NEOMEDIA TECHNOLOGIES INC
Form 10-K
March 17, 2014

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

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 :** For the Fiscal Year Ended December 31, 2013

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

Commission File Number 000-21743

NeoMedia Technologies, Inc.
(Exact name of registrant 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, CO 80302
(Address, including zip code, of principal executive offices)

303-546-7946
(Registrants' telephone number, including area code)

Securities Registered Under Section 12(b) of the Act:	**None**
Name of exchange on which registered:	**None Quoted on the OTC Markets (OTCQB)**
Securities registered pursuant to Section 12(g) of the Act:	**Common Stock, $0.001 par value per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2013 was $2,945,890 based on the closing sale price for the registrant’s common stock as quoted on the OTC Markets. The number of outstanding shares of the registrant’s common stock on March 10, 2014 was 4,984,827,279.

Documents Incorporated By Reference: **None**

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NOTE ABOUT FORWARD LOOKING STATEMENTS

The information in this Annual Report on Form 10-K (this "Report") contains "forward looking statements" and information within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which may be subject to the "safe harbor" created by those sections. These forward looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," " "will," "would" and similar expressions are intended to identify forward looking statements, although not all forward looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward looking statements and you should not place undue reliance on our forward looking statements. These forward looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward looking statements, including, without limitation, the risks set forth in Part I, Item 1A, Risk Factors in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission ("SEC"). Except as required by law, we assume no obligation to update these forward looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future.

As used herein, "NeoMedia," "Company," "we," "us," "our," and similar terms include NeoMedia Technologies, Inc. Delaware corporation, and its subsidiaries unless the context indicates otherwise.

PART I

ITEM 1. Business

Overview

NeoMedia, a Delaware corporation, was founded in 1989 and is headquartered in Boulder, Colorado. We have positioned ourselves to lead the development of 2D mobile barcode technology and infrastructure 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 technology solutions. With this technology, mobile devices with cameras become barcode scanners, and this enables a range of practical applications including mobile marketing and mobile commerce. In addition, we offer licensing of our extensive intellectual property portfolio.

Products and Services

We provide a complete suite of mobile barcode solutions to customers around the globe.

2D Core Our 2D Core products include NeoReader®, our barcode scanning application which is installed on mobile devices, NeoSphere , our enterprise grade barcode management solution, and QodeScan , our self service barcode management solution for small and medium businesses. We offer these services directly to clients as well as offer API and Software Development Kit ("SDK") versions of these solutions for inclusion in enterprise solutions.

- NeoReader a barcode scanning application that transforms mobile devices into universal barcode readers, allowing users to scan all major barcode types, including QR, Datamatrix, Aztec, EAN, UPC, PDF417, Code 39, Code 128 and more. Users simply launch the NeoReader application on their mobile device, scan the barcode and are quickly linked either directly or indirectly through a resolution server to specific content. From there, the consumer can access real-time product or service information, download content, send a SMS, make a phone call, or complete a mobile commerce transaction. There is also a SDK available for NeoReader that allows the integration of

NeoReader functionality into enterprise implementations.

- NeoSphere and QodeScan web-based solutions that support barcode creation and management and allow users (typically agencies, retailers and brands) to quickly develop, launch and manage a mobile barcode campaign by delivering three critical components:

- o Barcode creation tools
- o Campaign management tools
- o Reporting and analytics

We believe that NeoSphere and QodeScan afford marketers the ability to better monetize their marketing initiatives, providing the tools to effectively manage their barcode-based campaigns.

Solutions Our value-added solutions enable full end-to-end mobile solutions allowing marketers and advertisers to deliver a highly targeted and personalized consumer experience from start to finish. These include:

- · Consulting Services clients are able to leverage our expertise and deep knowledge of the mobile barcode market to enhance the effectiveness of their mobile campaigns or even, have NeoMedia manage their QR campaigns from end-to-end.
- · Partner Solutions we maintain partnerships with other mobile marketing organizations that allow us to incorporate additional solutions into our existing portfolio, including:
  - o Mobile websites creation of mobile-optimized web pages to ensure a consistent consumer experience, making brand engagement easy and enjoyable.
  - o Applications creation of applications for iPhone and Android environments.

IP Licensing We have a robust IP portfolio crossing many barcode implementations and are willing to license our patents to all in the ecosystem.

SALES AND MARKETING RELATIONSHIPS

We have worked to establish a network of direct salespeople as well as an indirect channel of resellers and business development personnel to market our products and services. We are focusing our sales activities primarily in the United States and Europe and are expanding our business development activities, through partnerships, to other markets.

Proprietary Technology

Many of the products we sell to our customers rely on hardware and software technologies provided to us by third parties under license. Certain of our products and services combine these third party technologies with technologies that are proprietary to us. Our proprietary technology may be protected by patent law, copyright law, trade secret law and other forms of intellectual property protection. Our proprietary technology includes technologies that enable us to automate a number of back-end functions and technologies that allow customers to order, change and manage their accounts easily without technical expertise. Some of our proprietary technologies are unique and may not be legally utilized without a license from us. Although we believe that our suite of proprietary technologies offer customers significant benefits, we do not believe that our proprietary technologies are sufficient to deter competitors from providing competing products and services.

Competition

We believe that we have positioned ourselves to compete as one of the leaders in the mobile barcode ecosystem. Our research indicates that the mobile barcode space is highly fragmented and there are a large number of providers

offering similar solutions globally. Moreover, we believe we are well positioned due to our intellectual property, including many patents, on which our products and services are based. We expect that our intellectual property will serve as a competitive advantage as this market continues to mature.

Notwithstanding the foregoing, our market is highly competitive and characterized by an increasing number of entrants that have introduced or developed products and services similar to those we offer. We believe that competition will continue to intensify and increase in the near future. Our target market is rapidly evolving and is subject to continuous technological change. As a result, our competitors may be better positioned to address these developments or may react more favorably to these changes, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Intellectual Property

We rely on a combination of laws (including patent, copyright, trademark, service mark and trade secret laws) and contractual restrictions to establish and protect our proprietary rights. As of December 31, 2013, we owned a large number of patents (both awarded and pending) across both NeoMedia Technologies and NeoMedia Europe GmbH. Our patents include IP in a number of different patent families and cover core concepts linking the physical world to the electronic world many of which form the foundation for the mobile barcode ecosystem.

During 2013, we established licensing agreements with over 25 companies including Skechers USA, Inc., The Kroger Co., The Wendy's Company and more. We are in discussions with other companies with regard to the licensing of our patents and our technology platforms. However, there can be no guarantee that any of these discussions will result in future revenues.

We have an ongoing relationship with Global IP Law Group ("Global IP") for our intellectual property monetization and enforcement activities. Global IP assists us in seeking out potential licensees of our intellectual property portfolio and assists us in enforcing our patent rights, if required.

We have entered into confidentiality and other agreements with our employees and contractors, including agreements in which the employees and contractors assign their rights in inventions to us. We have also entered into nondisclosure agreements with our suppliers, distributors and some customers in order to limit access to and disclosure of our proprietary information. Intellectual property laws, contractual arrangements, and the other steps we have taken to protect our intellectual property will assist in preventing others from infringing on our technologies or developing similar technologies.

We license, or lease from others, technologies which may be used in our services. We expect that we and our customers could be subject to third-party infringement claims as the number of competitors grows. Although we do not believe that our technologies or services infringe the proprietary rights of any third parties, we cannot ensure that third parties will not assert claims against us in the future or that these claims will not be successful.

We may be subject to claims that the technology we have used in our operations have infringed upon intellectual property rights held by others. We will evaluate all such claims and, if necessary and appropriate, seek to obtain licenses for the use of such technology. If we or our suppliers are unable to obtain licenses necessary to use intellectual property in our operations, we may be legally liable to the owner of such intellectual property. Moreover, even in those instances in which we are justified in denying claims that we have infringed upon the intellectual property rights of others, we may nonetheless be forced to defend or settle legal actions taken against us relating to allegedly protected technology, and such legal actions may require us to expend substantial funds. See Item 1A Risk Factors for additional discussion of these risks.

