NEOMEDIA TECHNOLOGIES INC
Form 10KSB
March 30, 2006

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

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, 2005

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 600 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 exchanged on which registere
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 $2,156,000.

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 February 28, 2006 ($0.39) was $210,089,000. 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 February 28, 2006, there were outstanding 601,789,324 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. NeoMedia has also developed an extensive patent portfolio covering convergence of the physical world and the Internet.

During 2005, NeoMedia continued its efforts to commercialize its PaperClick and Micro Paint Repair businesses both in North America and overseas. As part of the commercialization efforts, NeoMedia began to implement an aggressive growth campaign focusing on expansion through acquisition and globalization. As a result, during the first quarter of 2006 NeoMedia completed acquisitions of Mobot, Inc., 12Snap AG, Sponge Ltd., and Gavitec AG, and BSD Software, Inc., and also signed a letter of intent to acquire Hip Cricket, Inc. (see below for additional discussion of acquisitions)

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

During the year ended December 31, 2005, NeoMedia was structured and evaluated by its Board of Directors and Management as three distinct business units:

- NeoMedia Internet Switching Software (NISS),

- NeoMedia Micro Paint Repair (NMPR)

- NeoMedia Consulting and Integration Services (NCIS), and

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.

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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.

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. As a result of decreased demand for systems integration products, and increased consolidation and competition in the industry in general, during 2005 resources allocated to the NCIS business unit were increasingly used in sales and business development efforts associated with the NISS business unit. During February 2006, NeoMedia's Board of Directors elected to formally wind down the NCIS business unit. As a result, during February 2006, NeoMedia closed its Lisle, Illinois facility out of which the NCIS business unit was based. NeoMedia does, however, plan to continue servicing existing contracts and customers.

Following the completion of the acquisitions of 12Snap, Sponge, Gavitec, Mobot and during the first quarter of 2006, NeoMedia expects to operate as three business units during 2006:

- NeoMedia Mobile (NMM) - encompassing NeoMedia's physical-world-to-internet and mobile marketing technologies branded under PaperClick, 12Snap, Sponge, Gavitec and Mobot

- NeoMedia Micro Paint Repair (NMPR)

- NeoMedia Telecom Services (NTS) - encompassing the BSD/Triton business line

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.

As of December 31, 2005, 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 (a dormant subsidiary); NeoMedia Technologies of Canada, Inc., incorporated in Canada (a dormant subsidiary); NeoMedia Tech, Inc., incorporated in Delaware (a dormant subsidiary); NeoMedia EDV GMBH, incorporated in Austria (a dormant subsidiary); NeoMedia Technologies Holding

Company B.V., incorporated in the Netherlands (a dormant subsidiary); NeoMedia Technologies de Mexico S.A. de C.V., incorporated in Mexico (a dormant subsidiary); NeoMedia Migration de Mexico S.A. de C.V., incorporated in Mexico (a dormant subsidiary); NeoMedia Technologies do Brazil Ltd., incorporated in Brazil (a dormant subsidiary); and NeoMedia Technologies UK Limited, incorporated in the United Kingdom (a dormant subsidiary). In October 2004, NeoMedia established NeoMedia Telecom Services, Inc. in Nevada for the purpose of acquiring BSD. In October 2004, NeoMedia established Mobot Acquisition, Inc. in Delaware for the purpose of acquiring Mobot. Subsequent to the completion of the acquisition of Mobot in February 2006, the name of this subsidiary was changed to Mobot, Inc.

During the first quarter of 2006, NeoMedia also acquired 12Snap AG and Gavitec AG, both incorporated in Germany, and Sponge Ltd., incorporated in the United Kingdom.

Recent Developments

$27 Million Preferred Stock Sale

On February 17, 2006, NeoMedia entered into an investment agreement (the "Investment Agreement") with Cornell Capital Partners, LP ("Cornell"). Pursuant to the Investment Agreement, the Company issued and sold to Cornell Twenty-Seven Million Dollars (US $27,000,000) of Series C Preferred Shares (the "Series C Preferred Shares"), of which (i) Three Million Two Hundred Eight Thousand Seven Hundred Two Dollars ($3,208,702) were purchased by Cornell for consideration solely consisting of surrendering that certain promissory note, dated March 30, 2005 in the original principal amount of Ten Million Dollars (US $10,000,000) issued in the name of Cornell, (ii) Eighteen Million Seven Hundred Ninety-One Thousand Two Hundred Ninety-Eight Dollars (US $18,791,298) were purchased by additional funding (consisting of $16,791,298 of immediately available funds and $2,000,000 of securities) from Cornell as of February 17, 2006, and (iii) Five Million Dollars (US $5,000,000) shall be purchased by an additional funding by Cornell on the date a registration statement filed by the Company pursuant to the terms of that certain investor registration rights agreement, dated February 17, 2006 by and between the Company and Cornell is declared effective by the U.S. Securities and Exchange Commission. The Series C Preferred Shares are convertible into shares of the Company's common stock, par value $0.01 per share in accordance with the terms of the Company certificate of designations, preferences, and rights of the Series C Preferred Shares.

In addition, pursuant to the terms of the Investment Agreement, the Company issued to Cornell (i) a warrant to purchase twenty million (20,000,000) shares of NeoMedia common stock exercisable for a period of 5 years at an exercise price of $0.50 per share; (ii) a warrant to purchase twenty-five million (25,000,000) shares of common stock exercisable for a period of 5 years at an exercise price of $0.40 per share; and (iii) a warrant to purchase thirty million (30,000,000) shares of common stock exercisable for a period of 5 years at an exercise price of $0.35 per share.

On February 17, 2006, the Company and Cornell entered into an assumption agreement, whereby Cornell sold and assigned to the Company those certain promissory notes issued by Pick Ups Plus, Inc., dated September 30, 2003, October 13, 2004, June 6, 2005, and August 4, 2005, in the aggregate principal amount of $1,365,000 and accrued interest of $246,232 for a purchase price equal to One Million Six Hundred Eleven Thousand Two Hundred Thirty-One Dollars and 78/100 (US $1,611,231.78).

On February 17, 2006, the Company and Cornell entered into an assignment of common stock, whereby Cornell sold and assigned to the Company twenty million (20,000,000) shares of common stock, par value $0.001 per share, of Pick Ups Plus, Inc. for a purchase price equal to Three Hundred Eighty-Eight Thousand Seven Hundred Sixty-Eight Dollars and 22/100 (US $388,768.22).

Acquisition of Mobot, Inc.

On February 9, 2006, NeoMedia and Mobot, Inc. (www.mobot.com) ("Mobot") signed a definitive merger agreement under which NeoMedia acquired all of the outstanding shares of Mobot in exchange for $3,500,000 cash and $6,500,000 in shares of NeoMedia common stock. The $6,500,000 stock portion of the purchase price is represented by 16,931,493 shares of NeoMedia common stock, calculated by dividing $6,500,000 by the volume-weighted average closing price of NeoMedia common stock for the ten day up to and including February 8, 2006. On February 17, 2006, NeoMedia and Mobot completed the closing requirements and the acquisition became effective. As of December 31, 2005, NeoMedia had loaned Mobot $1,500,000, which was forgiven upon the effective closing date.

Mobot is a pioneer in visual search and recognition technology designed to make marketing effective and innovative using mobile devices. Launched in 2004 to help companies cultivate rewarding relationships with the world's 1.5 billion mobile phone users, Mobot gives marketers, content providers and carriers the tools to make it easy for any consumer with a camera phone to interact with their offerings.

Acquisition of 12Snap AG

On February 10, 2006, NeoMedia and 12Snap AG ("12Snap") signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of 12Snap in exchange for $2,500,000 cash and $19,500,000 in shares of NeoMedia common stock. The $19,500,000 stock portion of the purchase price is represented by 49,294,581 shares of NeoMedia common stock, calculated by dividing $19,500,000 by the volume-weighted average closing price of NeoMedia common stock for the ten day up to and including February 9, 2006. On February 28, 2006, NeoMedia and 12Snap completed the closing requirements and the acquisition became effective.

12snap AG is a non-public incorporated company headquartered in Munich with branches in Dusseldorf, New York, London, Milan, Stockholm and Vienna. As an expert in innovative marketing and entertainment for mobile phones, 12snap combines know-how in mobile applications, mobile loyalty and mobile marketing. In the mobile marketing space, 12snap creates and implements national and pan-European mobile marketing campaigns for international brands; its mobile loyalty business unit offers customer loyalty programs for companies and brands, and its mobile applications business unit is the center for development and software. 12snap sells and licenses a wide spectrum of mobile solutions to satisfy the demands of the current growing market and the new uses of the third mobile phone generation from dynamic video services and multiplayer games to personalized messaging applications. 12snap has 75 employees, and services companies including McDonald's, MTV(R), Coca-Cola, Ferrero, Wella, adidas, Unilever and Gillette(R).

Acquisition of Sponge Ltd.

On February 20, 2006, NeoMedia and Sponge Limited ("Sponge") of London (www.spongegroup.com) signed a definitive share purchase agreement under which NeoMedia acquired all of the outstanding shares of Sponge in exchange for (pound)3,450,000 (approximately $6 million) cash and (pound)6,550,000 (approximately $11.4 million) in shares of NeoMedia common stock. The (pound)6,550,000 stock portion of the purchase price is represented by 29,696,745 shares of NeoMedia common stock, calculated by dividing (pound)6,550,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 8, 2006. The agreement also calls for Sponge to earn an additional (pound)2,500,000 (approximately $4.4 million) in the form of NeoMedia common stock if, during the two-year period beginning at closing, the Sponge business earns in excess of (pound)1,300,000 (approximately $2.3 million) in net profits. On February 23, 2006, NeoMedia and Sponge completed the closing requirements and the acquisition became effective.

Founded in 2001, Sponge has grown to become a U.K. market leader in providing mobile applications to agencies and media groups, and gain recognition as one of Europe's top independent developers of mobile applications and content. Today, Sponge counts more than 40 agencies, including WPP, Aegis and BBH, as clients, and supplies services for over 100 world-class brands, including Coca Cola(R), Heineken(R) and Diageo. Sponge also supplies a range of mobile services to media groups, including News International, Trinity Mirror, Endemol and IPC.

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Acquisition of Gavitec AG

On February 17, 2006, NeoMedia and Gavitec AG ("Gavitec") of Wurselen, Germany (www.gavitec.com) signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of Gavitec in exchange for $1,800,000 cash and $5,400,000 in shares of NeoMedia common stock. The $5,400,000 stock portion of the purchase price is represented by 13,660,511 shares of NeoMedia common stock, calculated by dividing $5,400,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 16, 2006. On February 23, 2006, NeoMedia and Gavitec completed the closing requirements and the acquisition became effective

Gavitec was founded in 1997 as a specialized provider and manufacturer of products and solutions for mobile marketing and mobile information technology. As a technology leader in code-reading systems and software for mobile applications, Gavitec offers its clients standardized or individual solutions in the areas of mobile marketing, mobile ticketing, mobile couponing, and mobile payment systems.

Acquisition of BSD Software, Inc.

On December 21, 2004, NeoMedia signed a merger agreement to acquire BSD. On March 21, 2006, NeoMedia and BSD completed the requirements to closing and the acquisition became effective. After exchange of shares certificates, NeoMedia expects to issue 7,123,698 shares of its common stock in connection with the acquisition.

BSD, operating under its trade name of Triton Global Business Services, is a customer service-oriented organization providing telephone services to direct customers and telecommunications companies (including clearing houses, alternative operator service providers, local exchange carriers, long distance voice and data providers, wireless carriers), both within North America and internationally.

Letter of Intent to Acquire Hip Cricket

On February 16, 2006, NeoMedia signed a non-binding letter of intent to acquire HipCricket, Inc. ("HipCricket") of Essex, CT (www.hipcricket.com) in exchange for $500,000 cash and $4,000,000 of NeoMedia common stock. The letter of intent is subject to due diligence and signing of a mutually agreeable definitive purchase agreement by both parties.

HipCricket is a leading mobile marketing firm that provides innovative, custom solutions to broadcasters and brand marketers. Today, HipCricket works with five of the top 10 radio groups in the U.S. as well as with some 40 major brand marketers. HipCricket combines senior marketing expertise with state-of-the-art mobile and event marketing technologies to offer clients unprecedented interactivity with their consumers, viewers, listeners or customers on a one-to-one personal level.

$100 Million Standby Equity Distribution Agreement with Cornell

On March 30, 2005, NeoMedia and Cornell entered into a Standby Equity Distribution Agreement under which Cornell agreed to purchase up to $100 million of NeoMedia's common stock over a two-year period, with the timing and amount of the purchase at NeoMedia's discretion. The maximum amount of each purchase would be $2,000,000 with a minimum of five business days between advances. The shares would be valued at 98% of the lowest closing bid price during the five-day period following the delivery of a notice of purchase by NeoMedia, and NeoMedia would pay 5% of the gross proceeds of each purchase to Cornell. As a commitment

fee for Cornell to enter into the agreement, NeoMedia issued 50 million warrants to Cornell with an exercise price of $0.20 per share, and a term of three years, and also paid a cash commitment fee of $1 million. NeoMedia also issued 4 million warrants with an exercise price of $0.229 to an independent third party as a fee for negotiating and structuring the Standby Equity Distribution Agreement.

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. During 2005, iPoint-media recapitalized such that each share of its stock was exchanged for 100 shares. As a result, NeoMedia now holds 6,919,680 shares of iPoint-media common stock. NeoMedia's ownership percentage remains unchanged at 17%.

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 approximately 2,043,500 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.

During the year ended December 31, 2005, NeoMedia recognized an impairment charge considered to be other than temporary of $530,000 to the carrying value of its investment in iPoint-media common stock.

Patent Developments

On January 23, 2004, NeoMedia filed a patent infringement lawsuit against AirClic, Inc. During July 2005, NeoMedia and AirClic settled the case out of court, with AirClic agreeing to compensate NeoMedia for past and future activities. AirClic did not receive a license to use NeoMedia's patented PaperClick(R) technology.

On January 2, 2004, NeoMedia filed a patent infringement lawsuit against Virgin(R) Entertainment Group, Inc., Virgin Megastore Online and Virgin Megastore (collectively, "Virgin"). During June 2005, NeoMedia and Virgin settled the case out of court, with Virgin agreeing to purchase a license to use NeoMedia's patented PaperClick(R) technology platform through 2016.

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. During October 2005, the copyright charges were dismissed by the court. 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. Management cannot predict the outcome of the matter, however, believes it has adequate defense strategies. The Company plans to vigorously defend this matter. An adverse outcome to this suit could have a material adverse effect on NeoMedia's business plan and expected future revenue from patent licensing.

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On April 12, 2005, NeoMedia acquired four search-oriented patents issued in the U.S. and pending in Europe and Japan from LoyaltyPoint Inc. for $1.5 million cash and 10% royalties on all future sales for a period of ten years. The first patent (U.S. 6,430,554 B1) covers technology that uses uniquely-coded objects, such as consumer goods to automatically generate an online search for information related to those objects or goods from a computer, PDA, mobile phone or other device. The second patent (U.S. 6,651,053 B1) is an extension of the first, covering additional mechanisms for performing such searches using mobile devices. The third patent (U.S. 6,675,165 B1) covers uses of location-based technology to deliver content that is based both on a particular advertisement and the geographic location in which the advertisement is located. The fourth patent (U.S. 6,766,363 B1) covers techniques for providing information to end users based on objects, goods or other items depicted in external media, such as video, audio, film or printed matter.

On May 13, 2005, the European Patent Office (EPO) issued a Notice of Allowance based on proceedings conducted during April 2005 in The Hague. Recognition by the EPO extends the patents for NeoMedia's core technology - the use of bar codes and other unique identifiers to automatically link to content on the Internet - to Austria, Belgium, France, Germany, Liechtenstein, Luxembourg, the Netherlands, Sweden, Switzerland and the United Kingdom.

On February 1, 2006, the U.S. Patent and Trademark Office issued a new patent to NeoMedia covering the capture and processing of bar codes explicitly from camera cell phones. The patent (U.S. Patent No. 6,993,573) explicitly describes and patents NeoMedia's method of capturing the image of a bar code by the camera device on a Web-enabled cell phone, and processing the bar code so as to deliver the appropriate URL - or Web-based information - to the user's cell phone screen.

PaperClick(R) Developments

On September 30, 2005, NeoMedia entered into a mobile marketing alliance and co-marketing agreement with advertising agency Arnold Worldwide ("Arnold"), centered on NeoMedia's patented PaperClick(R) technology platform. The agreement calls for Arnold and NeoMedia to work together to develop opportunities and marketing campaigns utilizing PaperClick. NeoMedia will provide technical and sales support for presentations, marketing programs and campaigns conceived and developed by Arnold for its clients.

On July 12, 2005, NeoMedia entered into a consulting agreement with Silicon Space, Inc., under which Silicon Space developed portions of NeoMedia's PaperClick(R) WordRegistry interface, for which NeoMedia paid Silicon Space approximately $53,000 in fees during the year ended December 31, 2005. Silicon Space replaces Science Applications International, Inc., who NeoMedia engaged in October 2004 on a contingency basis to build and host the interface. NeoMedia intends to host the WordRegistry internally upon its completion.

On April 18, 2005, NeoMedia announced that it named Martin N. Copus, a global and interactive marketing executive who has worked with many of the world's leading brands, as its COO and to the newly-created position of chief executive of its PaperClick wireless business unit. Prior to joining NeoMedia, Mr. Copus was Managing Director of 12Snap UK, an internationally-acclaimed, award-winning mobile marketing company focusing on wireless channels, where he led development and implementation of interactive marketing programs for major blue-chip companies including McDonald's(R), Kellogg(R), Procter & Gamble(R), Coca-Cola(R), Safeway(R), Budweiser(R), and 20th Century Fox(R). Prior to running the U.K. operations of 12Snap, Mr. Copus's background included assignments as executive director of Huntsworth PLC, a marketing services group listed on the main board of the London Stock Exchange; Worldwide Board Director of Interpublic Group's Ammirati Puris Lintas advertising unit; and senior vice president of Leo Burnett Company Inc., Chicago, responsible for its Marlboro(R) USA advertising and marketing services account. Mr. Copus holds a B.A. in marketing and an M.A. in modern languages, both from Oxford University.

On March 18, 2005, NeoMedia and Foote Cone & Belding ("FCB"), a division of FCB Worldwide LLC and part of the Interpublic Group of Companies, Inc. (NYSE: IPG), entered into a co-marketing agreement surrounding NeoMedia's PaperClick(R) technology platform. The agreement calls for FCB to work with NeoMedia to create and develop opportunities and programs utilizing PaperClick(R), to integrate PaperClick into marketing campaigns for new and existing clients, and to facilitate the introduction of NeoMedia and PaperClick in the mobile telecommunications industry. NeoMedia will provide technical and sales support for presentations and marketing programs co-developed for FCB clients, work with FCB to explore and create marketing opportunities and solutions, and introduce FCB to its business customers, including brand managers. FCB and NeoMedia will team up for co-marketing and sales efforts in the U.S., as well as in Europe, the Middle East, Africa and Latin America.

On March 10, 2005, NeoMedia and Intactis Software, Inc., a provider of Check 21 software products and solutions for the small- to medium-sized financial institution market, entered into a business development agreement under which the two companies will develop a database lookup system for validating codes printed on negotiable instruments (checks). In addition, NeoMedia invested $250,000 in Intactis convertible preferred stock and warrants to own up to 25% of Intactis. Intactis also placed an order for an initial 100 copies of NeoMedia's PaperClick Print Encoder software for which NeoMedia recognized $30,000 revenue during 2005. During the year ended December 31, 2005, NeoMedia recognized an impairment charge considered other than temporary of $250,000 to the carrying value of its investment in Intactis since the carrying value exceeded its fair value as estimated by management. As of the date of this report, management does not expect to invest any more capital into Intactis.

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.

Micro Paint Repair Developments

On February 28, 2006, NeoMedia signed a 10-year exclusive supplier agreement with Automart, a Beijing-based joint venture operating under the laws of the People's Republic of China specializing in automobile sales, financing, insurance and repair. Automart is the brand name of Jinche Yingang Auto Technological Services Limited, with which NeoMedia signed a distribution agreement in August 2005. The new agreement expands on the previous agreement, giving Automart the exclusive rights to distribute NeoMedia's micro paint repair products to their own stores and others throughout China, Hong Kong, Macao, and Taiwan, and also guaranteeing that Automart will purchase at least 70% of its non-micro paint products through NeoMedia as its distributor. NeoMedia has signed distribution agreements with DuPont and PPG, and intends to become a distributor of other automotive aftermarket products to Automart.

On December 20, 2005, NeoMedia executed a definitive supply agreement with E.I. DuPont de Nemours (Belgium) BVBA of Belgium ("DuPont"), a subsidiary of E.I. DuPont, under which NeoMedia will distribute DuPont's automobile refinish paint throughout the People's Republic of China. The agreement calls for NeoMedia to serve as a non-exclusive distributor of DuPont products to Beijing Sino-US Jinche Yingang Auto Technological Services Limited ("Jinche") in the People's Republic of China. NeoMedia previously signed a distribution agreement with Jinche under which Jinche will distribute and use NeoMedia's micro paint repair products at its automotive service facilities throughout China.

On February 17, 2006, in connection with the $27 million convertible preferred funding arrangement with Cornell, NeoMedia was assigned 20,000,000 shares of Pick Ups Plus ("PUPS") common stock. NeoMedia had previously acquired 8,333,333 shares of PUPS common stock directly from PUPS, in exchange for $250,000 cash.

On December 14, 2005, NeoMedia executed a definitive distribution agreement with PPG Industries' PPG Shanghai Trading Co. Ltd. ("PPG"), under which NeoMedia will distribute automotive aftermarket products produced by PPG. The Agreement calls for NeoMedia to serve as a non-exclusive distributor of PPG products to Jinche in the People's Republic of China.

On October 4, 2005, NeoMedia signed a definitive distribution agreement to bring its NeoMedia Micro Paint Repair business to Scandinavia. The agreement, signed with WITHO-AS of Oslo, Norway ("WITHO-AS"), calls for WITHO-AS to serve as an exclusive distributor of NeoMedia's micro paint repair products, systems and licenses to automotive service facilities throughout Denmark, Sweden, and Norway. Based in Oslo, Norway, WITHO-AS is a new company formed to specialize in products and services involving micro paint repairs for automobiles in Denmark, Sweden and Norway.

