,357 and $4,816 at September 30, 2014 and December 31, 2013, respectively	4,357	4,816
Series D convertible preferred stock, $0.01 par value, 25,000 shares authorized, 3,481 and 3,481 shares issued and outstanding, respectively, and a liquidation value of $348 and $348, respectively, at September 30, 2014 and December 31, 2013	348	348

Shareholders' deficit:		
Common stock, no par value, 7,500,000,000 shares authorized, 2,818,464,157 and 332,321,819 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	4,985	4,985
Additional paid in capital	192,164	190,946
Accumulated deficit	(234,410)	(236,910)
Accumulated other comprehensive loss	(102)	(102)
Treasury stock, at cost, 2,012 shares of common stock	(779)	(779)
Total shareholders' deficit	(38,142)	(41,860)
Total liabilities and shareholders' deficit	$ 4,891	$ 5,305

See accompanying notes.

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 September 30,		For the nine months ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
Revenue	$1,002	$1,602	$2,659	$3,871
Cost of revenues	193	300	438	600
Gross profit	809	1,302	2,221	3,271
Sales and marketing expenses	22	16	77	124
General and administrative expenses	493	723	1,838	2,245
Research and development costs	80	123	402	507
Other operating income	–	–	–	(227)
Operating income (loss)	214	440	(96)	622
Gain (loss) from change in fair value of hybrid financial instruments	(1,369)	4,495	(2,542)	28,549
Gain (loss) from change in fair value of derivative liability – warrants	38	90	618	3,514
Gain (loss) from change in fair value of derivative liability - Series C and D preferred stock and debentures	29	31	273	2,029
Gain on extinguishment of Debt	–	53	4,247	53
Interest income	–	–	–	16
Net income/(loss)	(1,088)	5,109	2,500	34,783
Deemed dividends on convertible preferred stock	–	–	–	(16)
Deemed dividends on convertible debentures	–	(45)	–	(726)
Net income (loss) available to common shareholders	$(1,088)	$5,064	$2,500	$34,041
Comprehensive income (loss):				
Net income (loss)	(1,088)	5,109	2,500	34,783
Foreign currency adjustment	–	–	–	133
Comprehensive income (loss):	$(1,088)	$5,109	$2,500	$34,916

Net income (loss) per common share, basic and diluted:				
Basic	$0.00	$0.00	$0.00	$0.00
Fully diluted	$0.00	$0.00	$0.00	$0.00
Weighted average number of common shares:				
Basic	1,357,349,653	4,984,827,279	810,443,147	3,823,483,604
Fully diluted	1,395,781,353	5,023,258,979	848,874,847	3,861,915,304

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	For the nine months ended September 30,	
	2014	2013 (Restated)
Cash Flows from Operating Activities:		
Net income	$ 2,500	$ 34,783
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	201	325
(Gain) loss from change in fair value of hybrid financial instruments	2,542	(28,549)
(Gain) loss from change in fair value of derivative liability – warrants	(618)	(3,514)
(Gain) loss from change in fair value of derivative liability - Series C and D preferred stock and debentures	(273)	(2,029)
Stock-based compensation	1	1
Gain on Extinguishment of Debt	(4,247)	(53)
Changes in operating assets and liabilities:		
Accounts receivable	80	(386)
Prepaid expenses and other assets	37	59
Accounts payable and accrued expenses	236	52
Deferred revenues and customer prepayments	(792)	(1,225)
Net cash used in operating activities	(333)	(536)
Cash Flows from Investing Activities:		
Net cash used in investing activities	–	–
Cash Flows from Financing Activities:		
Borrowing under long-term debenture note payable	292	110
Payments on short-term notes payable	(56)	(27)
Net cash (used) provided by financing activities	236	83
Effect of exchange rate changes on cash	–	(1)
Net change in cash and cash equivalents	(97)	(454)
Cash and cash equivalents, beginning of period	267	611
Cash and cash equivalents, end of period	$ 170	$ 157
Supplemental cash flow information:		
Non-cash financing activities:		
Series C preferred stock converted to common stock	$ 459	$ 24

Convertible debentures converted to common stock	758	4,233
Deemed dividend on Series C preferred stock issued	–	16
Deemed dividend on convertible debentures converted	–	726

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

September 30, 2014

(Unaudited)

Note 1 – General

NeoMedia Technologies, Inc. a Delaware corporation (the “Company,” “NeoMedia,” “we,” “us,” “our,” and similar terms), wa founded in 1989 and is headquartered in Boulder, Colorado. We have positioned ourselves to lead the development of 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 17, 2014. The results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. In addition, as we communicated in a Periodic Report on Form 8-K on July 29, 2014, we have restated certain of our financial statements by filing amendments to our previously filed Form 10-K for December 31, 2013 and the previously filed Form 10-Q for March 31, 2014. Please see the disclosure below entitled “Restatement to 2013 Interim Reporting and of the December 31, 2013 Balance Sheet” for further information as these changes in valuation methodology has affected our previously filed interim report on Form 10-Q for September 30, 2013.