Government Regulation

Existing or future legislation could limit the growth or use of the internet, mobile telecommunications and/or mobile advertising, which would curtail our revenue growth. Statutes and regulations directly applicable to internet communications, mobile commerce and mobile advertising are becoming more prevalent and we anticipate there will

be activity to determine how new and existing laws governing intellectual property, privacy, libel and taxation apply to mobile marketing and advertising.

Some of our proprietary technology allows the storage of non-specific demographic data from users. NeoMedia maintains current privacy policies and End User License Agreements which can be accessed from our website at http://www.neom.com/privacy and http://www.neom.com/EULA which we believe are current with all best practices and guidelines in the United States.

Personnel

As of December 31, 2013, we had 18 personnel, including 5 in our office in Würsulen, Germany. We believe that our personnel relations are good. None of our personnel are represented by a labor union or bound by a collective bargaining agreement.

Management Changes

On January 3, 2012, the Board appointed James A. Doran as Chief Financial Officer and Corporate Secretary. On February 8, 2012, Mr. Doran resigned from his position as Chief Financial Officer and Corporate Secretary of the Company.

On January 31, 2012, the Company finalized the removal process (that commenced on January 11, 2012) of Dr. Christian Steinborn from the position of Managing Director of NeoMedia Europe GmbH. Ms. Laura Marriott, our Chief Executive Officer, was appointed as the Managing Director of NeoMedia Europe GmbH.

On February 10, 2012, Colonel (Ret.) Barry S. Baer was appointed by the Board as Chief Financial Officer and Corporate Secretary of the Company.

On August 27, 2012, Jeff Huitt was appointed as Chief Financial Officer by the Board and Colonel Baer continued as Corporate Secretary. On November 4, 2012, Colonel Baer was appointed as Treasurer of the Company.

On March 26, 2013, the Board appointed Colonel Baer as Chief Financial Officer to replace Mr. Huitt.

Research and Development

We have incurred approximately $0.7 million and $1.0 million in research and development expenses during the years ended December 31, 2013 and 2012, respectively.

ITEM 1A. Risk Factors

You should carefully consider the following factors and all other information contained in this Report before you make any investment decisions with respect to our securities.

Risks Related to Our Business

We may be unable to continue as a going concern based on our historical performance, which has included losses, an accumulated deficit, and a working capital deficit. We may continue to generate losses and be unable to service our outstanding liabilities in the future.

We have historically incurred operating losses and may continue to do so in the future. We must develop new customer relationships and substantially increase our revenue derived from products, services and IP licensing. We have expended and intend to continue to expend resources to develop, improve and to market our products and services. A number of factors could increase our operating expenses, such as: adapting infrastructure and administrative resources to accommodate additional customers and future growth; developing products, distribution, marketing, and management for the broadest possible market; broadening customer technical support capabilities; developing additional indirect distribution partners; and, incurring legal fees and settlements associated with litigation and contingencies. To the extent that operating expenses are not offset by increases in revenues, we could incur operating losses and negative free cash flow.

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There can be no assurance that our efforts to execute our business plan will be successful. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which contemplate our continuation as a going concern. Our net loss for the year ended December 31, 2013 and 2012 was $214.1 million and $19.4 million, respectively, including $215.8 million and $21.7 million, respectively, of net losses related to our financing instruments. Our operating income was $1.0 million for 2013 as compared to an operating loss in 2012 of $5.5 million. Net cash used by operations during 2013 and 2012 was $0.4 million and $1.5 million, respectively. As of December 31, 2013, we have an accumulated deficit of $479.5 million. We also have a working capital deficit of $283.9 million, including $281.7 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 12 months if we are unable to generate sufficient cash flows from operations. Our plan is to develop new 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; however, we believe that our revenues will reach such level and such additional financing will not be necessary. If additional financing is required, we cannot predict whether this additional financing will be in the form of equity, debt, or another form, and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In the event that 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.

In February 2014 as described in Note 11 Subsequent Events, we initiated a merger with the intention to increase the quantity of authorized shares of common stock available for issuance to satisfy the conversion rights under certain outstanding convertible securities and avoid an event of default. We can provide no assurance that the additional quantity of authorized shares will be sufficient to satisfy all future conversions of the outstanding convertible securities. If we have insufficient authorized shares in the future due to security conversions or otherwise and are unable to respond to requests for conversion, we may be subject to an event of default under the terms of such instruments.

Our management and Board may be unable to execute their plans to grow our revenues and achieve continued profitability and positive cash flows, which could cause us to discontinue our operations. The risk associated with a possible discontinuance of the business could prevent us from attracting or retaining key personnel, which would have a material adverse effect on our business.

If our management and Board are unable to maintain and execute our plans, then we may fail to grow our revenues, manage costs and achieve continued profitability and positive cash flows, which may cause us to discontinue our operations. The risks associated with the possible discontinuance of the business could further prevent us from attracting and retaining management and staff, which would have a material adverse effect on our business.

All of our assets are pledged to secure certain debt obligations. If we fail to repay and/or otherwise satisfy the debt obligations, our assets could be seized and liquidated for the benefit of the debt holders.

The convertible debentures that were initially issued to YA Global are secured by all of our assets. The secured convertible debentures mature on August 1, 2015. In the event we are unable to repay and/or otherwise satisfy the secured convertible debentures in accordance with the related agreements, our assets could be seized and liquidated for the benefit of the debt holders and result in the discontinuance of our business.

Our future profitability depends on the timely introduction of new and updated products and the acceptance of these new and updated products in the marketplace.

Rapid technological change and market development are typical for the industries we serve. Our future revenue and profitability will depend in large part on timely development and introduction of new and upgraded products that address evolving market requirements. If we fail to effectively launch new and innovative products or allow our current product offerings to become stale in our advancing industry, we may lose market share to our competitors. Any inability, for technological or other reasons, to successfully grow and upgrade our product portfolio could materially adversely affect our business.

Existing shareholders will experience significant dilution when certain investors, such as YA Global, convert their preferred stock to common stock, convert convertible debentures to common stock, or when the investors exercise their warrants for common stock.

The issuance of shares of common stock pursuant to the conversion of our Series C and D convertible preferred stock, the conversion of convertible debentures to common stock, or the exercise of warrants could result in a significant increase in the outstanding shares of common stock and will have a material dilutive impact on our shareholders. Additionally, our net earnings per share would decrease and the market price of our common stock per share would decline.

Our common stock is deemed to be "penny stock" which may make it more difficult for investors to sell their shares due to suitability requirements.

Our common stock is deemed to be "penny stock" as defined in Rule 3a51-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Certain requirements regarding penny stocks may reduce the potential market for our common stock by reducing the number of potential investors. The penny stock designation could make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

Broker-dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker-dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements reduce the potential market of investors in our stock and could cause the stock price to decline. The potential market for "penny stocks" is further reduced by a Deposit Trust Company ("DTC") "chill", which prevents trading from occurring on the electronic trading system as further described below.

The DTC placed a "chill" on deposits of the Company's common stock, which may negatively impact an investor's ability to trade in our common shares.

In November 2011, the DTC placed a "chill" on deposits of our common stock and is not clearing or settling trades in our common stock through its electronic trading system. The "chill" does not affect our normal business operations. However, shareholders with internet brokerage accounts may not be able to trade in our common shares because the internet brokers clear and settle trades through the DTC. We believe the "chill" may limit the ability of potential investors from purchasing our shares.

Due to the accounting treatment of the convertible preferred stock, warrants and convertible debenture instruments issued by us, our net income or loss may not be reflective of our operating performance and could have a material adverse impact on our market value.

