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NEOMEDIA TECHNOLOGIES INC

Form S-8

September 05, 2002

As filed with the Securities and Exchange Commission on September 5, 2002  
File No. 33- \_\_\_\_\_

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM S-8  
Registration Statement  
Under the Securities Act of 1933

NEOMEDIA TECHNOLOGIES, INC.  
(Name of Registrant in its charter)

DELAWARE  
(State or jurisdiction of  
incorporation or organization)

36-3680347  
(I.R.S. Employer  
Identification No.)

2201 SECOND STREET, SUITE 600  
FORT MYERS, FLORIDA 33901  
239-337-3434  
(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

DAVID GONZALEZ CONSULTING AGREEMENT  
AND  
NEOMEDIA 2002 STOCK OPTION PLAN  
(Full Title of the Plan)

CHARLES W. FRITZ  
2201 SECOND STREET, SUITE 600  
FORT MYERS, FLORIDA 33901  
239-337-3434  
239-337-3668 - FAX  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

With copies to:

Clayton Parker  
Kirkpatrick & Lockhart LLP  
Suite 200  
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Miami, FL 33131  
(305) 539-3300  
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Charles T. Jensen  
NeoMedia Technologies, Inc.  
2201 Second Street, Suite 600  
Fort Myers, Florida 33901  
(239) 337-3434  
(239) 337-3668 Fax

CALCULATION OF REGISTRATION FEE

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TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock (1)	837,500	\$0.085	\$71,187.50	\$ 6.55
Common Stock (2)	580,000	\$0.085	\$49,300.00	\$ 4.54
TOTAL REGISTRATION FEE	1,417,500		\$120,487.50	\$11.09

- (1) Represents shares of common stock issued directly to David Gonzalez, an unrelated consultant, for consulting services rendered. The registration fee being paid hereunder has been estimated/determined pursuant to Rule 457(h), and is based on the closing price of the Company's Common Stock on the OTCBB market on August 28, 2002.
- (2) Represents shares that are subject to issuance at prices that are currently undeterminable; consequently, registration fee being paid hereunder has been estimated/determined pursuant to Rule 457(h), and is based on the closing price of the Company's Common Stock on the OTCBB market on August 30, 2002

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PART I

The documents containing the information specified in Part I of Form S-8 (plan information and registrant information) will be sent or given to employees as specified by Rule 428(b)(1) of the Securities Act of 1933, as amended (the "Act"). Such documents need not be filed with the Securities and Exchange Commission either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424. These documents, which include the statement of availability required by Item 2 of Form S-8, and the documents incorporated by reference in this Registration Statement pursuant to Item 3 of Form S-8 (Part II hereof), taken together, constitute a prospectus that meets the requirements of Section 10(a) of the Act.

PART II

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

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The following documents filed with the Securities and Exchange Commission are hereby incorporated by reference:

- (a) The Annual Report of the Company on Form 10-K for the fiscal year ended December 31, 2001.
- (b) Form 10-Q for the three- and six-month periods ending June 30, 2002.
- (c) Form 10-Q for the three-month period ending March 31, 2002.
- (d) Form 10-Q/A for the three- and nine-month periods ending September 30, 2001.
- (e) Form 10-Q for the three- and six-month periods ending June 30, 2001.
- (f) Form 8-K dated June 26, 2002, disclosing that the Company's Board of Directors had elected Charles T. Jensen as President and Chief Operating Officer and David A. Dodge as Vice President and Chief Financial Officer.
- (g) Form 8-K dated May 17, 2002, disclosing that the Company's common stock was delisted from the Nasdaq SmallCap Market effective May 17, 2002, and that the Company's common stock would begin trading on the Over-the-Counter Bulletin Board the same day.
- (h) Form 8-K dated April 15, 2002, disclosing that the Company had instituted an option repricing program for certain of its outstanding stock options.
- (i) Form 8-K dated April 2, 2002, disclosing that the Company had instituted a warrant repricing program for all of its outstanding stock warrants.
- (j) Form 8-K/A dated November 5, 2001, disclosing change in independent accountants.
- (k) Form 8-K/A dated June 6, 2001, disclosing material purchase of assets from Qode.com, Inc., except for the December 31, 2000 financial statements and audit opinion thereon dated May 4, 2001 and the financial statements of Qode.Com, Inc. (A Development Stage Enterprise) at December 31, 1999 and for the period from March 29, 1999 (inception) through December 31, 1999 and the audit opinion dated July 21, 2000, except for the seventh paragraph of Note 8, as to which the date is June 30, 2001. Such financial statements are included in this registration statement.
- (l) The description of the Company's Common Stock, par value \$.01 per share (the "Common Stock"), which is contained in the Company's Registration Statement on Form 8-A filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act") on November 18, 1996, including any amendment or report filed with the Commission for the purpose of updating such description of Common Stock.

All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934 prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be a part hereof from the date of filing such documents.

ITEM 4. DESCRIPTION OF SECURITIES.

