NEOMEDIA TECHNOLOGIES INC
Form 10KSB/A
May 17, 2005

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

AMENDMENT NO. 1 TO
FORM 10-KSB

|X| ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2004

OR

|_| TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period ____________ to__________

Commission File Number 0-21743

NEOMEDIA TECHNOLOGIES, INC.
(Exact Name of Issuer in Its Charter)

Delaware	36-3680347
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2201 Second Street, Suite 402 Fort Myers, Florida	33901
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number (Including Area Code) 239-337-3434

Securities Registered Under Section 12(b) of the Exchange Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, par value $.01	Over-the-Counter Bulletin Board

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 |_|

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-X is not contained in this form, and no disclosure will 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 |_|

Issuer's consolidated revenue for its most recent fiscal year was $1,700,000.

The aggregate market value of the voting stock held by non-affiliates of the issuer based on the price at which shares of common stock closed on the

Over-the-Counter Bulleting Board on January 31, 2005 ($0.24) was $89,000,000. Determination of stock ownership by non-affiliates is made solely for purposes of responding to the requirements of the form and the registrant is not bound by this determination for any other purpose.

As of January 31, 2005, there were outstanding 437,356,497 shares of the issuer's Common Stock.

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-KSB contains forward-looking statements and information relating to NeoMedia Technologies, Inc. ("NeoMedia" or "the Company"). NeoMedia intends to identify forward-looking statements in this prospectus by using words such as "believes," "intends," "expects," "may," "will," "should," "plan," "projected," "contemplates," "anticipates," "estimates," "predicts," "potential," "continue," or similar terminology. These statements are based on the Company's beliefs as well as assumptions the Company made using information currently available to us. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Because these statements reflect the Company's current views concerning future events, these statements involve risks, uncertainties, and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements.

ITEM 1. DESCRIPTION OF BUSINESS

General

NeoMedia develops proprietary technologies that link physical information and objects to the Internet marketed under the "PaperClick(R)" brand name. The Company has also developed an extensive patent portfolio covering convergence of the physical world and the Internet.

During 2004, NeoMedia acquired CSI International, Inc. and incorporated its Micro Paint Repair business unit, specializing in chemical technologies and processes for auto paint repair systems.

NeoMedia also acts as a value-added reseller of computer equipment and software, and provided specialized consulting services around these products.

The Company has adopted a code of ethics, as required by the rules of the SEC (attached as exhibit 10.55 hereto). This code of ethics applies to all of the Company's directors, officers and employees. The code of ethics, and any amendments to, or waivers from, the code of ethics, is available in print, at no charge, to any stockholder who requests such information.

Company Structure

The Company is structured and evaluated by its Board of Directors and Management as three distinct business units:

- NeoMedia Internet Switching Software (NISS),

- NeoMedia Consulting and Integration Services (NCIS), and

- NeoMedia Micro Paint Repair (NMPR)

NISS is the core business and is based in the United States, with development and operating facilities in Fort Myers, Florida. NISS develops and supports the Company's physical world to Internet core technology, including NeoMedia's PaperClick(R) linking "switch" and application platforms. NISS also manages the Company's intellectual property portfolio, including the identification and execution of licensing opportunities surrounding the patents.

NCIS is the original business line upon which the Company was founded. This unit resells client-server equipment and related software, and general and specialized consulting services. Systems integration services also identifies prospects for custom applications based on NeoMedia's products and services. These operations are based in Lisle, Illinois.

NMPR is the business unit encompassing the recently-acquired CSI International paint repair and chemical line. NMPR is attempting to commercialize its unique micro-paint repair solution. The Company completed its acquisition of CSI on February 6, 2004.

Following the anticipated completion of NeoMedia's pending acquisition of BSD Software, Inc., NeoMedia will add a fourth business unit called NeoMedia Telecom Services, Inc.

Company History

NeoMedia was incorporated under the laws of the State of Delaware on July 29, 1996, to acquire by tax-free merger Dev-Tech Associates, Inc., NeoMedia's predecessor, which was organized in Illinois in December 1989. In March 1996, Dev-Tech's common stock was split, with an aggregate of 2,551,120 shares of common stock being issued in exchange for the 164 then issued and outstanding shares of common stock. On August 5, 1996, NeoMedia acquired all of the shares of Dev-Tech in exchange for the issuance of shares of NeoMedia's common stock to Dev-Tech's stockholders.

NeoMedia also has the following wholly-owned subsidiaries: NeoMedia Micro Paint Repair, Inc., incorporated in Nevada; NeoMedia Migration, Inc., incorporated in Delaware; Distribuidora Vallarta, S.A., incorporated in Guatemala; NeoMedia Technologies of Canada, Inc., incorporated in Canada; NeoMedia Tech, Inc., incorporated in Delaware; NeoMedia EDV GMBH, incorporated in Austria; NeoMedia Technologies Holding Company B.V., incorporated in the Netherlands; NeoMedia Technologies de Mexico S.A. de C.V., incorporated in Mexico; NeoMedia Migration de Mexico S.A. de C.V., incorporated in Mexico; NeoMedia Technologies do Brazil Ltd., incorporated in Brazil, and NeoMedia Technologies UK Limited, incorporated in the United Kingdom. In October 2004, NeoMedia established NeoMedia Telecom Services, Inc. in Nevada for the purpose of acquiring BSD Software, Inc.

Recent Developments

Acquisition of CSI International, Inc.

On February 6, 2004, NeoMedia acquired CSI International, Inc., of Calgary, Alberta, Canada, a private technology products company in the micro paint repair industry. NeoMedia paid 7,000,000 shares of NeoMedia's common stock, plus $2.5 million cash in exchange for all outstanding shares of CSI. NeoMedia has centralized the administrative functions in its Ft. Myers, Florida headquarters, and maintains the sales and operations office in Calgary, Alberta, Canada.

Pending Acquisition of BSD Software, Inc.

On December 21, 2004, NeoMedia signed a merger agreement with BSD Software Inc., ("BSD") of Calgary, Alberta, Canada (OTCBB: BSDS). Under the terms of the agreement, each share of BSD stock will be exchanged for NeoMedia stock equivalent to .07 divided by the volume-weighted average price of NeoMedia stock

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for the five days prior to the effective time of the merger. Closing will occur when all regulatory approvals have been granted, including effectiveness of a Form S-4 information/registration statement registering the NeoMedia shares to be granted in the transaction. The number of NeoMedia shares to be granted in the exchange will change depending on NeoMedia's stock price at the time of closing. Because a majority of BSD shareholders have approved the merger prior to the signing of the merger agreement, BSD will not hold a shareholders meeting to vote on the merger.

Prior to closing, the merger can be terminated by BSD if more than 5% of BSD's outstanding shares dissent to the merger. The merger can be terminated prior to closing by NeoMedia if, at the time of closing, BSD has: (i) less than $850,000 in assets, (ii) more than $5,000,000 in liabilities, or (iii) more than 35,000,000 shares of common stock outstanding. Either party can terminate the merger if the merger has not closed by March 31, 2005, which date may be extended by mutual consent of NeoMedia and BSD.

Acquisition of Secure Source Technologies, Inc.

On October 8, 2003, NeoMedia acquired Secure Source Technologies, a provider of security solutions and covert security technology for the manufacturing and financial services industries, in exchange for 3.5 million shares of NeoMedia's common stock. With the purchase of SST, NeoMedia acquired additional patents that complement its existing intellectual property portfolio, as well as a security software platform, and computer equipment.

iPoint-Media Ltd.

On September 7, 2004, NeoMedia and iPoint-media Ltd. ("iPoint-media") of Tel Aviv, Israel, entered into a business development agreement. In exchange for entering into the service agreement, NeoMedia received 7% ownership in iPoint-media, consisting of 28,492 shares of iPoint-media common stock. In addition to the business development agreement, NeoMedia acquired an additional 10% ownership of iPoint-media, consisting of 40,704 shares of common stock, for $1 million cash.

iPoint-media was founded in April 2001 as a spin off from Imagine Visual Dialog LTD, whose shareholders include Israeli-based Nisko group, an Israeli holding company, Singapore-based Keppel T&T, and marketing and advertising group WPP. iPoint-media specializes in Customer Interaction Management and is the world's 1st developer of IP Video Call Centers for Deutsche Telecom. Muki Geller, the founder of Imagine Visual Dialog, is the founder, President & CEO of iPoint-media. iPoint-media is located in Tel Aviv, Israel, with a European customer support center in The Netherlands. iPoint-media's mission is to become the video access platform and application engine of choice for service providers.

On October 26, 2004, NeoMedia announced that it would issue its first-ever stock dividend with the distribution of common shares of iPoint-media Ltd. of Tel Aviv as a property dividend. NeoMedia will distribute 5% (or 20,435 shares) of iPoint-media's common stock to NeoMedia shareholders of record as of November 17, 2004. The date of the property dividend payment will be announced after the Securities and Exchange Commission declares iPoint-media's Form SB-2 registration statement effective.

PaperClick(R) Developments

On December 13, 2004, NeoMedia introduced PaperClick(R) Mobile Marketing Services, a tool that allows global marketers and advertising agencies to have one-on-one contact with consumers through cell phones and other mobile wireless devices. PaperClick(R) Mobile Marketing Services delivers real-time promotional content, which can be updated and changed by marketers, while giving consumers one-click e-commerce buying power. The latest addition to the Mobile Marketing Services suite lets users of a wide range of already-in-use camera phones "take

pictures" of special created codes on packages and promotional items and connect in one-click to marketing information. First available for Nokia(R) Series 60 mobile phones, the new capability complements the launch of the PaperClick(R) Mobile Go-Window(TM) during 2004 and PaperClick(R) for Camera Cell Phones(TM) in 2003.

On December 6, 2004, NeoMedia signed a non-binding Letter of Intent with Nextcode Corporation to form a strategic partnership, with joint marketing and sales efforts, involving use of NeoMedia's PaperClick(R) technology and Nextcode Corporation's barcode reading software. Nextcode, based in Concord, Massachusetts, provides barcode reading software and technology designed to enhance the usability of mobile phones and enable access to Internet-based content, services and commerce. When finalized, the one-year renewable agreement would give the companies mutual rights to resell PaperClick(R) Client Software, PaperClick(R) Code Activation, PaperClick(R) Server Software and PaperClick(R) Integration Services, as well as Nextcode's mobile barcode decoding applications and Nextcode's code creation and publishing systems.

During October 2004, NeoMedia entered into a marketing alliance with Science Applications International Corporation (SAIC) to jointly establish, launch, promote and manage the new worldwide mobile "PaperClick(R) WordRegistryTM," a linking and switching platform for use on Web-enabled cell phones and PDA's. When used with PaperClick(R) Mobile Go-Window, NeoMedia's new wireless product which creates a text-entry window on a phone or PDA screen, registered words (or registered phrases) are entered to bring up an automatic link to specific targeted products and promotions. No official date has been set for the launch of the WordRegistryTM.

During 2003, NeoMedia unveiled its PaperClick(R) for Camera Cell PhonesTM product, which reads and decodes UPC/EAN or other bar codes to link users to the Internet, providing information and enabling e-commerce on a compatible camera cell phone, such as the Nokia 3650 model. During the second quarter of 2004, NeoMedia introduced its PaperClick(R) Mobile Go-WindowTM, a horizontal bar on the screen of a wireless device where users can enter numeric strings from UPC or other bar codes to link directly to targeted online information via patented PaperClick(R) technology and software. The PaperClick(R) Mobile Go-WindowTM currently works with Palm(TM) Tungsten C PDA, the Handspring(TM) Treo 270 and 600 Smartphones, Pocket PC(R), Java MIDP 2.0 (Mobile Independent Device Profile) standard, Microsoft Windows Mobile(TM)-based Smartphones, Nokia Series 60 phones, Sendo(R) X, Panasonic(R) X700, and Siemens(R) SX-1.

During 2003, NeoMedia unveiled the go-to-market strategy for its PaperClick(R) suite of products. Over the past several months, NeoMedia has signed contracts with several key partners outlined in the strategy, including agents and resellers Big Gig Strategies (United Kingdom), SRP Consulting (USA), AURA Digital Communications (Australia), Relyco (USA), E&I Marketing (Taiwan), Deusto Sistemas (Spain), Nextcode Corporation (USA), and Jorge Christen and Partners LLP (Mexico). NeoMedia has also teamed with systems integrator SAIC to create the PaperClick(R) WordRegistryTM, and European advertising agency 12Snap. In June 2004, NeoMedia entered into a collaborative agreement with Intel Corporation for NeoMedia's PaperClick(R) mobile connectivity platform to operate on the recently introduced Intel PXA27x processor family-based cellular phones.

In addition, during June 2004 NeoMedia signed a teaming agreement with IPSO, an integrator of proprietary solutions developed by its provider companies for financial institution members and a leader in meeting Check 21 standards. Enacted by Congress and signed into law last year, Check 21 requires banks to begin accepting substitute checks (called IRDs for image replacement documents) in lieu of original checks as of October 29, 2004. NeoMedia and IPSO could partner on proposals and presentations surrounding Check 21.

During January 2005, NeoMedia signed a Letter of Intent to enter into a licensing agreement with Shelron Group, Inc. for PaperClick(R)'s family of mobile marketing products to be used with Shelron's ActivShopper comparison shopping toolbar (attached as Exhibit 10.56 hereto). The agreement will give Shelron Group, Inc. the worldwide rights to use PaperClick(R) on the new ActivShopper Mobile Edition for cell phones and PDA's. ActivShopper is a free software download designed to automatically scan, locate and compare prices for items a consumer selects at an e-commerce site.

AirClic, Inc. Scanbuy, Inc., and LScan Technologies, Inc. Lawsuits

On January 23, 2004, NeoMedia filed a patent infringement lawsuit against AirClic, Inc., Scanbuy, Inc., and LScan Technologies, Inc. in the Northern District of Illinois, claiming that each of the parties has manufactured, or has manufactured for it, and has used, or actively induced others to use, technology which allows customers to use a built-in UPC bar code scanner to scan individual items and access information, thereby infringing NeoMedia's patents. The complaint stated that on information and belief, AirClic, Scanbuy and LScan had actual and constructive notice of the existence of the patents-in-suit, and, despite such notice, failed to cease and desist their acts of infringement, and continue to engage in acts of infringement of the patents-in-suit. On April 15, 2004, the court dismissed the suit against AirClic and Scanbuy for lack of personal jurisdiction.

On April 19, 2004, AirClic filed a declaratory judgment action against NeoMedia in the Eastern District of Pennsylvania. NeoMedia answered and counterclaimed on May 18, 2004. AirClic answered NeoMedia's counterclaim on June 10, 2004. On April 20, 2004, NeoMedia re-filed its suit against AirClic in Pennsylvania for patent infringement. AirClic answered and counterclaimed on May 13, 2004. NeoMedia filed its answer to AirClic's counterclaims on June 2, 2004. NeoMedia filed an amended complaint on July 1, 2004, and AirClic answered and counterclaimed on July 20, 2004. NeoMedia's answer to AirClic's counterclaims was filed on August 3, 2004. The two actions were consolidated and the parties are currently engaged in discovery.

NeoMedia voluntarily dismissed the suit against LScan in the Northern District of Illinois and re-filed the suit on May 26, 2004, in the Eastern

District of Pennsylvania. After LScan failed to answer, NeoMedia filed and served its motion for default judgment on July 6, 2004. The Court entered default judgment on July 7, 2004.

On March 29, 2004, Scanbuy filed suit against NeoMedia in the Southern District of New York alleging that NeoMedia infringed Scanbuy's copyrights, violated the Lanham Act and committed deceptive trade practices and tortious interference. Scanbuy filed an amended complaint on June 23, 2004. NeoMedia filed its answer and affirmative defenses on July 23, 2004. On April 20, 2004, NeoMedia re-filed its suit against Scanbuy in the Southern District of New York alleging patent infringement. Scanbuy filed its answer on June 2, 2004. NeoMedia filed its answer and affirmative defenses on July 23, 2004. The parties are currently engaged in discovery in both of these actions.

Virgin Entertainment Group Lawsuit

On January 2, 2004, NeoMedia filed a patent infringement lawsuit against Virgin(R) Entertainment Group, Inc., Virgin Megastore Online and Virgin Megastore ("Virgin"). The complaint for Patent Infringement and Damages was filed in the United States District Court for the Northern District of Illinois, by Baniak Pine & Gannon, NeoMedia's intellectual property law firm. The complaint claims that Virgin has infringed four of NeoMedia's patents - U.S. Patents Nos. 5,933,829, 5,978,773, 6,108,656, and 6,199,048. The complaint alleges that the Virgin Megaplay Stations located in Virgin's Megastores infringe NeoMedia's patents by using Virgin's Megascan technology to allow customers to scan UPC codes from in-store CDs and DVDs to access Internet-based product information, such as music and movie previews, and album and video art. The complaint also alleges that Virgin had notice of NeoMedia's patents since the latter part of 2002 or before, yet it continued with its infringing activities. The complaint seeks compensatory damages for Virgin's infringement, with those damages to be trebled due to the willful and wanton nature of the infringement. NeoMedia also seeks to preliminarily and permanently enjoin Virgin from its infringing activities. Virgin answered NeoMedia's complaint on March 1, 2004. The parties are currently engaged in discovery.

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Industry Overview

NeoMedia Internet Switching Software

The goal of NeoMedia's Internet Switching Software business segment is to promote mass adoption of the Company's switch and background computer process to link physical world objects to the Internet. The Company's switching platform is a state-of-the-art open and extensible cross-media publishing tool that applies to customers in a variety of industrial, commercial, and educational applications. This business segment is also responsible for licensing NeoMedia's intellectual property to others as a means of promoting this new market as well as providing a revenue and cash resource. NeoMedia has been developing its physical world-to-Internet technology and offerings since 1996 and considers itself an innovator and pioneer in this industry. In the past several years, NeoMedia has seen similar technologies and concepts emerge in the marketplace, and sees these events as a positive validation of the physical world-to-internet concept.

NeoMedia believes the key to the adoption of physical world-to-Internet technologies in the marketplace will be in the development of real world applications that provide the end user a valuable experience. NeoMedia believes that, with an estimated 1.5 billion mobile phone users worldwide, mobile devices such as cellular telephones and PDAs are a key device in the development of the physical world to Internet marketplace. To this end, during 2003, NeoMedia announced its PaperClick(R) for Camera Cell PhonesTM product, which reads and decodes UPC/EAN or other bar codes to link users to the Internet, providing information and enabling e-commerce on a compatible camera cell phone. During 2004, NeoMedia introduced PaperClick(R) Mobile Marketing Services, a mobile solution using PaperClick(R) for Camera Cell Phones that allows global marketers and advertising agencies to have one-on-one contact with consumers through cell phones and other mobile wireless devices. PaperClick(R) Mobile Marketing Services delivers real-time promotional content, which can be updated and changed by marketers, while giving consumers one-click e-commerce buying power. The latest addition to the Mobile Marketing Services suite lets users of a wide range of already-in-use camera phones "take pictures" of special created codes on packages and promotional items and connect in one-click to marketing information.

NeoMedia Consulting and Integration Services

The Company believes that the technology and equipment resale business is becoming a commodity industry for products undifferentiated by value added proprietary elements and services. Resale operations are also being compressed as equipment manufacturers consolidate their distribution channels.

Proprietary products, such as NeoMedia encoders, offer a competitive value-add to the Company's NCIS business. The Company believes that it has unique offerings, which, to the extent that they meet market needs, should offer the potential for growth in this industry. In addition, the Company's recent addition of Storage Area Network Solutions allows it to participate in the higher-margin area of the open systems marketplace.

The NCIS division also sells migration products (tools designed to "migrate" software code from one platform to another platform) primarily to mid-sized to large corporations and government agencies. The products include proprietary products and software tools to migrate Wang, HP3000, Data General, DEC and IBM DOS/VSE platforms (legacy systems) to a Unix or NT open system platform.

NeoMedia Micro Paint Repair

NMPR serves the light collision and paint repair industry offering products and processes that are designed to increase customer productivity and

profits. NMPR's products are positioned to augment traditional paint repair methods commonly used in body shops, as well as allowing non-body shop operations to expand their service offerings. The micro paint repair industry is a sub-segment of the aftermarket automotive coatings business.

Strategy

NeoMedia Internet Switching Software

NeoMedia has spent the past decade developing and patenting the now confirmed space of linking the physical and Internet environments, and developing and implementing five generations of continuously refined switch technology that bridge these environments. During the past year and half, NeoMedia has introduced PaperClick(R) for Camera Cell Phones and PaperClick(R)

Mobile Marketing Services, shifting the focus of this dynamic unit to the rapidly-emerging mobile marketing sector. The Company is strategically pursuing potential licensees of the PaperClick(R) switching platform, as well as intellectual property licensing opportunities with organizations attempting to commercialize physical world-to-Internet technology, such as Symbol Technologies, A.T. Cross Company and Brandkey Systems Corporation.

NeoMedia Consulting and Integration Services

The goal of the NCIS unit is to continue to provide customized technology infrastructure solutions, as well as act as the integration arm for the PaperClick(R) family of products.

NeoMedia Micro Paint Repair

NeoMedia's proprietary Micro Paint Repair system can dramatically reduce costs for current auto body repair facilities, or create a new profit center for auto-related businesses that do not currently offer paint repair. NeoMedia is attempting to market its Micro Paint Repair system to a myriad of automotive industry businesses, from auto dealers to body shops to glass repair shops, and more.

Products/Services

NeoMedia Internet Switching Software

PaperClick(R) Mobile Marketing Service

PaperClick(R) is a Mobile Marketing Service that enables brand managers and consumer product manufacturers to market directly to their target customers via their portable devices such as mobile phones, and PDAs. Using products, brand names, and marketing collateral, brand managers and consumer product manufacturers can interact directly with their customers.

By entering a word or phrase (such as your brand name or tagline) into a mobile device, or by taking a picture of a barcode on your product or your marketing collateral, a consumer can retrieve tailored Web content in one click - even pages deep within a website. PaperClick(R) bypasses long URLs, search engines, or difficult-to-navigate phone menus. PaperClick(R) can directly link a word or code to mobile commerce, rebates, contests, coupons, registration, instructional videos, ad tracking, polling, customer profiling, and more.

PaperClick(R) links a unique identifier (barcode or word) to a specific URL (Web page) using a simple 5-step process:

Step 1: Activation - A barcode or word is activated by the product manufacturer

Step 2: A PaperClick(R)-enabled device retrieves the code or word

Step 3: The device's Web browser is automatically launched and connects to a designated server

Step 4: The server retrieves the specific URL based on the barcode or word

Step 5: The URL is downloaded to the device's browser

The PaperClick(R) solution consists of:

Word Activation

1. Register brand names or taglines in the PaperClick(R) WordRegistryTM. The WordRegistryTM, a joint effort of NeoMedia and Fortune 500 company S.A.I.C., which is the official repository for PaperClick(R) Words

2. Bid on non-trademarked words. Non-trademarked words (such as cola, burger, car) will be auctioned to the highest bidder via the PaperClick(R) WordRegistryTM

3. Activate your brand names and taglines by linking them to mobile web content using Link Manager Software

Created Code Activation - NeoMedia can create custom PaperClick(R) Codes to place on product packaging or literature, a subway poster, a direct mailer, or other marketing collateral. Consumers with a camera phone simply snap a picture of the code and link directly to Web content designated by the product's manufacturer.

Existing Code Activation - As with created codes, PaperClick(R) can link already-existing product codes, such as UPC, EAN, JAN, and ISBN codes, to tailored Web content.

With activation, NeoMedia also provides the following word and code link management tools:

Link Manager Software - Software for a PC that allows a product owner to link words and codes to a specific URL.

Handset Software - Device software required for a mobile device customers to read activated codes and words.

Basic Reporting - Allows product owner to track the number of consumer "hits" by code, date and time.

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NeoMedia also offers the following value-added services with word or code activation:

Click Management Services

- Link Manager Service - NeoMedia will manage the linking of all words and codes on behalf of a product owner

- Code Verification - NeoMedia will test each code to ensure that it is printed properly and that it links to the correct URL

Web Content Creation Services - NeoMedia assists its customers in creating Web content for mobile devices in XHTML, WAP and other mobile formats.

Mobile Marketing Campaign Services - NeoMedia helps its customers create mobile advertising campaigns using their products with PaperClick(R) technology.

Customized Reporting - NeoMedia offers customized reporting and data mining that allows product owners to receive additional data about their marketing campaigns.

Server Software - For product owners that are managing a large number of codes or words, NeoMedia offers Server Software that allows them to store the links within their organization's network.

Intellectual Property Licensing.

The Company currently holds six U.S. patents relating to the physical world-to-Internet marketplace, and an additional six patents acquired in 2003 with the purchase of Secure Source Technologies related to document security. The Company's core physical-world-to-Internet patent portfolio (Patent No. 5,933,829, No. 5,978,773, No. 6,108,656, No. 6,199,048, No. 6,434,561, and No. 6,542,933) is comprised of "system and method" patents that cover the use of machine-readable data for information retrieval. Among the identifiers that could be classified as machine-readable are PaperClick(R)-enabled 2D barcodes, 1D barcodes, UPC/EAN barcodes, magnetic stripes, OCR/ICR, RFID, smartcards, numbers, hot words, and voice. The Company intends to license this intellectual property portfolio to companies endeavoring to tap the potential of this emerging market. To date, the Company has entered into such agreements with Digital:Convergence, A.T. Cross Company, Symbol Technologies, and Brandkey Systems Corporation. During 2002, the Company entered into an agreement with Baniak Pine and Gannon, a law firm specializing in patent licensing and litigation, under which the firm will represent NeoMedia in seeking out potential licensees of NeoMedia's patent portfolio.

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NeoMedia Consulting and Integration Services

NCIS is a group of highly skilled application developers thoroughly familiar with systems integration, storage networks, and other associated technologies who contract to develop custom applications for clients.

System integration project management & consulting services are offered through NeoMedia's NCIS business unit. These services fall into two broad categories:

A. For implementation of PaperClick(R)Mobile Marketing Service

B. For development and implementation of Customized Applications

(A) Services for implementation of PaperClick(R) Mobile Marketing Service The NCIS business unit is comprised of the executive team, technical team, and project managers to establish and deploy a common set of processes and templates, presenting an organized, unified implementation from each project manager. These reusable project management components enable fast, efficient PaperClick(R) project deployment. Key functions of the NCIS business unit are to:

- Create PaperClick(R) Implementation Vision.