During the years ended December 31, 2013 and 2012, we reported net losses of $214.1 million and $19.4 million respectively. The net losses resulted primarily from non-cash losses arising from the adjustment to value our derivative and debenture liabilities at fair value. The loss adjustments are primarily due to modifications to the terms of the convertible debentures including the extension of the maturity date to August 2015. We adjust the value of these liabilities to reflect the estimated fair value at each balance sheet date. As a result, we could experience significant fluctuations in our reported net income or losses in future periods from financing related gains or losses incurred to record the liabilities at fair value. The financing related gains and losses incurred to record the liabilities at fair value have historically been significant and have resulted in net losses that are not reflective of the Company's operating performance as reporting in operating income or loss. The complexity associated the fair value calculations and sophistication required by investors to distinguish and understand our operating performance relative to the reported net income and losses may cause our financial statements to be difficult to comprehend, analyze, and assess.

As a result, the potential investor market for our common stock could be reduced resulting in a material adverse impact on our market value.

A majority of our assets are intangible assets, which will have little or no value if our operations do not generate current or future cash flow.

At December 31, 2013, a majority of our total assets were intangible assets, consisting primarily of rights related to our patents, other intellectual property, and goodwill arising from the excess of the purchase price over the fair value of tangible assets acquired in our purchase of NeoMedia Europe GmbH. If our results of operations do not generate sufficient cash flows in the future, the assets will have little or no value, which could lead to us recognizing impairment losses for such assets. This could materially adversely affect the value of our stock and the ability of our shareholders to recoup their investments in our stock.

We review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We test goodwill for impairment annually or when events or changes in circumstances may warrant. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in a materially adverse impact on our results of operations.

We may not be able to compete effectively in markets where our competitors have more resources, which could have a material adverse effect on our business.

Our market is highly competitive and characterized by an increasing number of entrants that have introduced or developed products and services similar to those we offer. We believe that competition will continue to intensify and increase in the near future. Our target market is rapidly evolving and is subject to continuous technological change. As a result, our competitors may be better positioned to address these developments or may react more favorably to these changes, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may be unable to protect our intellectual property rights and may be liable for infringing the intellectual property rights of others, which could have a material adverse effect on our business.

Our success is dependent upon our proprietary technology, including patents and other intellectual property, and on the ability to protect proprietary technology and other intellectual property rights. In addition, we must conduct our operations without infringing on the proprietary rights of third parties. We also intend to rely upon unpatented trade secrets and the know-how and expertise of our employees, as well as our patents. To protect our proprietary technology and other intellectual property, we rely primarily on a combination of the protections provided by applicable patent, copyright, trademark, and trade secret laws as well as on confidentiality procedures and licensing arrangements. Although we believe that we have taken appropriate steps to protect our unpatented proprietary rights, including requiring that our employees and third parties who are granted access to our proprietary technology enter into confidentiality agreements, we can provide no assurance that these measures will be sufficient to protect our rights against third parties. Others may independently develop or otherwise acquire patented or unpatented technologies or products similar or superior to ours.

Some provisions of our Certificate of Incorporation and Bylaws may deter takeover attempts, which may limit the opportunity of our shareholders to sell their shares at a premium to the then-current market price.

Some of the provisions of our Certificate of Incorporation and Bylaws could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders by providing them with the opportunity to sell their shares at a premium to the then-current market price. On December 10, 1999, our Board adopted a shareholders' rights plan and declared a non-taxable dividend of the right to acquire one-one hundredth of a share of our Series A Preferred Stock, par value $0.01 per share, on each outstanding share of our common stock to shareholders of record on December 20, 1999 and each share of common stock issued thereafter until a pre-defined hostile takeover date. The shareholders' rights plan, or so-called "poison pill", was adopted as an anti-takeover measure. The shareholders' rights plan was designed to enable all shareholders not engaged in a hostile takeover attempt to receive fair and equal treatment in any proposed takeover of us and to guard against partial or two-tiered tender offers, open market

accumulations, and other hostile tactics to gain control of us. The shareholders' rights plan was not adopted in response to any effort to acquire control of us at the time of adoption, however it may have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of us or a change in control of us. Certain shareholders, who were our founders, Charles W. Fritz, William E. Fritz and The Fritz Family Limited Partnership and their holdings, were exempted from the triggering provisions of our shareholders' rights plan, as a result of the fact that, as of the plan's adoption, their holdings might have otherwise triggered the plan.

In addition, our Certificate of Incorporation authorizes our Board to designate and issue preferred stock, in one or more series, the terms of which may be determined at the time of issuance by our Board, without further action by shareholders, and may include voting rights, including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion, redemption rights, and sinking fund provisions.

Preferred stock may have a negative impact on other stockholders or the pursuit of certain corporate actions.

The issuance of any preferred stock could have a material adverse effect on the rights of holders of our common stock, and, therefore, could reduce the value of shares of our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to, a third party. The ability of our Board to issue preferred stock could have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of us or a change in our control.

In the future, there could be government regulations and legal uncertainties that could harm our business.

Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the internet and other online services, could have a material adverse effect on our business, prospects, financial condition, and results of operations. The growth and development of the market for mobile commerce may prompt calls for more stringent consumer protection laws to impose additional burdens on companies conducting business online. The adoption of any additional laws or regulations may decrease the growth of the internet, mobile telecommunications or other mobile services, which could, in turn, decrease the demand for our services and increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

ITEM 1B. Unresolved Staff Comments

We are a “smaller reporting company” as defined by Rule 12b-2 of the Exchange Act and, as such, are not required to provide this information.

ITEM 2. Properties

As of December 31, 2013, we leased two office space facilities for our business purposes, our headquarters in Boulder, Colorado, and the property used for NeoMedia Europe GmbH’s office in Würselen, Germany. The Boulder, Colorado lease is an annual lease, of 1,354 square feet, expiring on March 31, 2014, with monthly payments of approximately $2,700. NeoMedia Europe GmbH operates from a facility in Würselen, Germany, where approximately 209 square meters, expiring on March 31, 2015, with a monthly rent of approximately $3,800.

In February 2014, we entered into an amended lease arrangement for NeoMedia Europe GmbH’s office lease. Under the terms of the new arrangement, approximately 125 square meters are leased for a term to expire on March 31, 2015, with a monthly rent of approximately $2,400.

On February 19, 2014, we also entered into a new office lease agreement for our headquarters in Boulder, Colorado. The agreement provides for a five year lease of 2,303 square feet expiring on March 31, 2019 with average monthly rent payments over the term of $5,690. We intend to sublease certain areas of the property that will be unused by us.

ITEM 3. 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.

ITEM 4. Mine Safety Disclosures

N/A

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted on the OTC Markets-OTCQB under the symbol “NEOM.”

The following table summarizes the high and low bid information of the Company’s common stock for the periods indicated.

	High	Low
2013:		
Fourth quarter	$ 0.0018	$ 0.0002
Third quarter	$ 0.0007	$ 0.0001
Second quarter	$ 0.0015	$ 0.0003
First quarter	$ 0.0038	$ 0.0010
2012:		
Fourth quarter	$ 0.0062	$ 0.0021
Third quarter	$ 0.0137	$ 0.0054
Second quarter	$ 0.0315	$ 0.0072
First quarter	$ 0.0560	$ 0.0075

The following table presents certain information with respect to our equity compensation plans as of December 31, 2013:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,173,000	$ 0.017	3,352,492
Equity compensation plans not approved by security holders	-	-	-
Total	1,173,000	$ 0.017	3,352,492

We have five stock option plans the 2011 Stock Incentive Plan, the 2005 Stock Option Plan, the 2003 Stock Option Plan, the 2003 Stock Incentive Plan, and the 2002 Stock Option Plan. Options issued under these option plans may have a term of up to 10 years. Options may be granted with any vesting schedule as approved by the Stock Option Committee and/or the Board, but generally the vesting periods range from immediate vesting to 5 years. Common shares required to be issued on the exercise of stock options would be issued from our authorized and unissued shares.

Performance Graph

We are a “smaller reporting company” as defined by Rule 12b-2 of the Exchange Act and, as such, are not required to provide this information.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

The Company has had no sales of unregistered securities during the quarter ended December 31, 2013.