Not applicable.

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ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

As permitted by Delaware General Corporation Law ("DGCL"), the Company has included in its Certificate of Incorporation a provision to eliminate the personal liability of its directors for monetary damages for breach or alleged breach of their fiduciary duties as directors, except for liability (i) for any breach of director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of law, (iii) in respect of certain unlawful dividend payments or stock redemptions or repurchases, as provided in Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. The effect of this provision in the Company's Certificate of Incorporation is to eliminate the rights of the Company and its stockholders (through stockholders' derivative suits on behalf of the Company) to recover monetary damages against a director for breach of the fiduciary duty of care as a director except in the situations described in (i) through (iv) above. This provision does not limit or eliminate the rights of the Company or any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. These provisions will not alter the liability of directors under federal securities laws.

The Certificate of Incorporation and the by-laws of the Company provide that the Company is required and permitted to indemnify its officers and directors, employees and agents under certain circumstances. In addition, if permitted by law, the Company is required to advance expenses to its officers and directors as incurred in connection with proceedings against them in their capacity as directors or officers for which they may be indemnified upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to indemnification. At present, the Company is not aware of any pending or threatened litigation or proceeding involving a director, officer, employee or agent of the Company in which indemnification would be required or permitted. The Company has obtained directors and officers liability insurance. The Company believes that its charter provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors and officers of the Company pursuant to the foregoing provisions or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission ("Commission"), such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

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ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not Applicable

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FINANCIAL INFORMATION

Report of Independent Certified Public Accountants

To Qode.com, Inc.:

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We have audited the accompanying balance sheet of Qode.com, Inc. (a Florida corporation in the development stage) as of December 31, 2000, and the related statements of operations, changes in redeemable preferred stock and stockholders' deficit, and cash flows for the year then ended and the related statements of operations and cash flows for the period from inception (March 29, 1999) to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Qode.com, Inc. for the period from inception to December 31, 1999. Such statements are included in the cumulative inception to December 31, 2000, totals of the statements of operations and cash flows and reflect total revenues and net loss of zero percent and 13 percent, respectively, of the related cumulative totals. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to amounts for the period from inception to December 31, 1999, included in the cumulative totals, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Qode.com, Inc. as of December 31, 2000, and the results of its operations and its cash flows for the year then ended and for the period from inception to December 31, 2000, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses from operations and the current cash position of the Company raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ ARTHUR ANDERSEN LLP

Tampa, Florida,  
May 4, 2001 (except with respect to the matter discussed in Note 13, as to which the date is June 30, 2001)

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QODE.COM, INC.

(A Development Stage Enterprise)

BALANCE SHEET - DECEMBER 31, 2000

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ASSETS	AMOUNT
	-----
CURRENT ASSETS:	
Cash and cash equivalents	\$18,686
Accounts receivable	6,041
Inventory	218,690
Other current assets	13,499
	-----
Total current assets	256,916
PROPERTY AND EQUIPMENT, net	875,263
CAPITALIZED SOFTWARE DEVELOPMENT COSTS, net	2,359,932
DEPOSITS	39,539
	-----
Total assets	\$3,531,650
	=====

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QODE.COM, INC.

(A Development Stage Enterprise)

BALANCE SHEET - DECEMBER 31, 2000

(continued)

LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT

	AMOUNT
CURRENT LIABILITIES:	
Accounts payable	\$982,610
Dividends payable	94,119
Accrued expenses	425,103
Current portion of notes payable	3,617,323

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Current portion of capital lease obligations	368,574
Loans from officers	224,740
	-----
Total current liabilities	5,712,469
NOTES PAYABLE, net of current portion	5,857
CAPITAL LEASE OBLIGATIONS, net of current portion	168,176
	-----
Total liabilities	5,886,502
	-----
COMMITMENTS AND CONTINGENCIES	
SERIES A 15% CUMULATIVE CONVERTIBLE REDEEMABLE	
PREFERRED STOCK, \$.0001 par value; 3,000,000 shares	
authorized, 2,044,560 shares issued and	
outstanding, liquidation value of \$2,502,641	
	2,480,991
STOCKHOLDERS' DEFICIT:	
Common stock, \$.0001 par value; 25,000,000 shares	
authorized, 8,023,000 shares issued and outstanding	
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Additional paid-in capital - common stock	1,927,313
Series U convertible preferred stock, \$.0001 par	
value; 1,500,000 shares authorized, issued and	
outstanding	150
Additional paid-in capital - preferred stock	2,999,850
Accumulated deficit	(9,763,958)
	-----
Total stockholders' deficit	(4,835,843)
Total liabilities, redeemable preferred	
stock and stockholders' deficit	\$3,531,650
	=====

The accompanying notes are an integral part of this balance sheet.

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QODE.COM, INC.