- Develop methodology including updating and deployment of best practices.

- Facilitate team communication through common processes, deliverables, and terminology.

- Support a common repository so that prior project management deliverables can be candidates for reuse by similar projects.

- Provide clients (and internal management) continual training to build core project management competencies, a common set of experiences, and an understanding of PaperClick(R) technical development.

- Track status of PaperClick(R) projects, and provide project visibility to management in a common and consistent manner.

Services complementary to a PaperClick(R) project implementation are also provided. They may consist of consulting or hardware services that are part of the project, such as additional servers, network configurations etc., or totally separate from the project due to a parallel need. Services may also include continuation and maintenance of completed projects. Post implementation change orders, training, and code alterations are handled through this division of the System Integration Business Unit.

(B) Services for development and implementation of Customized Applications: NeoMedia's NCIS business assists clients in developing and implementing their own customized PaperClick(R) applications.

Storage Area Networks (SAN). SAN is a Storage Management solutions and consultancy consisting of tools and services that insure data integrity, efficiency and accessibility, achieved through moving data backup, access and archival functions off of traditional Local Area Networks (LANs) and Wide Area Networks (WANs) that are added on to a highly reliable independent managed network.

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Product Sales and Equipment Re-sales. NCIS markets and sells proprietary software products, including high-density symbology encoders (e.g. PDF417 and UPS Maxicode) and resells client-server hardware and related systems such as Sun Microsystems, IBM and others , as well as related applications software and services.

NeoMedia Micro Paint Repair

NMPR's system utilizes proprietary technology to repair cosmetic automobiles damage such as chips, scratches, spots, blemishes, and oxidized paint. While competitive paint repair products utilize a mechanical fix, the NMPR system chemically alters the paint to make the repair invisible to the naked eye, even with the most lustrous metal flake and pearlized auto paints. Repairs can be completed in a fraction of the time of conventional methods, and all of NMPR's products are free of harmful isocyanates.

The products offered through NMPR include:

NMPR Paint System - NMPR offers a license to use its proprietary NMPR

Paint System, along with a training program and ongoing technical support relating to the system.

NMPR Paint System Products - NMPR supplies the products necessary for a paint system operator to implement an NMPR Paint System. Products include NMPR's proprietary chemicals, auto paint, and application hardware.

NMPR Specialty Products - NMPR offers a variety of non-paint related specialty products, including dent repair, interior cleaning, corrosion protection, windshield repair, and warranty programs.

NMPR Paint Repair Services - NMPR currently operates a paint repair facility in its Calgary office. The facility utilizes the NMPR Paint System to make cosmetic repairs to automobiles for dealerships, rental car companies, and consumers.

Strategic Relationships

NeoMedia Internet Switching Software

During January 2002, the Company engaged Baniak Pine and Gannon, a Chicago law firm specializing in intellectual property licensing and litigation. The firm assists the Company in seeking out potential licensees of its intellectual property portfolio, including any resulting litigation. Baniak Pine and Gannon currently represents NeoMedia in its lawsuits against AirClic, Scanbuy, LScan, and Virgin.

During May 2002, the Company granted a personal, worldwide, non-exclusive, limited intellectual property licensing agreement to Brandkey Systems Corporation. Brandkey paid the Company a $50,000 upfront licensing fee in 2002, a $25,000 royalty in 2003, a $50,000 royalty in 2004, and is obligated to pay 2.5% of all future royalty-based revenues earned by Brandkey, with minimum royalties of $50,000 in 2004, and $75,000 in 2005 and after.

On October 30, 2003, NeoMedia unveiled the go-to-market strategy for its PaperClick(R) suite of products. Since that time, NeoMedia has signed contracts with several key partners outlined in the strategy, including channel partners Big Gig Strategies, SRP Consulting, and Relyco, systems integrator Science Applications International Corporation (SAIC), and European advertising agency 12Snap.

In June 2004, NeoMedia entered into a collaborative agreement with Intel Corporation for NeoMedia's PaperClick(R) mobile connectivity platform to operate on the recently introduced Intel PXA27x processor family-based cellular phones.

On June 3, 2004, NeoMedia announced that it signed a teaming agreement with IPSO, an integrator of proprietary solutions developed by its provider companies for financial institution members and a leader in meeting Check 21 standards.

During 2003 and 2004, NeoMedia engaged key partners around the world to assist in the anticipated roll-out of the PaperClick(R) family of products. During this time, NeoMedia has partnered with distributors and resellers such as Big Gig Strategies (United Kingdom), SRP Consulting (USA), AURA Digital Communications (Australia), Relyco (USA), E&I Marketing (Taiwan), Deusto Sistemas (Spain), and Jorge Christen and Partners LLP (Mexico).

NeoMedia Consulting and Integration Services

Through this segment, the Company provides services and products to a spectrum of customers, ranging from closely held companies to large corporations.

NeoMedia Micro Paint Repair

On June 1, 2004, NeoMedia entered into a distribution agreement with Micro Paint Systems (Australasia) Limited of New Zealand for exclusive distribution rights to NeoMedia's Micro Paint Repair products in Australia and New Zealand. The agreement is contingent upon a minimum purchase of 500 systems over five years in that territory. NeoMedia received an initial payment on signing of the contract, which included the fee for four initial systems.

On August 2, 2004, NeoMedia announced that it signed a distribution agreement with Motor Dealer's Association (MDA) Co-Auto Ltd., the largest buying consortium for new car franchised dealers in Western Canada. The agreement provides exclusive rights for MDA Co-Auto to market NeoMedia's Micro Paint Repair system to its member dealers. MDA Co-Auto has 1,050 member dealers in British Columbia, Alberta, Saskatchewan, Manitoba and the Yukon.

Sales and Marketing

NeoMedia Internet Switching Software

During 2003 and 2004, NeoMedia has worked to establish a global network of direct salespeople and resellers to sell and market the PaperClick(R) suite of products. NeoMedia currently employs 8 direct sales and technical consultants in its Lisle, Illinois office who represent the NISS and NCIS business units. Additionally, NeoMedia has established reseller relationships with industry innovators, with a presence in the US, Europe, South America, Asia, and Australia.

NeoMedia Consulting and Integration Services

The Company, through its systems integration services segment, markets its products and services, as well as those for which it acts as a re-marketer,

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primarily through a direct sales force, which was composed of three individuals as of December 31, 2004. In addition, this business unit also relies upon strategic alliances to help market products and services, provide lead referrals, and establish informal co-marketing arrangements. NeoMedia's representatives attend seminars and trade shows, both as speakers and participants, to help market products and services. In addition, this business segment has three agents in the United States that sell NeoMedia's products and services.

NeoMedia Micro Paint Repair

NeoMedia markets its Micro Paint Repair products and services primarily through a direct sales force. In addition, this business unit is exploring strategic alliances to help market products and services, provide lead referrals, and establish informal co-marketing arrangements. This business segment is also establishing an agent network in the United States and Canada to sell NeoMedia's products and services. To this end, during 2004 NeoMedia Micro Paint Repair signed distribution agreements with MDA Co-Auto Ltd., the largest buying consortium for new car franchised dealers in Western Canada, and Micro Paint Systems (Australasia) Limited of New Zealand.

Customers

NeoMedia Internet Switching Software

PaperClick(R). NeoMedia's customers for its PaperClick(R) physical world-to-Internet offerings have included Amway, Solar Communications, Inc., and NYCO Products Company.

Intellectual Property Licensing. To date, the Company has entered into IP licensing agreements with Digital:Convergence Corporation, A.T. Cross Company, Symbol Technologies, and Brandkey Systems Corporation. The Company intends to pursue additional license agreements in the future.

NeoMedia Consulting and Integration Services

NCIS provides equipment and software reselling and integration and automation consulting services to a variety of customers across a range of industries, including telecommunications, insurance, financial services, manufacturing, government entities, and more.

NeoMedia Micro Paint Repair

The customer base for the NMPR business unit consists primarily of auto dealers and repair shops throughout Canada, the US, and Australia/New Zealand. In addition, the Company is party to distribution arrangements with several organizations, including MDA Co-Auto and Novus in Canada, and Micro Paint Systems Australasia in New Zealand.

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Research and Development

NeoMedia Internet Switching Software

NISS employed 3 persons in the area of product development as of December 31, 2004. During the years ended December 31, 2004 and 2003, NISS incurred total software development costs of $462,000 and $332,000, respectively.

NeoMedia Consulting and Integration Services

Any future research or development of products relating to the NCIS business unit will be performed by the NISS division or outside contractors.

NeoMedia Micro Paint Repair

During October 2004, NeoMedia contracted the founder of the CSI International to provide research and development services for its Micro Paint Repair business. In addition, NeoMedia has 1 employee in its Calgary, Alberta, Canada office, to assist with research and development. During the years ended December 31, 2004 and 2003, NMPR incurred total product development costs of $19,000 and $0, respectively.

Intellectual Property Rights

The Company's success in the physical world-to-Internet and the value-added systems integration markets is dependent upon its proprietary technology, including patents, and other intellectual property, and on its ability to protect its proprietary technology and other intellectual property rights. In addition, the Company must conduct its operations without infringing on the proprietary rights of third parties. The Company also intends to rely upon unpatented trade secrets and the know-how and expertise of its employees. To protect its proprietary technology and other intellectual property, the Company relies 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. The Company has six U.S. patents for its physical world-to-Internet technology, an additional patent for which the Company received a notification of issuance from the US Patent and Trademark Office in 2005, an additional patent in Mexico for which the Company received a notification of issuance from the Mexicano de la Propiedad Industrial in 2005, and an additional six patents acquired with the purchase of Secure Source Technologies related to document security. The Company also has several trademarks relating to its proprietary software products.

Competition

NeoMedia Internet Switching Software

Although the Company has been developing its physical world-to-Internet technology and offerings since 1996, the market surrounding the technology is only now beginning to take shape. Over the past year, new technologies and concepts have emerged in the physical world-to-Internet space, specifically relating to mobile commerce and mobile marketing on Internet-enabled cellular phones and PDAs. NeoMedia views the increased development of other products in this space as a validation of the physical world-to-Internet concept and believes that the increased promotion of these products and services by NeoMedia and other companies in this space will raise consumer awareness of this

technology, resulting in a larger, and more rapidly-developing market. The Company believes its portfolio of physical world-to-Internet technologies and patents could provide a barrier to entry for many potential competitors.

NeoMedia Consulting and Integration Services.

Competitors in the consulting and integration services business range from local, small privately held companies to large national and international organizations, including large consulting firms. A large number of companies act as re-marketers of another party's products, and therefore, the competition in this area is intense. In some instances, the Company, in acting as a re-marketer, may compete with the original manufacturer.

NeoMedia Micro Paint Repair. ?

NeoMedia's competitors in the micro paint repair consist primarily of suppliers of traditional paint repair methods, such as automotive paint manufacturers.

Product Liability

The Company has never had any product liability claim asserted against it. Currently the Company maintains product liability insurance, but there can be no guarantee that such policy will be sufficient to cover any claims made against the Company.

Government Regulation

Existing or future legislation could limit the growth of use of the Internet, which would curtail the Company's revenue growth. Statutes and regulations directly applicable to Internet communications, commerce and advertising are becoming more prevalent. Congress recently passed laws regarding children's online privacy, copyrights and taxation. The law remains largely unsettled, even in areas where there has been legislative action. It may take years to determine whether and how existing laws governing intellectual property, privacy, libel and taxation apply to the Internet, e-commerce and online advertising. In addition, the growth and development of e-commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad.

Certain of the Company's proprietary technology allows for the storage of demographic data from NeoMedia's users. In 2000, the European Union adopted a directive addressing data privacy that may limit the collection and use of certain information regarding Internet users. This directive may limit the Company's ability to collect and use information collected by the Company's technology in certain European countries. In addition, the Federal Trade Commission and several state governments have investigated the use by certain Internet companies of personal information. The Company could incur significant additional expenses if new regulations regarding the use of personal information are introduced or if the Company's privacy practices are investigated.

Environmental Protection Compliance

The Company's Micro Paint Division operations are subject to normal environmental protection regulations. Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the

environment, is not expected to have a material effect upon the capital expenditures, earnings or the competitive position of the Company. However, environmental requirements are constantly changing, and it is difficult to predict the effect of future requirements on the Company. Company policy requires that all operations fully meet or exceed legal and regulatory requirements.

Employees

As of December 31, 2004, the Company employed 34 persons, of which 16 are located at the Company's headquarters in Fort Myers, Florida, 8 at the Company's Lisle, Illinois office, 8 at the Company's Calgary, Alberta, Canada office, and 2 remote employees. None of the Company's employees are represented by a labor union or bound by a collective bargaining agreement. The Company believes that its employee relations are good.

The Company's success depends on a significant extent on the performance of its senior management and certain key employees. Competition for highly skilled employees, including sales, technical and management personnel, is intense in the computer industry. The Company's failure to attract additional qualified employees or to retain the services of key personnel could materially adversely affect the Company's business.

Safe Harbor Provision of the Private Securities Litigation Act of 1995

The Company operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The market for software products is generally characterized by rapidly changing technology, frequent new product introductions and changes in customer requirements which can render existing products obsolete or unmarketable. The statements contained in this document that are not historical facts may be forward-looking statements (as such term is defined in the rules promulgated pursuant to the Securities Exchange Act of 1934) that are subject to a variety of risks and uncertainties more fully described in the Company's filings with the Securities and Exchange Commission. The forward-looking statements are based on the beliefs of the management of the Company, as well as assumptions made by, and information currently available to, the Company's management. Accordingly, these statements are subject to significant risks, uncertainties and contingencies which could cause the Company's actual growth, results, performance and business prospects and opportunities in 2005 and beyond to differ materially from those expressed in, or implied by, any such forward-looking statements. Wherever possible, words such as "anticipate," "plan," "expect," "believe," "estimate," and similar expressions have been used to identify these forward-looking statements, but are not the exclusive means of identifying such statements. These risks, uncertainties and contingencies include, but are not limited to, the Company's limited operating history on which expectations regarding its future performance can be based, competition from, among others, high technology companies that have greater financial, technical and marketing resources and distribution capabilities than the Company, the availability of sufficient capital, the effectiveness of the Company's efforts to control operating expenses and general economic and business conditions affecting the Company and its customers in the United States and other countries in which the Company sells and anticipates to sell its products and services.

RISK FACTORS

Risks Specific To NeoMedia

The Company Has Historically Lost Money and Losses May Continue

The Company has incurred substantial losses since its inception, and anticipates continuing to incur substantial losses for the foreseeable future. The Company incurred a loss of $7,230,000 in the year ended December 31, 2004 and $5,382,000 in the year ended December 31, 2003. The Company's accumulated losses were approximately $83,377,000 as of December 31, 2004. As of December 31, 2004 and 2003, the Company had a working capital (deficit) of approximately $(2,597,000) and $(6,526,000), respectively. The Company had stockholders' equity / (deficit) of $4,392,000 and $(3,203,000) at December 31, 2004 and 2003, respectively. The Company generated revenues of $1,700,000 and $2,400,000 for the years ended December 31, 2004 and 2003, respectively. In addition, during the years ended December 31, 2004 and 2003, the Company recorded negative cash flows from operations of $4,650,000 and $2,979,000, respectively. To succeed, the Company must develop new client and customer relationships and substantially increase its revenue derived from improved products and additional value-added services. The Company has expended and to the extent it has available financing, the Company intends to continue to expend substantial resources to develop and improve its products, increase its value-added services and to market its products and services. These development and marketing expenses must be incurred well in advance of the recognition of revenue. As a result, the Company may not be able to achieve or sustain profitability.

The Company's Independent Accountants Have Added Going Concern Language To Their Report On The Company's Financial Statements, Which Means That The Company May Not Be Able To Continue Operations

The report of Stonefield Josephson, Inc., the Company's independent auditors, with respect to the Company's financial statements and the related notes for the years ended December 31, 2004 and 2003, indicates that, at the date of their report, the Company had suffered recurring losses from operations and that the Company's current cash position raises substantial doubt about its ability to continue as a going concern. The Company's financial statements do not include any adjustments that might result from this uncertainty.

There is Limited Information Upon Which Investors Can Evaluate The Company's Business Because The Physical World - to - Internet Market Has Existed For A Short Period Of Time

The physical world-to-Internet market in which the Company operates is a recently developed market. Further, the Company has conducted operations in this market only since March 1996. Consequently, the Company has a relatively limited operating history upon which an investor may base an evaluation of the Company's primary business and determine the Company's prospects for achieving its intended business objectives. The Company is prone to all of the risks inherent to the establishment of any new business venture, including unforeseen changes in its business plan. An investor should consider the likelihood of the Company's future success to be highly speculative in light of the Company's limited operating history in its primary market, as well as the limited resources, problems, expenses, risks, and complications frequently encountered by similarly situated companies in the early stages of development, particularly companies in new and rapidly evolving markets, such as the physical world-to-Internet space. To address these risks, the Company must, among other things:

- maintain and increase its client base;
- implement and successfully execute its business and marketing strategy;
- continue to develop and upgrade its products; o continually update and improve its service offerings and features;
- respond to industry and competitive developments; and
- attract, retain, and motivate qualified personnel.

The Company may not be successful in addressing these risks. If the Company is unable to do so, its business, prospects, financial condition, and results of operations would be materially and adversely affected.

NeoMedia's future success depends on the timely introduction of new products and the acceptance of these new products in the marketplace.

Rapid technological change and frequent new product introductions are typical for the markets NeoMedia serves. NeoMedia's future success will depend in large part on continuous, timely development and introduction of new products that address evolving market requirements. To the extent that NeoMedia fails to introduce new and innovative products, it may lose market share to its competitors, which may be difficult to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could materially damage NeoMedia's business.

The Company's Common Stock Is Subject to Price Volatility

As a result of the emerging and evolving nature of the markets in which the Company competes, as well as the current nature of the public markets and the Company's current financial condition, the Company believes that its operating results may fluctuate materially, as a result of which quarter-to-quarter comparisons of its results of operations may not be meaningful. If in some future quarter, whether as a result of such a fluctuation or otherwise, the Company's results of operations fall below the expectations of securities analysts and investors, the trading price of the Company's common stock would likely be materially and adversely affected. An investor should not rely on the Company's results of any interim period as an indication of its future performance. Additionally, the Company's quarterly results of operations may fluctuate significantly in the future as a result of a variety of factors, many of which are outside the Company's control. Factors that may cause the Company's quarterly results to fluctuate include, among others:

- the Company's ability to retain existing clients and customers;
- the Company's ability to attract new clients and customers at a steady rate;
- the Company's ability to maintain client satisfaction;
- the Company's ability to motivate potential clients and customers to acquire and implement new technologies;
- the extent to which the Company's products gain market acceptance;
- the timing and size of client and customer purchases;
- introductions of products and services by competitors;
- price competition in the markets in which the Company competes;
- the pricing of hardware and software that the Company resells or integrates into its products;

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- the level of use of the Internet and online services, as well as the rate of market acceptance of physical world-to-Internet marketing;
- the Company's ability to upgrade and develop its systems and

infrastructure in a timely and effective manner;

- the Company's ability to attract, train, and retain skilled management, strategic, technical, and creative professionals;
- the amount and timing of operating costs and capital expenditures relating to the expansion of the Company's business, operations, and infrastructure;
- unanticipated technical, legal, and regulatory difficulties with respect to use of the Internet; and
- general economic conditions and economic conditions specific to Internet technology usage and electronic commerce.

The Company's Common Stock Is Deemed To Be "Penny Stock," Which May Make It More Difficult For Investors To Sell Their Shares Due To Suitability Requirements

The Company's common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. These requirements may reduce the potential market for the Company's common stock by reducing the number of potential investors. This may make it more difficult for investors in the Company's common stock to sell shares to third parties or to otherwise dispose of them. This could cause the Company's stock price to decline. Penny stocks are stock:

- with a price of less than $5.00 per share;
- that are not traded on a "recognized" national exchange;
- whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ listed stock must still have a price of not less than $5.00 per share); or
- in issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $10.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

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.

The Company Is Uncertain Of The Success Of Its Internet Switching Software Business Unit And The Failure Of This Unit Would Negatively Affect The Price Of The Company's Stock

The Company provides products and services that provide a link from physical objects, including printed material, to the Internet. The Company can provide no assurance that:

- this Internet Switching Software business unit will ever achieve profitability;

- the Company's current product offerings will not be adversely affected by the focusing of its resources on the physical world-to-Internet space; or

o the products the Company develops will obtain market acceptance.

In the event that the Internet Switching Software business unit should never achieve profitability, that the Company's current product offerings should so suffer, or that the Company's products fail to obtain market acceptance, the Company's business, prospects, financial condition, and results of operations would be materially adversely affected.

A Large Percentage Of The Company's Assets Are Intangible Assets, Which Will Have Little Or No Value If Its Operations Are Unsuccessful

At December 31, 2004, approximately 49% of the Company's total assets were intangible assets, consisting primarily of rights related to its patents and other intellectual property. If the Company's operations are unsuccessful, these assets will have little or no value, which will materially adversely affect the value of the Company's stock and the ability of its stockholders to recoup their investments in the Company's capital stock.

The Company's ISS Business Unit Marketing Strategy Has Not Been Tested And May Not Result In Success

To date, the Company has conducted limited marketing efforts directly relating to its ISS business unit. All of the Company's marketing efforts have been largely untested in the marketplace, and may not result in sales of its products and services. To penetrate the markets in which the Company competes, the Company will have to exert significant efforts to create awareness of, and demand for, its products and services. With respect to the Company's marketing efforts conducted directly, the Company intends to expand its sales staff upon the receipt of sufficient operating capital. The Company's failure to further develop its marketing capabilities and successfully market its products and services would have a material adverse effect on its business, prospects, financial condition, and results of operations.

The Company's Internally Developed Systems May Put The Company At A Competitive Disadvantage

The Company uses internally developed technologies for a portion of its systems integration services, as well as the technologies required to interconnect its clients' and customers' physical world-to-Internet systems and hardware with its own. As the Company developed these systems in order to integrate disparate systems and hardware on a case-by-case basis, these systems may require a significant amount of customization. Such client and customer specific customization is time-consuming and costly and may place the Company at a competitive disadvantage when compared to competitors.

The Company Could Fail to Attract Or Retain Key Personnel

The Company's future success will depend in large part on its ability to attract, train, and retain additional highly skilled executive level management, creative, technical, and sales personnel. Competition is intense for these types of personnel from other technology companies and more established organizations, many of which have significantly larger operations and greater financial, marketing, human, and other resources than the Company has. The Company may not be successful in attracting and retaining qualified personnel on a timely basis, on competitive terms, or at all. The Company's failure to attract and retain qualified personnel would have a material adverse effect on its business, prospects, financial condition, and results of operations will be materially adversely affected.

The Company Depends Upon Its Senior Management And Their Loss Or Unavailability Could Put The Company At A Competitive Disadvantage

The Company's success depends largely on the skills of certain key management and technical personnel, including Charles T. Jensen, its President, Chief Executive Officer and Chief Operating Officer, and Charles W. Fritz, the Company's founder and Chairman of the Board of Directors. The loss of the services of Mr. Jensen or Mr. Fritz could materially harm the Company's business because of the cost and time necessary to replace and train a replacement. Such a loss would also divert management attention away from operational issues. The Company does not presently maintain a key-man life insurance policy on Mr. Jensen or Mr. Fritz.

NeoMedia May Be Unsuccessful In Integrating Its Micro Paint Repair Business With Its Current Business

The success of NeoMedia's Micro Paint Repair business unit could depend on the ability of NeoMedia's executive management to integrate the business plan with the business plan of NeoMedia's NCSI and NISS business units. The NMPR business unit operates in a separate industry from NeoMedia's other two business units.

The Company May Be Unable To Protect Its Intellectual Property Rights And May Be Liable For Infringing The Intellectual Property Rights Of Others

The Company's success in the physical world-to-Internet and the value-added systems integration markets is dependent upon its proprietary technology, including its patents and other intellectual property, and on the Company's ability to protect its proprietary technology and other intellectual property rights. In addition, the Company must conduct its operations without infringing on the proprietary rights of third parties. The Company also intends to rely upon unpatented trade secrets and the know-how and expertise of its employees, as well as its patents. To protect its proprietary technology and other intellectual property, the Company relies 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. The Company has six patents for its core physical world-to-Internet technology, and an additional six patents acquired with the purchase of Secure Source Technologies related to document security in 2003. The Company also has several trademarks relating to its proprietary products. Although the Company believes that it has taken appropriate steps to protect its unpatented proprietary rights, including requiring that its employees and third parties who are granted access to its proprietary technology enter into confidentiality agreements with the Company, the Company can provide no assurance that these measures will be sufficient to protect its rights against third parties. Others may independently develop or otherwise acquire patented or unpatented technologies or products similar or superior to those of the Company.

The Company licenses from third parties certain software tools that it includes in its services and products. If any of these licenses were terminated, the Company could be required to seek licenses for similar software from other third parties or develop these tools internally. The Company may not be able to obtain such licenses or develop such tools in a timely fashion, on acceptable terms, or at all. Companies participating in the software and Internet

technology industries are frequently involved in disputes relating to intellectual property. The Company may in the future be required to defend its intellectual property rights against infringement, duplication, discovery, and misappropriation by third parties or to defend against third-party claims of infringement. Likewise, disputes may arise in the future with respect to ownership of technology developed by employees who were previously employed by other companies. Any such litigation or disputes could result in substantial costs to, and a diversion of effort by, the Company. An adverse determination could subject the Company to significant liabilities to third parties, require the Company to seek licenses from, or pay royalties to, third parties, or require the Company to develop appropriate alternative technology. Some or all of these licenses may not be available to the Company on acceptable terms or at all, and the Company may be unable to develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on the Company's business, prospects, financial condition, and results of operations.