Holders

On March 10, 2014, the closing price of our common stock as quoted on the OTC Market was $0.0006 per share and there were 544 shareholders of record. The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

Dividends

We have not declared or paid any cash dividends and do not foresee paying any cash dividends in the foreseeable future.

ITEM 6. Selected Financial Data

We are a “smaller reporting company” as defined by Rule 12b-2 of the Exchange Act and, as such, are not required to provide this information.

ITEM 7. Management‘s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, and the Notes thereto included in this Report. The information contained below includes statements of management’s beliefs, expectations, hopes, goals and plans that, if not historical, are forward looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward looking statements. For a discussion on forward looking statements, see the information set forth in the introductory note to this Report under the caption Note About Forward Looking Statements, which information is incorporated herein by reference.

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 and this enables 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 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 service 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, focusing on the US market. In 2013, we closed twenty five IP agreements and remain hopeful that our IP licensing activities will continue to generate new agreements in 2014 and beyond. We intend to continue to vigorously pursue or defend, as applicable, claims affecting the business interests and intellectual property of the Company and filed eight lawsuits, in this regard, in 2013. In 2013, we have successfully caused approximately 10 companies in the United States to cease and desist their mobile barcode operations that infringed upon our IP rights and have settled seven of the lawsuits we initiated.

On the product side of our business, our barcode management solutions include our barcode reader (NeoReader) as well as our barcode creation solutions (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.

NeoMedia remains strong and consistent in its approach to market and we believe that we will continue to differentiate ourselves on the basis of our high quality product and 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 in 2013 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 now has approximately 50+ million installations world-wide. Our reader is offered to consumers free of charge, leveraging an ad supported model, and 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.

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 customer, which is also embodied in our intellectual property.

Legal costs continue to be high for us. The costs to maintain our public company status, our IP licensing initiatives, satisfy our investor obligations as well as participate in an unexpected arbitration have catapulted our legal fees to approximately 30% of total operating expenses for us in 2013. Unfortunately, this has meant that funds earmarked for sales and marketing investment were spent on legal fees.

NeoMedia continues to operate on a self-sufficient basis and has not taken funding since 2012. We continue to support operations entirely from cash generated from our business and anticipate that we will continue to do so. NeoMedia had record revenue in 2013 and record operating profit/income. We believe that we will continue to see success from our business based on both the product and IP strategies we are deploying.

Critical Accounting Policies and Estimates

This discussion and analysis of financial condition and results of operations has been prepared by our management based on our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, our management evaluates our critical accounting policies and estimates, including

those related to revenue recognition, valuation of accounts receivable, intangible assets, derivative liabilities and contingencies. Estimates are based on historical experience and on various assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These judgments and estimates affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting periods.

We consider the following accounting policies important in understanding our operating results and financial condition:

- ***Intangible Asset Valuation*** Assessing the valuation of intangible assets is subjective in nature and involves significant estimates and assumptions as well as management's judgment. We periodically perform impairment tests on our long-lived assets, including our intangible assets, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets are testing for impairment by first comparing the estimated future undiscounted cash flows from a particular asset or asset group to the carrying value. If the expected undiscounted cash flows are greater than the carrying value, no impairment is recognized. If the expected undiscounted cash flows are less than the carrying value, then an impairment charge is recorded for the difference between the carrying value and the expected discounted cash flows. The assumptions used in developing expected cash flow estimates are similar to those used in developing other information used by us for budgeting and other forecasting purposes. In instances where a range of potential future cash flows is possible, we use a probability-weighted approach to weigh the likelihood of those possible outcomes. As of December 31, 2013 and 2012, we do not believe any of our long-lived assets are impaired.

- ***Goodwill*** Our goodwill represents the excess of the purchase price paid for NeoMedia Europe GmbH over the fair value of the identifiable net assets and liabilities acquired, based on an independent appraisal of the assets and liabilities acquired. Goodwill is not amortized but is tested annually for impairment, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Goodwill is tested for impairment by comparing the carrying amount of the asset to its fair value, which is estimated through the use of a discounted cash flows model. If the carrying amount exceeds fair value, an impairment loss is recognized for the difference. As of December 31, 2013 and 2012, we determined there were no impairments of our goodwill.

- ***Derivative Financial Instruments*** We do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of our financial instruments. However, certain financial instruments, such as warrants and the embedded conversion features of our convertible preferred stock and convertible debentures, which are indexed to our common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within our control. In such instances, net-cash settlement is assumed for financial accounting and reporting purposes, even when the terms of the underlying contracts do not provide for net-cash settlement. Derivative financial instruments are initially recorded, and continuously carried, at fair value. Determining the fair value of these complex derivative financial instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest rate risk, credit risk, and equivalent volatility and conversion/redemption privileges. The use of different assumptions could have a material effect on the estimated fair value amounts.

For our convertible debentures, we have elected not to separately account for the embedded conversion feature as a derivative instrument but to account for the entire hybrid instrument at fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("FASB ASC") 815, *Derivatives and Hedging*. For our convertible preferred stock, the underlying instruments are carried at amortized cost and the embedded conversion feature is accounted for separately at fair value in accordance with FASB ASC 815-40-05 and FASB ASC 815-40-15.

- ***Financial Instruments and Concentration of Credit Risk*** We believe the carrying values of our financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, derivative financial instruments, other current liabilities, convertible preferred stock, and convertible debenture financings approximate their fair values due to their short-term nature, or because they are carried at fair value.

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- ***Revenue Recognition*** We derive revenues from the following primary sources: (1) license fees relating to intellectual property, and (2) software and service revenues related to mobile marketing barcode management, barcode readers and custom developed software.

We recognized revenue when: (a) persuasive evidence of the sales arrangement exists, (b) the arrangement fee is fixed or determinable, (c) service delivery or performance has occurred, (d) customer acceptance has been received, if contractually required, and (e) collectability of the arrangement fee is probable. Revenue associated with licensing agreements primarily consists of non-refundable upfront license fees. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. We typically use signed contractual agreements as persuasive evidence of a sales arrangement.

If at the inception of an arrangement the fee is not fixed or determinable, we defer revenue until the arrangement fee becomes due and payable. If we determine collectability is not probable, we defer revenue until we receive payment or collection becomes probable, whichever is earlier. The determination of whether fees are collectible requires judgment of our management, and the amount and timing of revenue recognition may change if different assessments are made.

- ***Multiple Element Transactions*** From time to time, we enter into transactions involving multiple elements, such as customer agreements involving multiple patents. We account for multiple element transactions by first obtaining evidence of the estimated selling price of each element using vendor specific objective evidence (“VSOE”), third-party evidence (“TPE”), or management’s best estimate of selling price if neither VSOE nor TPE of selling price exists. Based on the determined selling price of each element of the transaction, the value of the single agreement is allocated to each deliverable based on each element's proportional value and accounted for as a separate unit of accounting. Multiple element transactions require the exercise of judgment in determining the estimated selling price of the different elements. The judgments could impact the amount of revenues and expenses recognized over the term of the contract, as well as the period in which they are recognized.

- ***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 impact on our financial position or operating results. If the resolution of ongoing legal actions is not in our favor, our financial position and operating results could be materially adversely impacted.

- ***Income Tax Valuation Allowance*** Deferred tax assets are reduced by a valuation allowance when, in the opinion of our management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We recorded a 100% valuation allowance at December 31, 2013 and 2012.

Results of Operations

Income (Loss) from Operations

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

	Year Ended December 31,	
	2013	2012
Revenues	$ 5,024	$ 2,344
Cost of revenues	(731)	(2,181)
Gross profit	4,293	163

Sales and marketing expenses	(286)	(1,100)
General and administrative expenses	(2,549)	(3,593)
Research and development costs	(717)	(951)
Other operating income	229	-
Income (loss) from operations	$ 970	$ (5,481)

Revenues. Revenues for the years ended December 31, 2013 and 2012 were $5,024,000 and $2,344,000, respectively, an increase of $2,680,000, or 114%. The increases in revenues are primarily attributable to an increase in the quantity of new IP licensing agreements as well as an increase in revenue from our NeoReader SDK.