On September 27, 2005, NeoMedia signed a definitive distribution agreement to bring its NeoMedia Micro Paint Repair business to Mexico and Latin America, as well as be a distributor of other automotive aftermarket products. The agreement, signed with Micropaint de Mexico, S.A. ("Micropaint de Mexico"), calls for Micropaint de Mexico to serve as an exclusive distributor of NeoMedia's micro paint repair products, systems and licenses to automotive service facilities throughout Mexico and Latin America. The agreement also calls for Micropaint de Mexico to buy certain automotive aftermarket repair and environmental protection products from NeoMedia. Founded earlier this year and based in Monterrey, Mexico, Micropaint de Mexico specializes in providing automotive aftermarket products throughout Mexico and Latin America.

On August 30, 2005, NeoMedia signed a distribution agreement with Jinche, under which Jinche will act as a distributor of automotive products in China. Jinche is a Beijing PRC-registered company specializing in automobile sales, financing, insurance and repair. NeoMedia will supply Jinche with its micro paint repair products, as well as various other automotive aftermarket products from other manufacturers.

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 letter of intent 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 letter of intent, 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 letter of intent 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 letters of intent are non-binding and subject to due diligence by NeoMedia and AP. On September 21, 2005, the BOD approved to change the deal structure for the acquisition of AP, so that the Company would acquire only 30% of AP for a total purchase price of $1.6 million of which $600K would be paid in cash and $446K would be paid through the assumption of debt, and $554K through the issuance of restricted Neomedia stock. Neomedia will not acquire the remaining 70% of AP under the new structure.

Industry Overview

NeoMedia Mobile

NeoMedia Mobile (NMM) business unit encompasses all the technologies, products and services designed to connect the physical world to the electronic world, with consumer, enterprise, educational and governmental applications. Being an early pioneer in the wireless solutions industry, NeoMedia has been developing its PaperClick platform and applications since 1996. During that time, NeoMedia has also established an extensive portfolio of intellectual property.

The original commercial use of the PaperClick technology depended on utilizing a scanning device (e.g. pen with scanner) to de-code printed codes, which it would then link via PC to the Internet to enable the consumer to retrieve extensive information on the Internet. With the advent and proliferation of the cell phone, NeoMedia realized the immense potential to reach consumers anywhere and anytime with a device that they carried with them. This was further augmented by the escalation of camera phones in the marketplace over the past several years. With the PaperClick platform, cell phone users (and users of other mobile devices such as personal digital assistants) are able to directly access the mobile internet in one step, via "texting,, "keying," "clicking" on printed barcodes or smartcodes, or "keying" in keywords or product on their cell phones.

To accelerate NeoMedia's entry into the fast-growing and lucrative mobile marketing marketplace, NeoMedia has made a number of several key strategic acquisitions already in 2006: Boston-based visual recognition provider Mobot, London-based applications developer Sponge, Aachen (Germany) based code-reading specialist Gavitec and Munich-based award-winning mobile marketing agency 12Snap. All of these companies have proven track records in creating highly innovative wireless marketing solutions that they have successfully introduced into the market, on behalf of numerous household name consumer goods and media companies in the US, across Europe, and in Asia/Pacific including Australia and Japan.

NeoMedia anticipates further growth in the mobile marketing industry to come from several factors:

(1) The increased growth of mobile subscribers, and those subscribers accessing the Internet. According to the Cellular Telecommunications & Internet Association (CTIA) and the Mobile Marketing Association (MMA), there are over 1.9 billion-plus phones in use worldwide--more than TVs and PCs combined, and, that by the end of 2008, it is projected that more than 600 million phone users will have Internet access.

(2) Improvements in Infrastructure. The penetration of high speed GPRS networks is increasing bandwidths, which in turn allows more complex application development, faster speed and enhanced user experience, resulting in mobile customers embracing mobile content in ever greater numbers and complexity. NeoMedia's 12snap unit, for example, is now offering consumers in Germany personalized screensavers and animations for their handsets..

(3) Enhanced Handset Functionality. Color screens and camera phones are driving sales of mobile devices in the replacement market. Worldwide, 295 million camera phones were sold during 2005, and that number is expected to grow to almost 750 million by 2009 (Source: Gartner Dataquest, November 2005). No less than three products in NeoMedia's arsenal of solutions - PaperClick, Gavitec's Lavasphere and Mobot's visual recognition product are technologies that are designed to bring enhanced user experience to consumers via the camera in their wireless handsets. Additionally, in early 2006 NeoMedia obtained a further U.S. patent covering the capture and processing of bar codes explicitly from camera cell phones.

The Japanese and European marketplaces are leading the way in mobile marketing usage and acceptance. In Japan, the use of 2D "smart codes" in advertising and marketing has become increasingly more popular with subscriber levels now approaching 10million consumers. Northwest Airlines recently ran a 30' billboard of a smart code in downtown Tokyo, promoting one of its Japanese routes; according to The Wall Street Journal, "For Northwest, of St. Paul, Minnesota - which last month filed for bankruptcy protection in the face of high labor costs, soaring oil prices and intense competition - the [smart code] campaign is a chance to boost its Japanese presence and its reputation as a technology leader."

In Europe, two specific areas where mobile marketing has already proven successful are SMS (text) and MMS (picture messaging) mobile marketing campaigns. There, 40% of brands surveyed have already deployed text messaging campaigns and 18% have deployed MMS campaigns (Source: Airwide Solutions Feb. 2006). This study also showed that by 2008, 89% of brands expect to use wireless marketing campaigns to reach their audience, and in five years 52% expect to spend between 5% and 25% of their marketing budget on the "Third Screen" as the cell phone is now being described in marketing circles. NeoMedia, by acquiring Sponge, Mobot, 12Snap and Gavitec in particular, has overnight become an innovative global leader in creating and executing mobile campaigns and in developing related content. From campaigns that 7% of the population take part in - as was the case with a recent Walkers (Frito-Lay) promotion in the UK run by its Sponge unit - to 12snap winning four prestigious Lions at the renowned Cannes Advertising Festival, NeoMedia has added companies with wireless solutions of the highest standard to accompany its groundbreaking PaperClick technology, driving recognition as one of the lead players in its industry.

NeoMedia Micro Paint Repair

NMPR has made great strides over the past year to become a global supplier to the automotive rejuvenation market. NMPR now offers a comprehensive line of products and services needed for complete interior and exterior automotive rejuvenation, expanding from its initial business in the light collision and automotive paint repair industry. NMPR also offers its clients full service training at its corporate headquarters in Fort Myers, Florida or onsite at its clients' places of business.

Focused on quality, efficiency, innovativeness and environmentally sound products and technologies, NMPR offers its clients expert solutions intended to increase their productivity and profits while helping them to deliver a positive experience to the end consumer. 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.

NeoMedia Telecom Services

Triton was incorporated in April 1998 as a next generation Internet Protocol (IP) enabled provider of live and automated operator calling services, e-Business support, billing and clearinghouse functions and information management services to telecommunications, internet and e-business service providers. Triton was acquired by NeoMedia in March 2006, at which time NeoMedia established the NeoMedia Telecom Services (NTS) business unit, consisting solely of Triton's business.

NTS' technology platforms are capable of providing its customers with the ability to integrate traditional telephony services, internet information and subscription services and e-Commerce transactions and place the charges on the billing medium of the end users' choice.

Strategy

NeoMedia Mobile

NeoMedia has spent the past decade as a pioneer in the now confirmed space of linking the physical world to the electronic world, developing, patenting and implementing four generations of continuously refined switch technology that bridges these environments.

During the past two and a half years, NeoMedia has introduced PaperClick(R) for Camera Cell Phones and the PaperClick(R) GoWindow and CodeWindow, to capitalize on the rapidly emerging mobile marketing sector and using it as a basis from which to demonstrate the effectiveness of its PaperClick platform. With this industry positioned for rapid worldwide growth, NeoMedia believes its poised to gain global market share, both from its patented PaperClick direct-to-web platform and from the platforms, applications and services of its recent acquisitions.

The acquisitions of Mobot, Sponge, Gavitec and 12Snap have placed NeoMedia into a leadership position in the wireless solutions industry. Taken together with NeoMedia's patented PaperClick(R) platform, NeoMedia offers marketers end-to-end solutions to market to their target audiences via mobile devices through SMS (text messaging), MMS (multimedia messaging), direct-to-Internet GoWindow(TM), and CodeWindow(TM), Visual Recognition, and 1-D barcode and 2-D smartcode recognition.

NeoMedia intends to gain market share in the global mobile marketing industry through organic growth from existing markets and new and existing clients, together with geographic growth in new and expanding markets. With the combination of platforms, services, content and applications now available through NeoMedia, each NMM business sub-unit has the ability to offer its existing client base ever more sophisticated and innovative mobile marketing services and solutions. With the growth of cell phone usage world-wide, and by having many global brands such as McDonald's, Coca-Cola, adidas and Unilever as existing clients, NeoMedia intends to bring mobile marketing services to additional geographic regions around the globe, notwithstanding the immense potential in the virtually untapped mobile marketing industry in the United States, which is about 1-2 years behind Europe and Japan in its maturity.

Beyond consumer goods, the PaperClick platform is also an effective platform for other industry markets and can be utilized through other devices, such as personal computers. As such, NeoMedia is pursuing opportunities in areas as diverse as homeland security, banking, search, food labeling, inventory tracking and multiple enterprise applications--from affinity programs to mobile service solutions to complete company management systems.

NeoMedia Micro Paint Repair

NeoMedia Micro Paint Repair (NMPR) offers its clients a "one-stop shop" to obtain a comprehensive line of technologically and environmentally advanced products and processes for interior and exterior automotive rejuvenation. Its 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. Likewise, NMPR can help automotive repair businesses offer complementary services beyond micro paint, not only through its product line, but also through training on how to do additional interior and exterior repairs.

NMPR markets its comprehensive automotive rejuvenation system to a myriad of automotive industry businesses, from auto dealers to body shops to glass repair shops, and more. Two facilities, NMPR's headquarters in Fort Myers, Florida and its Canadian head office in Calgary, Alberta offer repairs directly to customers, and on-site training to business clients.

Geographically, outside of the United States NeoMedia has expanded its micro paint repair offering into: China through partnerships with Jinche (Automart), DuPont and PPG; Scandinavia, through its distribution agreement with WI-THO AS in Norway; Mexico and Latin America, through its distribution agreement with Micropaint de Mexico; Australia/New Zealand, through a distribution agreement with Micro Paint Systems (Australasia) Limited of New Zealand; and Canada, through a distribution agreement with MDA Co-Auto.

NeoMedia Telecom Services

NTS is a fully implemented alternate billing agent within the Local Exchange Carriers (LEC's) billing system in Canada. NTS's vision is to continue expanding its live and automated operator service capability focusing on making emerging web-based information and transaction services easier to access and pay for. NTS has aligned itself to provide globally accessible products, coupled with sophisticated proprietary technology, allowing it to offer this global marketplace fully-integrated or unbundled solutions. NeoMedia believes that the future growth of the industry is largely based upon the ability of service providers to offer multiple billing options for consumer services thus increasing market penetration.

Products/Services

NeoMedia Mobile

Mobile Marketing

Through the acquisitions of Mobot, Sponge, Gavitec and 12Snap in early 2006, NeoMedia Mobile (NMM) now offers complete end-to-end mobile marketing products and services. This includes: the proprietary PaperClick(R) Mobile Marketing Service; mobile content & application development, including the Mobot proprietary visual matching platform; complete campaign management including execution and campaign analysis; and CRM (customer relationship management).

Clients can choose from any or all delivery options offered through NeoMedia for their mobile marketing campaigns: SMS (text messaging), MMS (multimedia messaging), GoWindow(TM), CodeWindow(TM), Visual Recognition, or 1D and 2D Bar Code Recognition.

PaperClick(R) Mobile Marketing Service

PaperClick(R) is a mobile marketing service, based on the patented PaperClick technology platform, which enables brand managers and product manufacturers to market directly to their target customers via their portable devices such as mobile phones and PDAs.

By entering a word or phrase (e.g.: brand name or tagline) into a mobile device using the PaperClick(R) GoWindow; by entering a numeric product code into a mobile device using the PaperClick(R) CodeWindow; or by clicking on a barcode or smart code on product packaging or marketing collateral using PaperClick(R) for Camera Phones, a consumer can retrieve tailored Web content in a single step, even to pages deep-linked within a website. PaperClick bypasses long URLs, search engines or difficult-to-navigate phone menus by linking directly from a word or code to mobile commerce, rebates, contests, coupons, registration, instructional videos, ad tracking, polling, customer profiling and more.

The PaperClick solution consists of:

- Word Registration and Activation
  1. Registration of brand names and taglines in the PaperClick(R) WordRegistry(TM). The WordRegistry is the official repository for PaperClick Keywords;
  2. Bidding for non-trademarked generic keywords (e.g., cola, burger, car), which will be auctioned to the highest bidder via the PaperClick WordRegistry; and
  3. Activation of brand names, taglines and non-trademarked keywords by linking them to mobile web content using the Link Manager Software.
- New Code Activation. NeoMedia can create custom smartcodes to print on product packaging or literature, a subway poster, a direct mailer or other marketing collateral. Consumers with a camera phone then click on the code to link directly to Web content designated by the product's manufacturer.
- Existing Code Activation. As with new smartcodes, PaperClick(R) can link already-existing product codes, such as UPC, EAN, JAN, and ISBN codes, to tailored Web content.

Upon activation, the PaperClick platform also provides the following word management tools:

- Link Manager Software. Software for a PC that allows a product owner to link keywords and codes to a specific URL;
- Handset Software. Device software required for a mobile device customers to read activated codes and keywords; and
- Enterprise Reporting. Allows product owner of keywords or codes to track the number of consumer "hits" by code, date and time.

Other value-added services:

- Click Management Services
  - Link Manager Service. Management of the linking of all words and codes on behalf of a product owner; and
  - Code Verification. Testing of each code to ensure that it is printed properly and that it links to the correct URL.
- Web Content Creation Services. Assistance in creating Web content for mobile devices in XHTML, WAP and other mobile formats.
- Mobile Marketing Campaign Services. Assistance in creating mobile advertising campaigns using products with PaperClick(R) technology.
- Customized Reporting. Customized reporting and data mining that allows product owners to receive additional data about their marketing campaigns.
- Server Software. For companies managing a large number of codes or keywords, server software is available that allows clients to store the links within their organization's network.

Content & Application Development

12snap and Sponge, acquired as subsidiaries of NeoMedia during the first quarter of 2006, are recognized leaders in content and application development for mobile marketing. Between them they have developed and implemented over 20,000 applications and tens of thousands of content items for use by major brands in Europe and the U.S., activating over 4 billion products in the process. Their platforms are highly scalable and capable of running hundreds of campaigns simultaneously.

The NMM business sub-units typically retain the IP for custom-made applications, therefore the applications can be "re-skinned" for use by other

clients quickly and efficiently. Some applications are server-based, some are handset-based while others still are handset-based but server-linked. Delivery mechanisms are via SMS, MMS, WAP-push link with subsequent download, Bluetooth, infrared, IVR or direct to Web.

Sponge's proprietary core applications suite, Text Generator, deploys applications for clients quickly and efficiently in a user-friendly environment, with all applications offering a wide range of monitoring and performance tools. Clients access their own-labeled environment via an internet-enabled PC, enabling them to setup , edit, terminate and report on all their applications.

Examples of Sponge's applications include:

- Games. Multilevel single-player games (e.g. adventure, sports, arcade), Bluetooth multiplayer games (e.g. Mud Racer, Madagascar Multiplayer) as well as web and mobile convergence games (e.g. Fish Snapper, Coke Music Summer Games).
- Competitions. Various formats (e.g. multiple choice, tie-breakers, free text entry).
- Feedbacks. Clients are able to sort feedback and quickly target selected responses for publication.
- Votes. Rapid implementation of voting formats with unlimited vote options,, generating real-time voting patterns with the ability to block multiple votes.
- Text to Win. Entrants get code and short message number to text in to win a variety of prizes; client options include multiple prize groups, caps on prizes, win ratio management, prize draws, varying start and end dates by prize group and email alerts when prizes are won
- Reverse Auction. Turnkey reverse auction promotions, where the lowest unique bid is the ultimate winner.
- SMS- or MMS-to-Postcard. Customers send in recipient's address and greeting message, which is matched to a postcard and sent to recipient.
- Intelligent Offline Client. (European Patent Pending). Serves as a mobile content and application portal (i.e. an offline browser) which remains installed as a handset-based application on a mobile phone.
- Messenger. Provides all the functions of an instant messaging application on PCs.
- The Cam. Allows customers to enrich photos taken with a camera phone by combining them with pre-defined characters.

12snap's Content Management Platform offers dynamic content creation. In numerous mobile marketing programs this platform has delivered tens of millions of content pieces to end users.

Examples of Mobile Content Include:

- Wallpaper
- Ring Tones
- Music
- Mobile Web-Based Information
- Mobile Cards

Mobot Proprietary Visual Matching Service

With Mobot's proprietary visual recognition technology, consumers use the camera in their phone to snap on a brand advertisement, an editorial page in a magazine, or even a product in a catalog, whereby visual matching technology identifies their picture and connects them directly to relevant information. Fast and easy for consumers, it's a powerful tool for any media company or marketer.

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Designed to allow seamless integration, Mobot requires no modifications to existing visual media -- no keywords, phone numbers, URLs, short codes, product codes, or bar codes are necessary. Mobot visual matching technology "reads" the image and delivers a wide range of responses to the consumer.

Gavitec Platforms & Applications

Lavasphere for Smartphones

This software solution - specifically designed for smartphones and based on the award-winning Lavasphere technology - enables mobile camera phones to read 2D-codes (such as Data Matrix and QR codes) as well as traditional barcodes with the integrated digital camera, even during preview (Zero-Click(TM) live-stream decoding).

Using the mobile phone, the user can retrieve information contained within a QR smartcode for example, or link directly to a specific web page, access services, retrieve real-time information or place orders. To use Lavasphere(R), no additional hardware is required. This set of ultra-small footprint algorithms is designed to be integrated into any current and future series 60 camera phones with Symbian server-client architecture.

Lavasphere for Smartphone is the ideal solution to turn a smartphone into a universal personnel code reader and provides many mobile applications:

- M-Commerce
- Mobile marketing and advertising
- Access to multimedia HTML, XHTML, WAP information and services
- Print-to-web integration
- Content linking
- Data collection
- E-Ticketing
- Price comparison
- Logistics

EXIO

EXIO is an advanced and complete solution, including printer, display, keypad and GSM/GPRS module - able to read and process two-dimensional (2D) smartcode symbologies such as Data Matrix from mobile phone displays as well as printed one-dimensional (1D) barcodes.

Thanks to a high-speed Digital Signal Processor (DSP) and a high-resolution camera, EXIO automatically recognizes smartcodes sent as SMS (text) or MMS (picture message) to any compatible mobile phone.

EXIO has been designed for various direct marketing applications such as mobile ticketing, mobile couponing, mobile payment and mobile loyalty programs, and is therefore the ideal off-the-shelf solution for innovative application areas such as m-Commerce, 1-to-1-communication, entertainment and retail trade.

MD-20

MD-20 is a high-performance OEM code reader providing unparalleled flexibility in scanning two-dimensional (2D) smartcode symbologies such as Data Matrix from mobile phone displays as well as printed one-dimensional (1D) barcodes.

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Designed to be embedded directly into OEM devices, the new MD-20 features a high-resolution video camera with CMOS sensor and specialized code reading algorithms allowing automatic detection of 2D smartcodes sent as MMS or Picture SMS to mobile phones. Equipped with a high-speed digital signal processor (DSP), it reads smartcodes with extreme accuracy and rapidity. Offering Ethernet and supporting RS-232 for data connection, the new MD-20 can be directly connected to any host system to process the decoded information.

The MD-20 enables device manufacturers as well as third-party providers to maximize their business. By implementing MD-20 into their product design, manufacturers and system integrators can enhance the attractiveness and complement the functionality of their products with significant added value. The MD-20 creates competitive advantages through marketing differentiation as well as to enhance company's image for innovation.

Thanks to its compact size, speed and flexibility, MD-20 is the ideal high-performance fixed-position smartcode reader for a wide range of applications where mobile code reading, mobile couponing, mobile ticketing and mobile marketing are required, thus enabling the phone to be used as the single universal mobile device.

The MD-20 can be integrated, for example, into a terminal or an access control system to permit quick and easy access to users. It can be also used to validate all sorts of tickets, such as admission tickets or transportation tickets and also to redeem vouchers, to get a discount, or to pay for a product or service.

Mobile Marketing Campaign Management

Through NeoMedia, marketers and agencies can get full-service mobile marketing account management including campaign reporting and integration into media-led campaigns (TV, radio, print, outdoor, direct, events, etc.). Those marketers looking for a full end-to-end creative solution would likely turn to 12snap. Those marketers who wish to add mobile marketing to their existing marketing strategy while utilizing their existing agencies would turn to PaperClick, Mobot, Gavitec or Sponge, depending on their technology or campaign requirements, or the geographical footprint of their desired market or campaign.

Customer Relationship Management

Gavitec, Sponge and 12snap have customer relationship management (CRM) platforms that utilize the mobile phone to build loyalty among clients, establishing long-term customer relationships and a stable revenue base.

12snap's 12CRM platform includes design, data analysis, content creation and ongoing program management. It also includes a mobile couponing solution, utilizing Gavitec readers, that allows marketers to send out personalized coupons that link directly to a consumer's mobile phone, making it impossible to redeem the coupon multiple times.

Sponge's CRM application includes list management, opt-in database functionality and messaging scheduling.

Enterprise & Niche Market Products and Services

NMM has a unique competitive advantage of holding intellectual property for the numerous products, services and platforms mentioned above that allows it entry into established broad-based markets as well as many more niche industry opportunities. From homeland security to banking to inventory tracking to food labeling, NMM has the solutions ready to customize and implement.

NeoMedia Micro Paint Repair

NMPR offers both its own unique product line and acts as a distributor of other companies' products to round out its comprehensive offering to automotive rejuvenation businesses worldwide. 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. The system itself utilizes proprietary technology to repair cosmetic automobile 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 icocyanates.

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 paintless dent repair, interior cleaning, corrosion protection, windshield repair and warranty programs.

NMPR Auto Rejuvenation Services. NMPR currently operates two repair facilities, one in its headquarters office in Fort Myers, Florida and the other in its Canadian head office in Calgary, Alberta. The facilities utilize the NMPR Paint System and other auto rejuvenation services to make cosmetic repairs to automobiles for dealerships, rental car companies and consumers.

NMPR Auto Rejuvenation Training. NMPR offers complete training on its own proprietary micropaint system, paintless dent repair and other auto rejuvenation services to clients of all sizes in its facilities in Fort Myers, Florida and Calgary, Alberta, and at client locations. In early 2006, NMPR specialists trained partner Jinche in China on the NeoMedia Micro Paint Repair system in 30 of Jinche's Beijing facilities initially.