(A Development Stage Enterprise)

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2000 AND THE PERIOD

FROM MARCH 29, 1999 (DATE OF INCEPTION), THROUGH DECEMBER 31, 2000

Cumulative  
from Inception  
March 29, 1999



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	Year Ended December 31, 2000 ----	to December 31 2000 ----
REVENUE	\$211,952	\$211,952
COST OF GOODS SOLD	213,345	213,345
GROSS MARGIN	----- (1,393)	----- (1,393)
COSTS AND EXPENSES:		
Research and development	1,109,686	1,505,928
Sales and marketing	556,541	598,516
General and administrative	5,839,413	6,686,825
Total costs and expenses	----- 7,505,640	----- 8,791,269
NET INTEREST EXPENSE	1,008,938	971,296
NET LOSS	----- (8,515,971)	----- (9,763,958)
PREFERRED STOCK DIVIDENDS	(356,203)	(552,200)
ACCRETION OF BENEFICIAL CONVERSION FEATURE ON PREFERRED STOCK	(15,296)	(20,010)
	-----	-----
Net LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (8,887,470)	\$ (10,336,168)
	=====	=====
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (1.11)	\$ (1.29)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES	8,023,000	8,018,071
	=====	=====

The accompanying notes are an integral part of these statements.

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QODE.COM, INC.

(A Development Stage Enterprise)

STATEMENT OF CHANGES IN REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIENCY

FOR THE YEAR ENDED DECEMBER 31, 2000

Series A Redeemable Preferred Stock -----	Common Stock Shares -----	Stock Amount -----	Addit Paid Capita Comm Sto ---
---	---------------------------------	--------------------------	---

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BALANCE, December 31, 1999	\$2,154,711	8,023,000	\$802	\$ (49
Issuance of 19,560 shares of Series A preferred stock in exchange for services	48,900	--	--	
Issuance of Series U preferred stock	--	--	--	
Issuance of 372,780 warrants in exchange for services	--	--	--	1,126
Issuance of 326,666 warrants attached with notes payable	--	--	--	675
Issuance of employee stock options with exercise price below market value	--	--	--	150
Re-pricing of employee stock options	--	--	--	395
Series A preferred stock dividends	262,084	--	--	(262
Series U preferred stock dividends	--	--	--	(94
Accretion of beneficial conversion feature on preferred stock	15,296	--	--	(15
Net loss	--	--	--	
 BALANCE, December 31, 2000	 \$2,480,991	 8,023,000	 \$802	 \$1,927
	=====	=====	=====	=====

	Additional Paid-in Capital for Preferred Stock -----	Accumulated Deficit -----	Total Stockhold Deficit -----
BALANCE, December 31, 1999	--	\$ (1,247,987)	\$ (1,296,7
Issuance of 19,560 shares of Series A preferred stock in exchange for services	--	--	
Issuance of Series U preferred stock	2,999,850	--	3,000,0
Issuance of 372,780 warrants in exchange for services	--	--	1,126,7
Issuance of 326,666 warrants attached with notes payable	--	--	675,6
Issuance of employee stock options with exercise price below market value	--	--	150,2
Re-pricing of employee stock options	--	--	395,6
Series A preferred stock dividends	--	--	(262,0
Series U preferred stock dividends	--	--	(94,1
Accretion of beneficial conversion feature on preferred stock	--	--	(15,2
Net loss	--	(8,515,971)	(8,515,9
		-----	-----
 BALANCE, December 31, 2000	 \$2,999,850	 \$ (9,763,958)	 \$ (4,835,8
	=====	=====	=====

The accompanying notes are integral part of this statement.

## QODE.COM, INC.

(A Development Stage Enterprise)

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2000 AND THE PERIOD

FROM MARCH 29, 1999 (DATE OF INCEPTION), THROUGH DECEMBER 31, 2000

	Year Ended December 31, 2000 ----	Cumulative from Incept (March 29, 1999) to December 31, -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(8,515,971)	\$(9,763,950)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	417,410	434,930
Series A preferred stock issued for services	48,900	48,900
Warrants issued in exchange for services	1,126,790	1,884,620
Stock options issued with exercise price below market value	150,216	150,216
Expense related to the re-pricing of employee stock options	395,682	395,682
Changes in assets and liabilities-		
Accounts receivable	(6,041)	(6,041)
Inventory	(218,690)	(218,690)
Other current assets	4,652	(13,490)
Deposits	(9,310)	(39,530)
Accounts payable	831,022	982,610
Accrued expenses	377,857	425,100
	-----	-----
Net cash used in operating activities	(5,397,483)	(5,719,650)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(382,222)	(509,010)
Capitalization of software development costs	(2,498,752)	(2,498,752)
	-----	-----
Net cash used in investing activities	(2,880,974)	(3,007,762)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of notes payable and detachable warrants	4,298,861	3,623,180
Proceeds from loans from officers	151,407	224,740
Principal repayments of capital lease	(125,612)	(125,612)
Proceeds from the issuance of common stock	--	23,800
Proceeds from the issuance of Series A redeemable preferred stock net of issuance costs of \$25,000	--	2,000,000
Proceeds from issuance of Series U convertible preferred stock	3,000,000	3,000,000
	-----	-----
Net cash provided by financing activities	7,324,656	8,746,108
	-----	-----
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(953,801)</b>	<b>18,680</b>

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CASH AND CASH EQUIVALENTS, beginning of year	972,487	-
	-----	-----
CASH AND CASH EQUIVALENTS, end of year	\$18,686	\$18,686
	=====	=====

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QODE.COM, INC.