Cost of Revenues. Cost of revenues was $731,000 for the year ended December 31, 2013 compared with $2,181,000 in the prior year, a decrease of $1,450,000 or 66%. Cost of revenues primarily relates to third party professional fees incurred in connection with the sale of our IP licenses. Cost of revenues typically varies in a manner consistent with changes in our IP licenses revenues. Cost of revenues in the prior year period relative to revenue was unusually high due to the expensing of additional legal fees associated with monetization of our patents.

Sales and Marketing. Sales and marketing expenses were $286,000 and $1,100,000 for the years ended December 31, 2013 and 2012, respectively, a decrease of $814,000, or 74%. The decrease in sales and marketing expenses is due to cost containment efforts. We expect sales and marketing expenses will increase in future periods as we continue to develop and execute on our business goals.

General and Administrative. General and administrative expenses were $2,549,000 and $3,593,000 for the years ended December 31, 2013 and 2012, respectively, a decrease of $1,044,000, or 29%. Costs declined due to continued efforts to contain expenses and identify improved efficiencies in performing the general and administrative functions of the Company. The expense reductions are related to various items including lower personnel costs and lower service provider costs, such as accounting and legal related fees.

Research and Development. Research and development expenses were $717,000 and $951,000 for the years ended December 31, 2013 and 2012, respectively, a decrease of $234,000, or 25%. Research and development expenses decreased as we focused our development efforts in our 2D Core services and subsequently launched our QodeScan self-service barcode management platform, resulting in a reduced requirement for ongoing development services.

Other Operating Income. The $229,000 of other operating income realized during the year ended December 31, 2013 primarily related to an arbitration proceeding and settlement in our favor, which concluded during the three months ended June 30, 2013. There was no similar activity in the prior year.

Other Income (Expense)

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

	Year Ended December 31,			
	2013		2012	
Gain (loss) from change in fair value of hybrid financial instruments	$	(197,392)	$	11,926
Gain from change in fair value of derivative liability - warrants		3,003		11,347
Loss from change in fair value of derivative liability - Series C and D preferred stock and debentures		(21,469)		(13,035)
Gain (loss) on extinguishment of debt		53		(27,479)
Impairment loss on cash surrender value of life insurance policy		-		(527)
Gain on de-recognition of accrued expenses and purchase price guarantee		-		8,300
Interest income (expense), net		16		(4,437)
Total other expense	$	(215,789)	$	(13,905)

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Gain (Loss) from Change in Fair Value of Hybrid Financial Instruments. We carry 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 year ended December 31, 2013 and 2012, the liability related to these hybrid instruments fluctuated resulting in a loss of $197.4 million and a gain of $11.9 million, respectively. See Note 4 within the Notes to Consolidated Financial Statements for additional detailed discussion.

Gain from Change in Fair Value of Derivative Liability Warrants. We account for our outstanding common stock warrants that were issued in connection with our preferred stock and debentures at fair value. For the years ended December 31, 2013 and 2012, the liability related to these instruments fluctuated, resulting in gains of $3.0 million and $11.3 million, respectively. See Note 4 within the Notes to Consolidated Financial Statements for additional detailed discussion.

Loss from Change in Fair Value of Derivative Liability 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 year ended December 31, 2013 and 2012, the liability related to these hybrid instruments fluctuated, resulting in a loss of $21.5 million and $13.0 million, respectively. See Note 4 within the Notes to Consolidated Financial Statements for additional detailed discussion.

The changes in the fair values of our hybrid and derivative financial instruments 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 financial instruments. Because our common stock price has been volatile and our hybrid and derivative financial instruments include variable discount conversion prices, further fluctuations in the market price of our common stock could cause the fair value of these instruments to be volatile and increase or decrease significantly in the future, resulting in future significant gains and losses from the change in the fair value of the instruments.

Impairment Loss On Cash Surrender Value of Life Insurance Policy. During the third quarter of 2012, we determined that we would be unable to collect the cash surrender value of a life insurance policy due to a dispute with the insurance company. Accordingly, we recorded a loss of $527,000 to impair the value of the policy as reflected in the results for the year ended December 31, 2012. There was no similar activity in 2013.

Gain on De-recognition of Accrued Expenses and Purchase Price Guarantee. We determined during the third quarter of 2012 that certain accrued purchase price obligations and disputed expenses associated with a 2006 acquisition were no longer legally enforceable due to the expiration of the statute of limitations. As a result, we de-recognized the liabilities, which resulted in an $8.3 million gain as reflected in the results for the year ended December 31, 2012. There was no similar activity in 2013.

Gain (Loss) on Extinguishment of Debt. During the year ended December 31, 2013, we modified and consolidated our outstanding debentures resulting in a $53,000 gain on extinguishment. During the year ended December 31 2012, we modified our debt causing the existing debentures to be effectively retired and new debentures issued. The differences in the fair values of the debt before and after the modification resulted in an extinguishment loss of $27.5 million.

Interest Income (Expense), Net. Following the May 25, 2012 modification of the debentures, which extended the due date, the debentures are no longer carried at amortized cost but are carried as hybrid financial instruments at fair value. As a result, the interest on these debentures subsequent to May 25, 2012 is reported as part of the Gain (Loss) from Change in Fair Value of Hybrid Financial Instruments and is no longer separately reported as interest expense. The $16,000 of net interest income reported for the year ended December 31, 2013 primarily relates to interest accrued on

payments received in connection with an arbitration proceeding that settled in our favor during the year.

Other Comprehensive Income (Loss)

For the year ended December 31, 2013, other comprehensive gains were $133,000 as compared to other comprehensive losses of $56,000 for 2012. The other comprehensive gains and losses were due to the impact of fluctuations in currency exchange rates associated with our translation of the NeoMedia Europe GmbH subsidiary financial statements from its local currency, the Euro, to U.S. dollars. We determined during the third quarter of 2013 that the functional currency of the foreign subsidiary changed to the U.S. dollar and as a result of the change in functional currency, translation gains and losses associated with the conversion of the NeoMedia Europe GmbH financial statements are recorded in our results from operations rather than through other comprehensive income (loss) effective July 1, 2013.

Income Tax Benefit

During the year ended December 31, 2013, we determined that a deferred tax liability previously estimated to be realized by NeoMedia Europe GmbH should be reduced to zero based on certain economic changes of the subsidiary during 2013. The economic changes included, but were not limited to, the termination of its hardware business and related sales activities that allowed it to generate revenue independently in the local market or otherwise, and the completion of a repositioning of the subsidiary from a self-contained, revenue generating operation to a cost center primarily focused on research and development. As a result of the change in estimate, we recorded an income tax benefit of $706,000 to reduce the deferred tax liability to zero.

Liquidity

	Year Ended December 31,			
	2013		2012	
	(in thousands)			
Cash and cash equivalents	$	267	$	611
Net cash used in operating activities	$	(399)	$	(1,536)
Net cash provided by investing activities		-		123
Net cash provided by financing activities		56		2,050
Effect of exchange rate changes on cash		(1)		(56)
Net change in cash and cash equivalents	$	(344)	$	581

We funded our liquidity requirements in 2013 with existing cash resources. During 2012, we funded our liquidity requirements through our existing cash resources and borrowings under our convertible debentures with YA Global. As of December 31, 2013, we had $267,000 in cash and cash equivalents.

Going Concern

While we have historically incurred operating losses, and we may continue to generate negative cash flows as we implement our business plan, the business has been operating on a self-sufficient basis. However, there can be no assurance that our success in executing our business plan will continue. The accompanying consolidated financial statements have been prepared in conformity with US GAAP, which contemplates our continuation as a going concern given fair value accounting related to our debentures. Our net loss for the year ended December 31, 2013 and 2012 was $214.1 million and $19.4 million, respectively, including $215.8 million and $21.7 million, respectively, of net losses related to our financing instruments. The impact of our successful implementation strategy shows our operating income was $1.0 million for 2013 as compared to an operating loss in 2012 of $5.5 million.