The Company Is Exposed To Product Liability Claims And An Uninsured Claim Could Have A Material Adverse Effect On The Company's Business, Prospects, Financial Condition, And Results Of Operations, As Well As The Value Of Its Stock

Many of the Company's projects are critical to the operations of its clients' businesses. Any failure in a client's information system could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. The Company could, therefore, be subject to claims in connection with the products and services that the Company sells. The Company does not currently maintain product liability insurance. There can be no assurance that:

- the Company has contractually limited its liability for such claims adequately or at all;

- the Company would have sufficient resources to satisfy any liability resulting from any such claim;

The successful assertion of one or more large claims against the Company could have a material adverse effect on the Company's business, prospects, financial condition, and results of operations.

The Company Will Not Pay Cash Dividends and Investors May Have To Sell Their Shares In Order To Realize Their Investment

The Company has not paid any cash dividends on its common stock and does not intend to pay cash dividends in the foreseeable future. The Company intends to retain future earnings, if any, for reinvestment in the development and marketing of its products and services. As a result, investors may have to sell their shares of common stock to realize their investment.

Some Provisions Of The Company's Certificate of Incorporation And By-Laws May Deter Takeover Attempts, Which May Limit The Opportunity Of The Company's Stockholders To Sell Their Shares At A Premium To The Then Market Price

Some of the provisions of the Company's certificate of incorporation and by-laws could make it more difficult for a third party to acquire the Company, even if doing so might be beneficial to the Company's stockholders by providing them with the opportunity to sell their shares at a premium to the then market price. On December 10, 1999, the Company's Board of Directors adopted a stockholders rights plan and declared a non-taxable dividend of one right to

acquire Series A Preferred Stock of NeoMedia, par value $0.01 per share, on each outstanding share of the Company's common stock to stockholders of record on December 10, 1999 and each share of common stock issued thereafter until a pre-defined hostile takeover date. The stockholder rights plan was adopted as an anti-takeover measure, commonly referred to as a "poison pill." The stockholder rights plan was designed to enable all stockholders not engaged in a hostile takeover attempt to receive fair and equal treatment in any proposed takeover of NeoMedia and to guard against partial or two-tiered tender offers, open market accumulations and other hostile tactics to gain control of NeoMedia. The stockholders rights plan was not adopted in response to any effort to acquire control of NeoMedia at the time of adoption. This stockholders rights plan may have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of NeoMedia or a change in control of NeoMedia. Certain of the Company's directors, officers and principal stockholders, Charles W. Fritz, William E. Fritz and The Fritz Family Limited Partnership and their holdings were exempted from the triggering provisions of the Company's "poison pill" plan, as a result of the fact that, as of the plan's adoption, their holdings might have otherwise triggered the "poison pill".

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

The Company is authorized to issue a total of 25,000,000 shares of Preferred Stock, par value $0.01 per share. The Company has no present plans for the issuance of any preferred stock. However, the issuance of any preferred stock could have a material adverse effect on the rights of holders of the Company's common stock, and, therefore, could reduce the value of shares of the Company's common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict NeoMedia's ability to merge with, or sell its assets to, a third party. The ability of the Board of Directors to issue preferred stock could have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of the Company or a change in the Company's control thereby preserving NeoMedia's control by the current stockholders.

Risks Relating To The Company's Industry

The Security of the Internet Poses Risks To The Success Of The Company's Entire Business

Concerns over the security of the Internet and other electronic transactions and the privacy of consumers and merchants may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions, which may have a material adverse effect on the Company's physical world-to-Internet business.

The Company Will Only Be Able To Execute Its Physical World-To-Internet Business Plan If Mobile Internet Usage and Electronic Commerce Continue To Grow

The Company's future revenues and any future profits are substantially dependent upon the widespread acceptance and use of the mobile Internet and other online services as an effective medium of information and commerce. If use of the mobile Internet and other online services does not continue to grow or grows more slowly than the Company expects, if the infrastructure for the mobile Internet and other online services does not effectively support the growth that may occur, or if the mobile Internet and other online services do not become a viable commercial marketplace, the Company's physical world-to-Internet business, and therefore its business, prospects, financial condition, and results of operations, could be materially adversely affected. Rapid growth in the use of, and interest in, the Internet, the Web, and online services is a recent phenomenon, and may not continue on a lasting basis. In addition, customers may not adopt, and continue to use, the mobile Internet and other online services as a medium of information retrieval or commerce. Demand and market acceptance for recently introduced services and products over the mobile Internet are subject to a high level of uncertainty, and few services and products have generated profits. For the Company to be successful, consumers and businesses must be willing to accept and use novel and cost efficient ways of conducting business and exchanging information.

In addition, the public in general may not accept the mobile Internet and other online services as a viable commercial or information marketplace for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. To the extent that the mobile Internet and other online networks continue to experience significant growth in the number of users, their frequency of use, or in their bandwidth requirements, the infrastructure for the mobile Internet and online networks may be unable to support the demands placed upon them. In addition, the mobile Internet or other online networks could lose their viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of activity, or due to increased governmental regulation. Significant issues concerning the commercial and informational use of the mobile Internet and online networks technologies, including security, reliability, cost, ease of use, and quality of service, remain unresolved and may inhibit the growth of mobile Internet business solutions that utilize these technologies. Changes in, or insufficient availability of, telecommunications services to support the mobile Internet or other online services also could result in slower response times and adversely affect usage of the mobile Internet and other online networks generally and the Company's physical world-to-Internet product and networks in particular.

The Company May Not Be Able To Adapt As The Internet, Physical World-to-Internet, Equipment Resales And Systems Integrations Markets, And Customer Demands Continue To Evolve

The Company may not be able to adapt as the Internet, physical world-to-Internet, equipment resales and systems integration markets, and consumer demands continue to evolve. The Company's failure to respond in a timely manner to changing market conditions or client requirements would have a material adverse effect on its business, prospects, financial condition, and results of operations. The Internet, physical world-to-Internet, equipment resales, and systems integration markets are characterized by:

- rapid technological change;
- changes in user and customer requirements and preferences;
- frequent new product and service introductions embodying new technologies; and
- the emergence of new industry standards and practices that could render proprietary technology and hardware and software infrastructure obsolete.

The Company's success will depend, in part, on its ability to:

- enhance and improve the responsiveness and functionality of the Company's products and services;
- license or develop technologies useful in the Company's business on a timely basis;
- enhance the Company's existing services, and develop new services and technologies that address the increasingly sophisticated and varied needs of its prospective or current customers; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

NeoMedia's Competitors In The Micro Paint Repair Industry Could Duplicate NeoMedia's Proprietary Processes

NeoMedia's success in the micro paint repair industry depends upon proprietary chemical products and processes. There is no guarantee that NeoMedia's competitors will not duplicate NeoMedia's proprietary processes.

The Company May Not Be Able To Compete Effectively In Markets Where Its Competitors Have More Resources

While the market for physical world-to-Internet technology is relatively new, it is already highly competitive and characterized by an increasing number of entrants that have introduced or developed products and services similar to those offered by the Company. The Company believes that competition will intensify and increase in the future. The Company's target market is rapidly evolving and is subject to continuous technological change. As a result, the Company's 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 the Company's business, prospects, financial condition, and results of operations.

In addition, the equipment resales and systems integration markets are increasingly competitive. The Company competes in these industries on the basis of a number of factors, including the attractiveness of the services offered, the breadth and quality of these services, creative design and systems engineering expertise, pricing, technological innovation, and understanding clients' needs. A number of these factors are beyond the Company's control. Existing or future competitors may develop or offer products or services that provide significant technological, creative, performance, price, or other advantages over the products and services offered by the Company.

Many of the Company's competitors have longer operating histories, larger customer bases, longer relationships with clients, and significantly greater financial, technical, marketing, and public relations resources than NeoMedia. Based on total assets and annual revenues, the Company is significantly smaller than its two largest competitors in the physical world-to-Internet industry, the primary focus of its business. Similarly, the Company competes against significantly larger and better-financed companies in its systems integration and resales businesses, including the manufacturers of the equipment and technologies that the Company integrates and resells. If the Company competes with its primary competitors for the same geographical or institutional markets, their financial strength could prevent the Company from capturing those markets. The Company may not successfully compete in any market in which the Company conducts or may conduct operations. In addition, based on the increasing consolidation, price competition and participation of equipment manufacturers in the systems integration and equipment resales markets, the Company believes that it will no longer be able to compete effectively in these markets in the future. It is for this reason, that the Company has increasingly focused its business plan on competing in the emerging market for physical world-to-Internet products.

In The Future There Could Be Government Regulations And Legal Uncertainties Which Could Harm The Company's Business

The Company is not currently subject to direct regulation by any government agency other than laws or regulations applicable generally to electronic commerce. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to the Company's business, or the application of existing laws and regulations to the Internet and other online services, could have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. Due to the increasing popularity and use of the Internet and other online services, federal, state, and local governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet or other online services covering issues such as taxation, user privacy, pricing, content, copyrights, distribution, and characteristics and quality of products and services. The growth and development of the market for electronic 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 or other online services, which could, in turn, decrease the demand for the Company's services and increase its cost of doing business, or otherwise have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. Moreover, the relevant governmental authorities have not resolved the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership and personal privacy and it may take time to resolve these issues definitively.

Certain of the Company's proprietary technology allows for the storage of demographic data from the Company's users. In 2000, the European Union adopted a directive addressing data privacy that may limit the collection and use of certain information regarding Internet users. This directive may limit the Company's ability to collect and use information collected by its technology in certain European countries. In addition, the Federal Trade Commission and several state governments have investigated the use by certain Internet companies of personal information. The Company could incur significant additional expenses if new regulations regarding the use of personal information are introduced or if the Company's privacy practices are investigated.

ITEM 2. Description of Properties

The Company's principal executive, development and administrative office is located at 2201 Second Street, Suite 402, Fort Myers, Florida 33901. The Company occupies approximately 5,000 square feet under terms of a written lease from an unaffiliated party which expires on July 31, 2005, with monthly rent totaling approximately $7,000.

The Company maintains a sales facility at 2150 Western Court, Suite 230, Lisle, Illinois 60532, occupying approximately 6,000 square feet under the terms of a written lease from an unaffiliated party expiring on October 31, 2004, with monthly rent totaling approximately $4,000. The Company has a one-year renewal option on the facility.

The Company maintains a production and product development facility for its Micro Paint Repair Business unit in Calgary, Alberta, Canada, occupying approximately 4,000 square feet under the terms of a written month-to-month lease from an affiliated party with monthly rent totaling $2,400.

During February 2005, the Company signed a lease to occupy a 10,000 square foot Micro Paint Repair facility in Ft. Myers, Florida, under the terms of a written lease from an unaffiliated party expiring on February 28, 2008, with monthly rent totaling approximately $9,000. The facility will host training, demonstrations, production, distribution, and retail services for the Micro Paint Repair business unit.

The Company believes that existing office space is adequate to meet current and short-term requirements.

ITEM 3. Legal Proceedings

The Company is involved in the following legal actions arising in the normal course of business, both as claimant and defendant.

AirClic, Inc., Scanbuy, Inc., and LScan Technologies, Inc.

On January 23, 2004, NeoMedia filed a patent infringement lawsuit against AirClic, Inc., Scanbuy, Inc., and LScan Technologies, Inc. in the Northern District of Illinois, claiming that each of the parties has manufactured, or has manufactured for it, and has used, or actively induced others to use, technology which allows customers to use a built-in UPC bar code scanner to scan individual items and access information, thereby infringing NeoMedia's patents. The complaint stated that on information and belief, AirClic, Scanbuy and LScan have had actual and constructive notice of the existence of the patents-in-suit, and, despite such notice, failed to cease and desist their acts of infringement, and continue to engage in acts of infringement of the patents-in-suit. On April 15, 2004, the court dismissed the suit against AirClic and Scanbuy for lack of personal jurisdiction.

On April 19, 2004, AirClic filed a declaratory judgment action against NeoMedia in the Eastern District of Pennsylvania. NeoMedia answered and counterclaimed on May 18, 2004. AirClic answered NeoMedia's counterclaim on June 10, 2004. On April 20, 2004, NeoMedia re-filed its suit against AirClic in

Pennsylvania for patent infringement. AirClic answered and counterclaimed on May 13, 2004. NeoMedia filed its answer to AirClic's counterclaims on June 2, 2004. NeoMedia filed an amended complaint on July 1, 2004, and AirClic answered and counterclaimed on July 20, 2004. NeoMedia's answer to AirClic's counterclaims was filed on August 3, 2004. The two actions were consolidated and the parties are currently engaged in discovery.

NeoMedia voluntarily dismissed the suit against LScan in the Northern District of Illinois and re-filed the suit on May 26, 2004, in the Eastern District of Pennsylvania. After LScan failed to answer, NeoMedia filed and served its motion for default judgment on July 6, 2004. The Court entered default judgment on July 7, 2004.

On March 29, 2004, Scanbuy filed suit against NeoMedia in the Southern District of New York alleging that NeoMedia infringed Scanbuy's copyrights, violated the Lanham Act and committed deceptive trade practices and tortious interference. Scanbuy filed an amended complaint on June 23, 2004. NeoMedia filed its answer and affirmative defenses on July 23, 2004. On April 20, 2004, NeoMedia re-filed its suit against Scanbuy in the Southern District of New York alleging patent infringement. Scanbuy filed its answer on June 2, 2004. NeoMedia filed its answer and affirmative defenses on July 23, 2004. The parties are currently engaged in discovery in both of these actions.

Virgin Entertainment Group

On January 2, 2004, NeoMedia filed a patent infringement lawsuit against Virgin(R) Entertainment Group, Inc., Virgin Megastore Online and Virgin Megastore ("Virgin"). The complaint for Patent Infringement and Damages was filed in the United States District Court for the Northern District of Illinois, by Baniak Pine & Gannon, NeoMedia's intellectual property law firm. The complaint claims that Virgin has infringed four of NeoMedia's patents - U.S. Patents Nos. 5,933,829, 5,978,773, 6,108,656, and 6,199,048. The complaint alleges that the Virgin Megaplay Stations located in Virgin's Megastores infringe NeoMedia's patents by using Virgin's Megascan technology to allow customers to scan UPC codes from in-store CDs and DVDs to access Internet-based product information, such as music and movie previews, and album and video art. The complaint also alleges that Virgin had notice of NeoMedia's patents since the latter part of 2002 or before, yet it continued with its infringing activities. The complaint seeks compensatory damages for Virgin's infringement, with those damages to be trebled due to the willful and wanton nature of the infringement. NeoMedia also seeks to preliminarily and permanently enjoin Virgin from its infringing activities. Virgin answered NeoMedia's complaint on March 1, 2004. The parties are currently engaged in discovery.

Other Litigation

On October 28, 2002, Merrick & Klimek, P.C., filed a complaint against NeoMedia seeking payment of approximately $170,000 in past due legal services. The amount in question is subject to an unsecured promissory note that matured unpaid on February 28, 2002. On May 1, 2003, NeoMedia settled the suit for cash payments totaling approximately $196,000, to be paid at a rate of $30,000 per quarter until the balance is satisfied. NeoMedia had a remaining liability of $33,000 relating to this matter as of December 31, 2004, which was included in accrued expenses.

On December 7, 2004, Reitler Brown & Rosenblatt LLC, filed a complaint against NeoMedia seeking payment of approximately $422,000 in past due legal services and accrued interest. NeoMedia had a remaining liability of $422,000 relating to this matter as of December 31, 2004, which was included in accounts payable and accrued expenses.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information. The Company's shares trade on the OTC Bulletin Board under the symbol "NEOM." As of December 31, 2004, the Company had 432,525,053 common shares outstanding.

The following table summarizes the high and low closing sales prices per share of the common stock for the periods indicated as reported on The OTC Bulletin Board and Nasdaq SmallCap Market, as applicable:

	(U.S. $)	
2002	HIGH	LOW
First Quarter	$0.41	$0.14
Second Quarter	0.17	0.05
Third Quarter	0.10	0.02
Fourth Quarter	0.05	0.01
2003	HIGH	LOW
First Quarter	$0.06	$0.01
Second Quarter	0.04	0.01
Third Quarter	0.29	0.01
Fourth Quarter	0.23	0.10
2004	HIGH	LOW
First Quarter	$0.16	$0.14
Second Quarter	$0.11	$0.05
Third Quarter	$0.12	$0.06
Fourth Quarter	$0.30	$0.06

(b) Holders. As of December 31, 2004, NeoMedia had an estimated 8,500 recordholders of common stock.

(c) Dividends. The Company has not declared or paid any dividends on its common stock during the years ended December 31, 2003 or 2004. The Company will base any issuance of dividends upon its earnings, financial condition, capital requirements and other factors considered important by its board of directors. Delaware law and the Company's certificate of incorporation do not require the board of directors to declare dividends on the Company's common stock. The Company expects to retain all earnings, if any, generated by its operations for the development and growth of its business and does not anticipate paying any dividends to its stockholders for the foreseeable future.

(d) Recent Issuances of Unregistered Securities.

On June 25, 2004, the Company issued to Marvin Tkachuk, an unrelated distribution agent, 322,228 shares of common stock in exchange for exclusivity rights under a distribution contract. The shares were valued at $0.074, which was the market price at the time of the agreement.

On June 9, 2004, the Company issued to Stanton Hill, a current outside consultant and former president of CSI International, Inc., 518,185 shares of common stock as payment for debt acquired with the purchase by NeoMedia of CSI in February 2004. The shares were valued at $0.061, which was the market price at the time of the agreement.

On March 8, 2004, the Company issued to Stone Street Asset Management, LLC, 40,000,000 warrants to purchase shares of common stock at an exercise price of $0.05 per share. The market price at the time of issuance was $0.11.

On February 25, 2004, the Company issued 103,199 shares of stock to David Kaminer, as payment of past due professional services. The shares were valued at $0.097. The market price at the time of the agreement was $0.102.

On February 6, 2004, the Company issued 7,000,000 shares of common stock to CSI International, Inc. shareholders in connection with NeoMedia's purchase of CSI. The closing market price on the date of issuance was $0.10.

On October 31, 2003, the Company entered into an agreement to issue 8,000,000 shares of stock to International Digital Scientific, Inc., as payment of all past and future amounts owed under a note payable from 1994. The shares were valued at $0.113. The market price at the time of the agreement was $0.113.

On October 23, 2003, the Company entered into an agreement to issue 3,000,000 shares of stock to Orsus Solutions, USA, Inc., an unrelated vendor, as payment of past due liabilities of $331,000. The shares were valued at $0.107. The market price at the time of the agreement was $0.107.

On October 28, 2003, the Company issued 95,238 shares of stock to Newbridge Securities Corporation, an unrelated advisor, for services relating to the Standby Equity Distribution Agreement. The shares were valued at $0.105, the market price on the date of issuance.

On October 27, 2003, the Company issued 7,279 shares of stock to one unrelated vendor as payment of past due liabilities of $1,000. The shares were valued at $0.105, the market price on the date of issuance.

On October 27, 2003, the Company issued to Cornell Capital Partners, LP, 10,000,000 warrants to purchase shares of its common stock at an exercise price of $0.05 per share. The warrants were issued as a one-time commitment fee relating to the Standby Equity Distribution Agreement between Cornell and NeoMedia.

On October 3, 2003, the Company finalized its purchase of Secure Source Technologies, Inc. for 3,500,000 shares of stock. The shares were valued at $0.14, the market price on the date of closing.

On October 20, 2003, the Company issued 66,841 shares of stock to one unrelated vendor as payment of past due liabilities of $10,000. The shares were valued at $0.10. The market price on the date of the agreement was $0.10.

On October 7, 2003, the Company issued 103,907 shares of stock to one unrelated vendor as payment of past due liabilities of $16,000. The shares were valued at $0.13. The market price on the date of the agreement was $0.13.

On October 6, 2003, the Company issued 37,743 shares of stock to one unrelated vendor as payment of past due liabilities of $5,000. The shares were valued at $0.14. The market price on the date of issuance was $0.16.

On September 25, 2003, the Company issued 875,855 shares of stock to an unrelated vendor as payment of past due liabilities totaling $34,000. The shares were valued at $0.23 based on the market price on the grant date. The market price on the date of issuance was $0.20.

On August 26, 2003, the Company issued 1,600,000 shares of stock to a former employee as payment of past due incentive compensation in the amount of $29,000. The shares were valued at $0.02. The market price on the date of issuance was $0.02.

On August 26, 2003, the Company entered into an agreement to issue 450,000 shares of stock an unrelated vendor as payment of past due liabilities totaling $9,000. The shares were valued at $0.02. The market price on the date of the agreement was $0.02.

On July 9, 2003, the Company borrowed $25,000 from William E. Fritz, one of its outside directors. This amount was added to the principal of a $10,000 note payable to Mr. Fritz that matures in April 2004, with all other terms of the note remaining the same. As consideration for the loan, the Company granted Mr. Fritz 2,500,000 warrants to purchase shares of the Company's common stock at an exercise price of $0.01 per share.

On April 21, 2003, the Company sold 25,000,000 shares of its common stock, par value $0.01, in a private placement at a price of $0.01 per share. The Company's stock price at the time of the sale was $0.012. In connection with the sale, the Company also granted the purchaser 25,000,000 warrants to purchase shares of its common stock at an exercise price of $0.01 per share. The warrants had a fair value of $298,000 and have been recorded as a cost of issuance. The purchaser was William E. Fritz, a member of the Company's Board of Directors. Proceeds to NeoMedia from sale of the shares were $250,000. The Company recognized a discount expense in general and administrative expenses of approximately $50,000 relating to this transaction with Mr. Fritz. On August 6, 2003, Mr. Fritz exercised his warrants and purchased 25,000,000 additional shares of common stock at a price of $0.01 per share.

On April 17, 2003, the Company's Board of Directors approved the payment in full of approximately $154,000 of liabilities owed by us to Charles W. Fritz, its Founder and Chairman of the Board of Directors, through the issuance of 15,445,967 shares of common stock. The shares were valued at $0.01. The market price on the date of issuance was $0.011. The Company recognized an expense in general and administrative expenses of approximately $15,000 relating to this transaction with Mr. Fritz.

The Company relied upon the exemption provided in Section 4(2) of the Securities Act and/or Rule 506, which cover "transactions by an issuer not involving any public offering," to issue securities discussed above without registration under the Securities Act of 1933. The certificates representing the securities issued displayed a restrictive legend to prevent transfer except in compliance with applicable laws, and the Company's transfer agent was instructed not to permit transfers unless directed to do so by us, after approval by the Company's legal counsel. The Company believes that the investors to whom securities were issued had such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of the prospective investment. The Company also believes that the investors had access to the same type of information as would be contained in a registration statement.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

NISS (Physical-World-to-Internet Offerings) Business Unit Developments.

Over the past several years, NeoMedia's focus has been aimed toward the commercialization of its Internet Switching Systems (NISS) business unit. NISS consists of the patented PaperClick(R) technology that enables users to link directly from the physical to the digital world, as well as the patents surrounding certain physical-world-to-web linking processes. NeoMedia's mission is to invent, develop, and commercialize technologies and products that effectively leverage the integration of the physical and electronic to provide clear functional value for its end-users, competitive advantage for their business partners and return-on-investment for their investors.

On September 8, 2003, NeoMedia announced its PaperClick(R) for Camera Cell PhonesTM product, which reads and decodes UPC/EAN or other bar codes to link users to the Internet, providing information and enabling e-commerce on a compatible camera cell phone, such as the Nokia 3650 model. During the second quarter of 2004, NeoMedia introduced its PaperClick(R) Mobile Go-WindowTM, a horizontal bar on the screen of a wireless device where users can enter numeric strings from UPC or other bar codes to link directly to targeted online information via patented PaperClick(R) technology and software. The PaperClick(R) Mobile Go-WindowTM currently works with Palm(TM) Tungsten C PDA, the Handspring(TM) Treo 270 and 600 Smartphones, Pocket PC(R), Java MIDP 2.0 (Mobile Independent Device Profile) standard, and Microsoft Windows Mobile(TM)-based Smartphones.

During 2003, NeoMedia unveiled the go-to-market strategy for its PaperClick(R) suite of products. Over the past several months, NeoMedia has signed contracts with several key partners outlined in the strategy, including agents and resellers Big Gig Strategies (United Kingdom), SRP Consulting (USA), AURA Digital Communications (Australia), Relyco (USA), E&I Marketing (Taiwan), Deusto Sistemas (Spain), Nextcode Corporation (USA), and Jorge Christen and Partners LLP (Mexico). NeoMedia has also teamed with systems integrator SAIC to create the PaperClick(R) WordRegistryTM, and European advertising agency 12Snap to provide click management services for PaperClick(R) products in Europe. In June 2004, NeoMedia entered into a collaborative agreement with Intel Corporation for NeoMedia's PaperClick(R) mobile connectivity platform to operate on the recently introduced Intel PXA27x processor family-based cellular phones.

In addition, during June 2004 NeoMedia signed a teaming agreement with IPSO, an integrator of proprietary solutions developed by its provider companies for financial institution members and a leader in meeting Check 21 standards. Enacted by Congress and signed into law last year, Check 21 requires banks to begin accepting substitute checks (called IRDs for image replacement documents) in lieu of original checks as of October 29, 2004. NeoMedia and IPSO could partner on proposals and presentations surrounding Check 21.

During October 2004, NeoMedia and SAIC entered into a marketing alliance to jointly establish, launch, promote and manage the new worldwide mobile "PaperClick(R) WordRegistryTM," a linking and switching platform for use on Web-enabled cell phones and PDA's. When used with PaperClick(R) Mobile Go-Window, NeoMedia's new wireless product, which creates a text-entry window on a phone or PDA screen, registered words (or registered phrases) are entered to bring up an automatic link to specific targeted products and promotions. No official date has been set for the launch of the WordRegistryTM.

During January 2005, NeoMedia signed a Letter of Intent to enter into a licensing agreement with Shelron Group, Inc. for PaperClick(R)'s family of mobile marketing products to be used with Shelron's ActivShopper comparison shopping toolbar. The agreement will give Shelron Group, Inc. the worldwide rights to use PaperClick(R) on the new ActivShopper Mobile Edition for cell phones and PDA's. ActivShopper is a free software download designed to

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automatically scan, locate and compare prices for items a consumer selects at an e-commerce site.

NMPR (Micro Paint Repair) Business Unit Developments.

On February 6, 2004, NeoMedia acquired 100% ownership of CSI International, Inc., of Calgary, Alberta, Canada, a private technology products company in the micro paint repair industry. NeoMedia currently has approximately 50 active paint repair end-user system agreements.