Other Automotive Aftermarket Products. In some geographies, NMPR serves as a distributor of other automotive aftermarket products from a variety of manufacturers, such as DuPont and PPG.

NeoMedia Telecom Services

NTS has sophisticated proprietary software and hardware services that are capable of processing call records for telecommunications companies worldwide. They track and process bills for a wide range of services, from local and long distance operator services as well as paging, voice mail, caller ID, phone cards and other "ease of access" 0+Plus dialing solutions. NTS has also developed flat-fee billing solutions that it believes will benefit Internet content and service providers. With the addition of services for the Internet community, NTS anticipates that it will be able to meet the needs of an even broader range of communications companies.

NTS's products and services include, in the operator/agent service field: global and domestic origination, hospitality providers, payphone providers,

directory assistance, North America service, international service, enhanced information services, e-business support services, e-commerce transaction support, "Click-2-Talk" web-based voice routing, and call center ASP solutions. NTS's billing services include: North American LEC billing, online subscription-based billing, and web-based transaction billing (e-commerce).

Strategic Relationships

NeoMedia Mobile

The initial business sub unit within NeoMedia Mobile (NMM), PaperClick, and the recent strategic acquisitions to NMM, Sponge, Mobot, Gavitec and 12snap, have all developed strategic relationships to leverage their capabilities across new geographic and product markets.

In February 2006, NeoMedia entered into a strategic alliance with Italian mobile marketing pioneer Mobedia (www.mobedia.it). The new strategic relationship with NeoMedia is a co-marketing partnership agreement, which allows Mobedia to integrate NeoMedia's direct-to-mobile-internet PaperClick(R) technology into all of its campaigns. Mobedia was founded in Milan in July 2005 by a group of ex-Unilever marketers. With a collective network of business relationships covering a wide range of sectors, from fast moving consumer packaged goods to network operators, and from media to advertising and promotion agencies, Mobedia is positioned to expand its mobile marketing offerings in Italy and across southern Europe.

In October 2005, NeoMedia entered into a mobile marketing alliance and co-marketing agreement with Arnold Worldwide, one of the largest and best-known advertising agencies in the U.S. and globally. The agreement has Arnold and NeoMedia working together to develop opportunities and marketing campaigns utilizing the PaperClick platform.

In March 2005, NeoMedia and Foote Cone & Belding, a division of FCB Worldwide LLC, entered into a co-marketing agreement centered on NeoMedia's patented PaperClick(R) technology platform. The agreement calls for Foote Cone & Belding's FCBi unit to work with NeoMedia to develop opportunities and marketing campaigns utilizing PaperClick, and facilitate the introduction of NeoMedia and PaperClick in the mobile telecommunications industry. NeoMedia provides technical and sales support for presentations and marketing programs co-developed for FCBi clients and is working with FCBi to explore and create marketing opportunities and innovative solutions for its business customers.

In March 2005, NeoMedia also entered into a business development agreement with Intactis Software, Inc., a provider of Check 21 software products and solutions for the small- to medium-sized financial institution market, under which the two companies committed to develop a database lookup system for validating codes printed on negotiable instruments (checks).

During 2005, Gavitec and PostFinance, the largest Swiss bank for private customers, started a project with system integrator Unisys and numerous partners in the retail sector (Migros, COOP, SBB, McDonald's, Interdiscount, Mobilezone and PostShops) enabling customers to pay easily and safely by mobile phone instead of EC-card - the first mobile macro-payment system worldwide.

During 2005, Gavitec also signed a distribution agreement with Philippine company Omniprime Corp, a leading supplier of full service solutions to various industries throughout Asia, and by this expanded the distribution of its product lines of code scanners to the Far East region.

Gavitec concluded three further business co-operations during 2005: first with RegiSoft Ltd., leading developer of innovative VAS solutions for the mobile market place, then with REA Card GmbH, market leader for cashless payment systems and lastly with Clicktivities AG, supplier of digital premium solutions. The cooperation agreement with RegiSoft Ltd. focuses on the integration of Gavitec hardware solutions and RegiSoft's World Trade Server(TM) (WTS(TM)) to provide customers with complete and integrated products and services for mobile marketing, mobile ticketing and mobile couponing. Gavitec and the two subsidiaries of REA Systeme GmbH, REA Card GmbH and FunkTicket AG, intend to bundle their competencies and products in order to enable secure and easy payments by mobile phones. In addition, they plan to develop a hybrid-system which combines Gavitec scanners with REA terminals to one single payment system. In conjunction with Clicktivities AG, Gavitec plans to address the mobile marketing segment by offering customized digital solutions for eBusinness.

In November 2005, Mobot announced an agreement with the Light Agency to use and distribute its visual search and recognition technology for mobile phones, exclusively to the grocery sector in the UK. This adds an additional dimension onto an already running program based on a unique partnership between The Light Agency, Jacksons Stores, a Sainsbury's Plc company and nearly 200 brands. Consumers participating in this program can "shop, scan, and save" while in the grocery store through texting and now by snapping and sending information through their mobile phones, based on an advertisement in the store.

NeoMedia has on ongoing relationship with Baniak Pine and Gannon, a Chicago law firm specializing in intellectual property licensing and litigation. The firm assists NeoMedia in seeking out potential licensees of its intellectual property portfolio, including any resulting litigation. Baniak Pine and Gannon currently represents NeoMedia in its lawsuit against Scanbuy.

During 2004 and 2005, NeoMedia engaged key partners around the world to assist in the anticipated roll-out of the PaperClick(R) family of products. During such time NeoMedia has partnered with affiliates and resellers, such as Big Gig Strategies (United Kingdom), Relyco and IT-Global (United States), AURA Digital Communications (Australia), E&I Marketing (Taiwan), Deusto Sistemas (Spain), and Jorge Christen and Partners LLP (Mexico).

NeoMedia Micro Paint Repair

On August 30, 2005, NeoMedia signed a distribution agreement with Jinche, under which Jinche will act as a distributor of automotive products in China. Jinche is a Beijing PRC-registered company specializing in automobile sales, financing, insurance, repair, and accessories through its Automart branded facilities. NeoMedia will supply Jinche with its micro paint repair products, as well as various other automotive aftermarket products from other manufacturers. In early 2006, NeoMedia strengthened this relationship to a 10-year exclusive agreement to supply micro paint and related products and to supply 70% of the macro paint sales at Jinche's Automart-branded facilities. Conversely, Jinche gets sole distributorship of NeoMedia products in China, Hong Kong & Taiwan for this 10-year period.

An additional goal of the NMPR business unit is to act as the premier supplier and distributor of automotive aftermarket products. To this end, during 2005 NeoMedia signed agreements to distribute DuPont and PPG paint and aftermarket products to Jinche.

To achieve a global supplier status, the NMPR business unit has established agreements with distributors in other key geographies to help promote, sell and distribute its micro paint repair system and products. During 2004 and 2005, NeoMedia has enlisted the following distributors:

- Micro Paint Systems Australasia (Australia and New Zealand)
- WI-THO AS (Scandinavia)
- Micropaint de Mexico (Mexico)
- MDA Co-Auto (Canada)
- Restex (USA)

During 2005 NeoMedia also signed two non-binding Letters of Intent outlining steps for NeoMedia to acquire an interest in Auto Preservation, Inc., a wholly-owned subsidiary of Cincinnati-based Pickups Plus.

NeoMedia Telecom Services

NTS has developed and secured strategic alliances within the industry that it believes are key to the successful service and maintenance of its client support systems and the delivery of advanced features. The strategic partnerships are expected to promote global solutions with billing as the core function or source of revenue. NTS continually enhances and streamlines its service offerings to remain competitive in an evolving marketplace. NTS has completed the development of a state-of-the-art IP e-commerce platform described below for future deployment.

Next Generation IP-Enabled Operator Services Platform. NTS's International Operator Services Platform, which is not yet deployed, has been created by integrating hardware and software applications from Cisco's IP Gateway, CosmoCom's IP-based Next Generation CosmoCall Universe Platform, and the Enhanced Operator Services ("EOS") from Intelis. CosmoCall Universe is a multimedia, multi-channel call center system that goes far beyond the capabilities of traditional call center technology. Traditional call centers are based on circuit-switched automatic call distributors ("ACDs"), and support only voice telephone calls. CosmoCall has all the capabilities of a modern telephone call center, but as a multimedia, multi-channel interaction center, CosmoCall supports not only voice telephone calls, but also live multimedia communication sessions via the Internet. Integrated together these products provide NTS the capability to launch web-based services as well as support for traditional telephony including collect, third party and calling card supported calls.

NTS's Telco Grade Billing Platform. Highland Lakes Software ("Highland") is an independent global service provider for core billing services for competitive LECs ("CLECs") and LECs. NTS has been able to achieve continued market penetration by employing Highlands' core billing software at the root of its billing infrastructure. NeoMedia expects that Highland will continue to provide billing solutions to NTS as the industry matures and demands more technically enhanced functionality. NTS works closely with Highland to provide extended electronic billing services to meet the demands of service providers and the Internet end-user. With the coordination of Highland engineers, NTS has developed proprietary modules to enhance allowable billing types and to provide an effective direct billing service as well as an aggressive revenue recovery service for our customers.

Sales and Marketing

NeoMedia Mobile

NeoMedia Mobile (NMM) has worked to establish a global network of direct salespeople, affiliates and business development personnel to market, upsell and cross-sell its suite of products and services. Its core target markets across a number of geographic regions including: the U.S., the U.K., Germany, Italy, Scandinavia, Central & Eastern Europe, and in Asia/Pacific: Japan, Korea, Singapore Australia.

Core markets for the sales force include:

Brand Marketers and Marketing Services Agencies. NeoMedia markets its robust suite of end-to-end (and everything in between) mobile marketing products and services to both agencies, who maintain the main relationships with major brands while the NeoMedia business units creates and manages the wireless marketing campaign portion of the relationship, and directly to brand/product marketers where there is a higher level of wireless experience or expertise..

Media. NMM supplies applications and services, such as competitions, votes and alerts to media companies operating in the TV, radio and print media industries.

Network Operators/Carriers & Handset Manufacturers. There are a range of applications and platforms that are suited directly for network operators or carriers and the handset manufacturers who supply them; many applications are custom developed at the request of these operators and manufacturers.

Retailers. In addition to mobile marketing campaigns carried out on behalf of major retailers in a variety of markets by the NeoMedia Wireless companies, Gavitec's EXIO and MD20 products represent the next evolution in point-of-sale equipment offering m-coupons and m-commerce.

Enterprise Clients, Government & Education. The robust and innovative platforms, on which many of the products offered by NeoMedia run, can be customized to work in numerous other environments and in many industries including finance, security, tracking and labeling.

NeoMedia Micro Paint Repair

NeoMedia markets its Micro Paint Repair products and services primarily through a direct sales force, as well as a worldwide network of distributors and agents. During 2004 and 2005, NeoMedia Micro Paint Repair signed distribution agreements to bring its products to China, Australia, New Zealand, Scandinavia, Mexico and Latin America, in addition to its existing distribution channels in the US and Canada.

NeoMedia Telecom Services

Direct sales and strategic sales alliances are used as the business strategy for NTS as it continues to grow.

As a provider of billing, clearinghouse and information management services to the telecommunications industry, NTS has attempted to position itself to take advantage of the current disarray in the telecommunications sector. Historically many of the international collect calling and international billing and clearing contracts have been controlled by intermediary agents.

NTS's sales team is segmented between target customer segments and geography (domestic and international).

NTS anticipates that initially, incremental business development representatives will be added to target North American carriers including clearing houses, alternative operator service providers, local exchange carriers, long distance voice and data providers, wireless carriers and internet and e-business service providers. While this will involve primarily direct marketing and selling, it is anticipated that alliances can be established where NTS's products and services can be positioned as part of a bundled offering in conjunction with other complementary services.

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Customers and Clients

NeoMedia Mobile

PaperClick. To date, NeoMedia has licensed its patents to, or settled patent-related lawsuits with, Digital:Convergence, A.T. Cross Company, Symbol Technologies, Brandkey Systems Corporation, Virgin Entertainment Group, and AirClic, Inc. NeoMedia intends to pursue additional license agreements of its patent portfolio in the future, in addition to enabling consumer brand and enterprise organization campaigns and projects.

With the acquisitions of Mobot, Sponge, Gavitec and 12Snap during the first quarter of 2006, NeoMedia has added an extensive list of major clients including:

Mobot. Major brands utilizing Mobot's visual recognition technology to date include L'Oreal, Samsung and Saturn. Media clients include ELLEgirl, VIBE and JANE magazines, together with music label WEA (Warner Music Group's U.S. sales and retail marketing company)

Sponge. Major agency clients include WPP, Aegis and BBH, while brand and telco clients include Walkers Crisps (Frito-Lay), NEC, Coca-Cola, Heineken, Diageo, Vodafone and Unilever. Major media groups utilizing Sponge's multi-application platform include Endemol, IPC, Trinity Mirror and News International.

Gavitec. Network provider/carrier clients include T-Mobile, Vodafone and Telefonica, together with mobile handset manufacturers: Motorola and Nokia. IT Leader clients comprise Hewlett Packard, Ericsson Mobility World and Unisys, to name but three, while content providers such as Warner Music International and RTL Enterprises, European solutions providers including xsmart, Dimoco, ucp morgen, RegiSoft, and Top Solutions, and access management systems company SkiData(TM) are all represented on the Gavitec roster.

12snap. Major brand clients to have used 12snap's award-winning platform and creativity include Sony PS2, Nokia, Coca-Cola, McDonald's, MTV, Unilever, Gillette, Ferrero, Wella, Vodafone, adidas, Procter & Gamble, and Kellogg's

NeoMedia Micro Paint Repair

The customer base for the NMPR business unit consists of auto dealerships, general automotive repair shops, collision shops, rental car agencies, and other automotive service facilities in Canada, the US, China, Scandinavia, Mexico, Latin America and Australia/New Zealand.

NeoMedia Telecom Services (BSD/Triton)

Triton is a customer service-oriented organization providing telephone services to direct customers and telecommunications companies (including clearing houses, alternative operator service providers, local exchange carriers, long distance voice and data providers, wireless carriers), both within North America and internationally. Triton has also developed flat-fee billing solutions that it believes will benefit Internet content and service providers. With the addition of services for the Internet community, Triton anticipates that it will be able to meet the needs of an even broader range of communications companies.

Competition

NeoMedia Mobile

Through the combination of all its business sub units: PaperClick(R), Sponge, Mobot, Gavitec and 12snap, NeoMedia believes its NMM business unit has positioned itself to compete as a global leader in mobile marketing solutions. The individual business units, prior to acquisition, were already known as leaders in their own respective marketplaces, so taken together, NeoMedia believes itself now to be one of the most experienced and successful global end-to-end mobile marketing solutions providers in the world.

However, within the mobile marketing industry there are numerous players, many of which are just beginning to appear, who offer parts of the mobile marketing equation.

Traditional agencies are starting to add mobile campaigns to their clients' overall marketing mix, often at the request of the client. However, many of these agencies turn to different companies to provide content and applications, and to the aggregators who have the relationship with the wireless carriers to obtain the short codes for SMS and MMS messaging. It is important to note that the PaperClick platform transcends messaging services since, once the PaperClick technology is on a mobile phone, there is only one step to access the mobile web--via keyword or numeric entry into the GoWindow(R) or CodeWindow(R) or by clicking on a barcode or smartcode with the camera in a handset.

In the European market, where mobile marketing has been embraced by many large brands (and poised to grow exponentially--see Industry Section) and numerous consumers, the competition is quite fragmented by geographic region and by product and service offerings. For example, while Flytxt, Aerodeon and Enpocket have traditionally competed with NeoMedia companies Sponge and 12snap in the UK mobile marketing marketplace, Mindmatics has provided the principal competition in Germany. Additionally, Spielplatz.cc is one of the larger premium players in Germany, Austria and Switzerland. Also, Austria-based DIMICO is focused on premium SMS connectivity and messaging.

In general, due to the relative immaturity of the mobile marketing industry, small players have sprung up offering very specialized products and services. This is even more pronounced in the U.S. where mobile marketing has mostly been confined to text-to-vote applications.

As the mobile marketing industry matures, NeoMedia expects consolidation as industry leaders emerge. Moreover, NeoMedia believes its well positioned at the onset due to the intellectual property, including many patents, on which its products and services are based. NeoMedia expects that its intellectual property, coupled with its early aggregation of proven market leaders, will serve as a competitive advantage as this market rapidly matures.

NeoMedia Micro Paint Repair.

NeoMedia's competitors in the micro paint repair industry consist primarily of suppliers of traditional paint repair methods, such as automotive paint manufacturers. Various ancillary competitors exist in the automotive paintless dent repair, window repair, interior repair, etc. markets.

NeoMedia Telecom Services

Competitors of the NTS business unit fall into two major categories: (1) Third Party Billing Companies, and (2) Alternative Operator Services Providers ("AOSPs").

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Third Party Billing Companies. The majority of clearinghouse competitors are United States-based or are part of an incumbent LEC. NTS believes that its position as an independent Canadian operation makes it unique among those in the third party billing market in North America. NTS may not be able to compete with large telecommunication providers on a revenue scale, but NTS believes that it does have the ability to meet the evolving telecom market's needs quickly and efficiently. Most of these competitors are restricted from entering the Canadian marketplace due to regulatory issues. This means that these competitors can also become NTS customers in certain segments of their business, particularly when it comes to providing services to all outside competitors who wish to bill for Canadian Services.

AOSPs. In addition to providing sophisticated billing and clearing, the technology platform currently being developed will allow NTS to compete with carriers and companies providing live and automated operator services both domestically and, with multi-language capabilities, on an international basis. In addition to specific AOSPs, the majority of the LECs in the United States and Canada provide operator services as part of their core offerings. In 1997, the Federal Communications Commission ruled that in order to be an eligible telecommunications carrier a service provider would have to provide the basic universal services as laid out in the Telecommunications Act of 1996, including: voice grade access to the PSTN, single party service, access to emergency service (i.e., 911), and access to both operator services and directory assistance (i.e., 411). While telecommunication carriers are mandated to provide these services, they do not have to provide these services themselves. NTS believes that this provides opportunity for NTS to look to these competitors as prospective customers for its AOSP and future IP-enabled service offerings. NTS's Canadian-based low cost infrastructure, fewer regulatory encumbrances than United States-based carriers and the ability to provide a fully-bundled suite of services on a single IP enabled platform allows it to compete for both traditional services as well as future services.

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.

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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. As of the date of this report, the Company is not aware of any non-compliance matters.

Employees

As of December 31, 2005, the Company employed 51 persons, of which 25 were located at the Company's headquarters in Fort Myers, Florida, 7 at the Company's Lisle, Illinois office (which was subsequently closed during the first quarter of 2006), 9 at the NeoMedia's micro paint repair facility in Ft, Myers Florida, 9 at the Company's Calgary, Alberta, Canada office, and 1 remote employee. 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 2006 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

Risks Related to NeoMedia's Business

NeoMedia has Historically Lost Money and Losses May Continue

NeoMedia has incurred substantial losses since inception, and anticipates continuing to incur substantial losses for the foreseeable future. NeoMedia incurred a loss of $9,147,000 and $7,230,000 for the years ended December 31, 2005 and 2004, respectively. NeoMedia's accumulated losses were approximately $92,524,000 as of December 31, 2005. As of December 31, 2005 and 2004, NeoMedia had a working capital deficit of approximately $4,874,000 and $2,597,000, respectively. NeoMedia had stockholders' equity of $4,227,000 and $4,392,000 December 31, 2005 and 2004, respectively. NeoMedia generated revenues of $2,156,000 and $1,700,000 for the years ended December 31, 2005 and 2004, respectively. In addition, during the years ended December 31, 2005 and 2004, NeoMedia recorded negative cash flows from operations of $7,309,000 and $4,650,000, respectively. To succeed, NeoMedia must develop new client and customer relationships and substantially increase its revenue derived from improved products and additional value-added services. NeoMedia has expended, and to the extent it has available financing, NeoMedia 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, NeoMedia may not be able to achieve or sustain profitability.

NeoMedia's Independent Registered Public Accounting Firm Have Added Going Concern Language To Their Report On NeoMedia's Consolidated Financial Statements, Which Means That NeoMedia May Not Be Able To Continue Operations

The report of Stonefield Josephson, Inc., NeoMedia's independent registered public accounting firm, with respect to NeoMedia's consolidated financial statements and the related notes for the years ended December 31, 2005 and 2004, indicates that, at the date of their report, NeoMedia had suffered significant recurring losses from operations and its working capital deficit raised substantial doubt about its ability to continue as a going concern. NeoMedia's consolidated financial statements do not include any adjustments that might result from this uncertainty.

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

The physical-world-to-Internet market in which NeoMedia operates is a recently developed market. Further, NeoMedia has conducted operations in this market only since March 1996. Consequently, NeoMedia has a relatively limited operating history upon which an investor may base an evaluation of NeoMedia's primary business and determine NeoMedia's prospects for achieving its intended business objectives. To date, NeoMedia has sold its physical-world-to-Internet products to only 12 companies. NeoMedia 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 NeoMedia's future success to be highly speculative in light of its 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 new and rapidly evolving markets, such as the physical-world-to-Internet space. To address these risks, NeoMedia 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;
- continually update and improve service offerings and features;
- respond to industry and competitive developments; and

- attract, retain, and motivate qualified personnel.

NeoMedia may not be successful in addressing these risks. If NeoMedia 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 and adversely affect NeoMedia's business.

NeoMedia'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

NeoMedia'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, as amended. These requirements may reduce the potential market for NeoMedia's common stock by reducing the number of potential investors. This may make it more difficult for investors in NeoMedia's common stock to sell shares to third parties or to otherwise dispose of them. This could cause NeoMedia'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 million (if the issuer has been in continuous operation for at least three years) or $10 million (if in continuous operation for less than three years), or with average revenues of less than $6 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.

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

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

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

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

- the products NeoMedia develops will obtain market acceptance.

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

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

At December 31, 2005 and 2004, approximately 48% and 49%, respectively, of NeoMedia's total assets were intangible assets, consisting primarily of rights related to NeoMedia's patents, other intellectual property, and excess of purchase price over fair market value paid for CSI International, Inc. (now NeoMedia Micro Paint Repair). If NeoMedia's operations are unsuccessful, these assets will have little or no value, which would materially adversely affect the value of NeoMedia's stock and the ability of NeoMedia's stockholders to recoup their investments in NeoMedia's capital stock.

NeoMedia's Physical-World-To-Internet Marketing Strategy Has Not Been Tested And May Not Result In Success

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

NeoMedia's Internally Developed Systems Are Inefficient And May Put NeoMedia At A Competitive Disadvantage

NeoMedia 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 NeoMedia develops these systems in order to integrate disparate systems and hardware on a case-by-case basis, these systems are inefficient and require a significant amount of customization. Such client and customer-specific customization is time consuming and costly and may place NeoMedia at a competitive disadvantage when compared to competitors with more efficient systems.