A Development Stage Enterprise

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2000  
AND THE PERIOD FROM MARCH 29, 1999 (DATE OF INCEPTION),  
THROUGH DECEMBER 31, 2000

(continued)

	Year Ended December 31, 2000 ----	Cumulative fr Inception (March 29, 19 To December 31 2000 ----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$180,000	\$160,189
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accretion of redeemable preferred stock	\$15,296	20,010
Accrued dividends on Series A preferred stock	\$262,084	458,081
Accrued dividends on Series U preferred stock	\$94,119	94,119
Property and equipment acquired under capital lease	\$662,362	662,362

The accompanying notes are an integral part of these statements.

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QODE.COM, INC.

(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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### 1 NATURE OF BUSINESS ORGANIZATION

Qode.com, Inc. (Qode.com or the Company) commenced operations on March 29, 1999, and is incorporated in the State of Florida. Qode.com is a development stage company, as defined in Statement of Financial Accounting Standards (SFAS) No. 7, "Accounting and Reporting By Development Stage Enterprises". The Company intends to provide manufacturers, retailers, advertisers and users a unique tool for Website navigation through the use of imbedded standard bar codes and Uniform Product Codes (UPC). It is the Company's mission to develop, operate, maintain and promote the use of Qode.com technologies to enable any bar code to interface with their technology.

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred losses since its inception and during its development stage as it has devoted substantially all of its efforts toward building network infrastructure, internal staffing, developing systems, expanding into new markets, building a proprietary database and raising capital. The Company has generated little revenue to date and is subject to a number of risks, including dependence on key individuals, the ability to demonstrate technological feasibility, and the need to obtain adequate additional financing necessary to fund the development and marketing of its products and services, and customer acceptance. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may results from the outcome of this uncertainty.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### USE OF ESTIMATES

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

#### CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### INVENTORY

Inventory is stated at the lower of cost or market, and at December 31, 2000 was comprised of Qoder™ handheld scanning systems. Cost is determined using the weighted average method.

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### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Computer hardware and purchased software are being depreciated over a three-year period, and furniture and fixtures are being depreciated over a five-year period.

Depreciation expense was \$278,590 for the year ended December 31, 2000.

### CAPITALIZED SOFTWARE DEVELOPMENT COSTS

In accordance with the American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use," all costs related to the development or purchase of internal use software other than those incurred during the application development stage are to be expensed as incurred. Costs incurred during the application development stage are required to be capitalized and amortized over the useful life of the software. The Company has expensed \$1,109,686 in research and development costs for the year ended December 31, 2000. The Company has capitalized \$2,498,752 in software development costs for the year ended December 31, 2000. Amortization expense was \$138,820 for the year ended December 31, 2000.

### REDEEMABLE PREFERRED STOCK

Redeemable preferred stock is carried at the net consideration to the Company at time of issuance, increased by accrued and unpaid cumulative dividends and periodic accretion to redemption value using the interest method. Accrued and unpaid dividends and redemption accretion are affected by charges against retained earnings, or, in the absence of retained earnings, additional paid-in capital.

### REVENUE RECOGNITION

Revenue is generated from the sale of Qode's proprietary hand held bar code scanners. Revenue is recognized when the product is delivered to the customer.

### INCOME TAXES

In accordance with Statement of Financial Accounting Standards (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, 2000.

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### COMPUTATION OF NET LOSS PER SHARE

Basic and diluted 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 common stock equivalents from the calculation of diluted net loss per share because these securities are anti-dilutive. The shares excluded from the calculation of diluted net loss per share and reserved for future issuance are detailed in the table below:

	2000
	----
Outstanding stock options	1,540,511
Outstanding warrants	1,229,146
Shares issuable on conversion of notes payable	6,800,000
Shares issuable on conversion of Series A preferred stock	4,049,701

Shares issuable on conversion of notes payable were calculated based on the terms of the notes as if they were converted on December 31, 2000.

### FINANCIAL INSTRUMENTS

The Company believes that the fair value of its financial instruments approximate carrying value.

### CONCENTRATION OF CREDIT RISK

Revenue was generated from the selling of barcode scanners with approximately 91 percent of those sales to one customer.

### ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company has adopted SFAS No. 123, "Accounting for Stock-Based compensation." The provisions of SFAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), but disclose the pro forma effects on net income or loss as if the fair value had been expensed. The Company has elected to apply APB 25 in accounting for its employee stock options and, accordingly recognizes compensation expense for the difference between the fair value of the underlying common stock and the grant price of the option at the measurement date.

### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS 138. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The adoption of these new accounting standards did not have an impact on the Company's financial position or results of operations.

On December 3, 1999 the Securities and Exchange Commission (SEC) staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition". This SAB provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company implemented SAB No. 101 for the quarter ended June 30, 2000. It did not have an impact on the Company's results of operations.

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COMPREHENSIVE INCOME

For the year ended December 31, 2000, there were no differences between the balance sheet and income statement and therefore no comprehensive income.

3 LOANS FROM OFFICERS

Between October and December 2000, several of the Company's officers elected to defer their salaries due to cash flow difficulties experienced by the Company. The total amount deferred was \$83,154.

On November 28, 2000, the Company issued promissory notes to officers totaling \$135,000, with an interest rate of 6.09 percent. The principal and interest are payable on February 26, 2001

4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2000:

	2000
	----
Computer hardware and purchased software	\$1,139,578
Furniture and fixtures	31,797
	-----
	1,171,375
Less- Accumulated depreciation	(296,112)
	-----
	\$875,263
	=====

5 NOTES PAYABLE

CONVERTIBLE NOTES

On January 18, 2000, the Company entered into a note purchase agreement with an investor for \$3,000,000, with an interest rate of 12 percent. The principal and interest were due July 17, 2000. The principal and interest are convertible at the option of the holder upon or after a \$10 million financing. The conversion rate is 85 percent of the price per share in the financing. In connection with this note, 200,000 warrants were issued with an exercise price of \$4.50 per share for the Company's common stock. These warrants may be exercised at anytime following the closing of a \$10 million financing and expire January 17, 2005. The Company allocated the proceeds from the issuance of the note between the note and warrants based on the relative fair value method. The difference between the face amount of the note and the amount allocated to it was recorded as a discount, and amortized to interest expense over the life of the note.

On August 1, 2000, the Company extended this note to November 17, 2000. As additional consideration for the extension of the note, the Company reduced the exercise price of the 200,000 warrants to \$1.00. The additional expense of \$63,180 that resulted from the re-pricing was charged to interest expense. As of December 31, 2000, the note had not been repaid.



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During 2000, the Company entered into four separate note purchase agreements with investors totaling \$400,000 with interest rates of 12 percent. The principal and interest on three of the notes were due October 9, 2000 through November 4, 2000, and principal and interest on the other note is due January 6, 2001. The principal and interest are convertible at the option of the holder upon or after a \$7 million financing. The conversion rate is 85 percent of the price per share in the financing. In connection with these notes, 26,666 warrants were issued with an exercise price of \$2.00 per share for the Company's common stock. These warrants may be exercised at anytime following the closing of a \$7 million financing. The proceeds from the issuance of these notes and warrants were allocated between the two using the relative fair value method. The resulting discount on the notes was amortized to interest expense over the life of the notes.

OTHER NOTE PAYABLE

During March 2000, the Company entered into a note agreement in the amount of \$42,500, bearing interest at a rate of 11 percent per year and expiring on March 15, 2002, to finance its phone system. The note is secured by telephone equipment.

On November 28, 2000 and December 14, 2000, the Company signed two promissory notes in the amounts of \$20,000 and \$200,000, bearing interest at a rate of 6.09 percent and 15 percent per year, with principal and accrued interest payable February 26, 2001 and January 28, 2001, respectively. In connection with the December 14, 2000 note, 100,000 warrants were issued with an exercise price of \$.50 per share for the Company's common stock. These warrants may be exercised at anytime following the closing of the Next Financing, as defined in the warrant agreement. The proceeds from the issuance of this note and warrants were allocated between the two using the relative fair value method. The resulting discount on the note is being amortized to interest expense over the life of the note.

Notes payable consists of the following:

	Amount
	-----
Convertible notes, interest bearing at 12% per annum	\$3,400,000
Note payable, interest bearing at 11% per annum, due in monthly installments through March 2002	27,679
Note payable, unsecured interest bearing at 6.09% per annum, due February 2001	20,000
Note payable, unsecured interest bearing at 15% per annum, due January 2001	200,000
	-----
Total notes payable	3,647,679
Less discount	(24,499)
Less- Current portion	(3,617,323)
	-----
Notes payable, net of current portion	\$5,857

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=====

As of December 31, 2000 there was \$197,740 of accrued interest.

6 INCOME TAXES

For the years ended December 31, 2000, the components of income tax expense were as follows:

	2000
	----
Current	\$-
Deferred	-
	-----
Income tax expense	\$-

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The net amounts of deferred tax assets recorded in the balance sheet at December 31, 2000, are as follows:

	2000
	----
Deferred tax asset:	
Depreciation of property and equipment	\$17,901
Start-up costs	199,566
Net operating loss carryforward	3,443,643
Less- Valuation allowance	(3,661,110)
	-----
Total deferred tax asset	\$--
	===
Deferred tax liabilities:	\$--
	---
Total net deferred taxes	\$--
	===

SFAS No. 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not, that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a \$3,661,110 valuation allowance at December 31, 2000 is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The change in the valuation allowance for the current year is \$3,194,880. At December 31, 2000, the Company has available net operating loss carryforwards of \$9,151,323, which expire in the year 2020 and 2019.

A reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense for the year ended December 31, 2000, is as follows:

	2000
	----
Taxes at the U.S. statutory rate	\$(2,895,430)
State taxes, net of federal benefit	(309,129)
Nondeductible items	9,679

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Change in valuation allowance	3,194,880 -----
Total income tax expense	\$- ===

### 7 COMMITMENTS AND CONTINGENCIES

#### LEGAL PROCEEDINGS

The Company is not presently a party to any significant litigation. From time to time, however, the Company is involved in various legal actions arising in the normal course of business, which the Company believes will not materially affect the financial position or results of operations.

#### EMPLOYMENT CONTRACTS

The Company has employment contracts with William Carpenter, Greg Miller and Michael Miller beginning November 1, 2000.

Future payments under the above employment contracts are:

F-14	
2001	\$450,000
2002	450,000
2003	375,000
	-----
Total	\$1,275,000 =====

#### CAPITAL LEASE OBLIGATIONS

During April 2000, the Company acquired computer equipment for \$662,362 under a capital lease, expiring on April 26, 2002. Accumulated depreciation on this equipment was approximately \$166,000 at December 31, 2001.

Future minimum lease payments on capital lease obligations as of December 31, 2000, are as follows:

Year	AMOUNT
2001	\$415,358
2002	173,519
	-----
	588,877
Less - Amount representing interest on obligations under capital leases (15%)	(52,127)
Current portion of capital lease obligations	(368,574)
	-----
Capital lease obligations, net of current portion	\$168,176 =====

#### OPERATING LEASE OBLIGATIONS

The Company leases its office facility under a non-cancelable operating lease expiring in March 2005. Rental expense, net of sub-lease income, was \$73,036 for the year ended December 31, 2000.

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Lease commitments under this non-cancelable operating leases as of December 31, 2000, are as follows:

Year Ending	AMOUNT
	-----
2001	\$391,399
2002	233,876
2003	154,905
2004	117,768
2005	5,103
	-----
	\$903,051
	=====

8

PREFERRED STOCK

SERIES A 15% CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED STOCK

The Board of Directors (the Board) has authorized the issuance of up to 3,000,000 shares of Series A 15 percent \$.0001 par value, voting, cumulative, redeemable, convertible preferred stock (the Series A Preferred

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Stock). Series A Preferred Stock is convertible at any time at the option of the holder prior to the closing of a Public Offering, as defined in the agreement, or within 20 days following receipt of a Notice of Redemption, as defined in the agreement, into the Company's common stock for each share of the Series A Preferred Stock held plus accrued and unpaid dividends on the Series A Preferred Shares. The Series A Preferred Stock has a liquidation preference of \$1 per share and is mandatorily redeemable on April 15, 2004.

In June 2000, the Company issued 19,560 shares of the Series A Preferred Stock at \$2.50 per share for services rendered.

Dividends on the Series A Preferred Stock accrue, on a daily basis, commencing on the date of issuance at an interest rate of 15 percent per annum and are payable on a semi-annual basis. The Company, at its option, may pay dividends either in cash or by the issuance of additional shares of Series A Preferred Stock. Aggregate cumulative dividends in arrears at December 31, 2000 totaled \$458,081, and are included in Series A 15 % cumulative convertible redeemable preferred stock on the accompanying balance sheet.

SERIES U CONVERTIBLE PREFERRED STOCK

The Board has authorized the issuance of up to 1,500,000 shares of Series U, 8 percent \$.0001 par value, voting, cumulative, convertible preferred stock (the Series U Preferred Stock). Series U Preferred Stock is convertible at any time at the option of the holder prior to the closing of a Public Offering into the Company's common stock for each share of the Series U Preferred Stock held plus accrued and unpaid dividends on the Series U Preferred Shares. Between May and October 2000, the Company issued 1,500,000 at \$2 per share, with proceeds to the Company of \$3,000,000.

Dividends on the Series U Preferred Stock accrue, on a daily basis,

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commencing on the date of issuance at an interest rate of 8 percent per annum and are payable on a semi-annual basis. The Company, at its option, may pay dividends either in cash or by the issuance of additional shares of Series U Preferred Stock. Aggregate cumulative dividends in arrears at December 31, 2000, totaled \$94,119.

### 9 COMMON STOCK

The Company is authorized to issue up to 25,000,000 shares of its \$.0001 par value common stock. During 2000, no shares of common stock were issued. As of December 31, 2000, 8,023,000 shares were issued and outstanding.