On June 1, 2004, NeoMedia announced that it had entered into a distribution agreement with Micro Paint Systems (Australasia) Limited of New Zealand for exclusive distribution rights to NeoMedia's Micro Paint Repair products in Australia and New Zealand. The agreement is contingent upon a minimum purchase of 500 systems over five years in that territory. NeoMedia received an initial payment on signing of the contract, which included the fee for four initial systems.

On June 22, 2004, NeoMedia announced its new product called "Silver Solutions," a process created specifically to mend the popular high metallic and pearl paint finishes on new cars.

On July 16, 2004, NeoMedia announced that its NeoMedia Micro Paint Repair business unit added five more licensees as part of a private label contract with Crackmaster Distributors Ltd., a Canadian auto aftermarket company.

On August 2, 2004, NeoMedia announced that it signed a distribution agreement with Motor Dealer's Association (MDA) Co-Auto Ltd., the largest buying consortium for new car franchised dealers in Western Canada. The agreement provides exclusive rights for MDA Co-Auto to market NeoMedia's Micro Paint Repair system to its member dealers. MDA Co-Auto has 1,050 member dealers in British Columbia, Alberta, Saskatchewan, Manitoba and the Yukon.

NCIS (Systems Integration) Business Unit Developments.

NCIS (systems integration service offerings) is the original business line upon which the Company was organized. This unit resells client-server equipment and related software, and general and specialized consulting services. Systems integration services also identifies prospects for custom applications based on NeoMedia's products and services. These operations are based in Lisle, Illinois.

Acquisitions

CSI International, Inc. On February 6, 2004, NeoMedia acquired 100% ownership of CSI International, Inc., of Calgary, Alberta, Canada, a private company in the micro paint repair industry. NeoMedia issued 7,000,000 shares of its common stock, plus $2.5 million cash in exchange for all outstanding shares of CSI. NeoMedia has centralized the administrative functions in its Ft. Myers, Florida headquarters, and maintains a sales office in Calgary, Alberta, Canada.

BSD Software, Inc. On December 21, 2004, NeoMedia and BSD Software Inc. ("BSD") (OTCBB: BSDS) signed a definitive Agreement and Plan of Merger. BSD owns 90% of the outstanding shares of Triton Global Business Services, Inc., a provider of live and automated operator calling services and

e-business support, including billing, clearinghouse and information management services, to companies in the telecommunications industry. BSD's shareholders will receive, for each share of BSD stock owned, NeoMedia stock equivalent to .07 divided by the volume-weighted average price of NeoMedia stock for the five days prior to the effective time of the merger. The agreement has been approved by holders of approximately 63% of BSD's outstanding shares and its Board. NeoMedia and BSD expect to file a joint registration/information statement with the SEC in the first quarter of 2005. NeoMedia expects to complete the merger when the review is complete and the registration is approved. At this time, the exchange rate will be determined and closing will be held. Closing is subject to the terms and conditions outlined in the merger agreement, as well as regulatory approval of the merger and registration/information statement by the United States Securities and Exchange Commission.

Secure Source Technologies, Inc. On October 8, 2003, NeoMedia acquired Secure Source Technologies, a provider of security solutions and covert security technology for the manufacturing and financial services industries, in exchange for 3.5 million shares of NeoMedia's common stock. With the purchase of SST, NeoMedia acquired additional patents that complement its existing intellectual property portfolio, as well as a security software platform, and computer equipment.

iPoint-Media Ltd.

On September 7, 2004, NeoMedia and iPoint-media Ltd. ("iPoint-media") of Tel Aviv, Israel, entered into a business development agreement. In exchange for entering into the service agreement, NeoMedia received 7% ownership in iPoint-media, consisting of 28,492 shares of iPoint-media common stock. In addition to the business development agreement, NeoMedia acquired an additional 10% ownership of iPoint-media, consisting of 40,704 shares of common stock, for $1 million cash.

iPoint-media was founded in April 2001 as a spin off from Imagine Visual Dialog LTD, whose shareholders include Israeli-based Nisko group, an Israeli holding company, Singapore-based Keppel T&T, and marketing and advertising group WPP. iPoint-media specializes in Customer Interaction Management and is the world's 1st developer of IP Video Call Centers for Deutsche Telecom. Muki Geller, the founder of Imagine Visual Dialog, is the founder, President & CEO of iPoint-media. iPoint-media is located in Tel Aviv, Israel, with a European customer support center in The Netherlands. iPoint-media's mission is to become the video access platform and application engine of choice for service providers.

On October 26, 2004, NeoMedia announced that it would issue its first-ever stock dividend with the distribution of common shares of IPoint-media Ltd. of Tel Aviv as a property dividend. NeoMedia will distribute 5% (or 20,435 shares) of iPoint-media's common stock to NeoMedia shareholders of record as of November 17, 2004. The date of the property dividend payment will be announced after the Securities and Exchange Commission declares iPoint-media's Form SB-2 registration statement effective.

NeoMedia's operating results have been subject to variation and will continue to be subject to variation, depending upon factors, such as the mix of business among services and products, the cost of material, labor and technology, particularly in connection with the delivery of business services, the costs associated with initiating new contracts, the economic condition of NeoMedia's target markets, and the cost of acquiring and integrating new businesses.

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Critical Accounting Policies

The U.S. Securities and Exchange Commission ("SEC") issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, NeoMedia's most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; and the valuation of intangibles, which affects amortization and impairment of goodwill and other intangibles. NeoMedia also has other key accounting policies, such as policies for revenue recognition, including the deferral of a portion of revenues on sales to distributors, allowance for doubtful accounts, and stock-based compensation. The methods, estimates and judgments NeoMedia uses in applying these most critical accounting policies have a significant impact on the results it reports in its consolidated financial statements..

Intangible Asset Valuation. The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, NeoMedia primarily uses the weighted-average probability method outlined in SFAS 144. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates NeoMedia has used are consistent with the plans and estimates that NeoMedia uses to manage its business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect NeoMedia's net operating results.

Allowance for Doubtful Accounts. NeoMedia maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Allowance for doubtful accounts is based on NeoMedia's assessment of the collectibility of specific customer accounts, the aging of accounts receivable, NeoMedia's history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or NeoMedia's customers' actual defaults exceed historical experience, NeoMedia's estimates could change and impact its reported results.

Inventory. Inventories are stated at lower of cost (using the first-in, first-out method) or market. The Company continually evaluates the composition of its inventories assessing slow-moving and ongoing products and maintains a reserve for slow-moving and obsolete inventory as well as related disposal costs.

Stock-based Compensation. NeoMedia records stock-based compensation to outside consultants at fair market value in general and administrative expense. NeoMedia does not record expense relating to stock options granted to employees with an exercise price greater than or equal to market price at the time of grant. NeoMedia reports pro-forma net loss and loss per share in accordance with the requirements of SFAS 123 and 148. This disclosure shows net loss and loss per share as if NeoMedia had accounted for its employee stock options under the fair value method of those statements. Pro-forma information is calculated using the Black-Scholes pricing method on the date of grant. This option valuation model requires input of highly subjective assumptions. Because NeoMedia's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of its employee stock options.

Estimate of Litigation-based Liability. NeoMedia is defendant in certain litigation in the ordinary course of business (see "Legal Proceedings"). NeoMedia accrues liabilities relating to these lawsuits on a case-by-case basis. NeoMedia generally accrues attorney fees and interest in addition to the liability being sought. Liabilities are adjusted on a regular basis as new information becomes available. NeoMedia consults with its attorneys to determine the viability of an expected outcome. The actual amount paid to settle a case could differ materially from the amount accrued.

Revenue Recognition. NeoMedia derives revenues from three primary sources: (1) license revenues and (2) resale of software and technology equipment and service fee revenues, and (3) sale of its proprietary Micro Paint Repair solution.

(1) License fees, including Intellectual Property licenses, represent revenue from the licensing of NeoMedia's proprietary software tools and applications products. NeoMedia licenses its development tools and application products pursuant to non-exclusive and non-transferable license agreements. Resales of software and technology equipment represent revenue from the resale of purchased third party hardware and software products and from consulting, education, maintenance and post contract customer support services.

The basis for license fee revenue recognition is substantially governed by American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), as amended, and Statement of Position 98-9, Modification of SOP 97-2, "Software Revenue Recognition, With Respect to Certain Transactions.". License revenue is recognized if persuasive evidence of an agreement exists, delivery has occurred, pricing is fixed and determinable, and collectibility is probable.

(2) Revenue for resale of software and technology equipment and service fee is recognized based on guidance provided in SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements," as amended (SAB 104). Software and technology equipment resale revenue is recognized when all of the components necessary to run software or hardware have been shipped. Service revenues including maintenance fees for providing system updates for software products, user documentation and technical support are recognized over the life of the contract. Software license revenue from long-term contracts has been recognized on a percentage of completion basis, along with the associated services being provided. Other service revenues, including training and consulting, are recognized as the services are performed. NeoMedia uses stand-alone pricing to determine an element's vendor specific objective evidence (VSOE) in order to allocate an arrangement fee amongst various pieces of a multi-element contract. NeoMedia records an allowance for doubtful accounts on a customer-by-customer basis as appropriate.

In December 2003, the SEC issued SAB 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition

principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

(3) Revenue for training and certification on NeoMedia's Micro Paint Repair systems is recognized equally over the term of the contract, which is currently one year. A portion of the initial fee paid by the customer is allocated to training costs and initial products sold with the system, and is recognized upon completion of training and shipment of the products. Ongoing product and service revenue is recognized as products are shipped and services performed.

Results of Operations for the Year Ended December 31, 2004 as Compared to the

Year Ended December 31, 2003

Net sales. Total net sales for the year ended December 31, 2004 were $1,700,000, which represented a $700,000, or 29%, decrease from $2,400,000 for the year ended December 31, 2003. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions, offset by new sales from the Company's Micro Paint Repair business acquired during February 2004. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick(R) go-to-market strategy, or if pending court cases involving its intellectual property are resolved in NeoMedia's favor. NeoMedia could also realize a material increase in Micro Paint Repair revenue if the Company is successful in implementing its business plan for that business unit.

License fees. License fees were $343,000 for the year ended December 31, 2004, compared with $414,000 for the year ended December 31, 2003, a decrease of $71,000, or 17%. The decrease was due to lower sales of internally developed software licenses in 2004. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick(R) go-to-market strategy, or if pending court cases involving its intellectual property are resolved in NeoMedia's favor.

Resales of software and technology equipment and service fees. Resales of software and technology equipment and service fees decreased by $1,356,000, or 68%, to $630,000 for the year ended December 31, 2004, as compared to $1,986,000 for the year ended December 31, 2003. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions. NeoMedia intends to continue to pursue additional resales of equipment, software and services. NeoMedia expects resales to more closely resemble the results for the year ended December 31, 2004, rather than the year ended December 31, 2003.

Micro Paint Repair products and services. Sales of Micro Paint Repair products and services were $727,000 for the year ended December 31, 2004. NeoMedia acquired this business on February 6, 2004, and as a result there were no sales of Micro Paint Repair products and services during the year ended December 31, 2003. NeoMedia could realize a material increase in Micro Paint Repair revenue if the Company is successful in implementing its business plan for that business unit.

Cost of license fees. Cost of license fees was $324,000 for the year ended December 31, 2004, an increase of $24,000, or 8%, compared with $300,000 for the year ended December 31, 2003. The increase resulted from increased amortization of capitalized patent costs during 2004 compared with 2003.

Cost of resales of software and technology equipment and service. Cost of resales of software and technology equipment and service was $604,000 for the year ended December 31, 2004, a decrease of $1,225,000, or 67%, compared with $1,829,000 for the year ended December 31, 2003. The decrease resulted from decreased resales in 2004 compared with 2003. Cost of resales as a percentage of related resales was 96% in 2004, compared to 92% in 2003. This increase is due to revenue declining more rapidly than the fixed portion of costs of resales, coupled with eroding margins in the resale business. NeoMedia expects costs of resales to fluctuate with the mix of sales of equipment, software, and services over the next 12 months.

Cost of Micro Paint Repair products and services. Cost of micro paint repair products and services was $541,000 for the year ended December 31, 2004. Cost of micro paint repair products and services as a percentage of related sales was 74%. NeoMedia acquired this business on February 6, 2004, and as a result there were no cost of sales of micro paint repair products and services during the year ended December 31, 2003. NeoMedia expects cost of micro paint repair products and services to increase with Micro Paint Repair revenue over the next 12 months as the Company continues its roll-out of this business unit.

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Gross Profit. Gross profit was $231,000 for the year ended December 31, 2004, a decrease of $40,000, or 15%, compared with gross profit of $271,000 for the year ended December 31, 2003. This decrease was primarily the result of reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions.

Sales and marketing. Sales and marketing expenses were $2,046,000 for the year ended December 31, 2004, compared to $523,000 for the year ended December 31, 2003, an increase of $1,523,000 or 291%. This increase resulted primarily from the addition of recently-acquired Micro Paint Repair business sales force and cost associated with marketing and as promotion of the Company's PaperClick(R) and Micro Paint Repair products. NeoMedia expects sales and marketing expense to increase over the next 12 months with the continued development and anticipated rollout of the PaperClick(R) and Micro Paint Repair product suites, as well as the anticipated acquisition of BSD Software.

General and administrative. General and administrative expenses decreased by $2,055,000, or 48%, to $2,215,000 for the year ended December 31, 2004, compared to $4,270,000 for the year ended December 31, 2003. The decrease resulted primarily from non-cash expenses relating to the Company's option repricing program, expense for stock options issued with exercise prices below market price, and higher stock-based professional service expense in 2003 as compared with 2004. NeoMedia expects general and administrative expense to increase over the next 12 months with the recent acquisition of CSI International and the potential acquisition of BSD Software.

Research and development. During the year ended December 31, 2004, NeoMedia charged to expense $651,000 of research and development costs, an increase of $319,000 or 96% compared to $332,000 charged to expense for the year ended December 31, 2003. The increase is primarily due to the addition of development headcount and computer systems during 2004, as well as development costs associated with the Micro Paint Repair business unit acquired in 2004. NeoMedia expects research and development costs to increase over the next 12 months with the continued development efforts of its PaperClick(R) and Micro Paint Repair products and services.

Gain on extinguishment of debt. During the year ended December 31, 2004, NeoMedia recognized a gain on extinguishment of debt of $140,000, resulting from the payment of debt at a discount to the book value of the debt, an increase of $292,000, or 192%, compared with a loss on extinguishment of debt of $152,000 for the year ended December 31, 2003. These gains resulted from a difference between the cash or market value of stock issued to settle the debt and the carrying value of the debt at the time of settlement.

Amortization of debt discount. During the year ended December 31, 2004, NeoMedia recognized an amortization of debt issuance cost of $2,500,000 relating to the fair value of warrants granted to Cornell Capital Partners in connection with promissory notes issued to Cornell by NeoMedia during January 2004. NeoMedia did not recognize any such expense during the year ended December 31, 2003. During the year ended December 31, 2004, NeoMedia amortized the full $2.5 million discount value relating to the Cornell warrants, and as a result does not expect to recognize such expense in the next 12 months.

Interest expense. Interest expense consists primarily of interest accrued for creditors as part of financed purchases, past due balances, notes payable and interest earned on cash equivalent investments. Interest expense decreased by $187,000, or 50%, to $189,000 for the year ended December 31, 2004 from $376,000 for the year ended December 31, 2003, due to reduced expense associated with vendor settlements and debt in 2004 compared with 2003.

Net Loss. The net loss for the year ended December 31, 2004 was $7,230,000, which represented a $1,848,000, or 34% increase from a $5,382,000 loss for the year ended December 31, 2003. The increase resulted primarily from the amortization of debt issuance cost of $2,500,000 in 2004, offset by reduced general and administrative costs in 2004.

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Liquidity and Capital Resources

As of December 31, 2004, NeoMedia's cash balance was $2,634,000, compared to $61,000 at December 31, 2003.

Net cash used in operating activities was approximately $4,650,000 for the year ended December 31, 2004, compared with $2,979,000 for the year ended December 31, 2003, an increase of $1,671,000, or 56%. The increase was primarily due to increased sales and marketing expenses in 2004 associated with NeoMedia's PaperClick(R) products, the addition of infrastructure with the acquisition of CSI, and the continued payment of accounts payable and accruals incurred in previous years.

NeoMedia's net cash flow used in investing activities for the years ended December 31, 2004 and 2003, was $1,252,000 and $281,000, respectively, an increase of $971,000, or 346%. The increase was due to the Company's $1 million investment in I-Point Media Ltd. during 2004.

Net cash provided by financing activities for the years ended December 31, 2004 and 2003 was $8,535,000 and $3,251,000, respectively, an increase of $5,284,000, or 163%. The increase was due to increased draws under the Company's Standby Equity Distribution Agreement with Cornell Capital Partners in 2004 as compared with 2003.

During the years ended December 31, 2004 and 2003, NeoMedia's net loss totaled $7,230,000 and $5,382,000, respectively. As of December 31, 2004, NeoMedia had accumulated losses from operations of $83,377,000, had a working capital deficit of $2,597,000, and $2,634,000 in cash balances.

The accompanying consolidated financial statements have been prepared assuming NeoMedia will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments that might result from NeoMedia's inability to continue as a going concern.

NeoMedia may obtain up to $20 million through its Standby Equity Distribution Agreement with Cornell Capital Partners. As of December 31, 2004, NeoMedia had drawn $8 million against the Standby Equity Distribution Agreement, leaving an available balance of $12 million. NeoMedia sold approximately 107 million shares during 2004 to Cornell to draw $8 million against the Standby Equity Distribution Agreement.

There can be no assurances that the market for NeoMedia's stock will support the sale of sufficient shares of NeoMedia's common stock to raise sufficient capital to sustain operations for such a period, or that actual revenue will meet management's expectations. If necessary funds are not available, NeoMedia's business and operations would be materially adversely affected and in such event, NeoMedia would attempt to reduce costs and adjust its business plan.

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Contractual Obligations

The following table presents the Company's contractual obligations as of December 31, 2004, over the next five years and thereafter:

Payments by Period (in thousands)

	Amount	Less Than 1 Year	1-3 Years	4-5 Years	After Years
Legal Settlements	$ 185	$ 181	$ 4	$ --	$
Vendor Settlements & Agreements	89	73	16	--	
Operating Leases	89	89	--	--	
Short Term Debt	1,136	1,136	--	--	
Total Contractual Cash Obligations	$ 1,499	$ 1,479	$ 20	$ --	$

Intangible Assets

At the end of each quarter, or upon occurrence of material events relating to a specific intangible item, NeoMedia performs impairment tests on each of its intangible assets, which include goodwill, capitalized patent costs, repair chemical formulations and proprietary process, customer base and trademarks, and capitalized and purchased software costs. In doing so, NeoMedia evaluates the carrying value of each intangible asset with respect to several factors, including historical revenue generated from each intangible asset, application of the assets in NeoMedia's current business plan, and projected discounted cash flow to be derived from the asset. Intangible asset balances are then adjusted to their current net realizable value based on these criteria if impaired. The Company received an independent valuation of its patent portfolio as of December 31, 2003. In addition, the Company had an independent valuation on the intangible assets acquired through the acquisition of CSI and has assigned the fair value of the intangible assets based on the fair value assessed in the appraisal. The independent valuation concluded that no impairment was necessary as of December 31, 2003. No impairment charges were taken during the year ended December 31, 2004 or 2003.

Financing Agreements

As of December 31, 2003 and 2002, NeoMedia was party to a commercial financing agreement with GE Access that provides short-term financing for certain computer hardware and software purchases. This arrangement allows NeoMedia to re-sell high-dollar technology equipment and software without committing cash resources to financing the purchase. Termination of this financing relationship with GE Access could materially adversely affect NeoMedia's financial condition by hindering its ability to resell hardware and software. Management expects the agreement to remain in place in the near future. As of December 31, 2004, the amount payable under this financing arrangement was approximately $17,000.

Note Payable to Cornell Capital Partners, LLC

On October 18, 2004, the Company borrowed from Cornell the gross amount of $1,085,000 before discounts and fees. Cornell withheld a retention fee of $85,000 related to the issuance of stock to pay off the debt in the future. The note was repaid during January 2005. The Company invested the proceeds from the note in iPoint-media pursuant to the investment agreement between NeoMedia and iPoint-media (see "iPoint-media Ltd." for description of agreement).

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Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Through December 31, 2004, NeoMedia has not been able to generate sufficient revenues from its operations to cover its costs and operating expenses. Although NeoMedia has been able to issue its common stock or other financing for a significant portion of its expenses, it is not known whether NeoMedia will be able to continue this practice, or if revenue will increase significantly to be able to meet cash operating expenses. This, in turn, raises substantial doubt about NeoMedia's ability to continue as a going concern. Management believes that NeoMedia will be able to raise additional funds through its $20 million Standby Equity Distribution Agreement with Cornell, or through other strategic investments. However, there can be no assurances that the market for NeoMedia's stock will support the sale of sufficient shares of stock to raise enough capital to sustain operations. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Based on current cash balances and operating budgets, as well as the $12 million available under its Standby Equity Distribution Agreement, NeoMedia believes it has sufficient financing available to operate until at least December 31, 2005. NeoMedia cannot predict whether additional financing will be available, its form, whether equity or debt, or be in another form, or if it will be successful in identifying entities with which it may consummate a merger or other corporate finance transactions.

Effect Of Recently Issued Accounting Pronouncements

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the "FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force ("EITF") Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until after further deliberations by the FASB. The disclosure requirements are effective only for annual periods ending after June 15, 2004. The Company has evaluated the impact of the adoption of the disclosure requirements of EITF 03-1 and does not believe the impact will be significant to the Company's overall results of operations or financial position. Once the FASB reaches a final decision on the measurement and recognition provisions, the company will evaluate the impact of the adoption of EITF 03-1.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and

require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. . The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152). The amendments made by Statement 152 amend FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005 with earlier application encouraged. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets.

The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after December 15, 2005. The Company is currently evaluating the impact of the adoption of this Statement.

ITEM 7. FINANCIAL STATEMENTS

The Financial Statements to this Form 10-KSB are attached commencing on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 8A. CONTROLS AND PROCEDURES

(A) Evaluation Of Disclosure Controls And Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and proceduresas of December 31, 2004 pursuant to Rule 13a-15under the Securities Act of 1934. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving the Company's disclosure control objectives. The Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered. In addition, the Company reviewed its internal controls, and there have been no significant changes in its internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation or from the end of the reporting period to the date of this Form 10-KSB/A.

(B) Changes In Internal Controls Over Financial Reporting

In connection with the evaluation of the Company's internal controls during the Company's fourth fiscal quarter ended December 31, 2004, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm

Board of Directors
NeoMedia Technologies, Inc.

We have audited the accompanying consolidated balance sheets of NeoMedia Technologies, Inc. as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's significant operating losses and working capital deficit raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ STONEFIELD JOSEPHSON, INC.