NeoMedia Could Fail to Attract Or Retain Key Personnel

NeoMedia'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 NeoMedia has. NeoMedia may not be successful in attracting and retaining qualified personnel on a timely basis, on competitive terms, or at all. NeoMedia's failure to attract and retain qualified personnel could have a material adverse effect on its business, prospects, financial condition, and results of operations.

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

NeoMedia's success depends largely on the skills of certain key management and technical personnel, including Charles T. Jensen, NeoMedia's President and Chief Executive Officer, Charles W. Fritz, NeoMedia's founder and Chairman of the Board of Directors, Martin N. Copus, NeoMedia's Chief Operating Officer and head of the NMM business unit, and David A. Dodge, NeoMedia's Chief Financial Officer. The loss of the services of Messrs. Jensen, Fritz, Copus, or Dodge could materially harm NeoMedia'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. NeoMedia does not presently maintain a key-man life insurance policy on Messrs. Jensen, Fritz, Copus, or Dodge.

NeoMedia May Be Unsuccessful In Integrating Its Recently Completed and Pending Acquisitions With Its Current Business

The success of the acquisitions of Mobot, 12Snap, Sponge, Gavitec, and BSD could depend on the ability of NeoMedia's executive management to integrate the business plan of each company with NeoMedia's overall business plan. Failure to properly integrate the business could have a material adverse effect on the expected revenue and operations of the acquisitions, as well as the expected return on investment for NeoMedia.

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

NeoMedia'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 the ability to protect proprietary technology and other intellectual property rights. In addition, NeoMedia must conduct its operations without infringing on the proprietary rights of third parties. NeoMedia 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, NeoMedia 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. Although NeoMedia 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 NeoMedia's proprietary technology enter into confidentiality agreements, NeoMedia 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 NeoMedia's.

NeoMedia licenses from third parties certain software tools that are included in NeoMedia's services and products. If any of these licenses were terminated, NeoMedia could be required to seek licenses for similar software from other third parties or develop these tools internally. NeoMedia 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. NeoMedia 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, NeoMedia. An adverse determination could subject NeoMedia to significant liabilities to third parties, require NeoMedia to seek licenses from, or pay royalties to, third parties, or require NeoMedia to develop appropriate alternative technology. Some or all of these licenses may not be available to NeoMedia on acceptable terms or at all, and NeoMedia 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 NeoMedia's business, prospects, financial condition, and results of operations.

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

Many of NeoMedia'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 NeoMedia, regardless of NeoMedia's responsibility for such failure. NeoMedia could, therefore, be subject to claims in connection with the products and services that it sells. NeoMedia currently maintains product liability insurance. There can be no assurance that:

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

- NeoMedia would have sufficient resources to satisfy any liability resulting from any such claim.

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

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

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

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

Some of the provisions of NeoMedia's Certificate of Incorporation and bylaws could make it more difficult for a third party to acquire NeoMedia, even if doing so might be beneficial to NeoMedia's stockholders by providing them with the opportunity to sell their shares at a premium to the then-current market price. On December 10, 1999, NeoMedia'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 NeoMedia'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 NeoMedia'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 NeoMedia'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, NeoMedia'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, redemption rights, and sinking fund provisions.

NeoMedia is authorized to issue a total of 25,000,000 shares of Preferred Stock, par value $0.01 per share. NeoMedia 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 NeoMedia's common stock, and, therefore, could reduce the value of shares of NeoMedia'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 NeoMedia's 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 NeoMedia or a change in NeoMedia's control thereby preserving control by the current stockholders.

Existing Shareholders Will Experience Significant Dilution when the Investors Convert Their Preferred Stock to Common Stock or When the Investor Exercise Their Warrants and Received Common Stock Shares Under the Investment Agreement with the Investors

The issuance of shares of common stock pursuant to the conversion of preferred stock or exercise of warrants pursuant to our transaction with certain investors described in this filing or any other future equity financing transaction will have a dilutive impact on our stockholders. As a result, our net income or loss per share could decrease in future periods, and the market

price of our common stock could decline. In addition, the lower our stock price is, the more shares of common stock we will have to issue pursuant to the conversion of our preferred stock and exercise of warrants. If our stock price is lower, then our existing stockholders would experience greater dilution. We cannot predict the actual number of shares of common stock that will be issued underlying our preferred stocks and warrants; however, existing stockholders could experience significant dilution of their ownership of the Company.

Risks Relating To NeoMedia's Industry

The Security of the Internet Poses Risks To The Success Of NeoMedia'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 NeoMedia's physical-world-to-Internet business.

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

NeoMedia's future revenues and any future profits are substantially dependent upon the widespread acceptance and use of the Internet and camera devices on mobile telephones. If use of the Internet and camera devices on mobile telephones does not continue to grow or grows more slowly than expected, or if the infrastructure for the Internet and camera devices on mobile telephones does not effectively support the growth that may occur, or does not become a viable commercial marketplace, NeoMedia's physical-world-to-Internet business, and therefore NeoMedia's business, prospects, financial condition, and results of operations, could be materially adversely affected. Rapid growth in the use of, and interest in, the Internet and camera devices on mobile telephones is a recent phenomenon, and may not continue on a lasting basis. In addition, customers may not adopt, and continue to use mobile telephones 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 NeoMedia 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 use of the Internet and camera devices on mobile telephones 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 mobile phone Internet usage continues to experience significant growth in the number of users, their frequency of use, or in their bandwidth requirements, the infrastructure for the mobile Internet may be unable to support the demands placed upon them. In addition, the mobile Internet and mobile interactivity could lose its viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of mobile Internet 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 Internet business solutions that utilize these technologies. Changes in, or insufficient availability of, telecommunications services to support the Internet, the Web or other online services also could result in slower response times and adversely affect usage of the Internet, the Web and other online networks generally and NeoMedia's physical-world-to-Internet product and networks in particular.

NeoMedia 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

NeoMedia may not be able to adapt as the mobile Internet and physical-world-to-Internet markets and consumer demands continue to evolve. NeoMedia'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 mobile Internet and physical-world-to-Internet 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.

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

- enhance and improve the responsiveness and functionality of its products and services;
- license or develop technologies useful in its business on a timely basis;
- enhance its existing services, and develop new services and technologies that address the increasingly sophisticated and varied needs of NeoMedia's 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.

NeoMedia 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 NeoMedia. NeoMedia believes that competition will intensify and increase in the near future. NeoMedia's target market is rapidly evolving and is subject to continuous technological change. As a result, NeoMedia'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 NeoMedia's business, prospects, financial condition, and results of operations.

Some of NeoMedia'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, NeoMedia is significantly smaller than its two largest competitors in the physical-world-to-Internet industry, the primary focus of NeoMedia's business. If NeoMedia competes with its primary competitors for the same geographical or institutional markets, their financial strength could prevent NeoMedia from capturing those markets. NeoMedia may not successfully compete in any market in which it conducts or may conduct operations. Many of NeoMedia's competitors in the Micro Paint Repair business have a longer operating history in the industry, as well as access to greater financial resources. NeoMedia may not be able to penetrate markets or market its products as effectively as NeoMedia's better-funded more-established competitors.

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

Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to NeoMedia's business, or the application of existing laws and regulations to the Internet and other online services, could have a material adverse effect on NeoMedia's business, prospects, financial condition, and results of operations. Due to the increasing popularity and use of the Internet, the Web 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, the Web or other online services, which could, in turn, decrease the demand for NeoMedia's services and increase NeoMedia's cost of doing business, or otherwise have a material adverse effect on NeoMedia's business, prospects, financial condition, and results of operations. Moreover, the relevant governmental authorities have not resolved the applicability to the Internet, the Web 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 NeoMedia'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 NeoMedia's ability to collect and use information collected by NeoMedia'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. NeoMedia could incur significant additional expenses if new regulations regarding the use of personal information are introduced or if NeoMedia's privacy practices are investigated.

Certain of NeoMedia's micro paint solutions could be subject to environmental regulations.

ITEM 2. Description of Properties

NeoMedia's principal executive, development and administrative office is located at 2201 Second Street, Suite 600, Fort Myers, Florida 33901. NeoMedia occupies approximately 12,000 square feet under terms of a written lease from an unaffiliated party which expires on July 31, 2008, with monthly rent totaling approximately $18,000.

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.

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

During 2005, NeoMedia occupied a sales facility at 2150 Western Court, Suite 230, Lisle, Illinois 60532, occupying approximately 6,000 square feet under the terms of a written month-to-month lease from an unaffiliated party with monthly rent totaling approximately $4,000. During February 2006, NeoMedia cancelled the lease and centralized the operations from this facility to its Ft. Myers, FL headquarters.

The Company believes that existing office space is adequate to meet current and short-term requirements for its operations in the United States.

ITEM 3. 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.

Scanbuy, Inc.

On January 23, 2004, NeoMedia filed suit against Scanbuy, Inc. ("Scanbuy") in the Northern District of Illinois, claiming that Scanbuy 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, Scanbuy 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 suits against Scanbuy for lack of personal jurisdiction.

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. Discovery is ongoing.

Other Litigation

On May 2, 2005, three shareholders of BSD Software, Inc. filed a complaint against BSD and NeoMedia, claiming that the purchase price as outlined in the purchase agreement between NeoMedia and BSD is too low. The plaintiffs are seeking unspecified damages and injunctive relief against the merger. NeoMedia has moved to dismiss the complaint as frivolous. The case is still pending.

On October 19, 2005, Wachovia Bank, N.A. filed a complaint against NeoMedia in the twentieth judicial circuit court of Lee County, Florida, seeking payment of $97,000 of rent from previous years. NeoMedia has placed the requested funds into escrow with the court, pending resolution of the matter.

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

On December 16, 2005, NeoMedia held its annual meeting of shareholders, at which the following matters were ratified:

- o Each of Charles T. Jensen, Charles W. Fritz, William E. Fritz, A. Hayes Barclay, and James J. Keil were re-elected as directors
- o Stonefield Josephson, Inc. was named as NeoMedia's auditors for the fiscal year ended December 31, 2005, and
- o The 2005 Stock Option Plan, which contains up to 60 million shares underlying future option issuances, was adopted.

The number of votes cast for each matter were:

Matter	For	Against	Withheld	Bro Non-
Matter #1				
Barclay, A. Hayes	428,582,677	--	5,069,186	
Fritz, Charles W	429,204,100	--	4,447,763	
Fritz, William E	428,974,763	--	4,677,100	
Jensen, Charles T	428,701,413	--	4,950,450	
Keil, James J	428,500,377	--	5,151,486	
Matter #2				
Ratification of Stonefield Josephson, Inc. as independent auditors	432,186,015	864,437	601,411	
Matter #3				
2005 Stock Option Plan	122,359,392	17,803,875	1,279,861	292,208,

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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, 2005, the Company had 467,601,717 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:

2004	HIGH (U.S. $)	LOW (U.S. $)
First Quarter	$ 0.16	$ 0.14
Second Quarter	0.11	0.05
Third Quarter	0.12	0.06
Fourth Quarter	0.30	0.06

2005	HIGH	LOW
First Quarter	$ 0.29	$ 0.22
Second Quarter	$ 0.72	$ 0.19
Third Quarter	$ 0.51	$ 0.32
Fourth Quarter	$ 0.45	$ 0.28

(b) Holders. As of December 31, 2005, NeoMedia had an estimated 13,500 recordholders of common stock.

(c) Dividends. The Company has not declared or paid any cash dividends on its common stock during the years ended December 31, 2004 or 2005. 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.

On October 26, 2004, NeoMedia announced that it would issue a property dividend with the distribution of common shares of iPoint-media Ltd. of Tel Aviv. The date of the property dividend payment will be announced after the United States Securities and Exchange Commission declares iPoint-media's registration statement on Form SB-2 effective. iPoint-media filed their SB-2 (Registration No. 333-126342) on July 1, 2005, and amended the filing on January 12, 2006.

(d) Recent Issuances of Unregistered Securities.

On July 26, 2005, the Company issued to Newbridge Securities, an unrelated party, 44,723 shares of common stock in exchange for placement agent services to be provided in connection with NeoMedia's Standby Equity Distribution Agreement with Cornell Capital Partners. The shares were valued at $0.41, which was the market price at the time of issuance.

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.

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

During 2005, NeoMedia continued its efforts to commercialize its two primary lines of business, NeoMedia Mobile and NeoMedia Micro Paint Repair, both in North America and overseas. As part of the commercialization efforts, NeoMedia began to implement an aggressive growth campaign focusing on expansion through three major avenues: acquisition and globalization.

To this end, during the second half of 2005 and the first quarter of 2006, NeoMedia made the following strategic maneuvers:

August 2005:	signed agreement to distribute Micro Paint products to China via Jinche automotive group
September 2005:	signed agreement to distribute Micro Paint products to Mexico and Latin America via Micropaint de Mexico
October 2005:	signed letter of intent to acquire Mobot
October 2005:	signed agreement to distribute Micro Paint products to Scandinavia via WITHO-AS
December 2005:	signed agreements to distribute DuPont and PPG automotive aftermarket products to Jinche in China
February 2006:	completed acquisitions of Mobot (US), 12Snap (Europe), Gavitec (Europe), and Sponge (Europe); signed letter of intent to acquire Hip Cricket; completed $27 million funding to finance acquisitions and future growth
March 2006:	completed acquisition of BSD Software, creating the

NeoMedia Telecom Services (NTS) business unit

Acquisitions

During 2005 and the first quarter of 2006, NeoMedia has aggressively pursued acquisitions that will confirm its presence in the global mobile marketing space. To this end, NeoMedia has completed, or agreed to complete, the following acquisitions:

12Snap AG. On February 10, 2006, NeoMedia and 12Snap AG ("12Snap") signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of 12Snap in exchange for $2,500,000 cash and $19,500,000 in shares of NeoMedia common stock. The $19,500,000 stock portion of the purchase price is represented by 49,294,581 shares of NeoMedia common stock, calculated by dividing $19,500,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 9, 2006. On February 28, 2006, NeoMedia and 12Snap completed the closing requirements and the acquisition became effective. 12snap AG is a non-public incorporated company headquartered in Munich with branches in Dusseldorf, New York, London, Milan, Stockholm, Romania and Vienna. As an expert in innovative marketing and entertainment for mobile phones, 12snap combines

know-how in mobile applications, mobile loyalty and mobile marketing. In the mobile marketing space, 12snap creates and implements national and pan-European mobile marketing campaigns for international brands; its mobile loyalty business unit offers customer loyalty programs for companies and brands, and its mobile applications business unit is the center for development and software. 12snap sells and licenses a wide spectrum of mobile solutions to satisfy the demands of the current growing market and the new uses of the third mobile phone generation from dynamic video services and multiplayer games to personalized messaging applications. 12snap has 75 employees, and provides services to companies including McDonald's, MTV(R), Coca-Cola, Ferrero, Wella, adidas, Unilever and Gillette(R).

Sponge Ltd. On February 20, 2006, NeoMedia and Sponge Limited ("Sponge") of London (www.spongegroup.com) signed a definitive share purchase agreement under which NeoMedia acquired all of the outstanding shares of Sponge in exchange for (pound)3,450,000 (approximately $6 million) cash and (pound)6,550,000 (approximately $11.4 million) in shares of NeoMedia common stock. The (pound)6,550,000 stock portion of the purchase price is represented by 29,696,745 shares of NeoMedia common stock, calculated by dividing (pound)6,550,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 8, 2006. The agreement also calls for Sponge to earn an additional (pound)2,500,000 (approximately $4.4 million) in the form of NeoMedia common stock if, during the two-year period beginning at closing, the Sponge business earns in excess of (pound)1,300,000 (approximately $2.3 million) in net profits. On February 23, 2006, NeoMedia and Sponge completed the closing requirements and the acquisition became effective. Founded in 2001, Sponge has grown to become a U.K. market leader in providing mobile applications to agencies and media groups, and gain recognition as one of Europe's top independent developers of mobile applications and content. Today, Sponge counts more than 40 agencies, including WPP, Aegis and BBH, as clients, and supplies services for over 100 world-class brands, including Coca Cola(R), Heineken(R) and Diageo. Sponge also supplies a range of mobile services to media groups, including News International, Trinity Mirror, Endemol and IPC

Gavitec AG. On February 17, 2006, NeoMedia and Gavitec AG ("Gavitec") of Wurselen, Germany (www.gavitec.com) signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of Gavitec in exchange for $1,800,000 cash and $5,400,000 in shares of NeoMedia common stock. The $5,400,000 stock portion of the purchase price is represented by 13,660,511 shares of NeoMedia common stock, calculated by dividing $5,400,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 16, 2006. On February 23, 2006, NeoMedia and Gavitec completed the closing requirements and the acquisition became effective. Gavitec was founded in 1997 as a specialized provider and manufacturer of products and solutions for mobile marketing and mobile information technology. As a technology leader in code-reading systems and software for mobile applications, Gavitec offers its clients standardized or individual solutions in the areas of mobile loyalty, mobile ticketing, mobile couponing, and mobile payment systems

Mobot, Inc. On February 9, 2006, NeoMedia and Mobot, Inc. (www.mobot.com) ("Mobot") signed a definitive merger agreement under which NeoMedia acquired all of the outstanding shares of Mobot in exchange for $3,500,000 cash and $6,500,000 in shares of NeoMedia common stock. The $6,500,000 stock portion of the purchase price is represented by 16,931,493 shares of NeoMedia common stock, calculated by dividing $6,500,000 by the volume-weighted average closing price of NeoMedia common stock for the ten day up to and including February 8, 2006. On February 17, 2006, NeoMedia and Mobot completed the closing requirements and the acquisition became effective. Mobot is a pioneer in visual search and recognition technology designed to make marketing effective and innovative using mobile devices. Launched in 2004 to help companies cultivate rewarding relationships with the world's 1.5 billion mobile phone users, Mobot gives marketers, content providers and carriers the tools to make it easy for any consumer with a camera phone to interact with their offerings.

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BSD Software, Inc. On March 21, 2006, NeoMedia completed its acquisition of BSD Software, Inc. of Calgary, Alberta, Canada. 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. After exchange of shares certificates, NeoMedia expects to issue 7,123,698 shares of its common stock in connection with the acquisition.

Hip Cricket, Inc. On February 16, 2006, NeoMedia signed a non-binding letter of intent to acquire HipCricket, Inc. ("HipCricket") of Essex, CT (www.hipcricket.com) in exchange for $500,000 cash and $4,000,000 of NeoMedia common stock. The letter of intent is subject to due diligence and signing of a mutually agreeable definitive purchase agreement by both parties. HipCricket is a leading mobile marketing firm that provides innovative, custom solutions to broadcasters and brand marketers. Today, HipCricket works with five of the top 10 radio groups in the U.S. as well as with some 40 major brand marketers. HipCricket combines senior marketing expertise with state-of-the-art mobile and event marketing technologies to offer clients unprecedented interactivity with their consumers, viewers, listeners or customers on a one-to-one personal level.

Auto Preservation, Inc. 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 Letter of Intent 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 Letter of Intent, 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 Letter of Intent 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 Letter of Intent are non-binding and subject to due diligence by NeoMedia and AP. On September 21, 2005, the BOD approved to change the deal structure for the acquisition of AP, so that the Company would acquire only 30% of AP for a total purchase price of $1.6 million of which $600K would be paid in cash and $446K would be paid through the assumption of debt, and $554K through the issuance of restricted Neomedia stock. Neomedia will not acquire the remaining 70% of AP under the new structure.

Consulting & Integration Services Business Unit

As part of the acceleration of global expansion in PaperClick and Paint, as well as the creation of the NTS business unit through the BSD acquisition, NeoMedia also decided in February 2006 to wind down its legacy NeoMedia Consulting & Integration Services (NCIS) business unit. The NCIS unit consisted of client-server equipment and related software resales. The resale market has been commoditized over the past several years, and NeoMedia believes its resources are better spent on the development and commercialization of its NMM, NMPR and NTS business units. Certain of the proprietary products associated with the NCIS business, such as PDF-417 and Maxicode print encoder software and WISP migration tools, will be retained by NeoMedia and consolidated with the NMM unit. NeoMedia will not pursue additional resales of hardware and software or integration services.

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Critical Accounting Policies

The United States Securities and Exchange Commission (the "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.

According to SFAS 144, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

- A significant decrease in the market price of the asset
- A significant adverse change in the extent or manner in which the asset is being used, or in its physical condition
- A significant adverse change in legal factors or in the business climate that could affect the value of the asset, including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the asset
- A current expectation that, more likely than not, the asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

NeoMedia follows the two-step process outlined in SFAS 144 for determining if an impairment charge should be taken: (1) the expected undiscounted cashflows from a particular asset or asset group are compared to the carrying value; if the expected undiscounted cashflows are greater than the carrying value, no impairment is taken, but if the expected undiscounted cashflows are less than the carrying value, then (2) an impairment charge is taken for the difference between the carrying value and the expected discounted cashflows. The

assumptions used in developing expected cashflow estimates are similar to those used in developing other information used by NeoMedia for budgeting and other forecasting purposes. In instances where a range of potential future cashflows is possible, NeoMedia uses a probability-weighted approach to weigh the likelihood of those possible outcomes. NeoMedia used a rate of 10% for purposes of discounting cashflows in 2005.

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. NeoMedia 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 option pricing model 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.

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.

Estimate of Litigation-based Liability. NeoMedia is defendant in certain litigation in the ordinary course of business (see the section of this information statement/prospectus entitled "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 NeoMedia's 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, provided there is VSOE in a multiple element arrangement. Ongoing product and service revenue is recognized as products are shipped and services performed.

Income Tax Valuation Allowance. 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, 2005.

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Results of Operations for the Year Ended December 31, 2005 as Compared to the Year Ended December 31, 2004

Net sales. Total net sales for the year ended December 31, 2005 were $2,156,000, which represented a $456,000, or 27%, increase from $1,700,000 for the year ended December 31, 2004. This increase primarily resulted from increased sales from the Company's Micro Paint Repair business, offset by the reduced resales of Sun Microsystems equipment due to increased competition in that industry that led NeoMedia to wind down this business unit during the first quarter of 2006. NeoMedia could realize a material increase in revenue over the next 12 months due to the recent acquisitions of Mobot, 12Snap, Sponge, Gavitec, and BSD. NeoMedia could also realize a material increase in revenue over the next 12 months if the Company is successful in implementing its PaperClick(R) go-to-market strategy, if pending court cases involving its intellectual property are resolved in NeoMedia's favor, or if it is successful in implementing the expansion of the Micro Paint Repair business unit into China and other geographies.