### 10 STOCK BASED COMPENSATION

#### STOCK WARRANTS GRANTED IN EXCHANGE FOR SERVICES

During 2000, the Company granted 372,780 warrants, with exercise prices ranging from \$1.00 to \$4.50 per share, to consultants for certain advisory and consulting services. The warrants vest immediately upon issuance and can be exercised over a five-year period. In August 2000, 250,000 warrants granted at \$4.50 were re-priced to \$1.00 per share. In September 2000, 100,000 warrants granted at \$1.50 were re-priced to \$0.01 per share. The Company valued these warrants, and their re-pricing, at \$1,126,790 in accordance with SFAS 123, and recognized the entire amount in 2000 as general and administrative expenses in the accompanying statement of operations.

#### STOCK WARRANTS GRANTED ATTACHED TO DEBT AGREEMENTS

During 2000, the Company granted 326,666 warrants, with exercise prices ranging from \$.50 to \$4.50, attached to various debt agreements. The warrants vest immediately upon issuance and can be exercised over a five-year period. The Company applied APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", and accounted for the portion of the proceeds of the debt issued with warrants, which was allocable to the warrants, as additional paid-in capital based on the relative fair values of the securities at the time of issuance, and also recognized a discount on the debt as a result.

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In September 2000, 200,000 warrants granted at \$4.50 were re-priced to \$1.00 per share in connection with an extension of the term date of the debt. The Company valued the re-pricing at \$63,180, and recognized the entire amount in 2000 as interest expense in the accompanying statement of operations.

Warrant activity for the year ended December 31, 2000, is as follows:

Balance December 31, 1999	529,700
Issued	699,446
Exercised	-
Expired	-
	-----
Balance December 31, 2000	1,229,146
	=====

The following table summarizes information about warrants outstanding at

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December 31, 2000, all of which are exercisable:

Range of Exercise Prices -----	Number of Outstanding Warrants -----	Weighted Average Remaining Contractual Life (Years) -----	Weighted Average Exercise Price -----
\$0.01 to \$0.50	200,000	3.3	\$0.26
\$1.00	527,780	4.2	\$1.00
\$1.50	429,700	3.8	\$1.50
\$2.00	26,666	4.3	\$2.00
\$2.50	45,000	4.2	\$2.50
	-----	---	-----
	1,229,146	3.9	\$1.13
	=====	===	=====

### STOCK OPTIONS

The Board approves all issuances of stock options. All stock options expire five years from the grant date. In general, options vest and become exercisable one third on the one year anniversary of the date of grant, and the remainder vest evenly over the two years subsequent to that date.

The following table summarizes stock option activity for the year ended December 31, 2000:

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	Options (In 000'S) -----	2000 Wtd Avg	Exercise Price -----
Outstanding at Beginning of Year	881		\$1.36
Granted	1,000		1.10
Exercised	--		0.00
Forfeited	(340)		1.63
	-----		-----
Outstanding at end of year	1,541		\$1.15
	=====		=====
Vested Options	846		\$0.56
Remaining Options available for Grant	3,459		

In June 2000, the Company reduced the exercise price on all its outstanding stock options. As a result, the Company recognized \$395,682 in compensation expense in 2000 for the vested portion of these options, and will recognize \$933,568 in subsequent periods as these options vest.

The Company accounts for issuances to employees under APB 25, and accordingly, \$545,898 of compensation expense, including the amount discussed above, has been recognized for the year ended December 31, 2000.

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SFAS 123 requires pro forma information regarding net income as if the Company has accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) risk-free interest rate of 6 percent, which approximates the four-year U.S. Treasury Bill rate at the date of grant, (ii) dividend yield of 0 percent (iii) expected volatility of 80 percent (iv) and an average expected life of the option of four years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	Year Ended December 31, 2000 ----
Net loss:	
As reported	\$(8,515,971)
SFAS 123 pro forma	\$(8,902,427)

The following table summarizes the weighted average fair value of options granted to employees during the year ended December 31, 2000:

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	2000 ----
Stock Price Greater than Exercise Price	
Weighted Average Fair Value	\$2.98
Stock Price Equal to Exercise Price	
Weighted Average Fair Value	\$0.84
Stock Price Less than Exercise Price	
Weighted Average Fair Value	\$0.82

The following table summarizes information about Company's stock options outstanding as of December 31, 2000:

Range of Exercise Prices -----	Options Outstanding			Options Exercisable	
	Shares Outstanding (In 000's) -----	Wtd. Avg Remaining Life ----	Wtd. Avg Exercise Price -----	Options Exercisable (In 000's) -----	Wtd. Avg. Exercise Price -----
\$ .25	350	3.5	\$0.25	239	\$0.25
\$ .50	371	4.3	\$0.50	341	\$0.50
\$ .75	375	4.2	\$0.75	185	\$0.75
\$1.00 to \$1.50	445	4.4	\$1.05	81	\$1.26
	---	---	-----	---	-----
	1,541			846	\$0.56
	=====			===	=====

11 RELATED PARTIES

The Company's primary legal counsel holds 3,200,000 shares of the Company's common stock in trust for the law firm's partners. During 2000, the Company recorded expenses of approximately \$123,000 related to services performed by its primary legal counsel. The Company owed its primary legal counsel approximately \$61,000 at December 31, 2000.