CERTIFIED PUBLIC ACCOUNTANTS

Irvine, California
February 11, 2005

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NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In thousands, except share data)

	December 31, 2004
ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,634
Trade accounts receivable, net of allowance for doubtful accounts of $46	282
Inventories, net of allowance for obsolete & slow-moving inventory of $0	115
Prepaid expenses and other current assets	386
Total current assets	3,417
Property and equipment, net	110
Capitalized patents, net	2,174
Micro paint repair chemical formulations and proprietary process, net	1,630
Goodwill	1,099
Other Intangible assets, net	221
Investment in iPoint-media, Ltd.	1,000
Cash surrender value of life insurance policy	728
Other long-term assets	27
Total assets	$ 10,406
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,911
Amounts payable under settlement agreements	103
Liabilities of discontinued business unit	676
Sales taxes payable	108
Accrued expenses	1,566
Deferred revenues and other	514
Notes payable	1,136
Total current liabilities	6,014

Shareholders' equity:

Preferred stock, $0.01 par value, 25,000,000 shares authorized, none issued and outstanding	--
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 436,746,758 shares issued and 432,525,053 outstanding	4,325
Additional paid-in capital	84,728
Deferred stock-based compensation	(445)
Accumulated deficit	(83,377)
Accumulated other comprehensive loss - foreign currency translation adjustment	(60)
Treasury stock, at cost, 201,230 shares of common stock	(779)
Total shareholders' equity	4,392
Total liabilities and shareholders' equity	$ 10,406

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

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NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 3	
	2004	2003
NET SALES:		
License fees	$ 343	$
Resale of software and technology equipment and service fees	630	
Micro paint repair products and services	727	
Total net sales	1,700	
COST OF SALES:		
License fees	324	
Resale of software and technology equipment and service fees	604	
Micro paint repair products and services	541	
Total cost of sales	1,469	
GROSS PROFIT	231	
Sales and marketing expenses	2,046	
General and administrative expenses	2,215	
Research and development costs	651	
Loss from operations	(4,681)	(
Gain (loss) on extinguishment of debt	140	
Amortization of debt discount	(2,500)	

Interest expense, net	(189)	
NET LOSS	(7,230)	(
Other comprehensive loss:		
Foreign currency translation adjustment	(60)	
COMPREHENSIVE LOSS	$ (7,290)	$ (
LOSS PER SHARE--BASIC AND DILUTED	$ (0.02)	$
Weighted average number of common shares--basic and diluted	329,362,127	125,02

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

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NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Y D 2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (7,
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of discount on note payable	2,
Depreciation and amortization	
Inventory reserve	
Bad debt	
Expense (decrease of fair value) for repriced options	
Fair value of expense portion of stock-based compensation granted for professional services	
Interest expense allocated to debt	
Discount related to common stock issuance	
Loss on payment of accounts payable in stock	
(Increase)/decrease in value of life insurance policies	
Changes in operating assets and liabilities	
Trade accounts receivable, net	
Inventory	
Other current assets	
Accounts payable	(
Amounts payable under settlement agreements	(
Liabilities of discontinued business unit	
Sales taxes payable	
Accrued expenses	(

Deferred revenue other current liabilities	
Net cash used in operating activities	(4,
CASH FLOWS FROM INVESTING ACTIVITIES:	
Amounts issued under notes receivable	
Investment in iPoint-media, Ltd.	(1,
Capitalization of software development and purchased intangible assets	(
Acquisition of property and equipment	(
Net cash used in investing activities	(1,
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from issuance of common stock, net of issuance costs of $620 in 2004 and $226 in 2003	7,
Net proceeds from exercise of stock options and warrants	2,
Borrowings under notes payable and long-term debt	9,
Repayments on notes payable and long-term debt	(8,
Cash paid to acquire CSI International, Inc. (net of cash acquired)	(2,
Net cash provided by financing activities	8,
EFFECT OF EXCHANGE RATE CHANGES ON CASH	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid/(received) during the period	$
Income taxes paid	
Non-cash investing and financing activities:	
Reduction in accounts payable and accruals for debt paid in stock	
Reduction of note payable paid in stock	
Reduction of long-term debt and accrued interest paid in stock	
Fair value of stock issued for services and deferred to future periods	
Fair value of shares issued to acquire CSI Int'l (net of costs of registration)	
Change in net assets resulting from acquisition of CSI (net of cash acquired)	3,
Value of stock granted to acquire Secure Source Technologies, Inc.	
Gain (loss) on extinguishment of debt	
Direct costs associated with Standby Equity Distribution Agreement and Equity Line of Credit	2,
Fair value of warrants issued as a direct incremental cost of financing	
Discount recognized on the issuance of stock with notes payable	

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

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands, except share data)

	Common Stock						
	Shares		Amount		Additional Paid-in Capital	Deferred Stock Compensation	C
BALANCE, DECEMBER 31, 2002	30,746,968	$	307	$	65,442	(231)	$
Shares issued to Cornell Capital Partners under Equity line of Credit	98,933,244		990		1,803	--	
Issuance of Common Stock through private Placement, Net of $6,818 of issuance costs	25,000,000		250		50	--	
Exercise of employee options	15,599,175		156		0	--	
Exercise of Warrants	28,904,900		289		(39)	--	
Expense associated with option & warrant repricing	--		--		774	--	
Fair value stock, options, & warrants issued for professional services rendered	4,030,424		40		385	--	
Stock issued to pay past due liabilities	40,776,546		408		2,505	--	
Issuance of warrants and stock with debt	--		--		19	--	

Expense recognized for options issued with exercise price below market price	--		--		626		--
Change in Deferred Stock Compensation	--		--		--		(51)
Net Loss	--		--		--		--
BALANCE, DECEMBER 31, 2003	243,991,257	$	2,440	$	71,565	$	(282) $
Shares issued to Cornell Capital Partners under ELOC and SEDA	112,743,417		1,127		6,864		--
Exercise of stock options	12,860,616		129		43		--
Exercise of stock warrants	51,510,000		515		2,000		--
Fair value stock, options, & warrants issued for professional services rendered	2,013,375		20		785		--
Stock issued to pay past due liabilities	2,406,388		24		242		--
Stock issued in connection with acquisition of CSI International	7,000,000		70		625		--
Expense associated with option repricing	--		--		104		--
Fair value of warrants issued with debt	--		--		2,500		--
Change in Deferred Stock Compensation	--		--		--		(163)
Comprehensive							

loss - foreign currency translation adjustment	--	--	--	--
Net Loss	--	--	--	--
BALANCE, DECEMBER 31, 2004	432,525,053	$ 4,325	$ 84,728	(445) $

	Treasury Stock		
	Shares	Amount	Total Stockholders' Equity
BALANCE, DECEMBER 31, 2002	201,230	($779)	$ (6,026)
Shares issued to Cornell Capital Partners under Equity line of Credit	--	--	2,793
Issuance of Common Stock through private Placement, Net of $6,818 of issuance costs	--	--	300
Exercise of employee options	--	--	156
Exercise of Warrants	--	--	250
Expense associated with option & warrant repricing	--	--	774
Fair value stock, options, & warrants issued for professional services rendered	--	--	425

Stock issued to pay past due liabilities	--	--	2,913
Issuance of warrants and stock with debt	--	--	19
Expense recognized for options issued with exercise price below market price	--	--	626
Change in Deferred Stock Compensation	--	--	(51)
Net Loss	--	--	(5,382)
BALANCE, DECEMBER 31, 2003	201,230	($779)	$ (3,203)
Shares issued to Cornell Capital Partners under ELOC and SEDA	--	--	7,991
Exercise of stock options	--	--	172
Exercise of stock warrants	--	--	2,515
Fair value stock, options, & warrants issued for professional services rendered	--	--	805
Stock issued to pay past due liabilities	--	--	266
Stock issued in connection with acquisition of CSI International	--	--	695
Expense associated with option repricing	--	--	104
Fair value of			

warrants issued with debt	--	--	2,500
Change in Deferred Stock Compensation	--	--	(163)
Comprehensive loss - foreign currency translation adjustment	--	--	(60)
Net Loss	--	--	(7,230)
BALANCE, DECEMBER 31, 2004	201,230	($779)	$ 4,392

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

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

Basis of Presentation

The consolidated financial statements include the financial statements of NeoMedia Technologies, Inc. and its wholly-owned subsidiaries, NeoMedia Migration, Inc., a Delaware corporation; Distribuidora Vallarta, S.A. incorporated in Guatemala; NeoMedia Technologies of Canada, Inc. incorporated in Canada; NeoMedia Tech, Inc. incorporated in Delaware; NeoMedia EDV GmbH incorporated in Austria; NeoMedia Technologies Holding Company B.V. incorporated in the Netherlands; NeoMedia Technologies de Mexico S.A. de C.V. incorporated in Mexico; NeoMedia Migration de Mexico S.A. de C.V. incorporated in Mexico; NeoMedia Technologies do Brasil Ltd. incorporated in Brazil, NeoMedia Technologies UK Limited incorporated in the United Kingdom, NeoMedia Micro Paint Repair, Inc. a Nevada corporation, and NeoMedia Telecom Services, Inc. a Nevada corporation, and are collectively referred to as "NeoMedia" or the "Company". The consolidated financial statements of NeoMedia are presented on a consolidated basis for all years presented. All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has reported net losses of $7,230,000 and $5,382,000 for the years ended December 31, 2004 and 2003, respectively, and has an accumulated deficit of $83,377,000 as of December 31, 2004. In addition, the Company had working capital deficit of $2,597,000 as of December 31, 2004.

The Company cannot be certain that anticipated revenues from operations will be sufficient to satisfy its ongoing capital requirements. Management's belief is based on the Company's operating plan, which in turn is based on assumptions that may prove to be incorrect. If the Company's financial resources are insufficient the Company may require additional financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity, debt, or another form. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to implement its current plans for expansion, repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

Should these financing sources fail to materialize, management would seek alternate funding sources through sale of common and/or preferred stock. Management's plan is to secure adequate funding to bridge to profitability from the Company's PaperClick(R) business, intellectual property portfolio and Micro Paint Repair business.

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Nature of Business Operations

During 2004, NeoMedia was structured as three distinct business units: NeoMedia Internet Software Service (NISS), NeoMedia Consulting and Integration Services (NCIS), and NeoMedia Micro Paint Repair (NMPR).

NISS (physical world-to-Internet offerings) is the core business and is based in the United States, with development and operating facilities in Fort Myers, Florida. NISS develops and supports NeoMedia's physical world to Internet core technology, including the linking "switch" and application platforms. NISS also manages NeoMedia's intellectual property portfolio, including the identification and execution of licensing opportunities surrounding the patents.

NCIS (systems integration service offerings) is the original business line upon which NeoMedia was organized. This unit resells client-server equipment and related software, and general and specialized consulting services. Systems integration services also identifies prospects for custom applications based on NeoMedia's products and services. These operations are based in Lisle, Illinois.

NMPR (Micro Paint Repair offerings) is the business unit encompassing the recently-acquired CSI International chemical line. NMPR is attempting to commercialize its unique micro-paint repair solution. The Company completed its acquisition of CSI on February 6, 2004. As a result, NeoMedia's results for the year ended December 31, 2003 do not include operations from this business unit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the consolidated balance sheet and consolidated statements of cash flows, all highly liquid investments with original maturities of three months or less are considered cash equivalents. The Company maintains bank accounts with balances which, at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant risk on bank deposit accounts. As of December 31, 2004, the Company had cash balances of $2,692,000 which were not insured by the FDIC.

Financial Instruments

The carrying amount of the Company's cash equivalents, accounts receivable, prepaid expenses, other current assets, cash surrender value of life insurance policy, accounts payable and accrued expenses, accrued salaries and benefits, and payable to merchants approximates their estimated fair values due to the short-term maturities of those financial instruments.

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

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It is not practicable to estimate the fair value of the Company's 17% investment in the common stock of i-Point Media Ltd., which distributes video, audio and data over IP networks, because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. However, management believes that the carrying amount (on the cost method) of $1,000,000 at December 31, 2004 was not impaired.

Pertinent financial information reported by iPoint Media Ltd. is as follows:

	(in thousands of US dollars)	
	2004	2003
Total assets	$1,119	$193
Stockholders' deficit	(341)	(1,451)
Revenues	514	618
Net loss	(695)	(544)

Accounts Receivable

The Company reports accounts receivable at net realizable value. The Company's terms of sale provide the basis for when accounts become delinquent or past due. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of accounts receivable. Receivables are generally charged off and sent to a collections agency after ninety days past due. It is at least reasonably possible that the Company's estimate of the allowance for doubtful accounts will change in the near-term. At December 31, 2004, the allowance for doubtful accounts was $46,000.

Inventories

Inventories are stated at the lower of cost or market, and at December 31, 2003 was comprised of purchased computer technology resale products and micro paint repair products. Cost is determined using the first-in, first-out method. At December 31, 2003, the reserve for obsolescence was $13,000. There was no reserve as of December 31, 2004.

Property and Equipment

Property and equipment are carried at cost less allowance for accumulated depreciation. Repairs and maintenance are charged to expense as incurred. Depreciation is generally computed using the straight-line method over the estimated useful lives of the related assets. Upon retirement or sale, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the consolidated statements of operations. The cost of normal maintenance and repairs is charged to operations as incurred. Material expenditures, which increase the life of an asset, are capitalized and depreciated over the estimated remaining life of the asset.

The estimated service lives of property and equipment are as follows:

Furniture and fixtures	7 years
Computer equipment	3 to 5 years

Capitalized Patents

Patents (including patents pending and intellectual property) are stated at cost, less accumulated amortization. Patents are generally amortized over periods ranging from five to seventeen years.

Micro Paint Chemical Formulations and Proprietary Processes

Micro Paint Repair chemical formulations and proprietary processes consists of the estimated fair value of the formulations acquired from CSI International, Inc. that are used in NeoMedia's Micro Paint Repair business unit. The estimated fair value was determined using an independent appraisal of the assets and liabilities acquired in the transaction. This value is being amortized using the straight-line method over its estimated useful life of 10 years.

Goodwill

Goodwill consists of the excess fair value of purchase price paid for CSI International, Inc. over the identifiable net assets and liabilities acquired. Goodwill was determined using an independent appraisal of the assets and liabilities acquired in the transaction. Goodwill was not assigned a life and will be tested for impairment as defined by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Other Intangible Assets

Other intangible assets consists of customer base/contracts, copyrighted material and acquired software products, which are amortized over the expected life of the product, generally three to five years.

Investments

Investments consist of NeoMedia's investment in iPoint-media. On September 7, 2004, NeoMedia acquired 17% ownership of iPoint-media, consisting of 69,196 shares of common stock, for $1 million cash. NeoMedia has recorded the investment at cost as of December 31, 2004.

Evaluation of Long-Lived Assets

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The statement also supersedes certain provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period or periods in which the losses are incurred rather than as of the measurement date, as presently required. NeoMedia adopted this new statement on January 1, 2002, and concluded that the effect of adopting this statement had no material impact on NeoMedia's financial position, results of operations, or cash flows.

Amounts Due Under Settlement Agreements

NeoMedia is party to various settlement agreements with certain of its vendors relating to past due accounts payable. The settlement agreements generally call for monthly payment installments against such past due amounts.

Revenue Recognition

During 2004 and 2003, NeoMedia derived revenues from three primary sources: (1) license revenues, (2) resale of software and technology equipment and service fee revenues, and (3) Micro Paint Repair sales.

(1) License fees, including Intellectual Property license, represent revenue from the licensing of NeoMedia's proprietary software tools and applications products. NeoMedia licenses its development tools and application products pursuant to non-exclusive and non-transferable license agreements. Resales of software and technology equipment represent revenue from the resale of purchased third party hardware and software products and from consulting, education, maintenance and post contract customer support services.

The basis for license fee revenue recognition is substantially governed by American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), as amended, and Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions. License revenue is recognized if persuasive evidence of an agreement exists, delivery has occurred, pricing is fixed and determinable, and collectibility is probable.

(2) Revenue for resale of software and technology equipment and service

fee is recognized based on guidance provided in Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements," as amended (SAB 104). Software and technology equipment resale revenue is recognized when all of the components necessary to run software or hardware have been shipped. Service revenues include maintenance fees for providing system updates for software products, user documentation and technical support and are recognized over the life of the contract. Software license revenue from long-term contracts has been recognized on a percentage of completion basis, along with the associated services being provided. Other service revenues, including training and consulting, are recognized as the services are performed. The Company uses stand-alone pricing to determine an element's vendor specific objective evidence (VSOE) in order to allocate an arrangement fee amongst various pieces of a multi-element contract. NeoMedia records an allowance for uncollectible accounts on a customer-by-customer basis as appropriate.

(3) NeoMedia's Micro Paint Repair business unit derives revenue from: (a) the right to use NeoMedia's proprietary Micro Paint Repair system, (b) paint products and services, (c) training, and (d) technical support.

(a) Paint system revenue is a one-time fee paid by NeoMedia's customer to use NeoMedia's proprietary paint system, and is deferred and recognized over the expected life of the relationship, which was estimated at one year during 2004.
(b) Paint product and service revenue is recognized when products are shipped or when services are performed.
(c) Training revenue is recognized upon completion of a company-certified training course.
(d) Technical support revenue is recognized on a monthly basis as support services are provided.

Shipping and Handling Costs

Shipping and handling costs are passed through to the Company's customers, and are netted in cost of goods sold.

Research and Development

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

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Stock Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25. "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS No. 123 "Accounting for Stock-Based Compensation." Under APB No. 25, compensation cost is recognized over the vesting period based on the excess, if any, on the date of grant of the fair value of the Company's shares over the employee's exercise price. When the exercise price of the option is less than the fair value price of the underlying shares on the grant date, deferred stock compensation is recognized and amortized to expense in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 44 over the vesting period of the individual options. Accordingly, if the exercise price of the Company's employee options equals or exceeds the market price of the underlying shares on the date of grant no compensation expense is recognized. Options or shares awards issued to non-employees and directors are valued using the Black-Scholes pricing model and expensed over the period services are provided.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends, SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 expands the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition provisions of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. The transition provisions do not currently have an impact on the Company's consolidated financial position and results of operations as the Company has not elected to adopt the fair value-based method of accounting for stock-based employee compensation under SFAS NO. 123. The disclosure provisions of SFAS No. 148 are effective for financial statements for interim periods beginning after December 15, 2002. The Company adopted the disclosure requirements in the first quarter of 2003.

The Company accounts for its stock option plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, except when options granted under those plans had an exercise price less than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Years Ended December 31,	
	2004	2003
Net Loss, as reported	$ (7,230)	$ (5,382)
Compensation recognized under APB 25	--	623
Compensation recognized under SFAS 123	(1,445)	(962)
Pro-forma net loss	$ (8,675)	$ (5,721)
Net Loss per share:		
Basic and diluted - as reported	$ (0.02)	$ (0.04)
Basic and diluted - pro-forma	$ (0.03)	$ (0.05)

For grants in 2004 and 2003, the following assumptions were used: (i) no expected dividends; (ii) a risk-free interest rate of 4.5%; (iii) expected volatility ranging from 438% to 451% for 2004 and from 253% to 457% for 2003, and (iv) an expected life of the shorter of 3 years or the stated life of the option for options granted in 2004 and 2003. The fair-value was determined using the Black-Scholes option-pricing model.

The estimated fair value of grants of stock options and warrants to non-employees of NeoMedia is charged to expense in the consolidated financial statements. These options vest in the same manner as the employee options granted under each of the option plans as described above.

Income Taxes

In accordance with SFAS No. 109, "Accounting for Income Taxes", income taxes are accounted for using the assets and liabilities approach. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be recognized. The Company has recorded a 100% valuation allowance as of December 31, 2004.

Translation of Foreign Currency

The functional currency of the Company's Micro Paint Repair business is the Canadian dollar. Financial statements from the Micro Paint Repair business unit are translated to United States dollars at the exchange rates in effect at the balance sheet date for assets and liabilities and at average rates for the period for revenues and expenses. Resulting exchange differences are accumulated as a component of accumulated other comprehensive loss.

Computation of Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. The Company has excluded all outstanding stock options and warrants from the calculation of diluted net loss per share because these securities are anti-dilutive for all years presented. The shares excluded from the calculation of diluted net loss per share are detailed in the table below:

	December 31, 2004	December 31, 2003
Outstanding Stock Options	52,804,121	33,512,507
Outstanding Warrants	18,825,000	26,195,000

Reclassifications

Certain reclassifications have been made to the 2002 consolidated financial statements to conform to the 2003 presentation.

Recent Accounting Pronouncements

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until after further deliberations by the FASB. The disclosure requirements are effective only for annual periods ending after June 15, 2004. The Company has evaluated the impact of the adoption of the disclosure requirements of EITF 03-1 and does not believe the impact will be significant to the Company's overall results of operations or financial position. Once the FASB reaches a final decision on the measurement and recognition provisions, the company will evaluate the impact of the adoption of EITF 03-1.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. . The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152). The amendments made by Statement 152 amend FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005 with earlier application encouraged. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 152, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after December 15, 2005. The Company is currently evaluating the impact of the adoption of this Statement.

3. EQUITY LINE OF CREDIT WITH CORNELL CAPITAL PARTNERS ("CORNELL")

On February 11, 2003, NeoMedia and Cornell entered into an Equity Line of Credit Agreement under which Cornell agreed to purchase up to $10 million of NeoMedia's common stock over a two-year period, with the timing and amount of the purchase at the Company's discretion. The maximum amount of each purchase was $150,000 with a minimum of seven days between purchases. The shares were valued at 98% of the lowest closing bid price during the five-day period following the delivery of a notice of purchase by NeoMedia. The Company paid 5% of the gross proceeds of each purchase to Cornell.

On October 27, 2003, the Company and Cornell entered into a $20 million Standby Equity Distribution Agreement. The terms of the agreement are identical to the terms of the previous Equity Line of Credit, except that the maximum "draw" under the new agreement is $280,000 per week, not to exceed $840,000 in any 30-day period, and Cornell will purchase up to $20 million of the Company's common stock over a two-year period. As a consideration fee for Cornell to enter into the agreement, the Company issued 10 million warrants to Cornell with an exercise price of $0.05 per share, and a term of five years. Cornell exercised the warrants in January 2004, resulting in $500,000 cash receipts to the Company. In November 2003, the Company filed a Form SB-2 to register 200 million shares under this $20 million Standby Equity Distribution Agreement. In January 2004, the Form SB-2 was declared effective by the Securities and Exchange Commission.

During the years ended December 31, 2004 and 2003, the Company sold 112,743,417 and 98,933,244 shares, respectively, of its common stock to Cornell under the Standby Equity Distribution Agreement and Equity Line of Credit. The following table summarizes funding received and from, and shares sold to, Cornell during the years ended December 31, 2004 and 2003:

	Year Ended December 31,	
	2004	2003
Number of shares sold to Cornell	112,743,417	98,933,244
Gross Proceeds from sale of shares to Cornell	10,123,000	9,565,000
Less: discounts and fees*	(1,967,000)	(6,772,000)
Net Proceeds from sale of shares to Cornell	$ 8,156,000	$ 2,793,000

* - In accordance with terms of Standby Equity Distribution Agreement, stock is valued at 98% of the lowest closing bid price during the week it is sold

5. PROPERTY AND EQUIPMENT

As of December 31, 2004, property and equipment consisted of the following:

	(dollars in thousands)
	2004
Furniture and fixtures	$ 273
Equipment	149
Total	422
Less: accumulated depreciation	
Furniture and fixtures	(262)
Equipment	(50)
Total property and equipment, net	$ 110

Depreciation expense was $66,000 and $83,000 for the years ended December 31, 2004 and 2003, respectively.

6. INTANGIBLE ASSETS

As of December 31, 2004, intangible assets consisted of the following:

	(dollars in thousands) 2004
Patents and related costs	$ 3,645
Micro paint repair chemical formulations and proprietary process	1,800
Goodwill	1,099
Other intangible assets	788
Total	7,332
Less: accumulated amortization	
Patents and related costs	(1,471)
Micro paint repair chemical formulations and proprietary process	(170)
Other intangibles	(567)
Intangible assets, net	$ 5,124

Capitalized patent activity for the year ended December 31, 2004 was as follows:

	(dollars in thousands) 2004
Beginning balance	$ 2,415
Additions	80
Amortization	(321)
Ending balance	$ 2,174

Amortization expense of capitalized patents was $321,000 and $273,000 for the years ended December 31, 2004 and 2003, respectively. The weighted-average amortization period of capitalized patents as of December 31, 2004 was 7.6 years.

Capitalized Micro Paint Repair chemical formulations and propriety process activity for the year ended December 31, 2004 was as follows:

	(dollars in thousands) 2004
Beginning balance	$ --
Micro paint repair chemical formulations and propriety process obtained through acquisition of CSI International	1,800

Amortization	(170)
Ending balance	$ 1,630

Amortization expense of Micro Paint Repair chemical formulations and propriety process was $170,000 and $0 for the years ended December 31, 2004 and 2003, respectively. The weighted-average amortization period of capitalized repair chemical formulations and propriety process as of December 31, 2004 was 10 years.

Capitalized goodwill activity for the year ended December 31, 2004 was as follows:

	(dollars in thousands) 2004
Beginning balance	$ --
Goodwill obtained through acquisition of CSI International	1,099
Ending balance	$ 1,099

There was no amortization expense of goodwill for the years ended December 31, 2004 and 2003, respectively.

Other intangible assets activity for the year ended December 31, 2004 was as follows:

	(dollars in thousands) 2004
Beginning balance	$ 118
Additions	220
Amortization	(117)
Ending balance	$ 221

Amortization expense of capitalized and purchased software costs and other intangible assets was $117,000 and $114,000 for the years ended December 31, 2004 and 2003, respectively. The weighted-average amortization period of capitalized and purchased software costs as of December 31, 2004 was 4.7 years.

As of December 31, 2004, the Company estimated future amortization expense of capitalized patents and software for the next five years to be:

	(In Thousands)
2005	598
2006	525
2007	498

2008	487
2009	437

7. ALLOWANCE FOR DOUBTFUL ACCOUNTS AND INVENTORY RESERVE

Allowance for doubtful accounts activity for the year ended December 31, 2004 was as follows:

	(dollars in thousands) 2004
Beginning balance	$49
Bad debt	24
Write-off of uncollectible accounts	(27)
Ending balance	$ 46

Inventory reserve for the year ended December 31, 2004 was $0.

8. FINANCING AGREEMENTS

As of December 31, 2004, the Company was party to a commercial financing agreement with GE Access that provides short-term financing for certain computer hardware and software purchases. This arrangement allows the Company to re-sell high-dollar technology equipment and software without committing cash resources to financing the purchase. Termination of the Company's financing relationship with GE Access could have a material adverse effect the Company's financial condition. Management expects the agreement to remain in place in the near future. As of December 31, 2004 the amount payable under this financing arrangement was approximately $17,000.

9. NOTES PAYABLE

On March 13, 2003, the Company borrowed from Cornell the gross amount of $262,000 before discounts and fees. The note was repaid in full during 2003.

On May 27, 2003, the Company borrowed from Cornell the gross amount of $245,000 before discounts and fees. The note was repaid in full during 2003.

On June 24, 2003, the Company borrowed from Cornell the gross amount of $400,000 before discounts and fees. The note was repaid in full during 2003.

On July 9, 2003, the Company borrowed $25,000 from William E. Fritz, one of its outside directors. This amount was added to the principal of the $10,000 note payable to Mr. Fritz entered into during April 2003, with all other terms of the note remaining the same. As consideration for the loan, the Company granted Mr. Fritz 2,500,000 warrants to purchase shares of the Company's common stock at an exercise price of $0.01 per share. The warrants had a fair value of approximately $74,000. In accordance with EITF 00-27, the Company recorded the relative fair value of the warrants as a discount against the note, and is amortizing the discount over the life of the note. The note was paid in full during April 2004.

On July 21, 2003, the Company borrowed from Cornell the gross amount of $200,000 before discounts and fees. The note was repaid in full during 2003.

On August 1, 2003, the Company borrowed from Cornell the gross amount of $200,000 before discounts and fees. The note was repaid in full during 2003.

On August 29, 2003, the Company borrowed $50,000 from William E. Fritz, one of its outside directors, under an unsecured note payable. The note was paid in full during September 2003.

On September 2, 2003, the Company borrowed from Cornell the gross amount of $200,000 before discounts and fees. The note was repaid in full during 2003.

On September 11, 2003, the Company received funding in the form of a promissory note from Cornell in the gross amount of $500,000 before discounts and fees. The note was repaid in full during 2003.

On September 29, 2003, the Company borrowed from Cornell the gross amount of $1,500,000 before discounts and fees. The note was repaid in full during 2003.

On January 20, 2004, the Company borrowed from Cornell the gross amount of $4,000,000 before discounts and fees. Of the $4,000,000 funding, $2,500,000 was used to fund the acquisition of CSI International, Inc. during February 2004. Cornell withheld a $315,000 retention fee related to the issuance of stock to pay off the debt in the future. The Company paid this note in full during 2004.