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 income for the nine months ended September 30, 2014 was $2.5 million as compared to net income of $34.8 million for the same period in 2013. The operating results for the nine months ended September 30, 2014 included $2.6 million of net gains related to financing instruments, and the operating results for the same period in 2013 included $34.1 million of net gains related to financing instruments.

Net cash used in operations during the nine months ended September 30, 2014 was $333,000 as compared to net cash used in operations of $.5 million during the nine months ended September 30, 2013. As of September 30, 2014, we have an accumulated deficit of $234.4 million. We also have a working capital deficit of $37.9 million, including $35.8 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 may 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.

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 2014, there were 2,486,141 thousand 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.

Restatement to 2013 Interim Reporting – As noted above and disclosed initially in our Periodic Report on Form 8-K on July 29, 2014, during the three month period ended March 31, 2014, for fair value accounting of the derivative financial instruments and debentures payable, we reassessed the valuation techniques used to estimate the liability fair values. Based on the assessment, including discussions with the third-party valuation firm assisting us with the calculation, we determined that the valuation technique should be modified to consider the potentially dilutive impact on the stock price resulting from the issuance of additional shares of common stock upon the conversion of the instruments as well as the resulting value in comparison to our market capitalization.

We are restating the September 30, 2013 three month and nine month periods to reflect the change in valuation technique and correction of the fair value accounting of the derivative financial instruments and debentures payable. In addition, as filed on our Form 10-K/A on September 19, 2014, we also restated our December 31, 2013 Balance Sheet as it pertains to the Fair Value of our Warrants, Preferred Series C & D and Convertible Debentures to amounts as stated below from how they were reported as of December 31, 2013 in our 10-K (in thousands):

	December 31, 2013 (as previously reported)	Adjustments	December 31, 2013 (Restated)

Derivative Financial Instruments – warrants	$ 684	$ (64)	$ 620
Derivative Financial Instruments – Series C and D PS and DP	$ 23,606	$ (23,310)	$ 296
Debentures payable – carried at fair value	$ 257,451	$ (219,201)	$ 38,250
Total Liabilities	$ 284,576	$ (242,575)	$ 42,001
Accumulated Deficit	$ (479,485)	$ 242,575	$ (236,910)
Total shareholders' deficit	$ (284,435)	$ 242,575	$ (41,860)

The tables below reflect the changes in restating the derivative liabilities for the three months and nine months ended September 30, 2013:

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Derivative Liability Restatement for the 3 months ended September 30, 2013 (in thousands):

	3 Mos. September 30, 2013 (as previously reported)	Adjustments	3 Mos. September 30, 2013 (as Restated)
Gain (loss) from change in fair value of hybrid financial instruments	$ (24,165)	$ 28,660	$ 4,495
Gain (loss) from change in fair value of derivative liability – warrants	$ 92	$ (2)	$ 90
Gain (loss) from change in fair value of derivative liability – Series C & D	$ (2,620)	$ 2,651	$ 31
Net income (loss)	$ (26,200)	$ 31,309	$ 5,109
Net income (loss) available to shareholders	$ (26,245)	$ 31,309	$ 5,064
Comprehensive income (loss)	$ (26,200)	$ 31,309	$ 5,109

Derivative Liability Restatement for the 9 months ended September 30, 2013 (in thousands):

	9 Mos. September 30, 2013 (as previously reported)	Adjustments	9 Mos. September 30, 2013 (as Restated)
Gain (loss) from change in fair value of hybrid financial instruments	$ (46,959)	$ 75,508	$ 28,549
Gain (loss) from change in fair value of derivative liability – warrants	$ 3,503	$ 11	$ 3,514
Gain (loss) from change in fair value of derivative liability – Series C & D	$ (4,769)	$ 6,798	$ 2,029
Net income (loss)	$ (47,534)	$ 82,317	$ 34,783
Net income available to shareholders	$ (48,276)	$ 82,317	$ 34,041
Comprehensive income (loss)	$ (47,667)	$ 82,583	$ 34,916

Statement of Cash Flows for the 9 months ended September 30, 2013 (in thousands):

	9 Mos. September 30, 2013 (as previously reported)	Adjustments	9 Mos. September 30, 2013 (as Restated)
Net income (loss)	$ (47,534)	$ 82,317	$ 34,783
Gain (loss) from change in fair value of hybrid financial instruments	$ (46,959)	$ 75,508	$ 28,549
Gain (loss) from change in fair value of derivative liability – warrants	$ 3,503	$ 11	$ 3,514
Gain (loss) from change in fair value of derivative liability – Series C & D	$ (4,769)	$ 6,798	$ 2,029
Net cash used in operating activities	$ (536)	$ -	$ (536)

In addition to the change in valuation methodologies described above, and of the December 31, 2013 Balance Sheet, in connection with the completion of our third quarter 2013 and second quarter 2013 reporting, we identified certain errors associated with our second quarter 2013 interim reporting. We assessed the impact of these errors and concluded that the errors did not result in a material misstatement. To correct the errors, we have restated the nine months ended September 30, 2013 reporting as discussed below. Our assessment considered the guidance provided by ASC Topic 250, *Accounting Changes and Error Corrections* and ASC Topic 250-10-S99-1, *Assessing Materiality*. Based on our conclusion that the errors were not material individually or in aggregate to any of the prior reporting periods, we determined amendments to previously filed financial statement reports were not required in accordance with the applicable ASC guidance. We also concluded that the revisions applicable to prior periods should be reflected herein and will be reflected in future filings containing such information.