License fees. License fees were $523,000 for the year ended December 31, 2005, compared with $343,000 for the year ended December 31, 2004, an increase of $180,000, or 52%. The increase was primarily due to revenue associated with settlements of patent-related lawsuits in 2005. NeoMedia could realize an increase in license fees over the next 12 months due to the recent acquisitions of Mobot, 12Snap, Sponge, Gavitec, and BSD, 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 $276,000, or 44%, to $354,000 for the year ended December 31, 2005, as compared to $630,000 for the year ended December 31, 2004. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and general downturn in the resale market over the past several years. As a result, NeoMedia formally decided to wind down this business unit during the first quarter of 2006, and as a result does not expect additional material hardware and software resales in 2006 and beyond. NeoMedia does however, plan to continue servicing existing contracts and customers.

Micro Paint Repair products and services. Sales of Micro Paint Repair products and services were $1,279,000 for the year ended December 31, 2005, compared with $727,000 for the year ended December 31, 2004, an increase of $552,000, or 76%. This increase is primarily due to the expansion of the business unit into new markets such as China, Australia/New Zealand, Scandinavia and Mexico. NeoMedia could realize a material increase in Micro Paint Repair revenue if the Company is successful in continuing the expansion of the business unit into China and other geographies.

Cost of license fees. Cost of license fees was $453,000 for the year ended December 31, 2005, an increase of $129,000, or 40%, compared with $324,000 for the year ended December 31, 2004. The increase resulted from increased amortization of capitalized patent costs during 2005 compared with 2004.

Cost of resales of software and technology equipment and service. Cost of resales of software and technology equipment and service was $206,000 for the year ended December 31, 2005, a decrease of $398,000, or 66%, compared with $604,000 for the year ended December 31, 2004. The decrease resulted from decreased resales in 2005 compared with 2004. Cost of resales as a percentage of related resales was 58% in 2005, compared to 96% in 2004. This decrease is due to a reduction in 2005 of the hired personnel costs associated with providing service revenue.

Cost of Micro Paint Repair products and services. Cost of Micro Paint Repair products and services was $913,000 for the year ended December 31, 2005, compared with $541,000 for the year ended December 31, 2004, an increase of $372,000, or 69%. This increase is in direct correlation of increased sales. Cost of micro paint repair products and services as a percentage of related

sales was 71% in 2005, compared to 74% in 2004. 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 to expand globally.

Gross Profit. Gross profit was $584,000 for the year ended December 31, 2005, an increase of $353,000, or 153%, compared with gross profit of $231,000 for the year ended December 31, 2004. This increase was primarily the result of increased sales and corresponding margin of the Company's Micro Paint Repair products and services.

Sales and marketing. Sales and marketing expenses were $4,186,000 for the year ended December 31, 2005, compared to $2,046,000 for the year ended December 31, 2004, an increase of $2,140,000 or 105%. This increase resulted primarily from the addition of sales force and cost associated with marketing and 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 expansion of the PaperClick(R) and Micro Paint Repair product groups, as well as the acquisitions of Mobot, 12Snap, Sponge, Gavitec, and BSD.

Impairment charges. During the year ended December 31, 2005, NeoMedia recognized an impairment of an intangible asset of $335,000 relating to the write-down of an intangible asset. During the year ended December 31, 2004, no impairment charges were taken. The impairment relates to the assets purchased from Secure Source Technologies, Inc. during 2003 that are part of the NeoMedia Internet Switching Service (NISS) business unit. The impairment is due to the fact that the intangible assets purchased are not generating any revenue at the present time and NeoMedia's management does not foresee these assets generating revenue in the near term. The amount of impairment was determined by determining the fair value of the intangible assets using the discounted cashflow method.

General and administrative. General and administrative expenses increased by $1,160,000, or 52%, to $3,375,000 for the year ended December 31, 2005, compared to $2,215,000 for the year ended December 31, 2004. The increase resulted primarily from additional personnel and higher legal and professional fees in 2005 resulting from registration and regulatory filings. NeoMedia expects general and administrative expense to increase over the next 12 months with the Mobot, 12Snap, Sponge, Gavitec, and BSD, and the continued expansion of the PaperClick and Micro Paint business units.

Research and development. During the year ended December 31, 2005, NeoMedia charged to expense $934,000 of research and development costs, an increase of $283,000 or 43% compared to $651,000 for the year ended December 31, 2004. The increase is primarily due to the addition of development staff hired in connection with the commercialization of the PaperClick product line. 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, as well as with the addition of research and development resources acquired with Mobot, 12Snap, Sponge and Gavitec.

Gain on extinguishment of debt. During the year ended December 31, 2005, NeoMedia recognized a gain on extinguishment of debt of $172,000, resulting from the payment of debt at a discount to the book value of the debt, an increase of $32,000, or 23%, compared with a gain on extinguishment of debt of $140,000 for the year ended December 31, 2004. 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.

Impairment charge on investments. During the year ended December 31, 2005, NeoMedia recognized an impairment of investment of $780,000 relating to the write-down of its investment. During the year ended December 31, 2004, no impairment charges were taken. The Impairment relates to the investment in iPoint-Media Ltd. ("iPoint") for $530,000 and the investment in Intactis Software, Inc. ("Intactis") for $250,000. These investments are not part of a specific business segment and as such are charged against the corporate segment.

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The impairment relating to iPont primarily results from a delay in registration for the resale of the shares held by NeoMedia. The impairment of the investment in Intactis is a result of NeoMedia management's expectation that additional investment or research and development resources would be required in order to recoup the initial investment. The amount of impairment for both iPoint and Intactis was determined by determining the fair value of the assets using the discounted cashflow method.

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. 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. During the year ended December 31, 2005, NeoMedia did not recognize any such expense.

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 increased by $104,000, or 55%, to $293,000 for the year ended December 31, 2005 from $189,000 for the year ended December 31, 2004, due to increased expense associated with interest on notes payable in 2005 compared with 2004.

Net Loss. The net loss for the year ended December 31, 2005 was $9,147,000, which represented a $1,917,000, or 27% increase from a $7,230,000 loss for the year ended December 31, 2004. The increase resulted from impairment charge of intangible assets in 2005, as well as increased selling, general, and administrative expenses associated with the continued commercialization and expansion of the PaperClick and micro Paint business units.

Liquidity and Capital Resources

As of December 31, 2005, NeoMedia's cash balance was $2,291,000, compared to $2,634,000 at December 31, 2004.

Net cash used in operating activities was approximately $6,509,000 for the year ended December 31, 2005, compared with $4,650,000 for the year ended December 31, 2004, an increase of $1,859,000, or 40%. The increase was primarily due to increased selling, general, and administrative expenses in 2005 associated with the continued commercialization and expansion of the PaperClick and micro Paint business units, 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, 2005 and 2004, was $4,169,000 and $3,642,000, respectively, an increase of $527,000, or 15%. The increase was primarily due to the acquisition in 2005 of patents from Loyaltypoint, Inc. for $1.4 million, advances to Mobot of $1.5 million and the investments in Intactis, Inc. and Pickups Plus, Inc.

Net cash provided by financing activities for the years ended December 31, 2005 and 2004 was $10,306,000 and $10,925,000, respectively, a decrease of $619,000, or 6%. The decrease was, due to fewer options and warrants exercised in 2005.

During the years ended December 31, 2005 and 2004, NeoMedia's net loss totaled $9,147,000 and $7,230,000, respectively. As of December 31, 2005, NeoMedia had accumulated losses from operations of $92,524,000, had a working capital deficit of $4,874,000, and $2,291,000 in cash balances.

During February 2006, NeoMedia's Board of Directors elected to formally wind down the NCIS business unit. As a result, during February 2006, NeoMedia closed its Lisle, Illinois facility out of which the NCIS business unit was based. NeoMedia plans to continue servicing existing contracts and customers. NeoMedia management expects that the effect on cashflow will be positive, since

the majority of the revenue relating to the NCIS business unit in 2005 was derived from licenses of software products that will be retained in the NeoMedia Mobile Business Unit, and certain overhead costs associated with the business unit were eliminated in the winding down process.

Going Concern

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 $9,197,000 and $7,230,000 for the years ended December 31, 2005 and 2004, respectively and has an accumulated deficit of $92,574,000 as of December 31, 2005. In addition, the Company had working capital deficit of $4,874,000 as of December 31, 2005. All of the factors discussed above, amongst others, raise substantial doubt about the Company's ability to continue as a going concern.

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

During the first quarter of 2006, NeoMedia received approximately $14.1 million net proceeds from the convertible preferred stock sale to Cornell, and an additional $4 million proceeds received upon exercise of warrants held by Cornell. NeoMedia used $13.8 million of the proceeds to pay the cash portion of the purchase price of Mobot, Gavitec, Sponge, and 12Snap. NeoMedia expects to receive an additional $6 million proceeds from the exercise of additional warrants held by Cornell, the exercise of which can be forced by NeoMedia if the closing bid price of NeoMedia stock is greater than $0.30 for five consecutive days, and NeoMedia will also receive an additional $5 million upon registration of the shares underlying the convertible preferred stock held by Cornell.

NeoMedia intends to fund its growth and working capital deficiencies from the following sources during 2006 and beyond:

Warrant Exercises

On February 9, 2006, Cornell exercised warrants to purchase 20,000,000 shares of NeoMedia common stock, par value $0.01 per share. The warrants were issued to Cornell Capital on March 30, 2005 as a commitment fee for Cornell Capital entering into that certain Standby Equity Distribution Agreement, dated March 30, 2005 by and between NeoMedia and Cornell Capital. The warrants had an exercise price equal to $0.20 per share. In connection with the exercise of the 20,000,000 Warrants, NeoMedia received proceeds of $4,000,000. NeoMedia expects to receive an additional $6 million proceeds from the exercise of additional warrants held by Cornell, the exercise of which can be forced by NeoMedia if the closing bid price of NeoMedia stock is greater than $0.30 for five consecutive days.

$27 Million Convertible Preferred Stock Sale

On February 17, 2006, NeoMedia entered into an investment agreement with Cornell. Pursuant to the Investment Agreement, NeoMedia issued and sold to Cornell Twenty-Seven Million Dollars (US $27,000,000) of Series C Preferred Shares (the "Series C Preferred Shares"), of which (i) Three Million Two Hundred Eight Thousand Seven Hundred Two Dollars ($3,208,702) were purchased by Cornell for consideration solely consisting of surrendering that certain Promissory Note, dated March 30, 2005 in the original principal amount of Ten Million Dollars (US $10,000,000) issued in the name of Cornell, (ii) Eighteen Million Seven Hundred Ninety-One Thousand Two Hundred Ninety-Eight Dollars (US $18,791,298) were purchased by additional funding (consisting of $16,791,298 of immediately available funds and $2,000,000 of securities) from Cornell as of February 17, 2006, and (iii) Five Million Dollars (US $5,000,000) shall be purchased by an additional funding by Cornell on the date a registration statement filed by the Company pursuant to the terms of that certain Investor Registration Rights Agreement, dated February 17, 2006 by and between the Company and Cornell is declared effective by the U.S. Securities and Exchange Commission. The Series C Preferred Shares are convertible into shares of the Company's common stock, par value $0.01 per share in accordance with the terms of the Company Certificate of Designations, Preferences, and Rights of the Series C Preferred Shares.

In addition, pursuant to the terms of the Investment Agreement, the Company issued to Cornell (i) a warrant to purchase twenty million (20,000,000) shares of NeoMedia common stock exercisable for a period of 5 years at an exercise price of $0.50 per share; (ii) a warrant to purchase twenty-five million (25,000,000) shares of common stock exercisable for a period of 5 years at an exercise price of $0.40 per share; and (iii) a warrant to purchase thirty million (30,000,000) shares of common stock exercisable for a period of 5 years at an exercise price of $0.35 per share.

$100 million SEDA

On March 30, 2005, NeoMedia and Cornell Capital Partners entered into a Standby Equity Distribution Agreement under which Cornell agreed to purchase up to $100 million of NeoMedia's common stock over a two-year period, with the timing and amount of the purchase at NeoMedia's discretion. The maximum amount of each purchase would be $2,000,000 with a minimum of five business days between advances. NeoMedia expects to file a registration statement with the SEC during 2006 to register the shares underlying the $100 million 2005 SEDA. The 2005 SEDA would become available at the time the SEC declares effective a registration statement containing such shares. As a commitment fee for the SEDA, NeoMedia issued to Cornell 50 million warrants to purchase shares of NeoMedia common stock at an exercise price of $0.20 per share. 20 million of the Cornell warrants were exercised in February 2006, generating $4 million cash proceeds to NeoMedia.

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 the profitability from the Company's PaperClick business, intellectual property portfolio and Micro Paint Repair business.

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.

Contractual Obligations

The following table presents the Company's contractual obligations as of December 31, 2005, over the next five years and thereafter:

Payments by Period
(in thousands)

	Amount	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Vendor Settlements & Agreements	$ 24	$ 24	$ --	$ --	$ --

Operating Leases	805	330	475	--	--
Short Term Debt	3,015	3,015	--	--	--
Total Contractual Cash Obligations	$3,844	$3,369	$ 475	$ --	$ --

Intangible Assets

NeoMedia periodically 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 cashflow to be derived from the asset.

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.

According to SFAS 144, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

- A significant decrease in the market price of the asset
- A significant adverse change in the extent or manner in which the asset is being used, or in its physical condition
- A significant adverse change in legal factors or in the business climate that could affect the value of the asset, including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the asset
- A current expectation that, more likely than not, the asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

NeoMedia follows the two-step process outlined in SFAS 144 for determining if an impairment charge should be taken: (1) the expected undiscounted cashflows from a particular asset or asset group are compared to the carrying value; if the expected undiscounted cashflows are greater than the carrying value, no impairment is taken, but if the expected undiscounted cashflows are less than the carrying value, then (2) an impairment charge is taken for the difference between the carrying value and the expected discounted cashflows. The assumptions used in developing expected cashflow estimates are similar to those used in developing other information used by NeoMedia for budgeting and other forecasting purposes. In instances where a range of potential future cashflows is possible, NeoMedia uses a probability-weighted approach to weigh the likelihood of those possible outcomes. NeoMedia generally uses a rate of 10% for purposes of discounting cashflows.

Financing Agreements

As of December 31, 2005 and 2004, 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. Due to the discontinuation of the NCIS business unit, NeoMedia expects to terminate the agreement during 2006. There were no amounts payable under this agreement as of December 31, 2005.

Effect Of Recently Issued Accounting Pronouncements

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. Management is currently evaluating the impact SFAS 123R will have on our consolidated financial statements.

In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"), which provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff's views regarding valuation of share-based payment arrangements. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. Management is currently evaluating the impact SAB 107 will have on our consolidated financial statements.

In May 2005, the FASB issued FASB Statement No. 154, Accounting Changes and Error Corrections. This new standard replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and represents another step in the FASB's goal to converge its standards with those issued by the IASB. Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005.

In June 2005, the Emerging Issues Task Force, or EITF, reached a consensus on Issue 05-6, Determining the Amortization Period for Leasehold Improvements, which requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. EITF 05-6 is effective for periods beginning after July 1, 2005. We do not expect the provisions of this consensus to have a material impact on the our financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. The Interpretation requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also defines when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt FIN 47 and does not believe the adoption will have a material impact on its consolidated financial position or results of operations or cash flows.

In February 2006, the Financial Accounting Standards Board issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments -- an amendment of FASB Statements No. 133 and 140." SFAS No. 155 simplifies the accounting for certain hybrid financial instruments, eliminates the FASB's interim guidance which provides that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and eliminates the restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, however, early adoption is permitted for instruments acquired or issued after the beginning of an entity's fiscal year in 2006. The Company is evaluating the impact of this new pronouncement to its financial position and results of operations or cash flows.

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

There were no policy reviews, improvements of documentation or general improvement in the state of internal controls that led to any change during the fiscal year, or subsequent to the end of the fiscal year through the date of this Form 10-KSB, that materially affected or were reasonably likely to materially affect, internal controls over financial reporting

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 procedures. 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 end of 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.

Changes in Internal Controls. In connection with the evaluation of the Company's internal controls during the Company's year ended December 31, 2005, the Company's Principal Executive Officer and Principal Financial Officer have determined that there were no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially effect, the Company's internal controls over financial reporting during the year ended December 31, 2005, or subsequent to the date of their last evaluation, or from the end of the reporting period to the date of this Form 10-KSB.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Neomedia Technologies, Inc.
Fort Myers, Florida

We have audited the accompanying consolidated balance sheet of Neomedia Technologies, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the two years in the period then ended. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and 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 consolidated financial position of Neomedia Technologies, Inc. and subsidiaries at December 31, 2005 and the consolidated results of their operations and their cash flows for the two years in the period then ended in conformity with accounting principles generally accepted in the United States.

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, negative cash flows from operations and working capital deficit raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these 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.
Irvine, California
March 2, 2006

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NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEM

ASSETS	
Current assets:	
Cash and cash equivalents	
Trade accounts receivable, net of allowance for doubtful accounts of $203	
Inventories	
Investment in marketable securities	
Prepaid expenses and other current assets	
Total current assets	
Leasehold improvements & property and equipment, net	
Capitalized patents, net	
Micro paint chemical formulations and proprietary process, net	
Goodwill	
Other Intangible assets, net	
Cash surrender value of life insurance policy	
Advances to Mobot, Inc.	
Other long-term assets	
Total assets	
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	
Accrued expenses	

Amounts payable under settlement agreements	
Sales taxes payable	
Deferred revenues and other	
Liabilities of discontinued business unit	
Notes payable	
Total current liabilities	
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, 475,387,910 shares issued and 467,601,717 outstanding	
Additional paid-in capital	
Deferred stock-based compensation	
Deferred equity financing costs	
Accumulated deficit	
Accumulated other comprehensive loss	
Treasury stock, at cost, 201,230 shares of common stock	
Total shareholders' equity	
Total liabilities and shareholders' equity	

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

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,	
	2005	2004
NET SALES:		
License fees	$ 523	$
Resale of software and technology equipment and service fees	354	
Micro paint repair products and services	1,279	
Total net sales	2,156	1,
COST OF SALES:		
License fees	453	
Resale of software and technology equipment and service fees	206	
Micro paint repair products and services	913	
Total cost of sales	1,572	1,

GROSS PROFIT	584	
OPERATING EXPENSES:		
Sales and marketing expenses	4,186	2,
Impairment charge	335	
General and administrative expenses	3,375	2,
Research and development costs	934	
Loss from operations	(8,246)	(4,
Gain on extinguishment of debt	172	
Impairment charge on investments	(780)	
Amortization of debt discount	--	(2,
Interest expense, net	(293)	(
NET LOSS	(9,147)	(7,
Other comprehensive loss:		
Unrealized gain/loss on marketable securities	(146)	
Foreign currency translation adjustment	29	
COMPREHENSIVE LOSS	$ (9,264)	$ (7,
NET LOSS PER SHARE--BASIC AND DILUTED	$ (0.02)	$ (0
WEIGHTED AVERAGE NUMBER OF COMMON SHARES--BASIC AND DILUTED	451,857,851	329,362,

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)

	YE DE 2005
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	($ 9,14
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of discount on note payable	-
Depreciation and amortization	73
Impairment charge	1,11
Provision for doubtful accounts	15
Expense (decrease of fair value) for repriced options	-
Fair value of expense portion of stock-based	

compensation granted for professional services	73
Interest expense allocated to debt	-
(Increase)/decrease in value of life insurance policies	(4
Decrease in fair value of marketable securities	-
Decrease of fair value of repriced options	-
Changes in operating assets and liabilities	
Trade accounts receivable, net	(21
Inventory	(30
Other current assets	17
Accounts payable, amounts due under financing agreements, liabilities in excess of assets of discontinued business unit, accrued expenses and stock liability	(9
Deferred revenue other current liabilities	38
Net cash used in operating activities	(6,50
CASH FLOWS FROM INVESTING ACTIVITIES:	
Advances to Mobot, Inc.	(1,50
Investments	(50
Acquisition of patents	(1,40
Acquisition related costs	(16
Capitalization of software development and purchased intangible assets	(35
Acquisition of property and equipment	(24
Cash paid to acquire CSI International, Inc. (net of cash acquired)	-
Net cash used in investing activities	(4,16
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from issuance of common stock, net of issuance costs of $115 in 2005 and $620 in 2004	8,57
Net proceeds from exercise of stock options and warrants	92
Borrowings under notes payable and long-term debt	9,93
Repayments on notes payable and long-term debt	(8,12
Cash commitment fee for $100 million Standby Equity Distribution Agreement	(1,00
Net cash provided by financing activities	10,30
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(34
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,63
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,29
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid/(received) during the period	$ 4
Income taxes paid	-
Non-cash investing and financing activities:	
Reduction in accounts payable and accruals due to debt paid with shares of common stock	-
Reduction of note payable paid in stock	-
Fair value of stock issued for services and deferred to future periods	23
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)	-
Gain on extinguishment of debt	17
Direct costs associated with Standby Equity Distribution Agreement	

and Equity Line of Credit 1,20

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
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 -				

foregin currency translation adjustment	--	--	--	--
Net Loss	--	--	--	--
BALANCE, DECEMBER 31, 2004	432,525,053	$ 4,325	$ 84,728	(445)
Shares issued to Cornell Capital Partners under SEDA	26,435,512	264	8,177	--
Deferred financing cost associated with $100 million SEDA	44,723	--	12,256	--
Exercise of stock options	7,953,650	80	837	--
Exercise of stock warrants	50,000	1	5	--
Fair value stock, options, & warrants issued for professional services rendered	592,779	6	453	--
Change in Deferred Stock Compensation	--	--	--	276
Comprehensive loss - foregin currency translation adjustment	--	--	--	--
Comprehensive loss - unrealized loss on marketable securities	--	--	--	--
Net Loss	--	--	--	--
BALANCE, DECEMBER 31, 2005	467,601,717	$ 4,676	$ 106,456	($ 169) (

		TREASURY STOCK		
	ACCUMULATED DEFICIT	SHARES	AMOUNT	TOTAL SHAREHOLDER EQUITY
BALANCE, DECEMBER 31, 2003	($ 76,147)	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 - foregin currency translation adjustment	--	--	--	(60)
Net Loss	(7,230)	--	--	(7,230)
BALANCE, DECEMBER 31, 2004	($ 83,377)	201,230	($ 779)	$ 4,392
Shares issued to Cornell Capital Partners under SEDA	--	--	--	8,441
Deferred financing cost associated with $100 million SEDA	--	--	--	(1,000)
Exercise of stock options	--	--	--	917
Exercise of stock warrants	--	--	--	6
Fair value stock, options, & warrants issued for professional services rendered	--	--	--	459
Change in Deferred Stock Compensation	--	--	--	276
Comprehensive loss - foregin currency				

translation adjustment	--	--	--	29
Comprehensive loss - unrealized loss on marketable securities	--	--	--	(146)
Net Loss	(9,147)	--	--	(9,147)
BALANCE, DECEMBER 31, 2005	($ 92,524)	201,230	($ 779)	$ 4,227

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

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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 (a dormant subsidiary); NeoMedia Technologies of Canada, Inc. incorporated in Canada (a dormant subsidiary); NeoMedia Tech, Inc. incorporated in Delaware; NeoMedia EDV GmbH incorporated in Austria (a dormant subsidiary); NeoMedia Technologies Holding Company B.V. incorporated in the Netherlands (a dormant subsidiary); NeoMedia Technologies de Mexico S.A. de C.V. incorporated in Mexico (a dormant subsidiary); NeoMedia Migration de Mexico S.A. de C.V. incorporated in Mexico (a dormant subsidiary); NeoMedia Technologies do Brasil Ltd. incorporated in Brazil (a dormant subsidiary); NeoMedia Technologies UK Limited incorporated in the United Kingdom (a dormant subsidiary); NeoMedia Micro Paint Repair, Inc. a Nevada corporation; NeoMedia Telecom Services, Inc. a Nevada corporation established for the purpose of completing the acquisition of BSD Software, Inc.; and Mobot, Inc., a Delaware corporation established for the purpose of completing the acquisition of Mobot, Inc., 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 $9,147,000 and $7,230,000 for the years ended December 31, 2005 and 2004, respectively, and has an accumulated deficit of $92,524,000 as of December 31, 2005. In addition, the Company had working capital deficit of $4,874,000 as of December 31, 2005. All of the factors discussed above, amongst others, raise substantial doubt about the Company's ability to continue as a going concern.