The Company also granted to Cornell 40,000,000 warrants to purchase shares of NeoMedia stock with an exercise price of $0.05 per share during January 2004. In April 2004, the Company filed a Form SB-2 to register 40 million shares underlying warrants granted to Cornell (and subsequently transferred by Cornell to Stone Street Asset Management LLC) in connection with a promissory note issued by the Company to. In May 2004, the Form SB-2 was declared effective by the Securities and Exchange Commission. The fair value of the warrants using the Black-Scholes pricing model was $5,000,000. In accordance with APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", the Company has compared the relative fair values of the warrants and the face value of the notes, and has allocated a value of $2.5 million to the warrants. Of the $2.5 million, $2 million was allocated to the $4 million note issued in January 2004 and $0.5 million against the $1 million note in April 2004. The $2.5 million was recorded as a discount against the carrying value of the note. The $2.5 million that was allocated to the notes is considered a discount on the promissory notes, and therefore was amortized over the life of the notes using the effective interest method, in accordance with Staff Accounting Bulletin No. 77, Topic 2.A.6, "Debt Issue Costs" of SFAS 141, "Business Combinations". Accordingly, the Company recorded an amortization of discount of $2,500,000 related to the warrants during the year ended December31, 2004. Stone Street Asset Management LLC exercised the warrants during November 2004, resulting in net funds to NeoMedia of $2 million.

On April 8, 2004, the Company borrowed from Cornell the gross amount of $1,000,000 before discounts and fees. Cornell withheld a $76,000 retention fee related to the issuance of stock to pay off the debt in the future. The Company paid this note in full during 2004.

On July 2, 2004, the Company borrowed from Cornell the gross amount of $1,000,000 before discounts and fees. Cornell withheld a $76,000 retention fee related to the issuance of stock to pay off the debt in the future. The Company paid this note in full during 2004.

On August 6, 2004, the Company borrowed from Cornell the gross amount of $2,000,000 before discounts and fees. Cornell withheld a retention fee of $153,000 related to the issuance of stock to pay off the debt in the future. The Company paid this note in full during 2004.

On October 18, 2004, the Company borrowed from Cornell the gross amount of $1,085,000 before discounts and fees. Cornell withheld a retention fee of $85,000 related to the issuance of stock to pay off the debt in the future. As of December 31, 2004, the Company had not made any payments against this note. The Company paid this note in full during the first quarter of 2005. The Company invested the proceeds from the note in iPoint-media pursuant to the investment agreement between NeoMedia and I-Point Media Ltd.

10. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject NeoMedia to concentrations of credit risk consist primarily of trade accounts receivable with customers. NeoMedia extends credit to its customers as determined on an individual basis and has included an allowance for doubtful accounts of $46,000 in its December 31, 2004 consolidated balance sheet. In addition, a single company supplies the majority of the Company's resold equipment and software, which is re-marketed to this customer. Accordingly, the loss of this supplier could materially adversely affect the Company's operations. Revenue generated from the remarketing of computer software and technology equipment has accounted for a significant percentage of NeoMedia's revenue. Such sales accounted for approximately 37% and 83% of NeoMedia's revenue for the years ended December 31, 2004 and 2003, respectively.

11. ACQUISITIONS

Acquisition of CSI International, Inc. ("CSI")

On February 6, 2004, NeoMedia acquired 100% ownership of CSI International, Inc., of Calgary, Alberta, Canada, a private technology products company in the micro paint repair industry. NeoMedia paid a purchase price including an issuance of 7,000,000 shares of its common stock, and cash of $2,500,000 in exchange for all outstanding shares of CSI. The shares were valued at $0.10 per share, which was the market price of NeoMedia's common stock on the Over-the-counter Bulletin Board exchange around the acquisition date. NeoMedia also incurred direct costs of the business combination totaling $5,000, which are included in the purchase price for purposes of allocating assets acquired and liabilities assumed.

The acquisition was accounted for under the purchase method. The actual purchase price was based on cash paid, the fair value of NeoMedia stock around the date of the acquisition, and direct costs associated with the combination. The purchase price was allocated as follows:

(Dollars in Thousands)

Value of 7 Million Shares Issued ($0.10 per share)	$ 700
Cash paid	2,500
Direct costs of acquisition	5
Total Fair Value of Purchase Price	$ 3,205
Assets Purchased:	
Cash	$ 115
Accounts receivable, net	67
Inventory	54
Other current assets	12
Investments	25
Property, plant & equipment	8
Micro paint repair chemical formulations and proprietary process	1,800
Goodwill	1,099
Customer base / contracts	110
Copyrighted materials	50
Total Assets Purchased	3,340
Less Liabilities Assumed:	
Accounts payable	(23)
Accrued liabilities	(12)
Notes payable	(100)
Total Liabilities Assumed	(135)

The combination is being accounted for as a purchase business combination as defined by Statement of Financial Accounting Standards No. 141, Business Combinations. The final allocation of the excess purchase price over net tangible assets was determined based on independent appraisal of the assets purchased. The values assigned to intangible assets, aside from goodwill, are subject to amortization. The intangible assets were assigned the following lives for amortization purposes:

Intangible asset	(life in years)
Micro paint repair chemical formulations and proprietary process	10
Customer base / contracts	5
Copyrighted materials	5

Goodwill was not assigned a life and will be tested for impairment as defined by Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

The accompanying consolidated statement of operations presented herein contains the results of operations for CSI for the period February 6, 2004, through December 31, 2004

Pro-forma results of operations as if NeoMedia and CSI had combined as of January 1, 2004 and 2003 are as follows:

	Year Ended December 31, 2004					Year
	NeoMedia	CSI Int'l	(A) (A) Pro-forma Adjust-ments		Pro-forma Combined	NeoMedia
Total net sales	$1,700	791	(727)	(A)	$1,764	$2,400
Loss from operations	($4,681)	(1,746)	1,720	(A)	($4,707)	($4,854)
Net loss	($7,230)	(2,639)	2,613	(A)	($7,256)	($5,382)
Net loss per share-basic and diluted	($0.02)				($0.02)	($0.04)
Weighted average number of common shares - basic and diluted	329,362,127		690,411	(B)	330,052,538	125,029,72

Pro-forma Adjustments

(A) - Adjustments are to reflect operations of CSI from February 6, 2004 through December 31, 2004, which are included in NeoMedia's operations for year ended December 31, 2004.

(B) - To adjust weighted average shares outstanding as if the 7,000,000 shares issued as part of the purchase price of CSI on February 6, 2004, had been issued on January 1, 2004 and 2003

BSD Software, Inc. ("BSD)

On December 21, 2004, NeoMedia Technologies, Inc. ("NeoMedia") (OTCBB:NEOM) and BSD Software Inc. ("BSD") (OTCBB: BSDS) signed a definitive Agreement and Plan of Merger, the form of which is attached as Exhibit 16.1 hereto.

BSD owns 90% of the outstanding shares of Triton Global Business Services, Inc., a provider of live and automated operator calling services and e-business support, including billing, clearinghouse and information management services, to companies in the telecommunications industry.

BSD's shareholders will receive, for each share of BSD stock owned, NeoMedia stock equivalent to .07 divided by the volume-weighted average price of NeoMedia stock for the five days prior to the effective time of the merger.

The agreement has been approved by holders of approximately 63% of BSD's outstanding shares and its Board. NeoMedia and BSD intend to file a joint registration/information statement with the SEC for review.

Upon effectiveness of the registration, the exchange rate will be determined, a closing meeting will be held, and the acquisition and merger will be completed. Closing is subject to the terms and conditions outlined in the merger agreement, as well as regulatory review of the merger and registration/information statement by the United States Securities and Exchange Commission.

Prior to closing, the merger can be terminated by BSD if more than 5% of BSD's outstanding shares dissent to the merger. The merger can be terminated prior to closing by NeoMedia if, at the time of closing, BSD has: (i) less than $850,000 in assets, (ii) more than $5,000,000 in liabilities, or (iii) more than 35,000,000 shares of common stock outstanding. Either party can terminate the merger if the merger has not closed by March 31, 2005, which date may be extended by mutual consent of NeoMedia and BSD.

Secure Source Technologies, Inc. ("SST")

On October 8, 2003, the Company acquired 100% ownership of SST, a provider of security solutions and covert security technology for the manufacturing and financial services industries, in exchange for 3.5 million shares of the Company's common stock. With the purchase of SST, the Company acquired additional patents that compliment its existing intellectual property portfolio, as well as a security software platform, and computer equipment. Prior to the acquisition, SST was inactive and had minimal operating activities. The acquisition was accounted for under the purchase method. The final purchase price was based on the fair value of the Company's stock on the dates of the grant. The purchase price was allocated as follows:

	(Dollars in Thousands)
Value of 3.5 Million Shares Issued (Purchase Price)	$500
Assets Purchased:	
Computer Equipment	1
Software Platform	77
Patents	422
Total Purchase Price Allocation	$500

The proforma financial information is not presented as this acquisition was not considered significant or material to the combined financial statements on the date of the acquisition.

The values assigned to intangible assets are subject to amortization. The acquired software platform has no residual value and a weighted-average amortization period of 3 years. The acquired patents have no residual value and a weighted-average amortization period of 11.1 years. The results of SST are included in the consolidated financial statements for the period October 8, 2003 through December 31, 2004.

13. 2000 EXECUTIVE INCENTIVE

During the years ended December 31, 2004 and 2003, the Company satisfied a portion of its 2000 accrued executive incentive obligation through the issuance of common stock to current and former employees who had participated in the plan. The Company relieved approximately $160,000 and $692,000 of the liability through the issuance of approximately 1.5 and 15.4 million shares during the years ended December 31, 2004 and 2003, respectively. The excess of the fair value of the common stock issued over the outstanding accrued bonuses was included in the gain (loss) on extinguishment of debt.

14. COMPREHENSIVE LOSS

Comprehensive loss consists of net income (loss) and other gains and losses affecting shareholders' investment that, under accounting principles generally accepted in the United States, are excluded from net income. Changes in the components of other comprehensive loss are as follows:

	2004
Beginning balance	$ --
Additions:	
Foreign currency translation adjustment	(60)
Ending Balance	$ (60)

15. INCOME TAXES

For the years ended December 31, 2004 and 2003, the components of income tax expense were as follows:

	2004	2003
	(In thousands)	
Current	$ --	$ --
Deferred	--	--
Foreign	--	--
Income tax expense/(benefit)	$ --	$ --

As of December 31, 2004 and 2003, the types of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts which gave rise to deferred taxes, and their tax effects were as follows:

	2004	2003
Accrued employee benefits	$ --	$ 8
Provisions for doubtful accounts	18	20
Capitalized software development costs and fixed assets	799	740
Net operating loss carryforwards (NOL)	30,319	27,014
Accruals	501	578
Write-off of long-lived assets	2070	2,070
State taxes	156	107
Alternative minimum tax credit carryforward	45	45
Total deferred tax assets	33,908	30,582
Valuation Allowance	(33,908)	(30,582)

Net deferred income tax asset	$ --	$ --

Because it is more likely than not that NeoMedia will not realize the benefit of its deferred tax assets, a valuation allowance has been established against them.

For the years ended December 31, 2004 and 2003, the income tax benefit differed from the amount computed by applying the statutory federal rate of 34% as follows:

	2004	2003
Benefit at federal statutory rate	$ (2,458)	$ (1,830)
State income taxes, net of federal	(286)	(213)
Permanent and other, net	(582)	142
Change in valuation allowance	3,326	1,901
Income tax expense/(benefit)	$ --	$ --

As of December 31, 2004, NeoMedia had net operating loss carryforwards for federal tax purposes totaling approximately $76 million which may be used to offset future taxable income, or, if unused expire between 2011 and 2020. As a result of certain of NeoMedia's equity activities, NeoMedia anticipates that the annual usage of its pre-1998 net operating loss carryforwards should be further restricted pursuant to the provisions of Section 382 of the Internal Revenue Code.

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16. TRANSACTIONS WITH RELATED PARTIES

During August 2003, the Company borrowed $50,000 from William E. Fritz, one of its outside directors, under an unsecured note payable with a term of 30 days. The note was repaid in full during September 2003.

During July 2003, the Company borrowed $25,000 from William E. Fritz, one of its outside directors. This amount was added to the principal of a $10,000 note payable to Mr. Fritz that matures in April 2004, with all other terms of the note remaining the same. As consideration for the loan, the Company granted Mr. Fritz 2,500,000 warrants to purchase shares of its common stock at an exercise price of $0.01 per share. The full principle of $35,000 plus interest was paid in full during 2004.

During April 2003, the Company entered into a consulting agreement with William Fritz, an outside director, for consulting and advisement services relating to the merger with Loch Energy, Inc., and to the subsequent implementation of various management programs surrounding the business. The agreement called for total payments of $250,000 over a period of one year. During August 2003, the Company paid the consulting contract in full. During September 2003, the consulting contract was rescinded and the full $250,000 was returned to NeoMedia.

During April 2003, the Company's Board of Directors approved the payment in full of approximately $154,000 of liabilities owed by NeoMedia to Charles W. Fritz, the Company's Founder and Chairman of the Board of Directors, through the issuance of 15,445,967 shares of common stock. The Company recognized a discount expense in general and administrative expenses of approximately $15,000 relating to this transaction with Mr. Fritz.

During April 2003, the Company sold 25,000,000 shares of its common stock, par value $0.01, in a private placement at a price of $0.01 per share to William Fritz. The Company's stock price at the time of the sale was $0.012. In connection with the sale, the Company also granted 25,000,000 warrants to purchase shares of NeoMedia common stock at an exercise price of $0.01 per share. The warrants had a fair value of $298,000 and have been recorded as a cost of issuance. The Company recognized a discount expense in general and administrative expenses of approximately $50,000 relating to this transaction with Mr. Fritz. On August 6, 2003, Mr. Fritz exercised his warrants and purchased 25,000,000 additional shares of common stock at a price of $0.01 per share.

During November 2002, the Company issued Convertible Secured Promissory Notes with an aggregate face value of $60,000 to 3 separate parties, including Charles W. Fritz, Chairman of the Board of Directors of NeoMedia; William E. Fritz, an outside director; and James J. Keil, an outside director. The notes had an interest rate of 15% per annum, and matured at the earlier of i.) four months, or ii.) the date the shares underlying the Cornell Equity Line of Credit were registered with the SEC. The notes were convertible, at the option of the holder, into either cash or shares of the Company's common stock at a 30% discount to either market price upon closing, or upon conversion, whichever is lower. The Company also granted to the holders an additional 1,355,670 shares of its common stock and 60,000 warrants to purchase shares of its common stock at $0.03 per share, with a term of three years. The warrants and shares were issued in January 2003. In addition, since this debt is convertible into equity at the option of the note holder at beneficial conversion rates, an embedded beneficial conversion feature was recorded as a debt discount and amortized using the effective interest rate over the life of the debt in accordance with EITF 00-27. Total cost of beneficial conversion feature, fair value of the stock and cost of warrants issued exceed the face value of the notes payable, therefore, only $60,000, the face amount of the note, was recognizable as debt discount, and amortized over the life of the notes payable. During March 2003, two of the affiliated parties, Mr. William Fritz and Mr. Keil, agreed to extend the maturity date due to NeoMedia's capital constraints. The Company repaid Charles Fritz's note in full during March 2003, and repaid James J. Keil's note in full

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during April 2003. The Company repaid the balance on William Fritz's note during 2004. The new note also included a provision under which, as consideration for the loan, Mr. Fritz will receive a 3% royalty on all future revenue generated from the Company's intellectual property.

During April 2002, the Company borrowed $11,000 from William E. Fritz under a note payable bearing interest at 8% per annum with a term of 60 days. The note was repaid in April 2003.

During March 2002, the Company borrowed $190,000 from William E. Fritz under a note payable bearing interest at 8% per annum with a term of 16 days. The note was repaid during March 2002.

During February 2002, the Company borrowed $10,000 from William E. Fritz under a note payable bearing interest at 8% per annum with a term of 30 days. The note was repaid in April 2003.

During October 2001, the Company borrowed $4,000 from Charles W. Fritz, NeoMedia's Chairman, its former Chief Executive Officer and a director, under a note payable bearing interest at 10% per annum with a term of six months. The note was repaid in April 2003.

The Company believes that all of the above transactions were conducted at "arm's length", representing what NeoMedia believes to be fair market value for those services.

17. COMMITMENTS AND CONTINGENCIES

NeoMedia leases its office facilities and certain office and computer equipment under various operating leases. These leases provide for minimum rents and generally include options to renew for additional periods. For the years ended December 31, 2004 and 2003, NeoMedia's rent expense was $229,000 and $265,000, respectively.

NeoMedia is party to various payment arrangements with its vendors that call for fixed payments on past due liabilities. NeoMedia is also party to various consulting agreements that carry payment obligations into future years.

The following is a schedule of the future minimum payments under non-cancelable operating leases in effect as of December 31, 2004:

	Payments (In thousands)
2005	89
2006	---
Thereafter	---
Total	$89

As of December 31, 2004, none of the Company's employees were under contract. Additionally, as of December 31, 2004, the Company was not a party to any long-term consulting agreements that are required to be paid in cash.

Legal Proceedings

The Company is involved in various legal actions arising in the normal course of business, both as claimant and defendant. While it is not possible to determine with certainty the outcome of these matters, it is the opinion of management that the eventual resolution of the following legal actions could have a material adverse effect on the Company's financial position or operating results.

AirClic, Inc., Scanbuy, Inc., and LScan Technologies, Inc.

On January 23, 2004, NeoMedia filed a patent infringement lawsuit against AirClic, Inc., Scanbuy, Inc., and LScan Technologies, Inc. in the Northern District of Illinois, claiming that each of the parties has manufactured, or has manufactured for it, and has used, or actively induced others to use, technology which allows customers to use a built-in UPC bar code scanner to scan individual items and access information, thereby infringing NeoMedia's patents. The complaint stated that on information and belief, AirClic, Scanbuy and LScan had actual and constructive notice of the existence of the patents-in-suit, and, despite such notice, failed to cease and desist their acts of infringement, and continue to engage in acts of infringement of the patents-in-suit. On April 15, 2004, the court dismissed the suit against AirClic and Scanbuy for lack of personal jurisdiction.

On April 19, 2004, AirClic filed a declaratory judgment action against NeoMedia in the Eastern District of Pennsylvania. NeoMedia answered and counterclaimed on May 18, 2004. AirClic answered NeoMedia's counterclaim on June 10, 2004. On April 20, 2004, NeoMedia re-filed its suit against AirClic in Pennsylvania for patent infringement. AirClic answered and counterclaimed on May 13, 2004. NeoMedia filed its answer to AirClic's counterclaims on June 2, 2004. NeoMedia filed an amended complaint on July 1, 2004, and AirClic answered and counterclaimed on July 20, 2004. NeoMedia's answer to AirClic's counterclaims was filed on August 3, 2004.

NeoMedia voluntarily dismissed the suit against LScan in the Northern District of Illinois and re-filed the suit on May 26, 2004, in the Eastern District of Pennsylvania. After LScan failed to answer, NeoMedia filed and served its motion for default judgment on July 6, 2004.

On March 29, 2004, Scanbuy filed suit against NeoMedia in the Southern District of New York alleging that NeoMedia infringed Scanbuy's copyrights, violated the Lanham Act and committed deceptive trade practices and tortious interference. Scanbuy filed an amended complaint on June 23, 2004. NeoMedia filed its answer and affirmative defenses on July 23, 2004. On April 20, 2004, NeoMedia re-filed its suit against Scanbuy in the Southern District of New York alleging patent infringement. Scanbuy filed its answer on June 2, 2004. NeoMedia filed its answer and affirmative defenses on July 23, 2004.

Virgin Entertainment Group

On January 2, 2004, NeoMedia filed a patent infringement lawsuit against Virgin(R) Entertainment Group, Inc., Virgin Megastore Online and Virgin Megastore ("Virgin"). The complaint for Patent Infringement and Damages was filed in the United States District Court for the Northern District of Illinois, by Baniak Pine & Gannon, NeoMedia's intellectual property law firm. The complaint claims that Virgin has infringed four of NeoMedia's patents - U.S. Patents Nos. 5,933,829, 5,978,773, 6,108,656, and 6,199,048. The complaint alleges that the Virgin Megaplay Stations located in Virgin's Megastores infringe NeoMedia's patents by using Virgin's Megascan technology to allow customers to scan UPC codes from in-store CDs and DVDs to access Internet-based product information, such as music and movie previews, and album and video art. The complaint also alleges that Virgin had notice of NeoMedia's patents since the latter part of 2002 or before, yet it continued with its infringing activities. The complaint seeks compensatory damages for Virgin's infringement, with those damages to be trebled due to the willful and wanton nature of the infringement. NeoMedia also seeks to preliminarily and permanently enjoin Virgin from its infringing activities. Virgin answered NeoMedia's complaint on March 1, 2004.

Other Litigation

On October 28, 2002, Merrick & Klimek, P.C., filed a complaint against NeoMedia seeking payment of approximately $170,000 in past due legal services. The amount in question is subject to an unsecured promissory note that matured unpaid on February 28, 2002. On May 1, 2003, NeoMedia settled the suit for cash payments totaling approximately $196,000, to be paid at a rate of $30,000 per quarter until the balance is satisfied. NeoMedia had a remaining liability of approximately $33,000 relating to this matter as of December 31, 2004, which was included in accrued expenses.

On December 7, 2004, Reitler Brown & Rosenblatt LLC, filed a complaint against NeoMedia seeking payment of approximately $422,000 in past due legal services and accrued interest. NeoMedia had a remaining liability of approximately $422,000 relating to this matter as of December 31, 2004, which was included in accounts payable and accrued expenses.

18. DEFINED CONTRIBUTION SAVINGS PLAN

NeoMedia maintains a defined contribution 401(k) savings plan. Participants may make elective contributions up to established limits. All amounts contributed by participants and earnings on these contributions are fully vested at all times. The plan provides for matching and discretionary contributions by NeoMedia, although no such contributions to the plan have been made to date.

19. STOCK OPTIONS AND WARRANTS

Effective February 1, 1996, NeoMedia adopted the 1996 Stock Option Plan making available for grant to employees of NeoMedia options to purchase up to 1,500,000 shares of NeoMedia's common stock. The stock option committee of the board of directors has the authority to determine to whom options will be granted, the number of options, the related term, and exercise price. The option exercise price shall be equal to or in excess of the fair market value per share of NeoMedia's common stock on the date of grant. These options granted expired ten years from the date of grant. These options vest 100% one year from the date of grant.

Effective March 27, 1998, NeoMedia adopted the 1998 Stock Option Plan making available for grant to employees of NeoMedia options to purchase up to 8,000,000 shares of NeoMedia's common stock. The stock option committee of the board of directors has the authority to determine to whom options will be granted, the number of options, the related term, and exercise price. The option exercise price may be less than the fair market value per share of NeoMedia's common stock on the date of grant. Options generally vest 20% upon grant and 20% per year thereafter. The options expire ten years from the date of grant.

Effective June 6, 2002, NeoMedia adopted its 2002 Stock Option Plan. The 2002 Stock Option Plan provides for authority for the stock option committee of the board of directors to grant non-qualified stock options with respect to a maximum of 10,000,000 shares of common stock. The option exercise price may be less than the fair market value per share of NeoMedia's common stock on the date of grant, and may be granted with any vesting schedule as approved by the stock option committee.

Effective September 24, 2003, NeoMedia adopted its 2003 Stock Option Plan. The 2003 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 150,000,000 shares of common stock. The option exercise price may be less than the fair market value per share of NeoMedia's common stock on the date of grant, and may be granted with any vesting schedule as approved by the stock option committee. On October 17, 2003, NeoMedia filed a Form S-8 to register all 150,000,000 shares underlying the options in the 2003 Stock Option Plan.

The following table summarizes the status of NeoMedia's 2003, 2002, 1998 and 1996 stock option plans as of and for the years ended December 31, 2004 and

2003:

	2004 Shares (In thousands)	2004 Weighted Average Exercise Price	2003 Shares (In thousands)	2003 Weighted Average Exercise Price
Outstanding at beginning of year	33,512	$0.23	10,801	$1.11
Granted	32,752	$0.09	39,018	$0.01
Exercised	(12,860)	$0.23	(15,605)	$0.01
Forfeited	(600)	$0.09	(702)	$1.26
Outstanding at end of year	52,804	$0.06	33,512	$0.23*
Options exercisable at year-end	34,680		33,512	
Weighted-average fair value of options granted during the year	$0.10		$0.10	
Available for grant at the end of the year	81,873		114,025	

* - Includes 3,644,382 options that had a restated exercise price of $0.01 under option repricing program that was in place as of December 31, 2004. For purposes of this table, options subject to repricing are shown at their original exercise price.

The following table summarizes information about NeoMedia's stock options outstanding as of December 31, 2004:

Options Outstanding				Option
Range of Exercise Prices	Number Outstanding (In thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (In thousand
$-- to $0.010	26,568	8.8 years	$0.01	26,56
0.011 to 0.087	4,640	9.4 years	$0.07	3,51
0.088 to 0.160	21,575	9.1 years	$0.11	4,57
0.170 to 7.000	21	4.8 years	$6.89	2
$-- to $7.000	52,804	9.0 years	$0.06	34,68

During the years ended December 31, 2004 and 2003, NeoMedia made the following option grants:

Recipients	2004 Range of Exercise Prices	2004 Options Granted (In thousands)	2003 Range of Exercise Prices	2003 O G (I th
Employees	$0.062 to $0.128	23,290	$0.010 to $0.010	
Non-employee directors	$0.010 to $0.075	3,357	$0.010 to $0.010	
Non-employees	$0.025 to $0.100	6,105	$0.010 to $0.160	
Total	$0.010 to $0.128	32,752	$0.010 to $0.160	

Option-Related Expense

In June 2003, the Company issued 375,000 options to buy shares of the Company's common stock to two outside consultants at a price of $0.01 per share for consulting services rendered. The Company recognized approximately $13,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In October 2003, the Company issued 125,000 options to buy shares of the Company's common stock to two outside consultants at a price of $0.01 per share for consulting services rendered. The Company recognized approximately $13,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In October 2003, the Company issued 1,000,000 options to buy shares of the Company's common stock to an outside consultant at a price of $0.01 per share for consulting to be provided over a period of one year. The options were valued at approximately $102,000, of which the Company recognized approximately $20,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In October 2003, the Company issued 500,000 options to buy shares of the Company's common stock to an outside consultant at a price of $0.01 per share for consulting to be provided over a period of one year. The options were valued at approximately $51,000, of which the Company recognized approximately $10,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.
....