The condensed consolidated statements of operations for the nine months ended September 30, 2013 included a clerical error resulting in an understatement of general and administrative expenses of approximately $51,000. The reporting herein has been revised to reflect the proper amounts.

As discussed in Note 4 – Financing, we are limited to issuing shares of common stock in connection with preferred stock and debenture conversions at no less than par value. The methodology used to determine the number of common stock shares issued for debentures and preferred stock is based upon the market value received for the shares issued, and any short-fall between the par value of the shares issued and the market value of the shares is recorded as a deemed dividend. During the three and nine months ended September 30, 2013, the conversion of debentures and Series C Preferred Stock resulted in deemed dividends of $681,000 and $16,000, respectively, and the deemed dividend amounts were not reflected in the net loss available to common shareholders. The reporting herein has been revised to reflect the proper amounts.

The condensed consolidated statements of cash flows for the nine months ended September 30, 2013 overstated net cash used in operating activities and effect of exchange rate changes on cash by approximately $334,000. The reporting herein has been revised to reflect the proper amounts.

Merger and Reverse Stock Split – On May 11, 2014, the Company completed an Agreement and Plan of Merger (the “Merger Agreement”) with Qode Services Corporation (“Qode”), a wholly owned subsidiary of the Company. Under the terms of the Merger Agreement, Qode was merged into the Company and ceased to exist upon completion of the merger. The Company continued as the surviving corporation. Under the terms of the Merger Agreement, the Company’s charter was amended to provide for an increase in the amount of common stock authorized shares, and each share of the Company’s common stock issued and outstanding immediately prior to the merger continued to remain outstanding and remain unchanged, except that (i) the par value changed from $0.001 per share to no par value per share, and (ii) each fifteen shares of common stock issued and outstanding were combined and converted into 1 share of common stock (the “Reverse-Split”). The amount of authorized shares of common stock was also increased from 5 billion to 7.5 billion shares. Prior period amounts have been retroactively adjusted for the Reverse-Split in order to be comparable and conform to the current period presentation.

Extinguishment of Debenture Debt - In connection with the completion of the merger, the holder of the secured convertible debentures agreed to enter into amendments to decrease the aggregate face amount of debt by $5.0 million. The forgiveness of debt on the secured convertible debentures exceeded a significance threshold relative to cash flows prescribed by ASC Topic 470-50, *Debt Modifications and Extinguishments*. Accordingly, the modifications of the amounts due under these arrangements were accounted for as extinguishments, whereby the existing debentures were considered to be retired and new debentures issued. The fair value of the forgiven balance of $4.247 million was determined as of May 11, 2014 and recorded as a gain on extinguishment of debt in the condensed consolidated statements of operations. See Note 4 – Financings for additional discussion.

Basic and Diluted Net Income (Loss) Per Common Share – The components of basic and diluted income (loss) per share attributable to NeoMedia Technologies, Inc. common stock shareholders were as follows (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (restated)	2014	2013 (restated)
Numerator:				
Net income (loss) available to common shareholders	$(1,088)	$5,064	$2,500	$34,041
Effect of dilutive securities				
Hybrid financial instruments	-	261	-	24,314
Derivative liability - warrants	-	90	-	3,514
Derivative liability - Series C and D preferred stock and debentures	-	31	-	2,029
Numerator for diluted income (loss) per common share	$(1,088)	$5,446	$2,500	$63,898
Denominator:				
	1,357,349,653	4,984,827,279	810,443,147	3,823,483,604

Weighted average shares used to compute basic income (loss) per common share				
Effect of dilutive securities:				
Hybrid financial instruments	-	32,949,714	32,949,714	32,949,714
Derivative liability - warrants	-	2,083,292	2,083,292	2,083,292
Derivative liability - Series C and D preferred stock and debentures	-	3,398,694	3,398,694	3,398,694
Denominator for diluted income (loss) per common share	1,357,349,653	5,023,258,979	848,874,847	3,861,915,304
Basic income (loss) per common share	$ .00	$ 0.00	$ 0.00	$ 0.00
Diluted income (loss) per common share	$ .00	$ 0.00	$ 0.00	$ 0.00

***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 with an effective date after December 15, 2016 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

Accrued liabilities consist of the following as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(in thousands)	
Accrued operating expenses	$129	$ 112
Accrued payroll related expenses	74	65
Accrued legal fees	165	114
Total	$368	$ 291

Note 4 – Financing

At September 30, 2014, financial instruments arising from our financing transactions with YA Global Investments, L.P. ("YA Global"), an accredited investor, included shares of our Series C Convertible Preferred Stock issued in February 2006, Series D Convertible Preferred Stock issued in January 2010, a series of four 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.