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.

NATURE OF BUSINESS OPERATIONS

During 2005, 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 PaperClick branded 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. During the first quarter of 2006, NeoMedia formally decided to wind down this business unit. To the extent practicable, NeoMedia will attempt to sell additional licenses of its propriety print encoder and migration software products, but will not pursue additional hardware and software resales.

NMPR (Micro Paint Repair offerings) is the business unit encompassing the proprietary paint and chemical line acquired from CSI International in 2004. This business also acts as a distributor of other manufacturers' automotive aftermarket products to customers around the world.

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, 2005, the Company had cash balances of $2,191,000 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 payables 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.

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, 2005, the allowance for doubtful accounts was $203,000.

INVENTORIES

Inventories are stated at the lower of cost or market, and at December 31, 2005 was comprised of micro paint repair products. Cost is determined using the first-in, first-out method. At December 31, 2005 and December 31, 2004, there was no reserve.

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 the shorter of the estimated useful lives or contractual lives 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 of the purchase price paid for CSI International, Inc. over the identifiable net assets and liabilities acquired at fair value. 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 contracts, copyrighted material and acquired software products, which are amortized over the expected life of the product, generally three to five years.

INVESTMENTS

Investments included in other long term assets consist of NeoMedia's investments in iPoint-media and Intactis Software, Inc.

On September 7, 2004, NeoMedia acquired 17% ownership of iPoint-media, consisting of 69,196 shares of common stock, for $1 million cash. NeoMedia recorded the investment at cost. iPoint-Media Ltd. ("iPoint-media"), distributes video, audio and data over IP networks. As a result of the delay by iPoint -media in registering the shares held by NeoMedia, during the year ended December 31, 2005 NeoMedia recognized an impairment of $530,000 related to the excess of the carrying value of the investment over the estimated fair value as determined by management using the weighted average probability method. The impairment loss is included in the statement of operations for the year ended December 31, 2005.

Pertinent financial information reported by iPoint-media on its Form SB-2 is as follows:

	Nine Months Ended September 30, 2005 (Unaudited)	Years Ended December 31, 2004	2003
Revenues	$ 44	$ 514	$ 618
Net loss	(1,148)	(1,397)	(551)

Total Assets	$ 302	$ 1,124
Stockholders' deficit	(1,488)	(340)

On March 10, 2005, NeoMedia invested $250,000 in exchange for 250,000 shares of Intactis non-voting convertible preferred stock. In connection with the investment, NeoMedia received a warrant to purchase up to an additional 50,000 shares of Intactis. During the year ended December 31, 2005 NeoMedia took an impairment of the carrying value of the investment of $250,000. The impairment loss is included in the statement of operations for the year ended December 31, 2005.

On February 25,2005, NeoMedia invested $250,000 in exchange foe 8,333,333 shares of Pick Ups Plus, Inc. common stock. During the year ended December 31,2005, NeoMedia recognized a temporary loss in the fair value of $146,000 as an adjustment through other comprehensive loss in the statement of operations and comprehensive loss.

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 letter of intent 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 letter of intent, 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 letter of intent 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 letters of intent are non-binding and subject to due diligence by NeoMedia and AP. On September 21, 2005, the BOD approved to change the deal structure for the acquisition of AP, so that the Company would acquire only 30% of AP for a total purchase price of $1.6 million of which $600K would be paid in cash and $446K would be paid through the assumption of debt, and $554K through the issuance of restricted Neomedia stock. Neomedia will not acquire the remaining 70% of AP under the new structure.

EVALUATION OF LONG-LIVED ASSETS

NeoMedia periodically 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 cashflow to be derived from the asset.

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.

According to SFAS 144, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

- A significant decrease in the market price of the asset
- A significant adverse change in the extent or manner in which the asset is being used, or in its physical condition
- A significant adverse change in legal factors or in the business climate that could affect the value of the asset, including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the asset
- A current expectation that, more likely than not, the asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

NeoMedia follows the two-step process outlined in SFAS 144 for determining if an impairment charge should be taken: (1) the expected undiscounted cashflows from a particular asset or asset group are compared to the carrying value; if the expected undiscounted cashflows are greater than the carrying value, no impairment is taken, but if the expected undiscounted cashflows are less than the carrying value, then (2) an impairment charge is taken for the difference between the carrying value and the expected discounted cashflows. The assumptions used in developing expected cashflow estimates are similar to those used in developing other information used by NeoMedia for budgeting and other forecasting purposes. In instances where a range of potential future cashflows is possible, NeoMedia uses a probability-weighted approach to weigh the likelihood of those possible outcomes. NeoMedia used a rate of 10% for purposes of discounting cashflows in 2005.

The impairment charge included in operations during the fourth quarter of 2005 for $335,000 relates to the assets purchased from Secure Source Technologies, Inc. during 2003 that are part of the NeoMedia Internet Switching Service (NISS) business unit. The impairment is due to the fact that the intangible assets purchased are not generating any revenue at the present time and NeoMedia's management does not foresee these assets generating revenue in the near term. The amount of impairment was determined by determining the fair value of the intangible assets using the discounted cashflow method.

The impairment charge after loss from operations during the fourth quarter of 2005 for $780,000 relates to the investment in iPoint-Media Ltd. ("iPoint") for $530,000 and the investment in Intactis Software, Inc. ("Intactis") for $250,000. These investments are not part of a specific business segment and as such are charged against the corporate segment. . The impairment relating to iPont primarily results from a delay in registration fro resale of the shares held by NeoMedia. The impairment of the investment in Intactis is a result of NeoMedia management's expectation that additional investment or research and development resources would be required in order to recoup the initial investment. The amount of impairment for both iPoint and Intactis was determined by determining the fair value of the assets using the discounted cashflow method.

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 2005 and 2004, 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 2005.

(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 recorded as revenue with the associated costs recorded as 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.

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.

(in 000's, except share data)	YEARS ENDED DECEMBER 31, 2005	2004
Net Loss, as reported	($ 9,147)	($ 7,230)
Compensation recognized under APB 25	--	--
Compensation recognized under SFAS 123	(4,124)	(1,445)
Pro-forma net loss	($13,271)	($ 8,675)
Net Loss per share:		
Basic and diluted - as reported	($ 0.02)	($ 0.02)
Basic and diluted - pro-forma	($ 0.03)	($ 0.03)

For grants in 2005 and 2004, the following assumptions were used: (i) no expected dividends; (ii) a risk-free interest rate of 4.5%; (iii) expected volatility ranging from 385% to 434% in 2005 and from 438% to 451% in 2004, and (iv) an expected life of the shorter of 3 years or the stated life of the option for options granted in 2005 and 2004. 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, 2005.

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, 2005	DECEMBER 31, 2004
Outstanding Stock Options	100,041,721	52,804,121
Outstanding Warrants	71,375,000	18,825,000

RECLASSIFICATIONS

Certain reclassifications have been made to the 2004 consolidated financial statements to conform to the 2005 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

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. Management is currently evaluating the impact SFAS 123R will have on our consolidated financial statements.

In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"), which provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff's views regarding valuation of share-based payment arrangements. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. Management is currently evaluating the impact SAB 107 will have on our consolidated financial statements.

In May 2005, the FASB issued FASB Statement No. 154, Accounting Changes and Error Corrections. This new standard replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim

Financial Statements, and represents another step in the FASB's goal to converge its standards with those issued by the IASB. Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005.

In June 2005, the Emerging Issues Task Force, or EITF, reached a consensus on Issue 05-6, Determining the Amortization Period for Leasehold Improvements, which requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. EITF 05-6 is effective for periods beginning after July 1, 2005. We do not expect the provisions of this consensus to have a material impact on the our financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. The Interpretation requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also defines when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt FIN 47 and does not believe the adoption will have a material impact on its consolidated financial position or results of operations or cash flows.

In February 2006, the Financial Accounting Standards Board issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments -- an amendment of FASB Statements No. 133 and 140." SFAS No. 155 simplifies the accounting for certain hybrid financial instruments, eliminates the FASB's interim guidance which provides that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and eliminates the restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, however, early adoption is permitted for instruments acquired or issued after the beginning of an entity's fiscal year in 2006. The Company is evaluating the impact of this new pronouncement to its financial position and results of operations or cash flows.

3. STANDBY EQUITY DISTRIBUTION AGREEMENTS WITH CORNELL CAPITAL PARTNERS, LP ("CORNELL")

On October 27, 2003, the Company and Cornell entered into a $20 million Standby Equity Distribution Agreement (the "2003 SEDA"). The agreement provides for a maximum "draw" of $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 commitment fee for Cornell to enter into the 2003 SEDA, 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 registered 200 million shares underlying this $20 million 2003 SEDA. In April 2004, the Company registered 40 million shares of common stock underlying warrants granted to Cornell in connection with a promissory note issued by the Company to Cornell (see "Promissory Notes Payable to Cornell" below).

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On March 30, 2005, NeoMedia and Cornell entered into a Standby Equity Distribution Agreement (the "2005 SEDA") under which Cornell agreed to purchase up to $100 million of NeoMedia common stock over a two-year period, with the timing and amount of the purchase at NeoMedia's discretion. The maximum amount of each purchase would be $2,000,000 with a minimum of five business days between advances. The shares would be valued at 98% of the lowest closing bid price during the five-day period following the delivery of a notice of purchase by NeoMedia, and NeoMedia would pay 5% of the gross proceeds of each purchase to Cornell. Concurrent with the SEDA, NeoMedia entered into an escrow agreement with Cornell and an escrow agent, under which the escrow agent holds in an escrow account shares of NeoMedia common stock, and the cash paid by Cornell for such shares, issued pursuant to an advance under the SEDA. The shares and funds can only be released upon receipt by the escrow agent of a joint disbursement instruction signed by NeoMedia and Cornell. NeoMedia expects to file a registration statement with the SEC to register the shares underlying the 2005 SEDA. The 2005 SEDA would become available at the time the SEC declares effective a registration statement containing such shares.

As a commitment fee for Cornell to enter into the 2005 SEDA, NeoMedia issued 50 million warrants to Cornell with an exercise price of $0.20 per share, and a term of three years, and also paid a cash commitment fee of $1 million. If shares of NeoMedia's common stock underlying the warrant are covered by an effective registration statement and if the closing bid price of NeoMedia's common stock is above $0.30 for five consecutive business days, NeoMedia may force conversion of the warrant. NeoMedia also issued 4 million warrants with an exercise price of $0.227 to a consultant as a fee in connection with the 2005 SEDA. As of March 31, 2005, NeoMedia recorded the $12.3 million fair value of the warrants to "Deferred equity financing costs" and, upon effectiveness of the 2005 SEDA, will amortize this amount to additional paid-in capital straight-line over the two-year life of the 2005 SEDA. 20 million warrants were exercised in February 2006, generating $4 million cash proceeds to NeoMedia.

During the years ended December 31, 2005, the Company sold 26,435,512 and 112,743,417 shares of its common stock to Cornell under the 2003 SEDA. The following table summarizes funding received from Cornell during the years ended December 31, 2005 and 2004:

	YEAR ENDED DECEMBER 31,	
	2005	2004
Number of shares sold to Cornell	26,435,512	112,743,417
Gross Proceeds from sale of shares to Cornell	$ 9,527,000	$ 10,123,000
Less: discounts and fees*	(1,022,000)	(1,967,000)
Net Proceeds from sale of shares to Cornell	$ 8,505,000	$ 8,156,000

* Pursuant to the terms of the 2003 SEDA , stock is valued at 98% of the lowest closing bid price during the week it was sold.

4. PROPERTY AND EQUIPMENT

As of December 31, 2005, property and equipment consisted of the following:

	(dollars in thousands) 2005
Furniture and fixtures	$ 305
Equipment	250
Autos	39
Leasehold improvements	55
Total	649
Less: accumulated depreciation	
Furniture and fixtures	(268)
Equipment	(119)
Autos	(10)
Leasehold improvements	(16)
Total property and equipment, net	$ 236

Depreciation expense was $109,000 and $66,000 for the years ended December 31, 2005 and 2004, respectively.

5. INTANGIBLE ASSETS

As of December 31, 2005, intangible assets consisted of the following:

	(dollars in thousands) 2005
Patents and related costs, net	$3,134
Micro paint repair chemical formulations and proprietary process, net	1,450
Goodwill	1,099
Other intangible assets, net	246
Total	$5,929

Capitalized patent activity for the year ended December 31, 2005 was as follows:

	(dollars in thousands) 2005
Beginning balance, net of accumulated amortization of $1,471	$ 2,174
Additions	1,651
Impairment charge	(335)

Amortization	(356)
Ending balance	$ 3,134

Amortization expense of capitalized patents was $356,000 and $321,000 for the years ended December 31, 2005 and 2004, respectively. The weighted-average amortization period of capitalized patents as of December 31, 2005 was 14.25 years.

The impairment charge of $335,000 relates to the assets purchased from Secure Source Technologies, Inc. during 2003 that are part of the NeoMedia Internet Switching Service (NISS) business unit. The impairment is due to the fact that the intangible assets purchased are not generating any revenue at the present time and NeoMedia's management does not foresee these assets generating revenue in the near term. The amount of impairment was determined by determining the fair value of the intangible assets using the discounted cashflow method.

Capitalized Micro Paint Repair chemical formulations and proprietary process activity for the year ended December 31, 2005 was as follows:

	(dollars in thousands)
	2005
Beginning balance, net of accumulated amortization of $170	$ 1,630
Amortization	(180)
Ending balance	$ 1,450

Amortization expense of Micro Paint Repair chemical formulations and proprietary process was $180,000 and $170,000 for the years ended December 31, 2005 and 2004, respectively. The weighted-average amortization period of capitalized repair chemical formulations and proprietary process as of December 31, 2005 was 9 years.

Goodwill activity for the year ended December 31, 2005 was as follows:

	(dollars in thousands)
	2005
Beginning balance	$1,099
Additions	--
Ending balance	$1,099

Other intangible assets activity for the year ended December 31, 2005 was as follows:

	(dollars in thousands)
	2005

Beginning balance, net of accumulated amortization of $567	$ 221
Additions	$ 117
Amortization	(92)
Ending balance	$ 246

Amortization expense of capitalized and purchased software costs and other intangible assets was $92,000 and $117,000 for the years ended December 31, 2005 and 2004, respectively. The weighted-average amortization period of capitalized and purchased software costs as of December 31, 2005 was 5.3 years.

As of December 31, 2005, the Company estimated future amortization expense of capitalized patents and software for the next five years to be:

	(IN THOUSANDS)
2006	$583
2007	544
2008	519
2009	450
2010	431

The Company performed its annual test for impairment on its intangible assets and goodwill. As a result of these tests, the Company recognized an impairment of $335,000 on its capitalized patent costs. For the other intangible assets and goodwill, no impairment existed as of December 31, 2005.

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS AND INVENTORY RESERVE

Allowance for doubtful accounts activity for the year ended December 31, 2005 was as follows:

	(dollars in thousands) 2005
Beginning balance	$ 46
Bad debt	205
Write-off of uncollectible accounts	(48)
Ending balance	$ 203

Inventory reserve for the year ended December 31, 2005 was $0.

7. FINANCING AGREEMENTS

As of December 31, 2005 and 2004, 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. Due to the discontinuation of the NCIS business unit during the first quarter of 2006, NeoMedia expects to terminate the agreement during 2006. There were no amounts payable under this agreement as of December 31, 2005.

8. NOTES PAYABLE

On March 30, 2005, NeoMedia borrowed from Cornell the principal amount of $10,000,000 before discounts and fees in the form of a secured promissory note. Cornell withheld structuring and escrow fees of $68,000 related to the note. The note was originally scheduled to be repaid at a rate of $1,120,000 per month commencing May 1, 2005, which was subsequently changed to $840,000 per month, continuing until principal and interest are paid in full. The note accrues interest at a rate of 8% per annum on any unpaid principal. NeoMedia has the option to prepay any remaining principal of the note in cash without penalty. In connection with the note, NeoMedia and Cornell entered into a Security Agreement under which the note is secured by all of NeoMedia's assets other than its patents and patent applications. NeoMedia also escrowed 25,000,000 shares of its restricted common stock as security for the note. As of December 31, 2005, NeoMedia had made payments of $7,000,000 against the principal, reducing the principal balance to $3,000,000. During February 2006, NeoMedia satisfied the remaining principal plus interest due on the note in connection with its $27 million convertible preferred stock sale to Cornell (see "subsequent events").

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On August 6, 2004, NeoMedia borrowed from Cornell the gross amount of $2,000,000 before discounts and fees. Cornell withheld $153,000 as a fee. NeoMedia paid this note in full during 2004.

On July 2, 2004, NeoMedia borrowed from Cornell the gross amount of $1,000,000 before discounts and fees. Cornell withheld $76,000 as a fee. NeoMedia paid this note in full during 2004.

On April 8, 2004, NeoMedia borrowed from Cornell the gross amount of $1,000,000 before discounts and fees. Cornell withheld $76,000 as a fee. NeoMedia paid this note in full during 2004.

On January 20, 2004, NeoMedia 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 $315,000 as a fee. NeoMedia paid this note in full during 2004. In connection with this note, NeoMedia also granted to Cornell 40,000,000 warrants to purchase shares of NeoMedia stock with an exercise price of $0.05 per share. In April 2004, NeoMedia registered 40 million shares underlying the warrants granted to Cornell (and subsequently transferred by Cornell to Stone Street Asset Management LLC). 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", NeoMedia 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 was 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, NeoMedia 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.

9. 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 $203,000 in its December 31, 2005 consolidated balance sheet.

10. 2000 EXECUTIVE INCENTIVE

During the year ended December 31, 2004, 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 $160,000 of the liability through the issuance of approximately 1.5 million shares during the year ended December 31, 2004. No payments in cash or stock were made against this incentive during the year ended December 31, 2005. 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.

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11. 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:

	2005
Beginning balance	$ (60)
Subtractions:	
Unrealized loss on marketable securities	(146)
Additions:	
Foreign currency translation adjustment	29
Ending Balance	$(177)

12. INCOME TAXES

For the years ended December 31, 2005 and 2004, the components of income tax expense were as follows:

	2005	2004
	(In thousand)	
Current	$ --	$ --
Deferred	--	--
Foreign	--	--
Income tax expense/(benefit)	$ --	$ --

As of December 31, 2005 and 2004, 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:

	2005	2004
	(In thousand)	

Provisions for doubtful accounts	$ 102	$ 18
Capitalized software development costs and fixed assets	881	799
Net operating loss carryforwards (NOL)	33,157	30,319
Accruals	738	501
Write-off of long-lived assets	2,516	2,070
State taxes	151	156
Alternative minimum tax credit carryforward	45	45
Total deferred tax assets	37,590	33,908
Valuation Allowance	(37,590)	(33,908)
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, 2005 and 2004, the income tax benefit differed from the amount computed by applying the statutory federal rate of 34% as follows:

	2005	2004
	(In thousands)	
Benefit at federal statutory rate	$(3,150)	$(2,458)
State income taxes, net of federal	(367)	(286)
Permanent and other, net	(166)	(582)
Change in valuation allowance	3,683	3,326
Income tax expense/(benefit)	$ --	$ --

As of December 31, 2005, NeoMedia had net operating loss carryforwards for federal tax purposes totaling approximately $80 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.

13. TRANSACTIONS WITH RELATED PARTIES

On November 1, 2005, NeoMedia acquired a used automobile for $17,000 from Charles T. Jensen, its President, Chief Executive Officer and a member of its board of directors.

14. 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, 2005 and 2004, NeoMedia's rent expense was $303,000 and $229,000, 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, 2005:

	PAYMENTS (IN THOUSANDS)
2006	330
2007	340
2008	134
Thereafter	--
Total	$804

As of December 31, 2005, none of the Company's employees were under contract. As of December 31, 2005, the Company was a party to various long-term consulting agreements that are required to be paid in cash.

NeoMedia does not carry any product liability insurance on its Micro Paint Repair product line.

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 possible that the eventual resolution of the following legal actions could have a material adverse effect on the Company's financial position or operating results.

SCANBUY, INC.

On January 23, 2004, NeoMedia filed suit against Scanbuy, Inc. ("Scanbuy") in the Northern District of Illinois, claiming that Scanbuy 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, Scanbuy 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 suits against Scanbuy for lack of personal jurisdiction.

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. Discovery is ongoing.

OTHER LITIGATION

On May 2, 2005, three shareholders of BSD Software, Inc. filed a complaint against BSD and NeoMedia, claiming that the purchase price as outlined in the purchase agreement between NeoMedia and BSD is too low. The plaintiffs are seeking unspecified damages and injunctive relief against the merger. NeoMedia has moved to dismiss the complaint as frivolous. The case is still pending.

On October 19, 2005, Wachovia Bank, N.A. filed a complaint against NeoMedia in the twentieth judicial circuit court of Lee County, Florida, seeking payment of $97,000 of rent from previous years. NeoMedia has placed the requested funds into escrow with the court, pending resolution of the matter.

15. 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.

16. 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.