In November 2003, the Company issued 50,000 options to buy shares of the Company's common stock to an outside consultant at a price of $0.06 per share for consulting services rendered. The Company recognized approximately $7,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In November 2003, the Company issued 150,000 options to buy shares of the Company's common stock to an outside consultant at a price of $0.16 per share for consulting services rendered. The Company recognized approximately $3,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In December 2003, the Company issued 50,000 options to buy shares of the Company's common stock to an outside consultant at a price of $0.052 per share for consulting services rendered. The Company recognized approximately $7,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In December 2003, the Company issued 43,125 options to buy shares of the Company's common stock to an outside consultant at a price of $0.01 per share for consulting services rendered. The Company recognized approximately $6,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2003.

In January 2004, the Company issued 50,000 options to buy shares of the Company's common stock to an outside consultant at a price of $0.025 per share for consulting services rendered to the Company. The Company recognized $7,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2004.

During the period January through June 2004, the Company issued 106,674 options to buy shares of the Company's common stock to James J. Keil, an outside director, at a price of $0.01 per share for consulting services rendered to the Company during that time. The Company recognized $9,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2004.

In February 2004, the Company issued 5,555,556 options to buy shares of the Company's common stock to an outside consultant, at a price of $0.01 per share for consulting services rendered to the Company's Micro Paint Repair business over a period of three years from the date of issuance. The Company recorded $550,000 as deferred stock compensation at the time of issuance, and is recognizing this amount over the period of the contract. Accordingly, the Company recognized $182,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2004.

Warrants

Warrant activity as of December 31, 2004 and 2003 was as follows:

Warrants Outstanding as of December 31, 2002	7,433,758
Warrants issued	48,060,000
Warrants exercised	(28,904,900)
Warrants expired	(393,858)
Warrants Outstanding as of December 31, 2003	26,195,000
Warrants issued	44,150,000
Warrants exercised	(51,510,000)
Warrants expired	(10,000)
Warrants Outstanding as of December 31, 2004	18,825,000

The following table summarizes information about warrants outstanding at December 31, 2004, all of which are exercisable:

Range of Exercise Prices	Warrants Outstanding (In thousands)	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price
$--- to $0.05	13,050	3.5	years	$0.01
0.06 to 3.56	4,375	4.2	years	$0.28
3.57 to 6.00	1,400	0.8	years	$6.00
$--- to $6.00	18,825	3.4	years	$0.52

During January 2003, the Company granted 40,000, 10,000, and 10,000 warrants with an exercise price of $0.03 per share to William E Fritz, Charles W. Fritz, and James J. Keil, respectively, in connection with funding provided to the Company by these individuals during November 2002.

During February 2003, the Company granted 500,000 warrants to GE Access, its primary equipment supplier, as payment of interest relating to a commercial credit agreement between GE Access and NeoMedia. The Company recognized approximately $7,000 in interest expense in the 2003 consolidated financial statements relating to the warrant issuance.
The warrants were exercised during 2004

During April 2003, the Company granted 25,000,000 warrants to purchase shares of NeoMedia common stock at an exercise price of $0.01 per share to William E. Fritz, an outside director, in connection with financing provided to the Company by Mr. Fritz. The warrants were exercised during the year ended December 31, 2003.

During July 2003, the Company granted 2,500,000 warrants to purchase shares of NeoMedia common stock at an exercise price of $0.01 per share to William E. Fritz, an outside director, in connection with financing provided to the Company by Mr. Fritz. The warrants were not exercised as of December 31, 2004.

During September 2003, the Company granted 10,000,000 warrants to purchase shares of NeoMedia common stock at an exercise price of $0.01 per share to an outside consultant for consulting, advisory, and financing services performed during the third and fourth quarters of 2003. The Company recognized approximately $93,000 in expense in the 2003 consolidated financial statements relating to the warrant issuance. The warrants were not exercised as of December 31, 2003.

During October 2003, the Company granted to Cornell 10,000,000 warrants to purchase shares of the Company's common stock at an exercise price of $0.05 per share, in connection with the $20 million Standby Equity Distribution Agreement entered into between the Company and Cornell. The warrants were not exercised as of December 31, 2003. Cornell exercised the warrants during January 2004.

During January 2004, the Company granted to Cornell 40,000,000 warrants to purchase shares of NeoMedia stock with an exercise price of $0.05 per share, as consideration for the issuance of two promissory notes by Cornell to NeoMedia. The first note was for a face amount of $4 million and was issued in January 2004; the second was for a face amount of $1 million issued in April 2004. The fair value of the warrants using the Black/Scholes pricing model was $5 million. In accordance with APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", the Company compared the relative fair values of the warrants and the face value of the notes, and allocated a value of $2.5 million to the warrants. Of the $2.5 million, $2 million was allocated to the $4 million note issued in January 2004 and $0.5 million against the $1 million note in April 2004. The $2.5 million was recorded as a discount against the carrying value of the note. The $2.5 million that was allocated to the notes is considered a discount on the promissory notes, and therefore was amortized over the life of the notes using the effective interest method, in accordance with Staff Accounting Bulletin No. 77, Topic 2.A.6, "Debt Issue Costs" of SFAS 141, "Business Combinations". Accordingly, the Company recorded an amortization of discount of $2,500,000 related to the warrants during the year ended December 31, 2004. The warrants were subsequently assigned by Cornell to Stone Street Asset Management LLC. Stone Street Asset Management LLC exercised the warrants during November 2004, resulting in net funds to NeoMedia of $2 million.

During February 2004, the Company granted 150,000 warrants to purchase shares of NeoMedia common stock at an exercise price of $0.102 per share to an outside consultant. The Company recognized approximately $15,000 in expense in the 2004 consolidated financial statements relating to the warrant issuance. The warrants were not exercised as of December 31, 2004.

During March 2004, the Company granted 4,000,000 warrants to purchase shares of NeoMedia common stock at an exercise price of $0.11 per share to an outside consultant as a finder fee related to financing received by NeoMedia. The Company charged the fair value of the warrants of $440,000 as a reduction to capital accounts. The warrants were not exercised as of December 31, 2004.

Option and Warrant Repricing Programs

During April 2003, the Company repriced approximately 1.9 million warrants held by Thornhill Capital LLC, an outside consultant to the Company. Of the 1.9 million warrants, 1.5 million had an exercise price of $0.05 per share, and approximately 0.4 million had an exercise price of $2.09 per share. All 1.9 million warrants were repriced to $0.00 per share. The Company recognized an expense of approximately $27,000 related to this transaction during the second quarter of 2003. These warrants were exercised immediately after the repricing.

During May 2003, NeoMedia re-priced approximately 8.0 million stock options under a repricing program. Under the terms of the program, the exercise price for outstanding options under NeoMedia's 2002, 1998, and 1996 Stock Option Plans was restated to $0.01 per share for an original period of 6 months. The program was subsequently extended through December 31, 2004. In accordance with FASB Interpretation, FIN 44, Accounting for Certain Transactions Involving Stock Transactions, the award was accounted for as variable from May 19, 2003 through the period ended December 31, 2004. Accordingly, NeoMedia recognized approximately $104,000 and $746,000 as compensation in general and administrative expense during the years ended December 31, 2004 and 2003, respectively. Approximately 3.5 million and 4.4 million options were exercised under the program during the years ended December 31, 2004 and 2003, respectively. The repricing program expired on December 31, 2004.

20. SEGMENT AND GEOGRAPHICAL INFORMATION

Beginning with the year ended December 31, 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 supersedes Financial Accounting Standards Board's SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS 131 establishes standards for the way that business enterprises report information about operating segments in annual financial statements. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers.

NeoMedia is structured as three distinct business units: NeoMedia Internet Software Service (NISS), NeoMedia Consulting and Integration Services (NCIS), and NeoMedia Micro Paint Repair (NMPR). Performance is evaluated and resources allocated based on specific segment requirements and measurable factors. Management uses the Company's internal income statements to evaluate each business unit's performance.

Operational results for the three segments for the years ended December 31, 2004 and 2003 are presented below:

	(in thousands) Years Ended December 31,	
	2004	2003
Net Sales:		
NeoMedia Consulting & Integration Services	$ 910	$2,354
NeoMedia Internet Switching Service	62	46
NeoMedia Micro Paint Repair	728	---
	$1,700	$2,400
Net Loss:		
NeoMedia Consulting & Integration Services	($1,862)	$(4,331)
NeoMedia Internet Switching Service	(2,755)	(1,051)
NeoMedia Micro Paint Repair	(2,613)	---
	($7,230)	$(5,382)
Identifiable Assets		
NeoMedia Consulting & Integration Services	$ 274	
NeoMedia Internet Switching Service	2,423	
NeoMedia Micro Paint Repair	3,183	
Corporate	4,526	
	$10,406	

Net revenues, loss, and identifiable assets by geographic area are presented based upon the country of destination. During 2004, NeoMedia had operations and assets in the United States and Canada. During 2003, NeoMedia operated within the United States only. No other foreign country represented 10% or more of net revenues for the years ended December 31, 2004 or 2003. Net revenues, loss, and identifiable assets by geographic area were as follows:

	(in thousands) Years Ended December 31, 2004	2003
Net Sales:		
United States	$1,063	$2,400
Canada	637	---
	$1,700	$2,400
Net Loss:		
United States	($6,516)	($5,382)
Canada	(714)	---
	($7,230)	($5,382)
Identifiable Assets		
United States	$7,272	$3,876
Canada	3,134	---
	$10,406	$3,876

21. COMMON STOCK

Holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Holders of the common stock do not have cumulative voting rights, which means that the holders of more than one half of NeoMedia's outstanding shares of common stock, subject to the rights of the holders of preferred stock, can elect all of NeoMedia's directors, if they choose to do so. In this event, the holders of the remaining shares of common stock would not be able to elect any directors. Subject to the prior rights of any class or series of preferred stock which may from time to time be outstanding, if any, holders of common stock are entitled to receive ratably, dividends when, as, and if declared by the Board of Directors out of funds legally available for that purpose and, upon NeoMedia's liquidation, dissolution, or winding up, are entitled to share ratably in all assets remaining after payment of liabilities and payment of accrued dividends and liquidation preferences on the preferred stock, if any. Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other securities. The outstanding common stock is duly authorized and validly issued, fully-paid, and nonassessable.

On September 24, 2003, the Company's shareholders voted to increase the number of shares of common stock, par value $0.01 per share, that the Company is authorized to issue from 200,000,000 to 1,000,000,000.

On February 11, 2003, NeoMedia and Cornell entered into an Equity Line of Credit Agreement under which Cornell agreed to purchase up to $10 million of NeoMedia's common stock over a two-year period, with the timing and amount of the purchase at the Company's discretion. The maximum amount of each purchase was $150,000 with a minimum of seven days between purchases. The shares were valued at 98% of the lowest closing bid price during the five-day period following the delivery of a notice of purchase by NeoMedia. The Company paid 5%

of the gross proceeds of each purchase to Cornell.

On October 27, 2003, the Company and Cornell entered into a $20 million Standby Equity Distribution Agreement. The terms of the agreement are identical to the terms of the previous Equity Line of Credit, except that the maximum "draw" under the new agreement is $280,000 per week, not to exceed $840,000 in any 30-day period, and Cornell will purchase up to $20 million of the Company's common stock over a two-year period. As a consideration fee for Cornell to enter into the agreement, the Company issued 10 million warrants to Cornell with an exercise price of $0.05 per share, and a term of five years. Cornell exercised the warrants in January 2004, resulting in $500,000 cash receipts to the Company.

22. PREFERRED STOCK

The Company's Preferred Stock is currently comprised of 25,000,000 shares, par value $0.01 per share, of which 200,000 shares are designated as Series A Preferred Stock, none of which are issued or outstanding. Additionally, 47,511 shares are designated as Series A Convertible Preferred Stock, none of which are issued and outstanding, and 100,000 shares are designated as Series B 12% Convertible Redeemable Preferred Stock, none of which are issued and outstanding. The Company has no present agreements relating to or requiring the designation or issuance of additional shares of preferred stock.

23. SUBSEQUENT EVENTS

During January 2005, NeoMedia introduced the newest PaperClick(R) Mobile Go Window(TM) for Nokia(R) Series 60 cell phones and other cell phones which use Series 60 software. This introduction became the fifth Go Window from NeoMedia, making the product line available across five mobile operating environments, on over 35 models of cell phones.

During January 2005, NeoMedia signed a reseller agreement with Jorge Christen & Partners LLP of Mexico. The reseller agreement gives Jorge Christen & Partners LLP the rights to resell PaperClick(R) products in Mexico and Latin America.

During January 2005, NeoMedia signed a reseller agreement with Deusto Sistemas of Bilbao, Spain. The reseller agreement gives Deusto Sistemas the rights to resell PaperClick(R) products in Europe.

During January 2005, NeoMedia signed a reseller agreement with E&I Marketing and Consulting Co. of Taipei, Taiwan. The reseller agreement gives E&I Marketing and Consulting Co. the rights to resell PaperClick(R) products in Asia.

During January 2005, NeoMedia signed a Letter of Intent to enter into a licensing agreement with Shelron Group, Inc. for PaperClick(R)'s family of mobile marketing products to be used with Shelron's ActivShopper comparison shopping toolbar. The agreement will give Shelron Group, Inc. the worldwide rights to use PaperClick(R) on the new ActivShopper Mobile Edition for cell phones and PDA's. ActivShopper is a free software download designed to automatically scan, locate and compare prices for items a consumer selects at an e-commerce site.

In February 2005, NeoMedia was awarded a patent in Mexico from the Instituto Mexicano de la Propiedad Industrial, the patent office in Mexico, for the process invented by NeoMedia for "automatic access of electronic information through secure machine readable codes on printed documents." The patent recognizes NeoMedia's innovation in creating a secure link between printed documents and the Internet using an obfuscated bar code and its technology. The U.S. Patent and Trademark Office had previously awarded patent No. 5,933,829 to NeoMedia for the same technology.

In February 2005, NeoMedia was awarded an allowance for another new patent in the U.S. from the U.S. Patent and Trademark Office. The application is serial no. 09/821,677 which covers 44 claims and is an adaptation of NeoMedia's U.S. Patent 6,542,933, applying to technology that accesses Internet content from wireless devices. NeoMedia expects the patent to be issued shortly.

On February 22, 2005, NeoMedia and IT-Global signed a one-year renewable agreement giving IT-Global rights to sell and license PaperClick(R) products, including client and server software, code activation and integration services. IT-Global will focus on the New York tri-state area, where it is based, as well as other areas, domestically and internationally, it serves.

On February 25, 2005, NeoMedia invested $250,000 in exchange for 8,333,333 shares of Pickups Plus, Inc. ("PUPS")(OTCBB:PUPS) restricted common stock. PUPS is a retail operator and franchiser of retail automotive parts and accessories stores catering to the light truck market, and also provides new vehicle preparation, environmental protection packages, detailing and reconditioning products and services.

On February 25, 2005, NeoMedia signed two non-binding letters of intent to acquire up to 100% of Automotive Preservation, Inc. ("AP"), a distributor of automotive paint and accessory products, from AP's parent company, PUPS. The first LOI calls for NeoMedia to initially acquire 30% of AP for $1,600,000, to be paid $600,000 in cash, $554,000 in shares of NeoMedia restricted common stock, and $446,000 through the assumption of AP debt by NeoMedia. Under the second LOI, upon completion of the acquisition of the initial 30% of AP by NeoMedia, NeoMedia would have the option to acquire an additional 30% of AP for $1,650,000, payable in shares of NeoMedia restricted common stock. The second LOI also gives NeoMedia the option to purchase the final 40% of AP for either: (i) $2,200,000, payable in shares of NeoMedia restricted common stock, if NeoMedia exercises this right within 12 months of acquiring the second 30% of AP, or (ii) a price equivalent to AP's previous quarter EBITDA multiplied by 8, payable in shares of NeoMedia restricted common stock. Both LOIs are non-binding and subject to due diligence by NeoMedia and AP.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Executive Officers

As of January 24, 2005, NeoMedia's directors and executive officers were:

Name	Age	Position
Charles W. Fritz	48	Chairman of the Board of Directors
Charles T. Jensen	61	President, Chief Executive Officer, Chief Operating Officer, and Director

David A. Dodge	29	Vice-President, Chief Financial Officer and Controller
William E. Fritz	74	Director
James J. Keil	77	Director
A. Hayes Barclay	73	Director

The following is certain summary information with respect to the directors and executive officers of NeoMedia:

Charles W. Fritz is a founder of NeoMedia and has served as an officer and as a Director of NeoMedia since our inception. On August 6, 1996, Mr. Fritz was appointed Chief Executive Officer and Chairman of the Board of Directors. On April 2, 2001, Mr. Fritz was appointed as President where he served until June 2002. Mr. Fritz is currently a member of the Compensation Committee. Prior to founding NeoMedia, Mr. Fritz was an account executive with IBM Corporation from January 1986 to January 1988, and Director of Marketing and Strategic Alliances for the information consulting group from February 1988 to January 1989. Mr. Fritz holds an M.B.A. from Rollins College and a B.A. in finance from the University of Florida. Mr. Fritz is the son of William E. Fritz, a Director of NeoMedia.

Charles T. Jensen was Chief Financial Officer, Treasurer and Vice-President of NeoMedia from 1996 through 2002. Mr. Jensen has been a Director since 1996, and currently is a member of the Compensation Committee. During 2002, Mr. Jensen was promoted to President, Chief Operating Officer, and Acting Chief Executive Officer. During August 2004, Mr. Jensen was made permanent Chief Executive Officer. Prior to joining NeoMedia in November 1995, Mr. Jensen was Chief Financial Officer of Jack M. Berry, Inc., a Florida corporation which grows and processes citrus products, from December 1994 to October 1995, and at Viking Range Corporation, a Mississippi corporation which manufactures gas ranges, from November 1993 to December 1994. From December 1992 to February 1994, Mr. Jensen was Treasurer of Lin Jensen, Inc., a Virginia corporation specializing in ladies clothing and accessories. Prior to that, from January 1982 to March 1993, Mr. Jensen was Controller and Vice-President of Finance of The Pinkerton Tobacco Co., a tobacco manufacturer. Mr. Jensen holds a B.B.A. in accounting from Western Michigan University and is a Certified Public Accountant.

David A. Dodge joined NeoMedia in 1999 as the Financial Reporting Manager. Since then, Mr. Dodge has acted as NeoMedia's Director of Financial Planning and Controller, and currently holds the title of Vice President, Chief Financial

Officer and Controller. Prior to joining NeoMedia in 1999, Mr. Dodge was an auditor with Ernst & Young LLP for 2 years. Mr. Dodge holds a B.A. in economics from Yale University and an M.S. in accounting from the University of Hartford, and is also a Certified Public Accountant.

William E. Fritz is a founder of NeoMedia and has served as a Director of NeoMedia since its inception. Mr. Fritz also served as Treasurer of NeoMedia from its inception until May 1, 1996. Since February 1981, Mr. Fritz has been an officer and either the sole stockholder or a majority stockholder of G.T. Enterprises, Inc. (formerly Gen-Tech, Inc.), D.M., Inc. (formerly Dev-Mark, Inc.) and EDSCO, three railroad freight car equipment manufacturing companies. Mr. Fritz holds a B.S.M.E. and a Bachelor of Naval Science degree from the University of Wisconsin. Mr. Fritz is the father of Charles W. Fritz, NeoMedia's former Chief Executive Officer and Chairman of the Board of Directors.

James J. Keil has been a Director of NeoMedia since August 6, 1996. Mr. Keil currently is a member of the Compensation Committee, the Stock Option

Committee and the Audit Committee. He is founder and President of Keil & Keil Associates, a business and marketing consulting firm located in Washington, D.C., specializing in marketing, sales, document application strategies, recruiting and electronic commerce projects. Prior to forming Keil & Keil Associates in 1990, Mr. Keil worked for 38 years at IBM Corporation and Xerox Corporation in various marketing, sales and senior executive positions. From 1989-1995, Mr. Keil was on the Board of Directors of Elixir Technologies Corporation (a non-public corporation), and from 1990-1992 was the Chairman of its Board of Directors. From 1992-1996, Mr. Keil served on the Board of Directors of Document Sciences Corporation. Mr. Keil holds a B.S. degree from the University of Dayton and did Masters level studies at the Harvard Business School and the University of Chicago in 1961/62.

A. Hayes Barclay has been a Director of NeoMedia since August 6, 1996, and currently is a member of the Stock Option Committee and the Audit Committee. Mr. Barclay has practiced law for approximately 37 years and, since 1967, has been an officer, owner and employee of the law firm of Barclay & Damisch, Ltd. and its predecessor, with offices in Chicago, Wheaton and Arlington Heights, Illinois. Mr. Barclay holds a B.A. degree from Wheaton College, a B.S. from the University of Illinois and a J.D. from the Illinois Institute of Technology - Chicago Kent College of Law.

Election Of Directors And Officers

Directors are elected at each annual meeting of stockholders and hold office until the next succeeding annual meeting and the election and qualification of their respective successors. Officers are elected annually by the Board of Directors and hold office at the discretion of the Board of Directors. NeoMedia's By-Laws permit the Board of Directors to fill any vacancy and such director may serve until the next annual meeting of shareholders and the due election and qualification of his successor.

Meetings Of The Board Of Directors

During the year ended December 31, 2004, NeoMedia held 5 directors' meetings and each incumbent director attended more than seventy-five percent of the total of meetings of the Board of Directors and the Committees of which he is a member. The Board of Directors also acted 20 times by unanimous written consent.

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Committees Of The Board Of Directors

NeoMedia's Board of Directors has an Audit Committee, Compensation Committee and a Stock Option Committee. The Board of Directors does not have a standing Nominating Committee.

Audit Committee. The Audit Committee is responsible for nominating NeoMedia's independent accountants for approval by the Board of Directors, reviewing the scope, results and costs of the audit with NeoMedia's independent accountants, and reviewing the financial statements, audit practices and internal controls of NeoMedia. During 2004, members of the Audit Committee were non-employee directors James J. Keil and A. Hayes Barclay. During 2004, the Audit Committee held 4 meetings. Due to financial constraints, the Company does not currently have an audit committee financial expert serving on its audit committee.

Compensation Committee. The Compensation Committee is responsible for recommending compensation and benefits for the executive officers of NeoMedia to the Board of Directors and for administering NeoMedia's Incentive Plan for Management. Charles W. Fritz, Charles T. Jensen, A. Hayes Barclay and James J. Keil, were members of NeoMedia's Compensation Committee during 2004. The Compensation Committee acted by unanimous written consent 2 times during 2004.

Stock Option Committee. The Stock Option Committee, which is comprised of non-employee directors, is responsible for administering NeoMedia's Stock Option Plans. A. Hayes Barclay and James J. Keil are the current members of NeoMedia's Stock Option Committee. During 2004, the Stock Option Committee met once and acted by unanimous written consent 6 times.

Director Compensation

Outside directors are currently compensated through the issuance of stock options from the Company's 2003 Stock Option Plan. During May 2004, each outside director received 1,000,000 options with an exercise price of $0.075 per share, and the audit and compensation committee chairperson received and additional 500,000 options with an exercise price of $0.075 per share. NeoMedia does not have a written compensation policy for its outside directors at this time.

Code of Ethics

The Company has adopted a code of ethics, as required by the rules of the SEC (attached as exhibit 10.55 hereto). This code of ethics applies to all of the Company's directors, officers and employees. The code of ethics, and any amendments to, or waivers from, the code of ethics, is available in print, at no charge, to any stockholder who requests such information.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires NeoMedia's officers and directors, and persons who own more than ten percent of a registered class of NeoMedia's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent shareholders are required by SEC regulation to furnish NeoMedia with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to NeoMedia, NeoMedia believes that during 2003 all Section 16(a) filing requirements applicable to NeoMedia's officers, directors and ten percent beneficial owners were complied with.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information with respect to the compensation paid to (i) NeoMedia's Chief Executive Officer and (ii) each of NeoMedia's other executive officers who received aggregate cash compensation in excess of $100,000 for services rendered to NeoMedia (collectively, "the Named Executive Officers") during the years ended December 31, 2004 and 2003:

	Annual Compensation		Long-term C	
		Other Annual Compens-	d Restricte Stock	Securitie Underlyin Options/

Name and Principal Position	Year	Salary ($)	Bonus ($)	ation ($)	Award(s) ($)	SARs (1) (#)
Charles T. Jensen President and	2004	175,000	---	---	---	4,000,000
Chief Executive Officer	2003	162,000	92,000 (2)	---	---	10,000,00
Charles W. Fritz Chairman of the	2004	$175,000	---	---	---	4,000,000
Board	2003	145,000	110,000 (2)	$60,000 (3)	---	10,000,00
David A. Dodge	2004	122,000	---	---	---	2,000,000
Vice President and Chief Financial Officer	2003	90,000	7,000 (2)	---	---	2,300,000

(1) Represents options granted under NeoMedia's 2003, 2002 and 1998 Stock Option Plans and warrants granted at the discretion of the Stock Option Committee of NeoMedia's Board of Directors.

(2) During 2003, the Company paid past due Year 2000 Executive Incentive liability through the issuance of shares of its common stock. The amounts reported in this table represent the market value of the shares on the date of issuance.

(3) During 2003, the Company paid Charles W. Fritz unpaid salary from 2002 through the issuance of shares of its common stock. The amounts reported in this table represent the market value of the shares on the date of issuance.

(4) Includes automobile expenses attributable to personal use and the corresponding income tax effects.

Employment Agreements

No employment agreements are currently in place for any employees of the Company.

Incentive Plan for Management

Effective as of January 1, 1996, NeoMedia adopted an Annual Incentive Plan for Management ("Incentive Plan"), which provides for annual bonuses to eligible employees based upon the attainment of certain corporate and/or individual performance goals during the year. The Incentive Plan is designed to provide additional incentive to NeoMedia's management to achieve these growth and profitability goals. Participation in the Incentive Plan is limited to those employees holding positions assigned to incentive eligible salary grades and whose participation is authorized by NeoMedia's Compensation Committee which administers the Incentive Plan, including determination of employees eligible for participation or exclusion. The Board of Directors can amend, modify or terminate the Incentive Plan for the next plan year at any time prior to the commencement of such next plan year.