On April 25, 2014, the Company entered into a Reaffirmation and Ratification Agreement with YA Global. Under the terms of the agreement, YA Global agreed to reduce the outstanding principal for certain of the Consolidated Debentures by $5.0 million. The reduction of principal resulted in debt extinguishment income of $4.247 million for the quarter ended June 30, 2014. The agreement also summarizes and affirms all principal amounts presently outstanding and owed by the Company to YA Global under all of the outstanding financing documents and debentures issued by the Company to YA (the “Financing Documents”). Pursuant to the agreement, the Company (i) ratified the terms of the Financing Documents and agreed that they remain in full force and effect, (ii) confirmed that the collateral rights granted to YA Global under the Financing Documents secure the obligations created thereunder, (iii) confirmed that the occurrence of an “event of default” under any of the Financing Documents would constitute an “event of default” under all of the Financing Documents, and (iv) agreed to execute and deliver to YA Global all such additional documents as reasonably required by YA Global to correct any document deficiencies, or to vest or perfect the Financing Documents and the collateral granted therein, and authorized YA Global to file any financing statements and take any other actions necessary to perfect YA Global’s security interests in any such collateral. As part of the $5 million debt reduction, the Debentures were reduced from six to three.

In addition, a secured debenture was issued on May 27, 2014 for $50,000 to YA Global. Interest is payable annually at 12%. The note is due May 15, 2016. The funds are being used for working capital.

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 October 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. 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. 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.

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 revise the conversion price to the lower of $2.00 or 90% of the lowest volume-weighted average price for 125 days prior to the conversion.

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, 2014:

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 Anti-Dilution Adjusted Price	%		Look-back Period
2006	$ 1,962	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2007	547	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2007	272	-		$2.00	$ 0.000090	95	%	125 Days
2008	1,106	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2008	830	-		$2.00	$ 0.000090	95	%	125 Days
2009	18	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2011	826	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2012	762	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2012	210	-		$2.00	$ 0.000090	95	%	125 Days
2013	22,084	9.5	%	$2.00	$ 0.000095	90	%	125 Days
2013	7,127	-		$2.00	$ 0.000090	95	%	125 Days
Total	$ 35,744							

We bifurcate the compound embedded derivatives related to the Series C and Series D Convertible 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 instrument and the related derivative 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. The trading market price of our common stock (and the conversion price) has been less than its par value from time to time. Until May 11, 2014 we were 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 being recorded as a deemed dividend.

Based upon the terms of the merger agreement effective May 11, 2014, the Company's shares of common stock have no par value. We are no longer limited to issuing shares of common stock at a price less than par value. The methodology used to issue the shares of common stock upon conversion of convertible debentures and preferred stock is based upon the value received for the shares of common stock issued. The value received is recorded as additional paid in capital and no deemed dividends are required to be recorded.

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

	Preferred shares issued	Preferred shares converted	Preferred shares remaining	Common shares Issued
	(in thousands)			
Series C Preferred Stock	22	18	4	852,048
Series D Preferred Stock	25	22	3	16,344

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The outstanding principal and accrued interest for the debentures as of September 30, 2014 is reflected in the following table in addition to the principal and interest converted since inception and the number of shares of common stock issued upon conversion.

	Outstanding principal and accrued interest at September 30, 2014	Principal and accrued interest converted since inception	Common Shares issued
	(in thousands)		
Debentures	$39,071	$ 12,389	1,891,961

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 Convertible 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 as reflected in the gain from change in fair value of derivative liabilities - warrants.

Effective May 2014, in connection with the merger and a concurrent reverse stock split of 1 to 15 as described in Note 2, the exercise price of the warrants increased to $0.0015 from $0.0001 per share. These changes resulted in a decrease in the value of the warrants of approximately $207,000 during the quarter ended September 30, 2014, as reflected in the gain from the change in fair value of derivative liabilities – warrants.

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.

Assumptions used in calculating the preferred share values as of September 30, 2014 included a remaining equivalent term of 1.09 years, annualized volatility of 205%, stated dividend of 8%, equivalent credit-risk adjusted rate of 13.0% and conversion price of $0.001261. Equivalent amounts reflect the net results of multiple modeling simulations that the Monte Carlo Simulation methodology applies to underlying assumptions. During the three months ended March 31, 2014, we modified the valuation technique to consider the potentially dilutive impact on the stock price resulting from the issuance of additional common shares upon the conversion of the preferred shares and convertible debentures.