Effective December 16, 2005, NeoMedia adopted its 2005 Stock Option Plan. The 2005 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 60,000,000 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. As of December 31, 2005, NeoMedia has not registered the 60,000,000 shares underlying the options in the 2005 Stock Option Plan.

	2005 SHARES	2005 WEIGHTED AVERAGE EXERCISE PRICE	2004 SHARES	2004 WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	52,804	$ 0.06	33,512	$ 0.23
Granted	58,510	$ 0.28	32,752	$ 0.10
Exercised	(7,954)	$ 0.11	(12,860)	$ 0.23
Forfeited	(3,319)	$ 0.22	(600)	$ 0.09
Outstanding at end of year	100,041	$ 0.18	52,804	$ 0.06
Options exercisable at year-end	53,952		34,680	
Weighted-average fair value of options granted during the year	$0.28		$0.10	
Available for grant at the end of the year	26,682		81,873	

The following table summarizes information about NeoMedia's stock options outstanding as of December 31, 2005:

Options Outstanding					Options
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE		WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABL
$-- to $0.10	29,744	7	years	$ 0.02	29,537
0.11 to 0.20	16,091	8	years	$ 0.11	7,341
0.21 to 0.30	29,575	9	years	$ 0.24	10,900
0.31 to 0.40	22,200	9	years	$ 0.33	5,550
0.41 to 0.50	2,410	9	years	$ 0.41	603
0.51 to 7.000	21	3	years	$ 6.89	21
$-- to $7.000	100,041	8	years	$ 0.18	53,952

During the years ended December 31, 2005 and 2004, NeoMedia made the following option grants:

	2005		2004
RECIPIENTS	RANGE OF EXERCISE PRICES	OPTIONS GRANTED (In thousands)	RANGE OF EXERCISE PRICES

Employees	$0.227 to $0.516	51,010	$0.062 to $0.128
Non-employee directors	$0.239 to $0.328	6,500	$0.010 to $0.075
Non-employees	$ 0.239	1,000	$0.025 to $0.100
Total	$0.227 to $0.516	58,510	$0.010 to $0.128

OPTION-RELATED EXPENSE

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.

In February 2005, the Company issued 1,000,000 options to buy shares of the Company's common stock to two outside consultants with a strike price of $0.239 per share for consulting services to be rendered to the Company over a two-year period. The Company recognized $103,000 in general and administrative expense in the accompanying consolidated financial statements for the year ended December 31, 2005.

For the years ended December 31, 2005 and 2004, total option-related expense was $334,000 and $805,000, respectively.

WARRANTS

Warrant activity as of December 31, 2005 and 2004 was as follows:

		WEIGHTED AVERAGE EXERCISE PRICE
Warrants Outstanding as of December 31, 2003	26,195,000	$ 0.38
Warrants issued	44,150,000	$ 0.06
Warrants exercised	(51,510,000)	$ 0.05
Warrants expired	(10,000)	$ 6.54

Warrants Outstanding as of December 31, 2004	18,825,000	$ 0.52
Warrants issued	54,000,000	$ 0.20
Warrants exercised	(50,000)	$ 0.10
Warrants expired	(1,400,000)	$ 6.00
Warrants Outstanding as of December 31, 2005	71,375,000	$ 0.17

The following table summarizes information about warrants outstanding at December 31, 2005, all of which are exercisable:

RANGE OF EXERCISE PRICES	WARRANTS OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE		WEIGHTED-AVERAGE EXERCISE PRICE
$--- to $0.05	13,050,000	2.5	years	$0.01
0.06 to 0.23	58,100,000	2.4	years	$0.20
0.24 to 3.56	225,000	2.6	years	$3.47
$--- to $6.00	71,375,000	2.5	years	$0.17

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.

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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. During February 2005, the holder exercised 50,000 of the warrants, resulting in proceeds of $5,100 to NeoMedia. The remaining 100,000 warrants were not exercised as of December 31, 2005.

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, 2005.

During March 2005, in connection with the signing of the $100 million SEDA with Cornell, NeoMedia issued 50 million warrants to Cornell with an exercise price of $0.20 per share, and 4 million warrants with an exercise price of $0.229 to an independent third party as a fee for negotiating and structuring the SEDA. The Company charged the fair value of the warrants of $12.3 million to "Deferred equity financing costs." 20 million warrants were exercised in February 2006, generating $4 million cash proceeds to NeoMedia.

During October 2005, 1.4 million outstanding warrants with an exercise price of $6.00 per share expired.

17. 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, 2005 and 2004 are presented below:

		(in thousands)	
		YEARS ENDED DECEMBER 31,	
		2005	2004
NET SALES:			
	NeoMedia Consulting & Integration Services	$ 633	$ 910
	NeoMedia Internet Switching Service	244	63
	NeoMedia Micro Paint Repair	1,279	727
		$ 2,156	$ 1,700
NET LOSS:			
	NeoMedia Consulting & Integration Services	($ 1,548)	($ 343
	NeoMedia Internet Switching Service	(2,020)	(1,312
	NeoMedia Micro Paint Repair	(1,615)	(960
	Amortization of Cornell Debt Discount	--	(2,500

	Corporate overhead	(3,964)	(2,115
		($ 9,147)	($ 7,230
IDENTIFIABLE ASSETS			
	NeoMedia Consulting & Integration Services	$ 139	
	NeoMedia Internet Switching Service	3,300	
	NeoMedia Micro Paint Repair	3,675	
	Corporate	5,297	
		12,411	

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Consolidated net sales, net operating losses by geographic area for the years ended December 31, 2005 and 2004, and long-lived assets by geographic as of December 31, 2005, were as follows:

	(in thousands) YEAR ENDED DECEMBER 31,	
	2005	2004
NET SALES:		
United States	$ 1,445	$ 1,063
Canada	711	637
	$ 2,156	$ 1,700
NET LOSS:		
United States	($8,250)	($6,516)
Canada	(897)	(714)
	($9,147)	($7,230)
LONG-LIVED ASSETS		
United States	$ 4,658	
Canada	2,775	
	$ 7,433	

18. 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 shareholders. 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 March 30, 2005, NeoMedia and Cornell entered into a Standby Equity Distribution Agreement (the "2005 SEDA") under which Cornell agreed to purchase up to $100 million of NeoMedia common stock over a two-year period, with the timing and amount of the purchase at NeoMedia's discretion. The maximum amount of each purchase would be $2,000,000 with a minimum of five business days between advances. The shares would be valued at 98% of the lowest closing bid price during the five-day period following the delivery of a notice of purchase by NeoMedia, and NeoMedia would pay 5% of the gross proceeds of each purchase to Cornell. Concurrent with the SEDA, NeoMedia entered into an escrow agreement with Cornell and an escrow agent, under which the escrow agent holds in an escrow account shares of NeoMedia common stock, and the cash paid by Cornell for such shares, issued pursuant to an advance under the SEDA. The shares and funds can only be released upon receipt by the escrow agent of a joint disbursement instruction signed by NeoMedia and Cornell. NeoMedia expects to file a registration statement with the SEC to register the shares underlying the 2005 SEDA. The 2005 SEDA would become available at the time the SEC declares effective a registration statement containing such shares.

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For the year ended December 31, 2005, NeoMedia granted 393,931 shares as incentive and sign on bonuses to new hires. Accordingly, NeoMedia recognized expense of $125,000 for these issuances.

19. PREFERRED STOCK

As of December 31, 2005, the Company's Preferred Stock was 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. In February 2006, NeoMedia issued $27,000,000 of Series C Preferred Shares. See subsequent events for further information.

20. SUBSEQUENT EVENTS

WINDING DOWN OF NCIS BUSINESS UNIT

On February 9, 2006, NeoMedia decided to wind down its NCIS business unit. NeoMedia has re-allocated certain of the resources associated with the NCIS business unit to NeoMedia Mobile business. In connection with the discontinuation of the NCIS business unit, NeoMedia closed its Lisle, IL office during February 2006. NeoMedia does, however, plan to continue servicing existing contracts and customers. As of December 31, 2005, the business units had $633,000 in net sales, a net loss of $1,548,000 and identifiable assets of $139,000.

FINANCING:

WARRANT EXERCISES

On February 9, 2006, Cornell exercised warrants to purchase 20,000,000 shares of NeoMedia common stock, par value $0.01 per share. The warrants were issued to Cornell Capital on March 30, 2005 as a commitment fee for Cornell Capital entering into that certain Standby Equity Distribution Agreement, dated March 30, 2005 by and between NeoMedia and Cornell Capital. The warrants had an exercise price equal to $0.20 per share. In connection with the exercise of the 20,000,000 Warrants, NeoMedia received proceeds of $4,000,000.

$27 MILLION PREFERRED STOCK SALE

On February 17, 2006, NeoMedia entered into an investment agreement with Cornell Capital Partners, LP, pursuant to which NeoMedia issued and sold to Cornell Twenty-Seven Million Dollars (US $27,000,000) of Series C Preferred Shares (the "Series C Preferred Shares"), of which (i) Three Million Two Hundred Eight Thousand Seven Hundred Two Dollars ($3,208,702) were purchased by Cornell for consideration solely consisting of surrendering that certain Promissory Note, dated March 30, 2005 in the original principal amount of Ten Million Dollars (US $10,000,000) issued in the name of Cornell, (ii) Eighteen Million Seven Hundred Ninety-One Thousand Two Hundred Ninety-Eight Dollars (US $18,791,298) were purchased by additional funding (consisting of $16,791,298 of immediately available funds and $2,000,000 of securities) from Cornell as of February 17, 2006, and (iii) Five Million Dollars (US $5,000,000) shall be purchased by an additional funding by Cornell on the date a registration statement filed by the Company pursuant to the terms of that certain Investor Registration Rights Agreement, dated February 17, 2006 by and between the Company and Cornell is declared effective by the U.S. Securities and Exchange Commission. The Series C Preferred Shares are convertible into shares of the Company's common stock, par value $0.01 per share in accordance with the terms of the Company Certificate of Designations, Preferences, and Rights of the Series C Preferred Shares.

Some of the material characteristics of the Series C Preferred shares are as follows:

- The shares accrue dividends at a rate of 8% per annum

- The shares receive proceeds of $1,000 per share upon the Company's liquidation, dissolution or winding up

- Each Series C Convertible Preferred Share is convertible, at the option of the holder, into shares of the Company's common stock at the lesser of (i) Fifty Cents ($0.50) or (ii) 97% of the lowest closing bid price of the Company's common stock for the thirty (30) trading days immediately preceding the date of conversion.

- The shares have voting rights on an as converted basis

- Pursuant to the registration rights agreement, in the event that NeoMEdia does not file a registration to register the common shares underlying the convertible preferred, or if the registration is not declared effective within 180 days of filing of such registration statement, then the shares wil accrue liquidated damages in the amount of 1% of the face value of the convertible instrument per month, with a total not to exceed $1.2 million

In addition, pursuant to the terms of the Investment Agreement, the Company issued to Cornell (i) a warrant to purchase twenty million (20,000,000) shares of NeoMedia common stock exercisable for a period of 5 years at an exercise price of $0.50 per share; (ii) a warrant to purchase twenty-five million (25,000,000) shares of common stock exercisable for a period of 5 years at an exercise price of $0.40 per share; and (iii) a warrant to purchase thirty million (30,000,000) shares of common stock exercisable for a period of 5 years at an exercise price of $0.35 per share.

On February 17, 2006, the Company and Cornell entered into an Assumption Agreement, whereby Cornell sold and assigned to the Company those certain Promissory Notes issued by Pick Ups Plus, Inc., dated September 30, 2003, October 13, 2004, June 6, 2005, and August 4, 2005, in the aggregate principal amount of $1,365,000 and accrued interest of $246,231.78 for a purchase price equal to One Million Six Hundred Eleven Thousand Two Hundred Thirty-One Dollars and 78/100 (US $1,611,231.78).

On February 17, 2006, the Company and Cornell entered into an Assignment of Common Stock, whereby Cornell sold and assigned to the Company twenty million (20,000,000) shares of common stock, par value $0.001 per share, of Pick Ups Plus, Inc. for a purchase price equal to Three Hundred Eighty-Eight Thousand Seven Hundred Sixty-Eight Dollars and 22/100 (US $388,768.22).

ACQUISITIONS:

ACQUISITION OF MOBOT, INC.

On February 9, 2006, NeoMedia and Mobot. (www.mobot.com) signed a definitive merger agreement under which NeoMedia acquired all of the outstanding shares of Mobot in exchange for $3,500,000 cash and $6,500,000 in shares of NeoMedia common stock. The $6,500,000 stock portion of the purchase price is represented by 16,931,493 shares of NeoMedia common stock, calculated by dividing $6,500,000 by the volume-weighted average closing price of NeoMedia common stock for the ten day up to and including February 8, 2006. On February 17, 2006, NeoMedia and Mobot completed the closing requirements and the acquisition became effective.

Mobot is a pioneer in visual search and recognition technology designed to make marketing effective and innovative using mobile devices. Launched in 2004 to help companies cultivate rewarding relationships with the world's 1.5 billion mobile phone users, Mobot gives marketers, content providers and carriers the tools to make it easy for any consumer with a camera phone to interact with their offerings.

ACQUISITION OF 12SNAP AG

On February 10, 2006, NeoMedia and 12Snap AG of Munich signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of 12Snap in exchange for $2,500,000 cash and $19,500,000 in shares of NeoMedia common stock. The $19,500,000 stock portion of the purchase price is represented by 49,294,581 shares of NeoMedia common stock, calculated by dividing $19,500,000 by the volume-weighted average closing price of NeoMedia common stock for the ten day up to and including February 9, 2006. On February 28, 2006, NeoMedia and 12Snap completed the closing requirements and the acquisition became effective.

12snap AG is a non-public incorporated company headquartered in Munich with branches in Dusseldorf, New York, London, Milan, Stockholm and Vienna. As an expert in innovative marketing and entertainment for mobile phones, 12snap combines know-how in mobile applications, mobile loyalty and mobile marketing. In the mobile marketing space, 12snap creates and implements national and pan-European mobile marketing campaigns for international brands; its mobile loyalty business unit offers customer loyalty programs for companies and brands, and its mobile applications business unit is the center for development and software. 12snap sells and licenses a wide spectrum of mobile solutions to satisfy the demands of the current growing market and the new uses of the third mobile phone generation from dynamic video services and multiplayer games to personalized messaging applications. 12snap has 75 employees, and services to companies including McDonald's, MTV(R), Coca-Cola, Ferrero, Wella, adidas, Unilever and Gillette(R).

LETTER OF INTENT TO ACQUIRE HIP CRICKET

On February 16, 2006, NeoMedia signed a non-binding letter of intent to acquire HipCricket, Inc. ("HipCricket") of Essex, CT (www.hipcricket.com) in exchange for $500,000 cash and $4,000,000 of NeoMedia common stock. The letter of intent is subject to due diligence and signing of a mutually agreeable definitive purchase agreement by both parties.

In addition to signing the LOI, NeoMedia loaned HipCricket the principal amount of $500,000 in the form of two unsecured promissory notes. The notes accrue interest at a rate of 8% per annum. The notes will be applied toward the cash portion of the purchase price upon signing of a definitive purchase agreement for the acquisition of all of the outstanding shares of HipCricket by NeoMedia, as contemplated the LOI. In the event the acquisition is not consummated, the notes will become due 90 days after termination of the LOI. In the event the LOI is terminated and the notes are not repaid within 90 days of such cancellation, the notes will convert into shares of HipCricket common stock.

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HipCricket is a leading mobile marketing firm that provides innovative, custom solutions to broadcasters and brand marketers. Today, HipCricket works with five of the top 10 radio groups in the U.S. as well as with some 40 major brand marketers. HipCricket combines senior marketing expertise with state-of-the-art mobile and event marketing technologies to offer clients unprecedented interactivity with their consumers, viewers, listeners or customers on a one-to-one personal level.

ACQUISITION OF GAVITEC AG

On February 17, 2006, NeoMedia and Gavitec AG of Wurselen, Germany (www.gavitec.com) signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of Gavitec in exchange for $1,800,000 cash and $5,400,000 in shares of NeoMedia common stock. The $5,400,000 stock portion of the purchase price is represented by 13,660,511 shares of NeoMedia common stock, calculated by dividing $5,400,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 16, 2006. On February 23, 2006, NeoMedia and Gavitec completed the closing requirements and the acquisition became effective

Gavitec was founded in 1997 as a specialized provider and manufacturer of products and solutions for mobile marketing and mobile information technology. As a technology leader in code-reading systems and software for mobile applications, Gavitec offers its clients standardized or individual solutions in the areas of mobile marketing, mobile ticketing, mobile couponing, and mobile payment systems.

ACQUISITION OF SPONGE LTD.

On February 20, 2006, NeoMedia and Sponge Limited of London (www.spongegroup.com) signed a definitive share purchase agreement under which NeoMedia acquired all of the outstanding shares of Sponge in exchange for (pound)3,450,000 (approximately $6 million) cash and (pound)6,550,000 (approximately $11.4 million) in shareS OF NeoMedia common stock. The (pound)6,550,000 stock portion of the purchase price is represented by 29,696,745 shares of NeoMedia common stock, calculated by dividing (pound)6,550,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 8, 2006. The agreement also calls for Sponge to earn an additional (pound)2,500,000 (approximately $4.4 million) in the form of NeoMedia common stock if, during the two-year period beginning at closing, the Sponge business earns in excess of (pound)1,300,000 (approximately $2.3 million) in net profits. On February 23, 2006, NeoMedia and Sponge completed the closing requirements and the acquisition became effective.

Founded in 2001, Sponge has grown to become a U.K. market leader in providing mobile applications to agencies and media groups, and gain recognition as one of Europe's top independent developers of mobile applications and content. Today, Sponge counts more than 40 agencies, including WPP, Aegis and BBH, as clients, and supplies services for over 100 world-class brands, including Coca Cola(R), Heineken(R) and Diageo. Sponge also supplies a range of mobile services to media groups, including News International, Trinity Mirror, Endemol and IPC.

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ACQUISITION OF BSD SOFTWARE, INC.

On March 21, 2006, NeoMedia completed its acquisition of BSD Software, Inc. of Calgary, Alberta, Canada. 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. After exchange of shares certificates, NeoMedia expects to issue 7,123,698 shares of its common stock in connection with the acquisition. (Unaudited).

The acquisitions of BSD, Mobot, 12Snap, Gavitec, and Sponge are not reflected in the 2005 consolidated financial statements. The proforma financial information as required by SFAS 141, "Business Combinations" has not been presented as much information was not immediately practically attainable. The Company plans to file a Form 8-K/A relating to these acquisitions which will include the historical financial statements of the acquired companies and the required proforma information.

JINCHE AGREEMENT

On February 28, 2006, NeoMedia signed a 10-year exclusive supplier agreement with Automart, a Beijing-based joint venture operating under the laws of the People's Republic of China specializing in automobile sales, financing, insurance and repair. Automart is the brand name of Jinche Yingang Auto Technological Services Limited, with which NeoMedia signed a distribution agreement in August 2005. The new agreement expands on the previous agreement, giving Automart the exclusive rights to distribute NeoMedia's micro paint repair products to their own stores and others throughout China, Hong Kong, Macao, and Taiwan, and also guaranteeing that Automart will purchase at least 70% of its non-micro paint products through NeoMedia as its distributor. NeoMedia has signed distribution agreements with DuPont and PPG, and intends to become a distributor of other automotive aftermarket products to Automart.

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 February 28, 2006, NeoMedia's directors and executive officers were:

NAME	AGE	POSITION
Charles W. Fritz	49	Chairman of the Board of Directors
Charles T. Jensen	62	President, Chief Executive Officer and Director
David A. Dodge	31	Vice-President and Chief Financial Officer
Martin N. Copus	51	Chief Operating Officer
William E. Fritz	75	Director
James J. Keil	78	Director
A. Hayes Barclay	74	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 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 and Chief Financial Officer. 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.

MARTIN N. COPUS joined NeoMedia in March 2005 as COO and chief executive of the NeoMedia Mobile business unit. Prior to joining NeoMedia, Mr. Copus was Managing Director of 12Snap UK, an internationally-acclaimed, award-winning mobile marketing company focusing on wireless channels, where he led development and implementation of interactive marketing programs for major blue-chip companies including McDonald's(R), Kellogg(R), Procter & Gamble(R), Coca-Cola(R), Safeway(R), Budweiser(R), and 20th CenTuRY Fox(R). Prior to running the U.K. operations of 12Snap, Mr. Copus's background included assignments as executive director of Huntsworth PLC, a marketing services group listed on the main board of the London Stock Exchange; Worldwide Board Director of Interpublic Group's Ammirati Puris Lintas advertising unit; and senior vice president of Leo Burnett Company Inc., Chicago, responsible for its Marlboro(R) USA advertising and marketing services account. Mr. Copus holds a B.A. in marketing and an M.A. in modern languages, both from Oxford University.

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 shareholder or a majority shareholder 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.

Directors are elected at each annual meeting of shareholders 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, 2005, 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 7 times by unanimous written consent.

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 2005, members of the Audit Committee were non-employee directors James J. Keil and A. Hayes Barclay. During 2005, 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, and James J. Keil, were members of NeoMedia's Compensation Committee during 2005. The Compensation Committee met once and acted by unanimous written consent 2 times during 2005.

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 2005, the Stock Option Committee met once and acted by unanimous written consent 7 times.

DIRECTOR COMPENSATION

Outside directors are currently compensated through the issuance of stock options from the Company's stock option plans. During February 2005, each outside director received 1,000,000 options with an exercise price of $0.239 per share (equal to the closing price on the date of issuance), and James J. Keil, the audit and compensation committee chairperson, received and additional 1,000,000 options with the same exercise price. During December 2005, each outside director received 750,000 options with an exercise price of $0.328 per share (equal to the closing price on the date of issuance), and James J. Keil, the audit and compensation committee chairperson, received and additional 250,000 options with the same exercise price. 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 10.53 to the Company's Form 10-KSB as filed on March 5, 2005). 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 shareholder who requests such information.

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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 2005 all Section 16(a) filing requirements applicable to NeoMedia's officers, directors and ten percent beneficial owners were complied with.

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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, 2005 and 2004:

		ANNUAL COMPENSATION			L	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENS-ATION ($)	RESTRICTED STOCK AWARD(S) ($)	SECU UNDE OPT SAR (
Charles T. Jensen	2005	197,500	--	--	--	6,00
President and Chief Executive Officer	2004	175,386	--	--	--	4,00
Charles W. Fritz	2005	$ 205,278	--	--	--	6,00
Chairman of the Board	2004	175,355	--	--	--	4,00
David A. Dodge	2005	$ 141,733	--	--	--	4,50
Vice President and Chief Financial Officer	2004	122,396	--	--	--	2,00
Martin N. Copus (3)	2005	$ 184,076	--	--	--	5,00
Chief Operating Officer	2004	--	--	--	--	

(1) Represents options granted under NeoMedia's 2003 Stock Option Plan granted at the discretion of the Stock Option Committee of NeoMedia's Board of Directors.

