Neonode, Inc
Form 10-Q
May 06, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2015

Transition report pursuant to section 13 or 15(d) of the Securities and Exchange Act of 1934

For the transition period from _______ to _______

Commission file number 1-35526

NEONODE INC.
(Exact name of registrant as specified in its charter)

Delaware	94-1517641
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Storgatan 23C, 114 55 Stockholm, Sweden

(Address of principal executive offices and zip code)

+46 (0) 8 667 17 17
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "non-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
(do not check if a smaller reporting company)	

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

The number of shares of the registrant's common stock outstanding as of May 1, 2015 was 40,455,352.

NEONODE INC.

Form 10-Q

For the Fiscal Quarter Ended March 31, 2015

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PART I. Financial Information

Item 1. Financial Statements

NEONODE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Current assets:		
Cash	$ 4,453	$ 6,129
Accounts receivable, net	2,041	1,106
Projects in process	613	200
Prepaid expenses and other current assets	536	513
Total current assets	7,643	7,948
Property and equipment, net	554	654
Total assets	$ 8,197	$ 8,602
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 735	$ 566
Accrued expenses	1,143	935
Deferred revenues	4,146	3,403
Current portion of capital lease obligation	56	61
Total current liabilities	6,080	4,965
Capital lease obligation, net of current portion	319	367
Total liabilities	6,399	5,332
Commitments and contingencies		
Stockholders' equity:		
Series B Preferred stock, 54,425 shares authorized with par value $0.001 per share; 83 shares issued and outstanding at March 31, 2015 and December 31, 2014. (In the event of dissolution, each share of Series B Preferred stock has a liquidation preference equal to par value of $0.001 per share over the shares of common stock)	-	-

Common stock, 70,000,000 shares authorized with par value $0.001 per share; 40,455,352 shares issued and outstanding at March 31, 2015 and December 31, 2014	40	40
Additional paid-in capital	169,608	169,010
Accumulated other comprehensive income	151	149
Accumulated deficit	(168,001)	(165,929)
Total stockholders' equity	1,798	3,270
Total liabilities and stockholders’ equity	$ 8,197	$ 8,602

See accompanying notes to condensed consolidated financial statements.

NEONODE INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2015	2014
Net revenues	$2,263	$1,014
Cost of revenues	338	166
Gross margin	1,925	848
Operating expenses:		
Product research and development	1,579	1,784
Sales and marketing	850	1,042
General and administrative	1,562	2,029
Total operating expenses	3,991	4,855
Operating loss	(2,066)	(4,007)
Other expense		
Other expense, net	4	-
Total other expense	4	-
Loss before provision for income taxes	(2,070)	(4,007)
Provision for income taxes	2	1
Net loss	$(2,072)	$(4,008)
Loss per common share:		
Basic and diluted loss per share	$(0.05)	$(0.11)
Basic and diluted – weighted average number of common shares outstanding	40,455	37,941

See accompanying notes to condensed consolidated financial statements**.**

NEONODE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three months ended March 31,	
	2015	2014
Net loss	$(2,072)	$(4,008)
Other comprehensive income (loss):		
Foreign currency translation adjustments	2	35
Total comprehensive loss	$(2,070)	$(3,973)

See accompanying notes to condensed consolidated financial statements.

NEONODE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(2,072)	$(4,008)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	598	1,072
Depreciation and amortization	51	41
Changes in operating assets and liabilities:		
Accounts receivable	(935)	314
Projects in process	(417)	(202)
Prepaid expenses and other current assets	(58)	(139)
Accounts payable and accrued expenses	502	228
Deferred revenues	746	48
Net cash used in operating activities	(1,585)	(2,646)
Cash flows from investing activities:		
Purchase of property and equipment	(3)	(46)
Net cash used in investing activities	(3)	(46)
Cash flows from financing activities:		
Proceeds from exercise of stock warrants	-	36
Principal payments on capital lease obligation	(14)	-
Net cash (used in) provided by financing activities	(14)	36
Effect of exchange rate changes on cash	(74)	33
Net decrease in cash	(1,676)	(2,623)
Cash at beginning of period	6,129	8,815
Cash at end of period	$4,453	$6,192
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$2	$1
Cash paid for interest	$4	$-

See accompanying notes to condensed consolidated financial statements.

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NEONODE INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Interim Period Reporting

The accompanying unaudited interim condensed consolidated financial statements, include all adjustments, consisting of normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations and cash flows for the interim periods presented. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of results for a full fiscal year or any other period.