Net cash used in operations during 2013 and 2012 was $0.4 million and $1.5 million, respectively. As of December 31, 2013, we have an accumulated deficit of $479.5 million. We also have a working capital deficit of $283.9 million, including $281.7 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; however, we believe that our revenues will reach such level and such additional financing will not be necessary. If additional financing is required, we cannot predict whether this additional financing will be in the form of equity, debt, or another form, and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In the event that 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 common shares outstanding. During 2013, there were 2,879 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 common shares.

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.

Significant Liquidity Events

Financing Provided By YA Global. In 2012, all of our external financing was provided by YA Global. We received a gross total of $2.65 million from YA Global through the issuance of a series of six convertible debentures and common stock warrants. The debentures initially bore interest at 9.5% per annum and matured on August 1, 2014. We paid cash fees to YA Global from the proceeds of the secured convertible debentures and warrants of $150,000, resulting in net proceeds of $2.5 million. We also received two short-term loans, fully repaid within approximately 30 days of receipt, from YA Global totaling $112,000. We also repaid in full the July 20, 2012 debenture of $450,000.

Since July 2012, we have not received any debenture based financing from YA Global. We do not anticipate receiving additional financing in 2014. We believe our business plan will provide adequate cash flow to meet our operational requirements for the next twelve months.

At December 31, 2013, financial instruments arising from our financing transactions with YA Global, 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. The rights of the assignees of the YA Global holdings are bound by the terms of the financial instruments held by YA Global, and amendments to the terms of the financial instruments held by YA Global could also impact the terms of the financial securities held by the assignees.

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.

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.

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.

See Note 4 within the Notes to Consolidated Financial Statements for additional detailed discussion on our financings.

Contractual Obligations

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

Recently Issued Accounting Standards

See Recent Accounting Pronouncements in Note 2 - Summary of Significant Accounting Policies within the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We are not currently engaged in the use of off-balance sheet derivative financial instruments to hedge or partially hedge interest rate exposure nor do we maintain any other off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, or other financial or investment purposes.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

ITEM 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of NeoMedia Technologies, Inc.:

We have audited the accompanying consolidated balance sheet of NeoMedia Technologies, Inc. (the "Company"), as of December 31, 2013, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to such financial statements, the Company has suffered recurring losses from operations, has significant working capital and shareholders' deficits and may have ongoing requirements for additional capital investment. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ StarkSchenkein, LLP
Denver, CO
March 17, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of NeoMedia Technologies, Inc.:

We have audited the accompanying consolidated balance sheet of NeoMedia Technologies, Inc. (the "Company"), as of December 31, 2012, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to such financial statements, the Company has suffered recurring losses from operations, has significant working capital and shareholder deficits and may have ongoing requirements for additional capital investment. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kingery & Crouse, P.A.
Certified Public Accountants
Tampa, FL
April 1, 2013

NeoMedia Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 267	$ 611
Accounts receivable, less allowances of $0	295	217
Prepaid expenses and other current assets	107	120
Total current assets	669	948
Property and equipment, net	5	44
Goodwill	3,418	3,418
Proprietary software, net	-	99
Patents and other intangible assets, net	1,213	1,490
Other long-term assets	-	40
Total assets	$ 5,305	$ 6,039
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 236	$ 506
Accrued expenses	291	399
Deferred revenues and customer prepayments	2,252	3,735
Note payable	56	50
Deferred tax liability	-	706
Derivative financial instruments - warrants	684	3,687
Derivative financial instruments - Series C and D preferred stock and debentures payable	23,606	2,147
Debentures payable - carried at amortized cost	-	53
Debentures payable - carried at fair value	257,451	64,292
Total current liabilities	284,576	75,575
Commitments and contingencies		
Series C convertible preferred stock, $0.01 par value, 27,000 shares authorized, 4,816 and 4,840 shares issued and outstanding, liquidation value of $4,816 and $4,840 as of December 31, 2013 and 2012, respectively	4,816	4,840
Series D convertible preferred stock, $0.01 par value, 25,000 shares authorized, 3,481 and 3,481 shares issued and outstanding, liquidation value of $348 and $348 as of December 31, 2013 and 2012, respectively	348	348
Shareholders' deficit:		
Common stock, $0.001 par value, 5,000,000,000 shares authorized, 4,984,827,279 and 2,106,035,882 shares issued and outstanding as of December 31, 2013 and 2012, respectively	4,985	2,106
Additional paid-in capital	190,946	188,814
Accumulated deficit	(479,485)	(264,630)
Accumulated other comprehensive loss	(102)	(235)

Treasury stock, at cost, 2,012 shares of common stock		(779)		(779)
Total shareholders' deficit		(284,435)		(74,724)
Total liabilities and shareholders' deficit	$	5,305	$	6,039

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except share and per share data)

	Year Ended December 31,			
	2013		2012	
Revenues	$	5,024	$	2,344
Cost of revenues		(731)		(2,181)
Gross profit		4,293		163
Operating expenses:				
Sales and marketing expenses		(286)		(1,100)
General and administrative expenses		(2,549)		(3,593)
Research and development costs		(717)		(951)
Other operating income		229		-
Total operating expenses		(3,323)		(5,644)
Income (loss) from operations		970		(5,481)
Other income (expense):				
Gain (loss) from change in fair value of hybrid financial instruments		(197,392)		11,926
Gain from change in fair value of derivative liability - warrants		3,003		11,347
Loss from change in fair value of derivative liability - Series C and D preferred stock and debentures		(21,469)		(13,035)
Gain (loss) on extinguishment of debt		53		(27,479)
Impairment loss on cash surrender value of life insurance policy		-		(527)
Gain on derecognition of accrued expenses and purchase price guarantee		-		8,300
Interest income (expense), net		16		(4,437)
Total other expense		(215,789)		(13,905)
Net loss before taxes		(214,819)		(19,386)
Income tax benefit		706		-
Net loss		(214,113)		(19,386)
Deemed dividends on convertible preferred stock		(16)		-
Deemed dividends on convertible debentures		(726)		-
Net loss available to common shareholders	$	(214,855)	$	(19,386)
Comprehensive loss:				
Net loss	$	(214,113)	$	(19,386)
Foreign currency translation adjustment		133		(56)
Comprehensive loss	$	(213,980)	$	(19,442)

Net loss per common share, basic and diluted:				
Basic	$	(0.05)	$	(0.02)
Fully diluted	$	(0.05)	$	(0.02)
Weighted average number of common shares:				
Basic		4,119,387,609		1,276,601,569
Fully diluted		4,119,387,609		1,276,601,569

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries`
Consolidated Statements of Shareholders' Deficit
(In thousands, except share data)

	Common Stock					Treasury Stock		
	Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	Amount	Total Shareholders' Deficit
Balance, December 31, 2011	541,984,111	$ 542	$ 170,006	$ (245,244)	$ (179)	2,012	$ (779)	$ (75,654)
Shares issued upon conversions of Series C preferred stock	34,168,248	34	844	-	-	-	-	878
Shares issued upon conversions of Series D preferred stock	142,457,436	143	2,199	-	-	-	-	2,342
Shares issued upon conversions of convertible debentures	1,387,426,087	1,387	15,751	-	-	-	-	17,138
Stock-based compensation expense	-	-	14	-	-	-	-	14
Comprehensive (loss foreign currency translation adjustment	-	-	-	-	(56)	-	-	(56)
Net loss	-	-	-	(19,386)	-	-	-	(19,386)
Balance, December 31, 2012	2,106,035,882	2,106	188,814	(264,630)	(235)	2,012	(779)	(74,724)

Shares issued upon conversions of Series C preferred stock	41,237,113	41	10	-	-	-	-	51
Shares issued upon conversions of convertible debentures	2,837,554,284	2,838	2,121	-	-	-	-	4,959
Deemed dividend on Series C preferred stock	-	-	-	(16)	-	-	-	(16)
Deemed dividend on convertible debentures	-	-	-	(726)	-	-	-	(726)
Stock-based compensation expense	-	-	1	-	-	-	-	1
Comprehensive income foreign currency translation adjustment	-	-	-	-	133	-	-	133
Net loss	-	-	-	(214,113)	-	-	-	(214,113)
Balance, December 31, 2013	4,984,827,279	$ 4,985	$ 190,946	$ (479,485)	$ (102)	2,012	$ (779)	$ (284,435)

See accompanying notes.