The following table reflects the face value of the instruments 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, 2014 and December 31, 2013.

September 30, 2014

	Face Value	Carrying Value	Embedded Conversion Feature	Common Stock Shares
	(in thousands)			
Series C Preferred Stock	$4,357	$ 4,357	$ 21	44,917,526
Series D Preferred Stock	348	348	2	3,588,660
Total	$4,705	$ 4,705	$ 23	48,506,186

December 31, 2013

	Face Value	Carrying Value	Embedded Conversion Feature (Restated)	Common Stock Shares
	(in thousands)			
Series C Preferred Stock	$4,816	$ 4,816	$ 276	24,823,015
Series D Preferred Stock	348	348	20	1,794,330
Total	$5,164	$ 5,164	$ 296	26,617,345

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, 2014 and December 31, 2013 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 Gain (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.

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,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(in thousands)		(in thousands)	
Series C Preferred Stock	$ 27	$ 29	$ 255	$ 1,907
Series D Preferred Stock	2	2	18	138
Debentures:				
2006	–	–	–	(16)
Gain (loss) from change in fair value of derivative liability	$ 29	$ 31	$ 273	$ 2,029

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. 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 the lower amount.

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, 2014 included: (i) present value of future cash flows for the debentures using an effective market interest rate of 13.0%, (ii) remaining term of 1.09 years, (iii) annualized volatility of 205%, and (iv) anti-dilution adjusted conversion prices ranging from $0.001170-$0.001235. We also modified the valuation technique to consider the potentially dilutive impact on the stock price from the issuance of common shares upon the conversion of the debentures during the first quarter of 2014.

The following table reflects the face value of the financial instruments, the fair value of the hybrid financial instrument and the number of shares of common stock into which the instruments are convertible as of September 30, 2014 and December 31, 2013.

September 30, 2014	Face Value (in thousands)	Fair Value	Common Stock Shares
Debentures:			
2006	$1,962	$1,995	22,923,200
2007	819	971	11,169,826
2008	1,936	1,884	22,189,724
2009	18	56	599,497
2011	826	817	9,401,222
2012	972	1,068	12,308,528
2013	29,211	28,997	337,653,494
Total	$35,744	$35,788	416,245,491

December 31, 2013	Face Value	Fair Value (Restated)	Common Stock Shares
	(in thousands)		
Debentures:			
2006	$1,962	$ 2,008	819,019
2007	839	533	216,720
2008	2,047	1,905	779,294
2009	134	151	61,563
2011	852	854	348,437
2012	972	1,392	568,305
2013	34,211	31,407	12,826,301
Total	$41,017	$ 38,250	15,619,639

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 September 30,		Nine months ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(in thousands)		(in thousands)	
2006	$ (83)	$ 1,048	$ (144)	$ 6,657
2007	(35)	1,083	(49)	6,878
2008	(82)	1,309	(140)	8,315
2009	(1)	253	(6)	1,605
2010	-	-	-	-
2011	(35)	496	(61)	3,150
2012	(41)	117	(86)	742
2013	(1,092)	189	(2,056)	1,202
Gain (loss) from changes in fair value of hybrid instruments	$ (1,369)	$ 4,495	$ (2,542)	$ 28,549

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

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	Expiration Year	September 30, 2014 Anti-Dilution Adjusted Exercise Price	Warrants	Fair Value	December 31, 2013 Anti-Dilution Adjusted Exercise Price	Warrants	Fair **Value** (Restated)
		(in thousands)				(in thousands)	
Warrants issued with preferred stock:							
Series D Preferred Stock	2017	0.001500	5,825	$ 0.29	0.00010	87,368	$ 110
Warrants issued with debentures:							
2008	2015	0.001500	15,872	0.79	0.00010	238,079	294
2010	2015	0.001500	5,423	0.27	0.00010	81,350	101
2011	2016	0.001500	3,883	0.19	0.00010	58,246	72
2012	2017	0.001500	2,330	0.12	0.00010	34,947	43
Total			33,333	$ 2		499,990	$ 620

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, 2014 included an expected life equal to the remaining term of the warrants, an expected dividend yield of zero, estimated volatility ranging from 175% to 212%, and risk-free rates of return ranging from 0.10% to 0.90%. 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 May 1, 2014, the exercise price of the warrants is currently $.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) loss 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, 2014	2013 (Restated)	Nine months ended September 30, 2014	2013 (Restated)
	(in thousands)		(in thousands)	

Warrants issued with preferred stock:				
Series D Convertible Preferred Stock	$ 7	$ 16	$108	$ 614
Warrants issued with debentures:				
2008	18	43	294	1,673
2010	6	15	101	572
2011	4	10	72	409
2012	3	6	43	246
Gain from change in fair value of derivative liability – warrants	$ 38	$ 90	$618	$ 3,514

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, 2014:

	Compound Embedded Derivatives	Warrant Derivatives	Hybrid Instruments	Total
Beginning balance, December 31, 2013 (restated):	$ 296	$ 620	$ 38,250	$39,166
Fair value adjustments:				
Compound embedded derivatives	(273)	-	-	(273)
Warrant derivatives	-	(618)	-	(618)
Hybrid instruments	-	-	2,542	2,542
Debt Extinguishment			(4,247)	(4,247)
Conversions:				
Series D Preferred Stock	(1)	-	-	(1)
August 24, 2006 financing	-	-	(195)	(195)
December 29, 2006 financing	-	-	(61)	(61)
March 27, 2007 financing	-	-	(97)	(97)
October 28, 2008 financing	-	-	(148)	(148)
August 14, 2009 financing	-	-	(133)	(133)
February 8, 2011 financing	-	-	(35)	(35)
March 11, 2011 financing	-	-	(11)	(11)
April 13, 2011 financing	-	-	(3)	(3)
May 31, 2011 financing	-	-	(1)	(1)
June 28, 2011 financing	-	-	(3)	(3)
December 8, 2011 financing			(30)	(30)
July 1, 2013 financing			(40)	(40)
Ending balance, September 30, 2014	$ 22	$ 2	$ 35,788	$35,812

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.

Secured Debentures - NeoMedia issued a series of 5 Secured Debentures during the quarter ended September 30, 2014 to YA Global Investments, LP. The total amount of the 5 debentures was $242,000 and each has a maturity date 24 months from the issue date. Interest rate is 12% per annum with interest payable on an annual basis. The debentures are collateralized in accordance with the Security Agreement dated May 27, 2010 with YA Global Investments, LP. These secured debentures are considered a line of credit by us as we may borrow against the debentures, repay, and then borrow against the debentures again subject to the usual terms and conditions.

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 – Stock-Based Compensation

The status of our outstanding, vested and exercisable options during the nine months ended September 30, 2014 is as follows:

	Shares (in thousands)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted-Average Contractual Life Remaining in Years
Outstanding at December 31, 2013	1,173	$ 0.017	-	

Outstanding at September 30, 2014	1,173	$ 0.017	$ -	6.9
Exercisable at September 30, 2014	1,006	$ 0.018	$ -	6.8

There have been no options issued for the three and nine month periods ending September 30, 2014.

The following table summarizes information about our stock options outstanding at September 30, 2014:

Options Outstanding				Options Exercisable	
Exercise Prices	Number of Shares	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
	(in thousands)	(in years)		(in thousands)	
$0.008	200	7.9	$ 0.008	90	$ 0.008
$0.014 to $0.03	884	6.8	0.015	862	0.015
$0.050	89	6.4	0.047	89	0.047
	1,173	6.9	$ 0.017	1,041	$ 0.017

Note 7 – Geographic Information

Revenue, classified by geographic location from which the revenue was originated, was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
United States	$ 1,002	$ 1,551	$ 2,659	$ 3,806
Germany	-	51	-	65
Total revenue	$ 1,002	$ 1,602	$ 2,659	$ 3,871

There were approximately $29,000 and $142,000 of total assets located in Germany as of September 30, 2014 and December 31, 2013, respectively. All other assets were located in the United States.

Note 8- Subsequent Events

The Company evaluated subsequent events through October 20, 2014, the date which the financial statements were available to be issued. Except as disclosed below there were no additional subsequent events.

- 10,000 shares of Series C preferred stock were converted into 103,092,783 shares of common stock during the 4th quarter as of October 20, 2014.

- $48,211 of convertible debentures were converted into 532,872,922 shares of common stock during the 4th quarter as of October 20, 2014.

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 full 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. During the third quarter of 2014, we closed twenty-two (22) new IP agreements bringing the total quantity of deals closed to over eighty (80). In addition, dozens of companies have retained NeoMedia for its QR creation and management services, as a result of our licensing activities.

On the product side of our business, our barcode solutions include our barcode reader (NeoReader and NeoReader SDK) as well as our barcode creation 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 strong and consistent in its approach to 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 continues to be pre-installed on Sony Mobile devices and is available for download from the key "app stores" including Apple App

Store™, Google Play™, Nokia Ovi Store, BlackBerry App World™, Windows® Marketplace, Facebook and Amazon. Our barcode reader has approximately 50+ 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.

In 2013, we launched QodeScan, our low cost self-service barcode creation product. QodeScan is for those users who don't have high scan volumes but would like the insight into analytics that a managed service provides. In addition to QodeScan, we continue to offer our NeoSphere product intended for enterprises, agencies and other large volume users. We have many Fortune 500 brands using our NeoSphere product in their global barcode operations. Our QR creation services utilize an indirect methodology for our customers, which is also embodied in our intellectual property.

As discussed in Footnote 2, we have restated certain of our financial statements by filing amendments to our previously filed Form 10-K for December 31, 2013 (and interim periodic reports on Form 10-Q within 2013) and our previously filed 10-Q for March 31, 2014.