To be eligible for consideration for inclusion in the Incentive Plan, an employee must be on NeoMedia's payroll for the last three months of the year involved. Death, total and permanent disability or retirement are exceptions to such minimum employment, and awards in such cases are granted on a pro-rata basis. In addition, where employment is terminated due to job elimination, a pro rata award may be considered. Employees who voluntarily terminate their employment, or who are terminated by NeoMedia for unacceptable performance, prior to the end of the year are not eligible to participate in the Incentive Plan. All awards are subject to any governmental regulations in effect at the time of payment.

Performance goals are determined for both NeoMedia's and/or the employee's performance during the year, and if performance goals are attained, eligible employees are entitled to an award based upon a specified percentage of their base salary.

The Company did not have a formal incentive plan for management in place for the year ended December 31, 2004.

During the years ended December 31, 2004 and 2003, the Company paid $159,000 and $593,000, respectively, in past due incentive awards relating to its executive incentive plan for fiscal 2000, through the issuance of common stock.

Stock Option Plans

Effective February 1, 1996 (and amended and restated effective July 18, 1996 and further amended through November 18, 1996), NeoMedia adopted its 1996 Stock Option Plan ("1996 Stock Option Plan"). The 1996 Stock Option Plan provides for the granting of non-qualified stock options and "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and provides for the issuance of a maximum of 1,500,000 shares of common stock. All 1,500,000 options were granted under NeoMedia's 1996 Stock Option Plan.

Effective March 27, 1998, NeoMedia adopted its 1998 Stock Option Plan ("1998 Stock Option Plan"). The 1998 Stock Option Plan provides for the granting of non-qualified stock options and provides for the issuance of a maximum of 8,000,000 shares of common stock. All 8,000,000 options were granted under NeoMedia's 1998 Stock Option Plan.

Effective June 6, 2002, NeoMedia adopted its 2002 Stock Option Plan ("2002 Stock Option Plan"). The 2002 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 10,000,000 shares of common stock. All 10,000,000 options were granted under NeoMedia's 2002 Stock Option Plan

Effective September 24, 2003, NeoMedia adopted its 2003 Stock Option Plan ("2003 Stock Option Plan"). The 2003 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 150,000,000 shares of common stock. On October 17, 2003, NeoMedia filed a Form S-8 to register all 150,000,000 shares underlying the options in the 2003 Stock Option Plan. As of December 31, 2004, the Company had issued approximately 69 million shares under the 2003 Stock Option Plan

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Stock Incentive Plan

Effective October 31, 2003, NeoMedia adopted the 2003 Stock Incentive Plan. Under the terms of the Plan, NeoMedia has set aside up to 30,000,000 shares of common stock to be issued to pay compensation and other expenses related to employees, former employees, consultants, and non-employee directors. On November 3, 2003, NeoMedia filed a Form S-8 to register all 30,000,000 shares underlying the options in the 2003 Stock Incentive Plan. As of December 31, 2004, the Company had issued approximately 9.3 million shares under the 2003 Stock Incentive Plan.

401(k) Plan

NeoMedia maintains a 401(k) Profit Sharing Plan and Trust (the "401(k) Plan"). All employees of NeoMedia who are 21 years of age and who have completed three months of service are eligible to participate in the 401(k) Plan. The 401(k) Plan provides that each participant may make elective contributions of up to 20% of such participant's pre-tax salary (up to a statutorily prescribed annual limit, which is $13,000 for 2004) to the 401(k) Plan, although the percentage elected by certain highly compensated participants may be required to be lower. All amounts contributed to the 401(k) Plan by employee participants and earnings on these contributions are fully vested at all times. The 401(k) Plan also provides for matching and discretionary contributions by NeoMedia. To date, NeoMedia has not made any such contributions.

Options Granted in the Last Fiscal Year

The following presents certain information on stock options for the Named Executive Officers for the year ended December 31, 2004:

Named Executive Officer	Number of Securities Underlying Options Granted (#)	Percent of Total Options/ SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/share)	Expiration Date	Potentia at Ass of fo 5% (
Charles T. Jensen	4,000,000	5.2%	$0.11	March 8, 2014	$27
Charles W. Fritz	4,000,000	5.2%	$0.11	March 8, 2014	$27
David A. Dodge	2,000,000	2.6%	$0.11	March 8, 2014	$13

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Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values

The following table sets forth options exercised by NeoMedia Named

Executive Officers during the year ended December 31, 2004, and the number and value of all unexercised options at fiscal year end.

Named Executive Officer	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Unexercised Securities Underlying Options/SARs at December 31, 2004		Value of the-Mone Decem
			Exercisable	Unexercisable	Exercisabl
Charles T. Jensen	1,505,386	$347,000	11,000,000	3,000,000	$2,705,00
Charles W. Fritz	1,549,000	$156,000	12,510,000	3,000,000	$3,030,00
David A. Dodge	100,000	$25,000	2,700,000	1,500,000	$639,000

(1) Based on the difference between the closing price of $0.265 of NeoMedia's common stock as quoted on OTC Bulletin Board on December 31, 2004 and the exercise price of the option/SAR.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of NeoMedia's common stock as of January 31, 2005, (i) by each person or entity known by NeoMedia to own beneficially more than five percent of NeoMedia's Common Stock, (ii) by each of NeoMedia's directors and nominees, (iii) by each executive officer of NeoMedia named in the Summary Compensation Table, and (iv) by all executive officers and directors of NeoMedia as a group.

	Amount and Nature of Beneficial Ownership (1)	Pe Cl
Charles W. Fritz (2)(3)	30,620,574	
William Fritz(2)(4)	51,890,944	
Charles T. Jensen(2)(5)	12,001,500	
David A. Dodge(2)(6)	3,200,000	
A. Hayes Barclay(2)(7)	1,405,000	
James J. Keil(2)(8)	2,388,619	
Officers and Directors as a Group (9 Persons)(9)	101,506,637	

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* - denotes ownership of less than one percent of issued and outstanding shares of NeoMedia's common stock.

(1) Applicable percentage of ownership is based on 437,356,497 shares of common stock outstanding as of January 31, 2005, together with securities exercisable or convertible into shares of common stock within 60 days of

January 31, 2005, for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of January 31, 2005, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The common stock is the only outstanding class of equity securities of NeoMedia.

(2) Address of the referenced individual is c/o NeoMedia Technologies, Inc., 2201 Second Street, Suite 402, Fort Myers, FL, 33901.

(3) Charles W. Fritz is the Company's founder and the Chairman of the Board of Directors. Shares beneficially owned include 100 shares owned by each of Mr. Fritz's four children for an aggregate of 400 shares, 12,000,000 shares of common stock issuable upon exercise of options granted under the Company's 2003, 2002 and 1998 stock option plans, 1,510,000 shares issuable upon exercise of stock warrants, 15,567,605 shares of common stock owned by Mr. Charles W. Fritz directly, and 1,542,969 shares of common stock held by the CW/LA II Family Limited Partnership, a family limited partnership for the benefit of Mr. Fritz's family.

(4) William E. Fritz, a member of the board of directors, and his wife, Edna Fritz, are the general partners of the Fritz Family Limited Partnership and therefore each are deemed to be the beneficial owners of the 1,511,742 shares held in the Fritz Family Partnership. As trustee of each of the Chandler R. Fritz 1994 Trust, Charles W. Fritz 1994 Trust and Debra F. Schiafone 1994 Trust, William E. Fritz is deemed to be the beneficial owner of the 165,467 shares of NeoMedia held in these trusts. Additionally, Mr. Fritz is deemed to own: 45,923,735 shares held directly by Mr. Fritz or his spouse, 2,540,000 shares to be issued upon the exercise of warrants held by Mr. Fritz or his spouse, and 1,750,000 shares to be issued upon the exercise of options held by Mr. Fritz or his spouse. Mr. Fritz may be deemed to be a parent and promoter of NeoMedia, as those terms are defined in the Securities Act.

(5) Charles T. Jensen is President, Chief Operating Officer, Acting Chief Executive Officer, and a member of the Board of Directors. Beneficial ownership includes 12,000,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans, and 1,500 shares owned by Mr. Jensen's sons.

(6) David A. Dodge is Vice President, Chief Financial Officer, and Controller. Beneficial ownership includes 3,200,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans.

(7) A. Hayes Barclay is a member of the Board of Directors. Ownership includes 1,400,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans, and 5,000 shares owned by Mr. Barclay directly.

(8) James J. Keil is a member of the Board of Directors. Shares beneficially owned includes 1,500,000 shares issuable upon exercise of options and 888,619 shares owned by Mr. Keil directly.

(9) Includes an aggregate of 36,850,000 currently exercisable options to purchase shares of common stock granted under NeoMedia's stock option plans, 4,050,000 currently exercisable warrants to purchase shares of common stock, and 65,606,637 shares owned directly by NeoMedia's officers

and directors.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During November 2002, NeoMedia issued Convertible Secured Promissory Notes with an aggregate face value of $60,000 to 3 separate parties, including Charles W. Fritz, Chairman of the Board of Directors of NeoMedia; William E. Fritz, an outside director; and James J. Keil, an outside director. The notes bear interest at a rate of 15% per annum, and matured at the earlier of i.) four months, or ii.) the date the shares underlying the Cornell Equity Line of Credit were registered with the SEC. The notes were convertible, at the option of the holder, into either cash or shares of NeoMedia common stock at a 30% discount to either market price upon closing, or upon conversion, whichever is lower. NeoMedia also granted to the holders an additional 1,355,670 shares of its common stock and 60,000 warrants to purchase shares of its common stock at $0.03 per share, with a term of three years. The warrants and shares were issued in January 2003. In addition, since this debt is convertible into equity at the option of the note holder at beneficial conversion rates, an embedded beneficial conversion feature was recorded as a debt discount and amortized using the effective interest rate over the life of the debt in accordance with EITF 00-27. Total cost of beneficial conversion feature, fair value of the stock and cost of warrants issued exceed the face value of the notes payable, therefore, only $60,000, the face amount of the note, was recognizable as debt discount, and amortized over the life of the notes payable. The Company repaid Charles Fritz's note in full during March 2003, and repaid James J. Keil's note in full during April 2003. The Company paid $30,000 of the principal on William Fritz's note during April 2003, and entered into a new note with Mr. Fritz for the remaining $10,000. The new note also includes a provision under which, as consideration for the loan, Mr. Fritz will receive a 3% royalty on all future revenue generated from the Company's intellectual property. The new note was paid in full during April 2004.

During April 2003, the Board of Directors of the Company approved the payment in full of approximately $154,000 of liabilities owed by the Company to Charles W. Fritz, the Company's Founder and Chairman of the Board of Directors, through the issuance of 15,445,967 shares of common stock. The Company recognized a discount expense in general and administrative expenses of approximately $15,000 relating to this transaction with Mr. Fritz.

During April 2003, the Company sold 25,000,000 shares of its common stock, par value $0.01, in a private placement at a price of $0.01 per share. The Company's stock price at the time of the sale was $0.012. In connection with the sale, the Company also granted the purchaser 25,000,000 warrants to purchase shares of the Company's common stock at an exercise price of $0.01 per share. The warrants had a fair value of $298,000 and have been recorded as a cost of issuance. The purchaser was William E. Fritz, a member of the Company's Board of Directors. Proceeds to the Company from sale of the shares were $250,000. The Company recognized a discount expense in general and administrative expenses of approximately $50,000 relating to this transaction with Mr. Fritz. On August 6, 2003, Mr. Fritz exercised his warrants and purchased 25,000,000 additional shares of common stock at a price of $0.01 per share.

During April 2003, the Company entered into a consulting agreement with William Fritz, an outside director, for consulting and advisement services relating to the merger with Loch Energy, Inc., and to the subsequent implementation of various management programs surrounding the business. The agreement called for total payments of $250,000 over a period of one year. During August 2003, the Company paid the consulting contract in full. During

September 2003, the consulting contract was rescinded and the full $250,000 was returned to NeoMedia.

During July 2003, the Company borrowed $25,000 from William E. Fritz, one of its outside directors. This amount was added to the principal of a $10,000 note payable to Mr. Fritz that matures in April 2004, with all other terms of the note remaining the same. As consideration for the loan, the Company granted Mr. Fritz 2,500,000 warrants to purchase shares of the Company's common stock at an exercise price of $0.01 per share. The warrants had a fair value of approximately $74,000. In accordance with EITF 00-27, the Company recorded the

relative fair value of the warrants as a discount against the note, and amortized the discount over the life of the note.

On August 29, 2003, the Company borrowed $50,000 from William E. Fritz, one of its outside directors, under an unsecured note payable. The note was paid in full during September 2003.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(1) The following exhibits required by Item 601 of Regulation S-B to be filed herewith are hereby incorporated by reference:

Exhibit No.	Description	Location
3.1	Articles of Incorporation of Dev-Tech Associates, Inc. and amendment thereto	Incorporated by reference to Ex to Registrant's Registration S No. 333-5534 as filed with the November 25, 1996
3.2	Bylaws of DevSys, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.3	Restated Certificate of Incorporation of DevSys, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.4	By-laws of DevSys, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.5	Articles of Merger and Agreement and Plan of Merger of DevSys, Inc and Dev-Tech Associates, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996

3.6	Certificate of Merger of Dev-Tech Associates, Inc. into DevSys, Inc.	Incorporated by reference to to Registrant's Registration No. 333-5534 as filed with the November 25, 1996
3.7	Articles of Incorporation of Dev-Tech Migration, Inc. and amendment thereto	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.8	By-laws of Dev-Tech Migration, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996

Exhibit No.	Description	Location
3.9	Restated Certificate of Incorporation of DevSys Migration, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.10	Form of By-laws of DevSys Migration, Inc.	Incorporated by reference to E to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.11	Form of Agreement and Plan of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc.	Incorporated by reference to E to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.12	Form of Certificate of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.13	Certificate of Amendment to Certificate of Incorporation of DevSys, Inc. changing its name to NeoMedia Technologies, Inc.	Incorporated by reference to Ex to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.14	Form of Certificate of Amendment to Certificate of Incorporation of NeoMedia Technologies, Inc. authorizing a reverse stock split	Incorporated by reference to E to Registrant's Registration St No. 333-5534 as filed with the November 25, 1996
3.15	Form of Certificate of Amendment to Restated Certificate of Incorporation of NeoMedia to Technologies, Inc. increasing authorized capital and creating preferred stock	Incorporated by reference to Registrant's Annual Report a with the SEC on November 2, 200
10.1	Dev-Tech Associates, Inc. 1996 Stock Option Plan	Incorporated by reference to Ex 10.44 to the Registrant's Regis Statement No. 333-5534 as filed SEC on November 25, 1996

10.2	First Amendment and Restatement of Dev-Tech Associates, Inc. 1996 Stock Option Plan	Incorporated by reference to Ex 10.45 to the Registrant's Regis Statement No. 333-5534 as filed SEC on November 25, 1996
10.3	Form of Stock Option Agreement - Dev-Tech Associates, Inc.	Incorporated by reference to Ex 10.46 to the Registrant's Regis Statement No. 333-5534 as filed SEC on November 25, 1996

Exhibit No.	Description	Location
10.4	Dev-Tech Migration, Inc. 1996 Stock Option Plan	Incorporated by reference 10.47 to the Registrant's R Statement No. 333-5534 as fil SEC on November 25, 1996
10.5	First Amendment and Restatement of Dev-Tech Migration, Inc.	Incorporated by reference 10.48 to the Registrant's R Statement No. 333-5534 as fil SEC on November 25, 1996
10.6	Form of Stock Option Agreement - Dev-Tech Migration, Inc.	Incorporated by reference 10.49 to the Registrant's R Statement No. 333-5534 as fil SEC on November 25, 1996
10.7	Dev-Tech Associates, Inc. 401(k) Plan and amendments	Incorporated by reference 10.50 to the Registrant's R Statement No. 333-5534 as fil SEC on November 25, 1996
10.8	First Amendment and Restatement of NeoMedia Technologies, Inc. 1996 Stock Option Plan	Incorporated by reference 10.60 to the Registrant's R Statement No. 333-5534 as fil SEC on November 25, 1996
10.9	NeoMedia Technologies, Inc. 1998 Stock Option Plan	Incorporated by reference to E to the Registrant's Form 10-K on March 9, 2004
10.10	Amendment to NeoMedia Technologies 1998 Stock Option Plan	Incorporated by reference to filed with the SEC on July 2, 1
10.11	Sale and Purchase Agreement between Qode.com, Inc. and NeoMedia Technologies, Inc.	Incorporated by reference 10.48 to the Registrant's Cur on Form 8-K as filed with March 15, 2001
10.12	Warrant repricing letter dated March 19, 2002	Incorporated by reference to to the Registrant's Current Form 8-K as filed with the S 2, 2002

10.13	Option repricing letter dated April 3, 2002	Incorporated by reference to to the Registrant's Current Form 8-K as filed with the S 15, 2002

Exhibit No.	Description	Location
10.14	Intellectual Property licensing agreement between NeoMedia and A.T. Cross Company	Incorporated by reference 10.18 to the Registrant's For filed with the SEC on April 24,
10.15	Intellectual Property licensing agreement between NeoMedia and Symbol Technologies, Inc.	Incorporated by reference 10.19 to the Registrant's For filed with the SEC on April 24,
10.16	Sponsorship and Advertising Agreement between NeoMedia and About.com, Inc.	Incorporated by reference 10.20 to the Registrant's For filed with the SEC on April 24,
10.17	Letter of Intent regarding proposed strategic transaction between NeoMedia and AirClic, Inc.	Incorporated by reference 10.21 to the Registrant's For filed with the SEC on April 24,
10.18	Form of Promissory Note issued to AirClic, Inc.	Incorporated by reference 10.22 to the Registrant's For filed with the SEC on April 24,
10.19	Form of Limited Recourse Promissory Note issued in exchange for 19 Million Shares of Common Stock	Incorporated by reference 10.23 to the Registrant's For filed with the SEC on April 24,
10.20	Nasdaq Staff Determination Letter with respect to de-listing of NeoMedia securities from the Nasdaq SmallCap market	Incorporated by reference 10.24 to the Registrant's For filed with the SEC on April 24,
10.21	Revised warrant repricing letter dated April 3, 2002	Incorporated by reference 10.25 to the Registrant's For filed with the SEC on April 24,
10.22	Equity Line of Credit Agreement, dated May 6, 2002, between NeoMedia Technologies and Cornell Capital Partners, LP	Incorporated by reference 10.17 to the Registrant's Report on Form 10-Q as filed w on August 14, 2002
10.23	Nasdaq Staff delisting notification letter dated May 16, 2002	Incorporated by reference 10.18 to the Registrant's Report on Form 10-Q as filed w on August 14, 2002
10.24	Settlement Agreement relating to wrongful termination lawsuit brought by former president and Chief Operating Officer	Incorporated by reference 10.19 to the Registrant's Fo filed with the SEC on August 14
10.25	Mutual settlement agreement by and between NeoMedia Technologies and 2150 Western Court Company, LLC	Incorporated by reference 10.20 to the Registrants For filed on November 14, 2002

Exhibit No.	Description	Location
10.26	Mutual settlement agreement by and between NeoMedia Technologies and Ripfire, Inc.	Incorporated by reference 10.21 to the Registrants For filed on November 14, 2002
10.27	Mutual settlement agreement by and between NeoMedia Technologies and Wachovia Bank, N.A.	Incorporated by reference 10.22 to the Registrants For filed on November 14, 2002
10.28	Mutual settlement agreement by and between NeoMedia Technologies and Marianne LePera, NeoMedia Technologies' former General Counsel	Incorporated by reference 10.23 to the Registrants For filed on November 14, 2002
10.29	Equity Line of Credit Agreement, dated February 11, 2003, between NeoMedia Technologies and Cornell Capital Partners	Incorporated by reference 10.80 to the Registrants For filed on February 14, 2003
10.30	Form of Placement Agent Agreement, dated November 2002, between NeoMedia Technologies and Westrock Advisors, Inc.	Incorporated by reference 10.84 to the Registrant's F filed on February 12, 2003
10.31	Form of Escrow Agreement, dated November 2002, between NeoMedia Technologies and Cornell Capital Partners	Incorporated by reference 10.85 to the Registrant's F filed on February 12, 2003
10.32	Form of Registration Rights Agreement, dated November 2002, between NeoMedia Technologies and Cornell Capital Partners	Incorporated by reference 10.86 to the Registrant's F filed on February 12, 2003
10.33	Promissory Note, dated February 23, 2001, between Digital Convergence Corporation and NeoMedia	Incorporated by reference 10.87 to the Registrant's F filed on February 12, 2003
10.34	Termination Agreement, dated August 21, 2001, between About.com and NeoMedia	Incorporated by reference 10.88 to the Registrant's F filed on February 12, 2003
10.35	Memorandum of Terms to merge, dated March 7, 2003, between NeoMedia and Loch Energy, Inc.	Incorporated by reference to to the Registrant's Form 8-K March 19, 2003
10.36	Binding Letter of Intent to merge, dated July 25, 2003, between NeoMedia and Secure Source Technologies, Inc.	Incorporated by reference to to the Registrant's Form 10- on August 14, 2003
10.37	Definitive Merger Agreement, dated October 3, 2003, between NeoMedia and Secure Source Technologies, Inc	Incorporated by reference to to the Registrant's Form 8-K October 8, 2003

Exhibit No.	Description	Location
10.38	Standby Equity Distribution Agreement, dated October 27, 2003, between NeoMedia and Cornell Capital Partners	Incorporated by reference 10.91 to the Registrant's For filed on December 19, 2003
10.39	Form of Placement Agent Agreement, dated October 27, 2003, between NeoMedia and Newbridge Securities Corporation	Incorporated by reference 10.92 to the Registrant's For filed on December 19, 2003
10.40	Form of Registration Rights Agreement, dated October 27, 2003, between NeoMedia and Cornell Capital Partners	Incorporated by reference 10.93 to the Registrant's For filed on December 19, 2003
10.41	Form of Escrow Agreement, dated October 27, 2003, between NeoMedia and Cornell Capital Partners	Incorporated by reference 10.94 to the Registrant's For filed on December 19, 2003
10.42	2003 Stock Compensation Plan	Incorporated by reference to to the Registrant's Form S-8 October 31, 2003
10.43	Letter of Intent to acquire CSI International, Inc., dated November 8, 2003	Incorporated by reference to to the Registrant's Form 8-K November 13, 2003
10.44	Letter of Intent to acquire BSD Software, Inc., dated December 9, 2003	Incorporated by reference to to the Registrant's Form 8-K December 11, 2003
10.45	Definitive Merger Agreement, dated February 6, 2004, between NeoMedia and CSI International, Inc.	Incorporated by reference to to the Registrant's Form 8-K February 10, 2004
10.46	$4 million Promissory note payable to Cornell Capital Partners, dated January 15, 2004	Incorporated by reference 10.49 to the Registrant's For filed on March 9, 2004
10.47	Form of Business Development Agreement between NeoMedia and iPoint-media	Incorporated by reference to to the Registrant's Form 8-K September 17, 2004
10.48	Form of Investment Agreement between NeoMedia and iPoint-media	Incorporated by reference to to the Registrant's Form 8-K September 17, 2004
10.49	Form of Registration Rights Agreement between NeoMedia and iPoint-media	Incorporated by reference to to the Registrant's Form 8-K September 17, 2004
10.50	Form of Indemnification Agreement between NeoMedia and iPoint-media	Incorporated by reference to to the Registrant's Form 8-K September 17, 2004

Exhibit No.	Description	Location
10.51	Form of Merger Agreement among NeoMedia Technologies, Inc., NeoMedia Telecom Services, Inc., and BSD Software, Inc.	Incorporated by reference to E to the Registrant's Form 8-K December 22, 2004
10.52	Form of Letters of Intent With Pickups Plus, Inc.	Incorporated by reference t 16.1 and 16.2 to the Registr 8-K as filed on March 1, 2005
10.53	Form of NeoMedia's Policy Statement on Ethical Behavior	Provided Herewith
10.54	Form of Term Sheet with Nextcode Corporation	Provided Herewith
10.55	Form of Letter of Intent With Shelron Group, Inc.	Provided Herewith
23.1	Consent of Stonefield Josephson, Inc., independent auditors	Provided Herewith
31.1 - 31.4	Certifications	Provided Herewith

(b) Reports on Form 8-K

NeoMedia filed a Form 8-K on December 22, 2004, disclosing that it had entered into an agreement to acquire and merge with BSD Software, Inc.

NeoMedia filed a Form 8-K on March 1, 2005, disclosing that it had entered into 2 letters of intent to acquire up to 100% interest in Automotive Preservation, Inc. NeoMedia also invested $250,000 in common stock of Pickups, Plus, Inc., the parent company of Automotive Preservation, Inc.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed by Stonefield Josephson, Inc., NeoMedia's independent auditors, for the audit of NeoMedia's annual consolidated financial statements and reviews of quarterly financial statements for the years ended December 31, 2004 and 2003 were $137,000 and $119,000, respectively.

Audit-related Fees

The aggregate fees billed by Stonefield Josephson, Inc., NeoMedia's independent auditors, for assurance and related services for the years ended December 31, 2004 and 2003 were $0 and $0, respectively.

Tax Fees

The aggregate fees billed by Wiltshire, Whitley, Richardson & English, NeoMedia's principal accountants for tax compliance, advice, and planning, were $9,000 for each of the years ended December 31, 2004 and 2003.

All Other Fees

The aggregate fees billed by Stonefield Josephson, Inc., for other products and services during the years ended December 31, 2004 and 2003 were $0 and $0, respectively.

Audit Committee Pre-approval

The audit committee of NeoMedia's board of directors approves all non-audit services provided by NeoMedia's primary accountants.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Fort Myers, State of Florida, on the 13th day of May, 2005.

NEOMEDIA TECHNOLOGIES, INC.
Registrant

By: ----------------------------------
/s/ Charles T. Jensen, President,
Chief Executive Officer, and
Director

In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 4, 2005.

Signatures	Title	Date
/s/ Charles T. Jensen	President, Chief Executive Officer, and Director	May 13, 2005
/s/ William E. Fritz	Director	May 13,, 2005
/s/ Charles W. Fritz	Chairman of the Board	May 13,, 2005
/s/ David A. Dodge	Vice-President and Chief Financial Officer	May 13,, 2005
/s/ Hayes Barclay	Director	May 13,, 2005
/s/ James J. Keil	Director	May 13,, 2005