NeoMedia Technologies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2013		2012	
Cash Flows from Operating Activities:				
Net loss	$	(214,113)	$	(19,386)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		410		972
(Gain) loss on extinguishment of debt		(53)		27,479
(Gain) loss from change in fair value of hybrid financial instruments		197,392		(11,926)
Gain from change in fair value of derivative liability - warrants		(3,003)		(11,347)
Loss from change in fair value of derivative liability - Series C and D preferred stock and debentures		21,469		13,035
Deferred taxes		(706)		-
Stock-based compensation expense		1		14
Bad debt expense		-		457
Interest expense added to liabilities		-		4,406
Gain on derecognition of accrued expenses and purchase price guarantee		-		(8,300)
Impairment loss on cash surrender value of life insurance policy		-		527
Changes in operating assets and liabilities:				
Accounts receivable		(68)		-
Prepaid expenses and other assets		84		63
Accounts payable and accrued liabilities		(331)		555
Deferred revenue and other current liabilities		(1,481)		1,915
Net cash used in operating activities		(399)		(1,536)
Cash Flows from Investing Activities:				
Acquisition of property and equipment		-		(3)
Proceeds received from life insurance policy		-		126
Net cash provided by investing activities		-		123
Cash Flows from Financing Activities:				
Payments on convertible debt instruments		-		(450)
Borrowings under convertible debentures		-		2,500
Borrowings under short-term notes payable		110		-
Payments on short-term notes payable		(54)		-
Net cash provided by financing activities		56		2,050
Effect of exchange rate changes on cash		(1)		(56)
Net change in cash and cash equivalents		(344)		581
Cash and cash equivalents, beginning of year		611		30
Cash and cash equivalents, end of year	$	267	$	611
Supplemental cash flow information:				
Interest paid during the period	$	5	$	31
Series C preferred stock converted to common stock	$	10	$	878

Series D preferred stock converted to common stock	$	-	$	2,342
Convertible debentures converted to common stock	$	4,233	$	17,138
Deemed dividend on Series C preferred stock conversion	$	16	$	-
Deemed dividend on convertible debentures conversion	$	726	$	-

See accompanying notes.

NeoMedia Technologies, Inc.
Notes to Consolidated Financial Statements
December 31, 2013

Note 1 General

Business NeoMedia, a Delaware corporation, was founded in 1989 and is headquartered in Boulder, Colorado. We have positioned ourselves to lead the development of 2D mobile barcode technology and infrastructure 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 technology solutions. With this technology, mobile devices with cameras become barcode scanners, and this enables 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 audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). All normal adjustments considered necessary for a fair presentation have been included.

Basis of Presentation The consolidated financial statements include the accounts of NeoMedia Technologies, Inc. and our wholly-owned subsidiaries (collectively herein referred to as "NeoMedia," the "Company," "we," "us," "our," a similar terms). We operate as one reportable segment. All intercompany accounts, transactions and profits have been eliminated in consolidation. Certain prior year amounts in the consolidated financial statements and notes thereto have been reclassified to conform to the current year's presentation.

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 While we have historically incurred operating losses, and we may continue to generate negative cash flows as we implement our business plan, the business has been operating on a self-sufficient basis. However, there can be no assurance that our success in executing our business plan will continue. The accompanying consolidated financial statements have been prepared in conformity with US GAAP, which contemplates our continuation as a going concern given fair value accounting related to our debentures. Our net loss for the year ended December 31, 2013 and 2012 was $214.1 million and $19.4 million, respectively, including $215.8 million and $21.7 million, respectively, of net losses related to our financing instruments. The impact of our successful implementation strategy shows our operating income was $1.0 million for 2013 as compared to an operating loss in 2012 of $5.5 million.

Net cash used in operations during 2013 and 2012 was $0.4 million and $1.5 million, respectively. As of December 31, 2013, we have an accumulated deficit of $479.5 million. We also have a working capital deficit of $283.9 million, including $281.7 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; however, we believe that our revenues will reach such level and such additional financing will not be necessary. If additional financing is required, we cannot predict whether this additional financing will be in the form

of equity, debt, or another form, and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In the event that 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 common shares outstanding. During 2013, there were 2,879 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 common shares.

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.

Cash and Cash Equivalents Cash and cash equivalents include cash in financial institutions, which are highly liquid investment instruments with original maturities of less than 90 days.

Revenue Recognition We derive revenues from the following primary sources: (1) license fees relating to intellectual property, and (2) software and service revenues related to mobile marketing barcode infrastructure management and development, barcode readers and custom developed software.

We recognized revenue when: (a) persuasive evidence of the sales arrangement exists, (b) the arrangement fee is fixed or determinable, (c) service delivery or performance has occurred, (d) customer acceptance has been received, if contractually required, and (e) collectability of the arrangement fee is probable. Revenue associated with licensing agreements primarily consists of non-refundable upfront license fees. Non-refundable upfront license fees received under license agreements, whereby continued performance or future obligations are considered inconsequential to the relevant license technology, are recognized as revenue upon delivery of the technology. We typically use signed contractual agreements as persuasive evidence of a sales arrangement.

If at the inception of an arrangement the fee is not fixed or determinable, we defer revenue until the arrangement fee becomes due and payable. If we determine collectability is not probable, we defer revenue until we receive payment or collection becomes probable, whichever is earlier. The determination of whether fees are collectible requires judgment of our management, and the amount and timing of revenue recognition may change if different assessments are made.

Deferred revenues and customer prepayments on our consolidated balance sheets primarily represents amounts invoiced or cash payments received in advance of our performance related to the underlying agreement.

Change in Accounting Policy In early 2013, we expanded our business strategy related to the monetization of intellectual property rights and have been pursuing brand licenses with major corporations. In connection with the strategy expansion, we reevaluated our revenue recognition accounting principles during the second quarter of 2013 and determined that the completed performance methodology for recognizing intellectual properly revenue was preferable to the historically used proportional performance methodology. The completed performance methodology is further described above within the revenue recognition discussion. As part of this change in accounting principle, we conducted a quantitative analysis to determine the impact the accounting policy change would have had on our 2012 balance sheet and statement of operations. The impact to our balance sheet as of December 31, 2012 would have been a decrease in each of the deferred revenues and customer prepayments, total current liabilities, and accumulated deficit of $208,000. The impact to our 2012 statement of operations would have been an increase in revenues and decrease in the net loss available to common shareholders of $208,000, and there would have been no impact on basic and diluted net loss per common share. Based on the analysis, the impact was deemed immaterial to the overall financial statements.

Multiple Element Transactions From time to time, we enter into transactions involving multiple elements, such as customer agreements involving multiple patents. We account for multiple element transactions by first obtaining evidence of the estimated selling price of each element using vendor specific objective evidence (“VSOE”), third-party evidence (“TPE”), or management’s best estimate of selling price if neither VSOE nor TPE of selling price exists. Based

on the determined selling price of each element of the transaction, the value of the single agreement is allocated to each deliverable based on each element's proportional value and accounted for as a separate unit of accounting. Multiple element transactions require the exercise of judgment in determining the estimated selling price of the different elements. The judgments could impact the amount of revenues and expenses recognized over the term of the contract, as well as the period in which they are recognized.

Basic and Diluted Loss Per Common Share Basic net loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding during the period. During the years ended December 31, 2013 and 2012, we reported a net loss available to common shareholders and excluded all outstanding stock options, warrants and convertible instruments from the calculation of diluted net loss per common share because inclusion of these securities would have been anti-dilutive.