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

(3) Martin Copus joined NeoMedia in March 2005.

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.

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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, 2005.

During the years ended December 31, 2005 and 2004, the Company paid $0 and $159,000, 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, 2005, the Company had issued approximately 128 million shares under the 2003 Stock Option Plan.

Effective December 16, 2005, NeoMedia adopted its 2005 Stock Option Plan ("2005 Stock Option Plan"). The 2005 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 60,000,000 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. As of December 31, 2005, NeoMedia had not issued any of the 60,000,000 options in the 2005 Stock Option Plan.

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, 2005, the Company had issued approximately 9.8 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, 2005:

NAMED EXECUTIVE OFFICER	NUMBER OF SECURITIES UNDERLYING OPTIONS OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE	POTENT AT ASS OF STO F ------ 5%
Charles T. Jensen	4,000,000	3.6%	$0.239	February 8, 2015	$ 601
	2,000,000	1.8%	$0.328	December 16, 2015	$ 412
	6,000,000	5.4%			$1,013
Charles W. Fritz	4,000,000	3.6%	$0.239	February 8, 2015	$ 601
	2,000,000	1.8%	$0.328	December 16, 2015	$ 412
	6,000,000	5.4%			$1,013
David A. Dodge	2,500,000	2.2%	$0.239	February 8, 2015	$ 375
	2,000,000	1.8%	$0.328	December 16, 2015	$ 412
	4,500,000	4.0%			$ 788
Martin N. Copus	3,000,000	2.7%	$0.247	March 1, 2015	$ 466
	2,000,000	1.8%	$0.328	December 16, 2015	$ 412
	5,000,000	4.4%			$ 878

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, 2005, and the number and value of all unexercised options at fiscal year end.

NAMED EXECUTIVE OFFICER	SHARES ACQUIRED SHARES ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF UNEXERCISED SECURITIES UNDERLYING OPTIONS/SARS AT DECEMBER 31, 2005		VALUE THE-MON DECEM
			EXERCISABLE	UNEXERCISABLE	EXERCISAB

Charles T. Jensen	--	--	13,500,000	6,500,000	$3,393,00
Charles W. Fritz	--	--	15,010,000	6,500,000	3,776,74
David A. Dodge	600,000	$ 194,100	3,725,000	4,375,000	705,02
Martin N. Copus	--	--	2,000,000	3,000,000	85,50

(1) Based on the difference between the closing price of $0.304 of NeoMedia's common stock as quoted on OTC Bulletin Board on December 30, 2005 and the exercise price of the option/SAR.

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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 February 28, 2006, (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.

CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	PERCENT OF CLASS (1)
Common Stock	Charles W. Fritz (2)(3)	30,920,555	5.0%
Common Stock	William Fritz (2)(4)	53,150,944	8.7%
Common Stock	Charles T. Jensen (2)(5)	15,501,500	2.5%
Common Stock	David A. Dodge (2)(6)	4,850,000	*
Common Stock	A. Hayes Barclay (2)(7)	3,155,000	*
Common Stock	James J. Keil (2)(8)	5,388,619	*
Common Stock	Martin N. Copus (9)	3,682,186	*
Common Stock	Officers and Directors as a Group (9 Persons) (10)	116,648,804	17.8%

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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 601,789,324 shares of common stock outstanding as of February 28, 2006, together with securities exercisable or convertible into shares of common stock within 60 days of February 28, 2006, for each shareholder. 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 February 28, 2006, 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 600, 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, 15,500,000 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, 12,367,186 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, the Company's corporate secretary and a director, 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: 45,433,735 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 3,500,000 shares to be issued upon the exercise of options held by Mr. Fritz or his spouse.

(5) Charles T. Jensen is President, Chief Operating Officer, Acting Chief Executive Officer, and a member of the Board of Directors. Beneficial ownership includes 15,500,000 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 4,850,000 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 3,150,000 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 3,500,000 shares issuable upon exercise of options and 1,888,619 shares owned by Mr. Keil directly.

(9) Martin N. Copus is Chief Operating Office. Beneficial ownership includes 3,500,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans, and 182,186 shares held by Mr. Copus directly.

(10) Includes an aggregate of 49,500,000 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 63,098,804 shares owned directly by NeoMedia's officers and directors.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On November 1, 2005, NeoMedia acquired a used automobile for $17,000 from Charles T. Jensen, its president, chief executive officer and a member of its board of directors. NeoMedia believes the transaction was completed at arm's length.

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 Registrant's Reg as filed with the
3.2	Bylaws of DevSys, Inc.	Incorporated by Registrant's Reg as filed with the
3.3	Restated Certificate of Incorporation of DevSys, Inc.	Incorporated by Registrant's Reg as filed with the
3.4	By-laws of DevSys, Inc.	Incorporated by Registrant's Reg as filed with the
3.5	Articles of Merger and Agreement and Plan of Merger of DevSys, Inc and Dev-Tech Associates, Inc.	Incorporated by Registrant's Reg as filed with the
3.6	Certificate of Merger of Dev-Tech Associates, Inc. into DevSys, Inc.	Incorporated by Registrant's Reg as filed with the
3.7	Articles of Incorporation of Dev-Tech Migration, Inc. and amendment thereto	Incorporated by Registrant's Reg as filed with the
3.8	By-laws of Dev-Tech Migration, Inc.	Incorporated by Registrant's Reg

as filed with the

EXHIBIT NO.	DESCRIPTION	LOCATION
3.9	Restated Certificate of Incorporation of DevSys Migration, Inc.	Incorporated by Registrant's Reg as filed with the
3.10	Form of By-laws of DevSys Migration, Inc.	Incorporated by Registrant's Reg as filed with the
3.11	Form of Agreement and Plan of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc.	Incorporated by Registrant's Reg as filed with the
3.12	Form of Certificate of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc.	Incorporated by Registrant's Reg as filed with the
3.13	Certificate of Amendment to Certificate of Incorporation of DevSys, Inc. changing its name to NeoMedia Technologies, Inc.	Incorporated by Registrant's Reg as filed with the
3.14	Form of Certificate of Amendment to Certificate of Incorporation of NeoMedia Technologies, Inc. authorizing a reverse stock split	Incorporated by Registrant's Reg as filed with the
3.15	Form of Certificate of Amendment to Restated Certificate of Incorporation of NeoMedia Technologies, Inc. increasing authorized capital and creating preferred stock	Incorporated by Registrant's Ann on November 2, 20
10.1	Dev-Tech Associates, Inc. 1996 Stock Option Plan	Incorporated by Registrant's Reg as filed with the
10.2	First Amendment and Restatement of Dev-Tech Associates, Inc. 1996 Stock Option Plan	Incorporated by Registrant's Reg as filed with the
10.3	Form of Stock Option Agreement - Dev-Tech Associates, Inc.	Incorporated by Registrant's Reg as filed with the

EXHIBIT NO.	DESCRIPTION	LOCATION
10.4	Dev-Tech Migration, Inc. 1996 Stock Option Plan	Incorporated by Registrant's Reg as filed with the
10.5	First Amendment and Restatement of Dev-Tech Migration, Inc.	Incorporated by Registrant's Reg as filed with the
10.6	Form of Stock Option Agreement - Dev-Tech Migration, Inc.	Incorporated by Registrant's Reg as filed with the
10.7	Dev-Tech Associates, Inc. 401(k) Plan and amendments	Incorporated by Registrant's Reg as filed with the
10.8	First Amendment and Restatement of NeoMedia Technologies, Inc. 1996 Stock Option Plan	Incorporated by Registrant's Reg as filed with the
10.9	NeoMedia Technologies, Inc. 1998 Stock Option Plan	Incorporated by Registrant's Form
10.10	Amendment to NeoMedia Technologies 1998 Stock Option Plan	Incorporated by with the SEC on J
10.11	Sale and Purchase Agreement between Qode.com, Inc. and NeoMedia Technologies, Inc.	Incorporated by Registrant's Cur with the SEC on M
10.12	Warrant repricing letter dated March 19, 2002	Incorporated by Registrant's Cur with the SEC on A
10.13	Option repricing letter dated April 3, 2002	Incorporated by Registrant's Cur with the SEC on A

EXHIBIT NO.	DESCRIPTION	LOCATION
10.14	Intellectual Property licensing agreement between NeoMedia and A.T. Cross Company	Incorporated by Registrant's For April 24, 2002
10.15	Intellectual Property licensing agreement between NeoMedia and Symbol Technologies, Inc.	Incorporated by Registrant's For April 24, 2002
10.16	Sponsorship and Advertising Agreement between NeoMedia and About.com, Inc.	Incorporated by Registrant's For April 24, 2002

10.17	Letter of Intent regarding proposed strategic transaction between NeoMedia and AirClic, Inc.	Incorporated by Registrant's For April 24, 2002
10.18	Form of Promissory Note issued to AirClic, Inc.	Incorporated by Registrant's For April 24, 2002
10.19	Form of Limited Recourse Promissory Note issued in exchange for 19 Million Shares of Common Stock	Incorporated by Registrant's For April 24, 2002
10.20	Nasdaq Staff Determination Letter with respect to de-listing of NeoMedia securities from the Nasdaq SmallCap market	Incorporated by Registrant's For April 24, 2002
10.21	Revised warrant repricing letter dated April 3, 2002	Incorporated by Registrant's For April 24, 2002
10.22	Equity Line of Credit Agreement, dated May 6, 2002, between NeoMedia Technologies and Cornell Capital Partners, LP	Incorporated by Registrant's Qua filed with the SE
10.23	Nasdaq Staff delisting notification letter dated May 16, 2002	Incorporated by Registrant's Qua filed with the SE
10.24	Settlement Agreement relating to wrongful termination lawsuit brought by former president and Chief Operating Officer	Incorporated by Registrant's For August 14, 2002
10.25	Mutual settlement agreement by and between NeoMedia Technologies and 2150 Western Court Company, LLC	Incorporated by Registrants Form 2002

EXHIBIT NO.	DESCRIPTION	LOCATION
10.26	Mutual settlement agreement by and between NeoMedia Technologies and Ripfire, Inc.	Incorporated by Registrants Form 2002
10.27	Mutual settlement agreement by and between NeoMedia Technologies and Wachovia Bank, N.A.	Incorporated by Registrants Form 2002
10.28	Mutual settlement agreement by and between NeoMedia Technologies and Marianne LePera, NeoMedia Technologies' former General Counsel	Incorporated by Registrants Form 2002
10.29	Equity Line of Credit Agreement, dated February 11, 2003, between NeoMedia Technologies and Cornell Capital	Incorporated by Registrants Form

	Partners	2003
10.30	Form of Placement Agent Agreement, dated November 2002, between NeoMedia Technologies and Westrock Advisors, Inc.	Incorporated by Registrant's For 2003
10.31	Form of Escrow Agreement, dated November 2002, between NeoMedia Technologies and Cornell Capital Partners	Incorporated by r Registrant's For 2003
10.32	Form of Registration Rights Agreement, dated November 2002, between NeoMedia Technologies and Cornell Capital Partners	Incorporated by Registrant's For 2003
10.33	Promissory Note, dated February 23, 2001, between Digital Convergence Corporation and NeoMedia	Incorporated by Registrant's For 2003
10.34	Termination Agreement, dated August 21, 2001, between About.com and NeoMedia	Incorporated by Registrant's For 2003
10.35	Memorandum of Terms to merge, dated March 7, 2003, between NeoMedia and Loch Energy, Inc.	Incorporated by Registrant's Form
10.36	Binding Letter of Intent to merge, dated July 25, 2003, between NeoMedia and Secure Source Technologies, Inc.	Incorporated by Registrant's For 2003
10.37	Definitive Merger Agreement, dated October 3, 2003, between NeoMedia and Secure Source Technologies, Inc	Incorporated by r Registrant's Form

EXHIBIT NO.	DESCRIPTION	LOCATION
10.38	Standby Equity Distribution Agreement, dated October 27, 2003, between NeoMedia and Cornell Capital Partners	Incorporated by Registrant's For 2003
10.39	Form of Placement Agent Agreement, dated October 27, 2003, between NeoMedia and Newbridge Securities Corporation	Incorporated by Registrant's For 2003
10.40	Form of Registration Rights Agreement, dated October 27, 2003, between NeoMedia and Cornell Capital Partners	Incorporated by Registrant's For 2003
10.41	Form of Escrow Agreement, dated October 27, 2003, between NeoMedia and Cornell Capital Partners	Incorporated by Registrant's For 2003
10.42	2003 Stock Compensation Plan	Incorporated by Registrant's Form

10.43	Letter of Intent to acquire CSI International, Inc., dated November 8, 2003	Incorporated by Registrant's For 2003
10.44	Letter of Intent to acquire BSD Software, Inc., dated December 9, 2003	Incorporated by Registrant's For 2003
10.45	Definitive Merger Agreement, dated February 6, 2004, between NeoMedia and CSI International, Inc.	Incorporated by Registrant's For 2004
10.46	$4 million Promissory note payable to Cornell Capital Partners, dated January 15, 2004	Incorporated by Registrant's Form
10.47	Form of Business Development Agreement between NeoMedia and iPoint-media	Incorporated by Registrant's For 2004
10.48	Form of Investment Agreement between NeoMedia and iPoint-media	Incorporated by Registrant's For 2004
10.49	Form of Registration Rights Agreement between NeoMedia and iPoint-media	Incorporated by Registrant's For 2004
10.50	Form of Indemnification Agreement between NeoMedia and iPoint-media	Incorporated by Registrant's For 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 Registrant's For 2004
10.52	Form of Letters of Intent With Pickups Plus, Inc.	Incorporated by 16.2 to the Regi March 1, 2005
10.53	Form of NeoMedia's Policy Statement on Ethical Behavior	Incorporated by Registrant's Form
10.54	Form of Term Sheet with Nextcode Corporation	Incorporated by Registrant's Form
10.55	Form of Letter of Intent With Shelron Group, Inc.	Incorporated by Registrant's Form
10.56	Letter of extension of outside date between NeoMedia and BSD	Incorporated by Registrant's 333-123848 as fi

		2006
10.57	Co-Marketing Partner Agreement between NeoMedia Technologies, Inc. and Foote Cone & Belding, a division of FCB Worldwide L.L.C.	Incorporated by Registrant's Form
10.58	Standby Equity Distribution Agreement, dated March 30,2005, between NeoMedia and Cornell	Incorporated by Registrant's Form
10.59	Placement Agent Agreement, dated March 30, 2005, between NeoMedia and Cornell	Incorporated by Registrant's Form
10.60	Escrow Agreement, dated March 30, 2005, between NeoMedia and Cornell	Incorporated by Registrant's Form
10.61	Registration Rights Agreement, dated March 30, 2005, between NeoMedia and Cornell	Incorporated by Registrant's Form
10.62	Promissory Note, dated March 30, 2005, between NeoMedia and Cornell	Incorporated by Registrant's Form
10.63	Security Agreement, dated March 30, 2005, between NeoMedia and Cornell	Incorporated by Registrant's Form
10.64	Patent Purchase Agreement, dated April 8, 2005, between NeoMedia and Loyaltypoint, Inc.	Incorporated by Registrant's Form
10.65	Letter Amending Section 7.3(g) of the Merger Agreement between NeoMedia and BSD	Incorporated by Registrant's 333-123848 as fi 2006

EXHIBIT NO.	DESCRIPTION	LOCATION
10.66	Letter of extension of outside date between NeoMedia and BSD	Incorporated by Registrant's 333-123848 as fi 2006
10.67	Letter of extension of outside date between NeoMedia and BSD	Incorporated by Registrant's 333-123848 as fi 2006
10.68	Distribution Agreement between NeoMedia and Beijing Sino-US Jinche Yingang Auto Technological Services Limited	Incorporated by Registrant's Form
10.69	Distribution Agreement between NeoMedia and Micropaint de Mexico, S.A.	Incorporated by Registrant's For 2005
10.70	Distribution Agreement between NeoMedia and WITHO-AS	Incorporated by

		Registrant's Form
10.71	Second Bridge Loan Agreement between NeoMedia and Mobot	Incorporated by Registrant's 333-123848 as fi 2006
10.72	Distribution Agreement between NeoMedia and PPG Industries	Incorporated by the Registrant's 15, 2005
10.73	Supply Agreement between NeoMedia and DuPont de Nemours (Belgium) BVBA	Incorporated by the Registrant's 21, 2005
10.74	Merger Agreement with Mobot, Inc.	Incorporated by Registrant's For 2006
10.75	Sale and Purchase Agreement with 12Snap AG	Incorporated by Registrant's For 2006
10.76	Form of Letter of Intent with HipCricket	Incorporated by Registrant's For 2006
10.77	Sale and Purchase Agreement with Gavitec AG	Incorporated by Registrant's For 2006
10.78	Sale and Purchase Agreement with Sponge Ltd.	Incorporated by Registrant's For 2006
10.79	Sole Agent Agreement between NeoMedia and Beijing Sino-US Jinche Yingang Auto Technological Services Limited	Incorporated by Registrant's Form

EXHIBIT NO.	DESCRIPTION	LOCATION
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 report on Form 8-K on October 6, 2005, with respect to Item 1.01, reporting that it had entered into a paint distribution agreement with WI-THO AS, under which WI-THO AS would distribute NeoMedia's paint products throughout Scandinavia.

NeoMedia filed a report on Form 8-K on December 14, 2005, with respect to Item 1.01, reporting that it had entered into a paint distribution agreement with PPG Industries' PPG Shanghai Trading Co. Ltd. ("PPG"), under which NeoMedia would distribute automotive aftermarket products produced by PPG and serve as a non-exclusive distributor of PPG products to Beijing Sino-US Jinche Yingang Auto Technological Services Limited in the People's Republic of China.

NeoMedia filed a report on Form 8-K on December 20, 2005, with respect to Item 1.01, reporting that it had entered into a paint supply agreement with DuPont de Nemours (Belgium) BVBA of Belgium, a subsidiary of IE DuPont ("DuPont"), under which NeoMedia would serve as a non-exclusive distributor of DuPont products to Beijing Sino-US Jinche Yingang Auto Technological Services Limited in the People's Republic of China.

NeoMedia filed a report on Form 8-K on February 10, 2006, with respect to Item 8.01, reporting that Cornell Capital Partners had exercised warrants to purchase 20,000,000 shares of NeoMedia common stock, par value $0.01 per share. The warrants were issued to Cornell Capital on March 30, 2005 as a commitment fee for Cornell Capital entering into that certain Standby Equity Distribution Agreement, dated March 30, 2006 by and between NeoMedia and Cornell Capital. The warrants had an exercise price equal to $0.20 per share. In connection with the exercise of the 20,000,000 Warrants, NeoMedia received proceeds of $4,000,000.

NeoMedia filed a report on Form 8-K on February 10, 2006, with respect to Item 1.01, reporting that it had signed a definitive merger agreement under which NeoMedia acquired all of the outstanding shares of Mobot in exchange for $3,500,000 cash and $6,500,000 in shares of NeoMedia common stock.

NeoMedia filed a report on Form 8-K on February 14, 2006, with respect to Item 1.01, reporting that it had signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of 12Snap AG of Munich, Germany, in exchange for $2,500,000 cash and $19,500,000 in shares of NeoMedia common stock.

NeoMedia filed a report on Form 8-K on February 20, 2006, with respect to Items 1.01 and 8.01, reporting that it had signed a non-binding letter of intent to acquire HipCricket, Inc. of Essex, CT in exchange for $500,000 cash and $4,000,000 of NeoMedia common stock. The 8-K also reported that NeoMedia had loaned Hip Cricket $250,000 in the form of an unsecured promissory note, the principal and interest of which would be applied toward the purchase price in the event the acquisition is completed.

NeoMedia filed a report on Form 8-K on February 21, 2006, with respect to Items 1.01 and 3.02, reporting that it had entered into a $27 million convertible preferred stock sale agreement with Cornell Capital Partners.

NeoMedia filed a report on Form 8-K on February 21, 2006, with respect to Item 1.01, reporting that it had signed a definitive sale and purchase agreement under which NeoMedia acquired all of the outstanding shares of Gavitec AG of Wurselen, Germany in exchange for $1,800,000 cash and $5,400,000 in shares of NeoMedia common stock.

NeoMedia filed a report on Form 8-K on February 21, 2006, with respect to Item 2.01, reporting that it had completed all of the closing requirements for the acquisition of Mobot, Inc.

NeoMedia filed a report on Form 8-K on February 22, 2006, with respect to Item 1.01, reporting that it had signed a definitive share purchase agreement under which it acquired all of the outstanding shares of Sponge Ltd. Of London, in exchange for (pound)3,450,000 (approximately $6 million) cash and (pound)6,550,000 (approximately $11.4 million) in shares of NeoMedia common stock. The agreement also calls for Sponge to earn an additional (pound)2,500,000 (approximately $4.4 million) in the form of NeoMedia common stock if, during the two-year period beginning at closing, the Sponge business earns in excess of (pound)1,300,000 (approximately $2.3 million) in net profits

NeoMedia filed a report on Form 8-K on February 24, 2006, with respect to Item 2.01, reporting that it had completed all of the closing requirements for the acquisitions of 12 Snap AG, Gavitec AG, and Sponge Ltd.

NeoMedia filed a report on Form 8-K on March 2, 2006, with respect to Item 1.01, reporting that it had signed a 10-year exclusive agreement with Beijing Sino-US Jinche Yingang Auto Technological Services Limited.

NeoMedia filed a report on Form 8-K on March 22, 2006, with respect to Item 1.01, reporting that it had loaned an additional $250,000 to Hip Cricket, Inc., pursuant to the terms of a previously signed letter of intent.

NeoMedia filed a report on Form 8-K on March 23, 2006, with respect to Item 2.01, reporting that it had closed its acquisition of BSD Software, 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, 2005 and 2004 were $151,000 and $137,000, 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, 2005 and 2004 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 $0 and $9,000 for the years ended December 31, 2005 and 2004, respectfully.

ALL OTHER FEES

The aggregate fees billed by Stonefield Josephson, Inc., for other products and services, primarily related to registration statements, during the years ended December 31, 2005 and 2004 were $60,000 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.

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 29th day of March, 2006.

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 29, 2006.

SIGNATURES	TITLE	
/s/ Charles T. Jensen	President, Chief Executive Officer, and Director	Mar
/s/ William E. Fritz	Director	Mar
/s/ Charles W. Fritz	Chairman of the Board	Mar
/s/ David A. Dodge	Vice-President, Chief Financial Officer and principal accounting officer	Mar
/s/ Hayes Barclay	Director	Mar
/s/ James J. Keil	Director	Mar

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