Results of Operations

Income (Loss) 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	
	2014	2013	2014	2013
Revenues	$ 1,002	$ 1,602	$ 2,659	$ 3,871
Cost of revenues	(193)	(300)	(438)	(600)
Gross profit	809	1,302	2,221	3,271
Sales and marketing expenses	(22)	(16)	(77)	(124)
General and administrative expenses	(493)	(723)	(1,838)	(2,245)
Research and development costs	(80)	(123)	(402)	(507)
Other Operating Income	-	-	-	227
Income (loss) from operations	$ 214	$ 440	$ (96)	$ 622

Revenue. Revenues for the three months ended September 30, 2014 and 2013 were $1,002,000 and $1,602,000, respectively, a decrease of $600,000, or 37%. Revenues for the nine months ended September 30, 2014 and 2013 were $2,659,000 and $3,871,000, respectively, a decrease of $1,212,000, or 31%. The decrease in revenue is primarily attributed to the decrease in total deal size which is reducing given some commoditization of services in the QR industry.

Cost of Revenues. Cost of revenues was $193,000 for the three months ended September 30, 2014 compared with $300,000 for the three months ended September 30, 2013, a decrease of $107,000, or 36%. Cost of revenues was $438,000 million for the nine months ended September 30, 2014 compared with $600,000 for the nine months ended September 30, 2013, a decrease of $162,000, or 27%. Cost of revenues relate to third-party professional fees incurred in connection with the sale of our IP licenses. The decrease in costs are due to the corresponding decrease in IP licensing revenues.

Sales and Marketing. Sales and marketing expenses were $22,000 and $16,000 for the three months ended September 30, 2014 and 2013, respectively, an increase of $6,000, or 37%. Sales and marketing expenses were $77,000 and

$124,000 for the nine months ended September 30, 2014 and 2013, respectively, a decrease of $47,000 or 38%. The decrease in sales and marketing expenses related to our participation at industry events. We expect sales and marketing expenses will stay at current 2014 levels.

General and Administrative. General and administrative expenses were $493,000 and $723,000 for the three months ended September 30, 2014 and 2013, respectively, an increase of $230,000, or 32%. General and administrative expenses were $1,838,000 and $2,245,000 for the nine months ended September 30, 2014 and 2013, respectively, a decrease of $407,000 or 18%. General and administrative expenses decreased during the second quarter of 2014 due to reduced legal fees associated with litigation activities.

Research and Development. Research and development expenses were $80,000 and $123,000 for the three months ended September 30, 2014 and 2013, respectively, a decrease of $43,000, or 35%. Research and development expenses were $402,000 and $507,000 million for the nine months ended September 30, 2014 and 2013, respectively, a decrease of $105,000 or 21%. Research and development expenses decreased due to cost containment efforts and reduction in customized software projects.

Other Income (Expenses)

As discussed in Footnote 2, we have restated certain of our financial statements by filing amendments to our previously filed Form 10-K for December 31, 2013 (and interim periodic reports on Form 10-Q within 2013) and our previously filed Form 10-Q for March 31, 2014. The following table sets forth certain data derived from our condensed consolidated statements of operations and reflect the restatements as indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
Gain(loss) from change in fair value of hybrid financial instruments	$ (1,369)	$ 4,495	$ (2,542)	$ 28,549
Gain from change in fair value of derivative liability - warrants	38	90	618	3,514
Gain (loss) from change in fair value of derivative liability - Series C and D preferred stock and debentures	29	31	273	2,029
Interest income	-	-	-	16
Gain on extinguishment of debt	-	53	4,247	53
Total other income	$ (1,302)	$ 4,669	$ 2,596	$ 34,161

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.

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, 2014 and 2013, the liability related to these hybrid instruments fluctuated, resulting in a loss of $1,369,000 million and a gain of $4,495,000, respectively. For the nine months ended September 30, 2014 and 2013, the liability related to these hybrid instruments fluctuated, resulting in a loss of $2,542,000 million and a gain of $28,549,000, 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, 2014 and 2013, the liability related to these instruments fluctuated, resulting in gains of $38,000 and $90,000, respectively. For the nine months ended September 30, 2014 and 2013, the liability related to warrants fluctuated resulting in gains of $618,000 million and $3,514,000, 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, 2014 and 2013, the liability related to these hybrid instruments fluctuated, resulting in a gain of $29,000 and a gain of $21,000, respectively. For the nine months ended September 30, 2014 and 2013, the liability related to the derivative instruments embedded in the Series C and D Preferred Stock and these debentures fluctuated, resulting in a gain of $273,000 and a gain of $2,019,000, respectively.

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.

Liquidity and Capital Resources

As of September 30, 2014, we had $170,000 in cash and cash equivalents compared with $267,000 as of December 31, 2013. Cash used in operating activities was $333,000 for the nine months ended September 30, 2014 compared with $536,000 used in operations for the nine months ended September 30, 2013. The improvement in cash flows from operations is primarily due to reduced operating expenses.