The accompanying condensed consolidated financial statements for the three months ended March 31, 2015 and 2014 have been prepared by us, pursuant to the rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally contained in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Operations

Neonode Inc. (collectively with its subsidiaries, is referred to in this Form 10-Q Report as "Neonode", "we", "us", "our" or the "Company"), develops and licenses user interfaces and optical infrared touch technology. We license our multi-touch technology to Original Equipment Manufacturers ("OEMs") and Original Design Manufacturers ("ODMs") who incorporate it into devices that they produce and sell.

Liquidity

We have incurred significant operating losses and negative cash flows from operations since our inception. The Company incurred net losses of approximately $2.1 million and $4.0 million the three months ended March 31, 2015 and 2014, respectively, and had an accumulated deficit of approximately $168.0 million and $165.9 million as of

March 31, 2015 and December 31, 2014, respectively. In addition, the Company used cash in operating activities of approximately $1.6 million and $2.6 million for the three months ended March 31, 2015 and 2014, respectively.

In June 2014, we filed a shelf registration statement with the SEC that became effective on June 12, 2014. We may from time to time issue shares of our common stock under our shelf registration in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in a prospectus supplement and any other offering materials, at the time of the offering. There are 5,000,000 shares registered and available for issuance under our shelf registration.

We believe that we have sufficient cash to operate for the next twelve months. While there is no assurance that the Company can meet its cash flow, management anticipates that it can continue operations for at least the next twelve months.

In the future, we may require sources of capital in addition to cash on hand to continue operations and to implement our strategy. If our operations do not become cash flow positive, we may be forced to seek credit line facilities from financial institutions, equity investments or debt arrangements. No assurances can be given that we will be successful in obtaining such additional financing on reasonable terms, or at all. If adequate funds are not available on acceptable terms, or at all, we may be unable to adequately fund our business plans and it could have a negative effect on our business, results of operations and financial condition. In addition, if funds are available, the issuance of equity securities or securities convertible into equity could dilute the value of shares of our common stock and cause the market price to fall, and the issuance of debt securities could impose restrictive covenants that could impair our ability to engage in certain business transactions.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of Neonode Inc. and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

The unaudited condensed consolidated balance sheet at March 31, 2015 and the condensed consolidated statements of operations, comprehensive loss and cash flows for the three months ended March 31, 2015, include our accounts and those of our wholly owned subsidiaries, Neonode Technologies AB (Sweden), Neonode Americas Inc. (U.S.), Neonode Japan Inc. (Japan), NEON Technology Inc. (U.S.), Neno User Interface Solutions AB (Sweden), Neonode Korea Ltd. (South Korea) and Neonode Taiwan Ltd. (Taiwan).

The audited condensed consolidated balance sheet at December 31, 2014 include our accounts and those of our wholly owned subsidiaries, Neonode Technologies AB (Sweden), Neonode Americas Inc. (U.S.), Neonode Japan Inc. (Japan), NEON Technology Inc. (U.S.), Neno User Interface Solutions AB (Sweden) and Neonode Korea Ltd. (South Korea).

The unaudited condensed consolidated statements of operations, comprehensive loss and cash flows for the three months ended March 31, 2014 include our accounts and those of our wholly owned subsidiaries, Neonode Technologies AB (Sweden), Neonode Americas Inc. (U.S.), Neonode Japan Inc. (Japan), NEON Technology Inc. (U.S.) and Neno User Interface Solutions AB (Sweden).

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires making estimates and assumptions that affect, at the date of the financial statements, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. Significant estimates include, but are not limited to, collectability of accounts receivable,the achievement of substantive milestones and vendor-specific objective evidence (“VSOE”) of fair value for purposes of revenue recognition (or deferral of revenue), recoverability of capitalized project costs and long-lived assets, the valuation allowance related to our deferred tax assets and the fair value of options and warrants issued for stock-based compensation.

Concentration of Cash Balance Risks

Cash balances are maintained at various banks in the U.S., Japan, Korea, Taiwan and Sweden. At times, deposits held with financial institutions in the U.S. may exceed the amount of insurance provided by the U.S. Federal Deposit Insurance Corporation, which provides basic deposit coverage with limits up to $250,000 per owner. The Swedish government provides insurance coverage up to 100,000 Euro per customer and covers deposits in all types of accounts. The Japanese government provides insurance coverage up to 10,000,000 Yen per customer. The Korea Deposit Insurance Corporation provides insurance coverage up to 50,000,000 Won per customer. The Central Deposit Insurance Corporation in Taiwan provides insurance coverage up to 3,000,000 Taiwan Dollar per customer. As of March 31, 2015, we had approximately $4.0 million in excess of insurance limits.