The following table reflects the outstanding stock options, warrants, convertible debt and convertible preferred securities as of December 31, 2013 and 2012, which have been excluded from the diluted loss per common share calculation because inclusion of the securities would be anti-dilutive:

	December 31, 2013	2012
Stock options	1,173,020	1,340,000
Warrants	499,990,063	1,882,492,690
Convertible debt	234,287,861,850	22,696,138,542
Convertible preferred stock	26,617,345,361	990,409,508
	261,406,370,294	25,570,380,740

Foreign Currency Historically, the functional currency of NeoMedia Europe GmbH was the euro, its local currency, and we recorded translation gains and losses associated with the conversion of the subsidiary financial statements to U.S. dollars in accumulated other comprehensive loss as a component of shareholders' deficit. During the third quarter of 2013, we determined that changes in economic facts and circumstances indicated that the functional currency of NeoMedia Europe GmbH had changed from the euro to the U.S. dollar. The changes included, among other things, the termination of the hardware business and related sales activities that would allow the subsidiary to generate revenue independently in the local market or otherwise, and the completion of a repositioning of the subsidiary from a self-contained, revenue generating operation to a cost center focused primarily on research and development. As a result of the change in functional currency, translation gains and losses associated with the conversion of the NeoMedia Europe GmbH financial statements will be prospectively recorded in our results from operations effective July 1, 2013.

Fair-valued Financial Instruments Fair value measurement within the financial statements is primarily reflected in the accounting for our Convertible Preferred Stock, Convertible Debentures and Warrants, where we determine the fair value of certain hybrid instruments carried at fair value, and certain derivative liabilities which are recorded at fair value. See additional details below and at Note 4 Financing.

Derivative Financial Instruments We do not use derivative financial instruments to hedge exposures to cash flow risks or market risks that may affect the fair values of our financial instruments. However, certain financial instruments, such as warrants and the embedded conversion features of our convertible preferred stock and convertible debentures, which are indexed to our common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within our control. In such instances, net-cash settlement is assumed for financial accounting and reporting purposes, even when the terms of the underlying contracts do not provide for net-cash settlement. Derivative financial instruments are initially recorded, and continuously carried, at fair value. Determining the fair value of these complex derivative financial instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest rate risk, credit risk, and equivalent volatility and conversion/redemption privileges. The use of different assumptions could have a material effect on the estimated fair value amounts.

For our convertible debentures, we have elected not to separately account for the embedded conversion feature as a derivative instrument but to account for the entire hybrid instrument at fair value in accordance with FASB ASC 815,

Derivatives and Hedging. For our convertible preferred stock, the underlying instruments are carried at amortized cost and the embedded conversion feature is accounted for separately at fair value in accordance with FASB ASC 815-40-05 and FASB ASC 815-40-15.

Financial Instruments and Concentration of Credit Risk We believe the carrying values of our financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, derivative financial instruments, other current liabilities, convertible preferred stock, and convertible debenture financings approximate their fair values due to their short-term nature, or because they are carried at fair value.

Our cash balances in the United States periodically exceed federally insured limits. We have not experienced any losses in such accounts. The cash balances maintained by our wholly owned subsidiary, NeoMedia Europe GmbH, are also maintained in financial institutions that provide deposit guarantees and are governed by local public law. Our policies limit the concentration of accounts receivable credit exposure by requiring the majority of customers to prepay their renewal licenses prior to initiating services.

Accounts Receivable We report accounts receivable at net realizable value. Our terms of sale provide the basis for when accounts become delinquent or past due. We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts, based on historical collection experience and a review of the current status of accounts receivable. We do not require collateral and to the extent credit is granted to our customers, all open accounts receivable beyond 90 days are evaluated for recovery.

Goodwill Our goodwill represents the excess of the purchase price paid for NeoMedia Europe GmbH over the fair value of the identifiable net assets and liabilities acquired, based on an independent appraisal of the assets and liabilities acquired. Goodwill is not amortized but is tested annually for impairment, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Goodwill is tested for impairment by comparing the carrying amount of the asset to its fair value, which is estimated through the use of a discounted cash flows model. If the carrying amount exceeds fair value, an impairment loss is recognized for the difference. As of December 31, 2013, we determined there were no impairments of our goodwill.

Intangible Assets Intangible assets consist of patents, customer contracts, copyrighted material, acquired software products, and brand names. Intangible assets acquired as part of a business combination are recognized apart from goodwill if the intangible asset arises from contractual or other legal rights or the asset is capable of being separated from the acquired enterprise. Intangible assets are reviewed for impairment by comparing the carrying amount of the intangible asset to its fair value. If the carrying amount exceeds fair value, an impairment loss is recognized for the difference. Intangible assets are amortized, using the straight-line method, over the estimated period of benefit as noted below:

Capitalized patents	5 - 17 years
Customer contracts	5 years
Copyrighted materials	5 years
Acquired software products	7 years
Brand names	10 years

Evaluation of Long-Lived Assets We periodically perform impairment tests on each of our long-lived assets, including capitalized patent costs, customer contracts, copyrighted materials, brand names, and capitalized and purchased software costs, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets are testing for impairment by first comparing the estimated future undiscounted cash flows from a particular asset or asset group to the carrying value. If the expected undiscounted cash flows are greater than the carrying value, no impairment is recognized. If the expected undiscounted cash flows are less than the carrying value, then an impairment charge is recorded for the difference between the carrying value and the expected discounted cash flows. The assumptions used in developing expected cash flow estimates are similar to those used in developing other information used by us for budgeting and other forecasting purposes. In instances where a range of potential future cash flows is possible, we use a probability-weighted approach to weigh the likelihood of those

possible outcomes.

As of December 31, 2013 and 2012, we do not believe any of our long-lived assets are impaired.

Property and Equipment Property and equipment, including software, are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as noted below:

Furniture and fixtures	3 - 7 years
Equipment	2 - 5 years

Research and Development Costs associated with the planning and design phase of software development, including coding and testing activities, and related overhead, necessary to establish technological feasibility of our internally-developed software products, are classified as research and development and are expensed as incurred.

Stock-Based Compensation We record the grant date fair value of stock-based compensation awards as an expense using a straight-line attribution method over the vesting period of the related stock options. In order to determine the fair value of the stock options on the date of grant, we use the Black-Scholes-Merton option-pricing model. Inherent in this model are assumptions related to expected stock-price volatility, forfeiture and option life, risk-free interest rate and dividend yield. Although the risk-free interest rates and dividend yield are less subjective assumptions based on factual data derived from public sources, the expected stock-price volatility, forfeiture rate and option life assumptions require a greater level of judgment. We use an expected stock-price volatility assumption that is based on historical volatilities of our common stock and estimate the forfeiture rate and option life based on historical data related to prior option grants.

We account for modifications of the terms of existing option grants as exchanges of the existing equity instruments for new instruments. The fair value of the modified option at the grant date is compared with the value at that date of the original option immediately before its terms are modified. Any excess fair value of the modified option over the original option is recognized as additional compensation expense.

Income Taxes Deferred tax liabilities and assets reflect the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the difference is expected to reverse. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have recorded full valuation allowance as of December 31, 2013 and 2012.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. The update improves the reporting of reclassifications out of accumulated other comprehensive income for certain transactions and is applied prospectively for periods beginning January 1, 2013. We do not anticipate that the accounting pronouncement will have a material impact on our consolidated financial statements in future periods.

In March 2013, the FASB issued ASU No. 2013-05, *Liabilities (Topic 830): Parent's Accounting for Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* The ASU is effective beginning after December 15, 2013 and requires the release of any cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in foreign entity. We do not anticipate that the accounting pronouncement will have a material impact on our consolidated financial statements in future periods.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The ASU is effective for periods beginning after December 15, 2013 and standardizes the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We do not

anticipate that the accounting pronouncement will have a material impact on our consolidated financial statements in future periods.

From time to time, various other new accounting pronouncements are issued that we adopt as of the specified effective date. We believe that the impact of any other recently issued standards that are not yet effective will not have a material impact on our results of operations and financial position.