Payments on short-term notes payable within cash flows from financing activities reflects disbursements for opportunistic low interest rate borrowings that occurred in 2013 and 2014 in order to pay annual insurance premiums.

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 income for the nine months ended September 30, 2014 was $2.5 million as compared to net income of $34.8 million for the same period in 2013. The operating results for the nine months ended September 30, 2014 included $2.6 million of net gains related to financing instruments, and the operating results for the same period in 2013 included $34.1 million of net gains related to financing instruments.

Net cash used in operations during the nine months ended September 30, 2014 was $333,000 as compared to net cash used in operations of $.5 million during the nine months ended September 30, 2013. As of September 30, 2014, we have an accumulated deficit of $234.4 million. We also have a working capital deficit of $37.9 million, including $35.8 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 may 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, respond to competitive pressures or curtail our business operations, any of which 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 shares of common stock outstanding. During the first nine months of 2014, there were 2,486,141 thousand 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.

Sources of Cash and Projected Cash Requirements. As of September 30, 2014, our cash balance was $170,000. The Company's past financing agreements with YA Global have certain ramifications 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, 2013, as updated by Note 2 to the Unaudited Condensed Consolidated Financial Statements included herein, 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, 2013, 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

Based on management's evaluation, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, were deemed not effective based upon valuation revisions required in our 2013 filings in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

On July 25, 2014, management concluded, after consultation with the Audit Committee and external auditors that the Company had not properly assessed the underlying assumptions in its fair value accounting. This required us to restate our previously issued consolidated financial statements for the year ended December 31, 2013 and the quarters ended March 31, 2013, June 30, 2013, September 30, 2013 and March 31, 2014.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In conjunction with the matter described above, management has re-evaluated its previously provided assessments as of March 31, 2013, June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014 regarding the effectiveness of the Company’s disclosure controls and procedures and determined that as of these periods, the disclosure controls and procedures were properly designed to detect a material misstatement of its financial statements from occurring in the future. However, the disclosure control was not effective.

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. 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 impact on our financial position or operating results. In addition to the normal course of business we are engaged in the litigation described below:

Scanbuy v. NeoMedia

On March 21, 2014, Scanbuy, Inc. ("Scanbuy") filed a complaint in the Delaware Court of Chancery alleging, among other claims, that NeoMedia violated the Delaware Deceptive Trade Practices Act, 6 Del. C. § 2532(8), by sending letters to certain of Scanbuy's customers, which state that the use of NeoMedia's technology by Scanbuy and its customers constitutes patent infringement. On April 14, 2014, NeoMedia filed a motion to dismiss the complaint on the grounds that venue is improper in Delaware pursuant to a Settlement and License Agreement entered into by NeoMedia and Scanbuy on October 16, 2009. On October 31, 2014, the Court of Chancery granted NeoMedia's motion and dismissed Scanbuy's complaint without prejudice.

NeoMedia v. Scanbuy

On May 7, 2014, the Company filed a lawsuit against Scanbuy, Inc. in the U.S. District Court for the Northern District of Georgia, Atlanta Division, styled as NeoMedia Technologies, Inc. v. Scanbuy, Inc., Civil Action No. 1:14-cv-01379-AT (the "Scanbuy Georgia Litigation"). NeoMedia's Complaint alleged infringement of NeoMedia's U.S.

Patents Numbers 6,199,048 (the " '048 Patent") and 8,131,597 (the " '597 Patent") and violations of the Section 43(a) of the Lanham Act. On June 19, 2014, the Company filed an Amended Complaint against Scanbuy, which asserted the same causes of action as in the original Complaint. On June 3, 2014, Scanbuy responded to NeoMedia's Amended Complaint by filing an Answer and Counterclaims against the Company and a motion to dismiss the Company's Lanham Act claims. Scanbuy's Counterclaims against the Company allege, among other claims, claims for breach of non-disclosure agreement and for declaratory judgments that NeoMedia's '048 and '597 Patents are not infringed and are invalid. Scanbuy also filed motions requesting the court to transfer the Scanbuy Georgia Litigation to the U.S. District Court for the Southern District of New York. On October 31, 2014, Scanbuy's motion to dismiss NeoMedia's Lanham Act claims was denied as moot as the Court denied Scanbuy's motions to transfer and NeoMedia's motion to strike Scanbuy's second motion to transfer. Neomedia's Amended Complaint and Scanbuy's Counterclaims remain pending before the court in Atlanta.

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		SB-2	3.15	11/25/1996

	creating preferred stock				
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
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, 2013 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: November 5, 2014 */s/ Laura A. Marriott*
Laura A. Marriott, Chief Executive Officer and Principal Executive Officer

Dated: November 5, 2014 */s/ Colonel Barry S. Baer*
Colonel (Ret.) Barry S. Baer, Chief Financial Officer and Principal Financial and Accounting Officer