Accounts Receivable and Allowance for Doubtful Accounts

Our accounts receivable are stated at net realizable value. Our policy is to maintain allowances for estimated losses resulting from the inability of our customers to make required payments. Credit limits are established through a process of reviewing the financial history and stability of each customer. Where appropriate, we obtain credit rating reports and financial statements of the customer when determining or modifying its credit limits. We regularly evaluate the collectability of our trade receivable balances based on a combination of factors. When a customer's account balance becomes past due, we initiate dialogue with the customer to determine the cause. If it is determined that the customer will be unable to meet its financial obligation, such as in the case of a bankruptcy filing, deterioration in the customer's operating results or financial position or other material events impacting its business, we record a specific allowance to reduce the related receivable to the amount we expect to recover. Should all efforts fail to recover the related receivable, we will write-off the account. We also record an allowance for all customers based on certain other factors including the length of time the receivables are past due and historical collection experience with customers. Our allowance for doubtful accounts was $167,000 as of March 31, 2015 and December 31, 2014.

Projects in Process

Projects in process consist of costs incurred toward the completion of various projects for certain customers. These costs are primarily comprised of direct engineering labor costs and project-specific equipment costs. These costs are capitalized on our consolidated balance sheet as an asset and deferred until revenue for each project is recognized in accordance with our revenue recognition policy. Costs capitalized in projects in process were $613,000 and $200,000 as of March 31, 2015 and December 31, 2014, respectively.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method based upon estimated useful lives of the assets as follows:

Estimated useful lives

Computer equipment	3 years
Furniture and fixtures	5 years

Equipment purchased under capital leases is amortized on a straight-line basis over the estimated useful life of the asset or the term of the lease, whichever is shorter.

Upon retirement or sale of property and equipment, cost and accumulated depreciation and amortization are removed from the accounts and any gains or losses are reflected in the consolidated statement of operations. Maintenance and repairs are charged to expense as incurred.

Long-lived Assets

We assess any impairment by estimating the future cash flow from the associated asset in accordance with relevant accounting guidance. If the estimated undiscounted future cash flow related to these assets decreases or the useful life is shorter than originally estimated, we may incur charges for impairment of these assets. As of March 31, 2015, we believe there was no impairment of our long-lived assets. There can be no assurance, however, that market conditions will not change or sufficient demand for our products and services will continue, which could result in impairment of long-lived assets in the future.

Foreign Currency Translation and Transaction Gains and Losses

The functional currency of our foreign subsidiaries is the applicable local currency, the Swedish Krona, the Japanese Yen, the South Korean Won and the Taiwan Dollar. The translation from Swedish Krona, Japanese Yen, South Korean Won and Taiwan Dollar to U.S. Dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for income statement accounts using a weighted-average exchange rate during the period. Gains or (losses) resulting from translation are included as a separate component of accumulated other comprehensive income (loss). Foreign currency translation gains were $2,000 and $35,000 during the three months ended March 31, 2015 and 2014, respectively. Gains or (losses) resulting from foreign currency transactions are included in general and administrative expenses in the accompanying consolidated statements of operations and were $26,000 during the three months ended March 31, 2015 and 2014.

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Concentration of Credit and Business Risks

Our customers are located in U.S., Europe and Asia.

As of March 31, 2015, one customer represented approximately 68% of the Company’s accounts receivable.

As of December 31, 2014, three customers represented approximately 87% of the Company’s accounts receivable.

Our net revenues for the three months ended March 31, 2015 were earned from twenty-four customers. Customers who accounted for 10% or more of our net revenues during the three months ended March 31, 2015 are as follows:

Hewlett Packard Company – 30%
Amazon -28%

Our net revenues for the three months ended March 31, 2014 were earned from fourteen customers. Customers who accounted for 10% or more of our net revenues during the three months ended March 31, 2014 are as follows:

Leap Frog – 30%
Sony Corporation – 16%
Netronix Inc. – 14%
KOBO Inc. – 11%

Revenue Recognition

Licensing Revenues:

We derive revenue from the licensing of internally developed intellectual property (“IP”). We enter into IP licensing agreements that generally provide licensees the right to incorporate our IP components in their products with terms and conditions that vary by licensee. Fees under these agreements may include license fees relating to our IP and royalties payable following the distribution by our licensees of products incorporating the licensed technology.

The license for our IP has standalone value and can be used by the licensee