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During 2000, Q Productions, Inc., whose owners also own 4,800,000 shares of the Company, provided various information technology services to the Company. The Company recorded approximately \$930,364 in expenses related to services performed by Q Productions, Inc. for the year ended December 31, 2000. The Company owed Q Productions, Inc. approximately \$171,000 at December 31, 2000. Q Productions, Inc. rented space from Qode.com in 2000 for \$43,167 in total.

During 2000, the Company granted 20,000 warrants with an exercise price of \$1.00 per share to Q Productions, Inc.

The Company has issued several promissory notes to officers (see Note 3).

12 SUBSEQUENT EVENTS

On January 11, 2001, the Company entered into a note purchase agreement with an investor for \$300,000, with an interest rate of 18 percent. The principal and interest are due March 1, 2001.

In January 2001, the Company entered into a short-term loan agreement with NeoMedia Technologies, Inc. ("NeoMedia") for the amount of \$440,000. The note was forgiven in March 2001 upon the acquisition of substantially all of the Company's assets by NeoMedia.

On March 1, 2001, NeoMedia purchased all of the assets of the Company other than cash including but not limited to, contracts, customer lists, licenses and intellectual property. In consideration for these assets, the Company received 1,676,500 shares of NeoMedia's Common Stock. In addition, NeoMedia issued 274,699 of its Common Stock to certain creditors of the Company, for the repayment of \$1,561,037 of debt, forgave the \$440,000 short-term note due from the Company (see above paragraph), and assumed approximately \$1,407,000 of the Company's liabilities. The 1,676,500 shares paid to the Company are to be held in escrow for one year, and are subject to downward adjustment, based upon the achievement of certain performance targets over the period of March 1, 2001 to February 28, 2002.

Notes payable as of December 31, 2000 that were not acquired as part of the March 1, 2001 sale totaled 3,000,000 as of December 31, 2000.

13. SUBSEQUENT EVENTS

On May 31, 2001, three creditors of Qode.com, Inc, filed in the U.S. Bankruptcy Court an involuntary bankruptcy petition for Qode.com, Inc. Qode.com, Inc. has consulted with legal counsel and will be opposing the Chapter 7 proceeding and



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plans to proceed under Chapter 11, U.S. Code to reorganize its debts.

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Report of Independent Certified Public Accountants

The Stockholders and Board of Directors Qode.com, Inc.

We have audited the accompanying balance sheet of Qode.com, Inc. (the Company) (a development stage enterprise) as of December 31, 1999 and the related statement of operations, and statement of changes in redeemable preferred stock and stockholders' deficit, and statement of cash flows for the period from March 29, 1999 (inception) through December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Qode.com, Inc. at December 31, 1999, and the results of its operations and its cash flows for the period March 29, 1999 (inception) through December 31, 1999, in conformity with accounting standards generally accepted in the United States.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in Note 1, the Company, which is in the developmental stages has incurred a net operating loss, experienced negative cash flow from operations and has a net capital deficit. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ ERNST & YOUNG LLP

West Palm Beach, Florida

July 21, 2000, except for the seventh paragraph of Note 8, as to which the date is June 30, 2001

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Qode.com, Inc.  
(A Development Stage Enterprise)

Balance Sheet

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December 31, 1999

Assets	
Current assets:	
Cash and cash equivalents	\$972,487
Other current assets	18,151
	-----
Total current assets	990,638
Property and equipment, net	109,269
Deposits	30,229
	-----
Total assets	\$1,130,136
	=====
Liabilities, redeemable preferred stock and stockholders' deficit	
Current liabilities:	
Accounts payable	\$151,588
Accrued expenses	47,246
Due to officers	73,333
	-----
Total current liabilities	272,167
15% cumulative convertible redeemable preferred stock, \$.0001 par value, 3,000,000 shares authorized, 2,025,000 shares issued and outstanding, liquidation value of \$2,221,000	2,154,711
Commitments	
Stockholders' deficit:	
Common stock, \$.0001 par value, 25,000,000 shares authorized, 8,023,000 shares issued and outstanding	802
Capital deficiency	(49,557)
Deficit accumulated during the development stage	(1,247,987)
	-----
Total stockholders' deficit	(1,296,742)
	-----
Total liabilities, redeemable preferred stock and stockholders' deficit	\$1,130,136
	=====

See accompanying notes.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Statement of Operations

Period from March 29, 1999 (inception) to December 31, 1999

Costs and expenses:

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Research and development	\$396,242
Sales and marketing	41,975
General and administrative	847,412
	-----
Total costs and expenses	1,285,629
Net interest income	(37,642)
	-----
Net loss	(1,247,987)
Preferred dividends and redemption accretion	(200,711)
	-----
Net loss applicable to common stockholders	\$ (1,448,698)
	=====

See accompanying notes.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Statement of Changes in Redeemable  
Preferred Stock and Stockholders' Deficit

Period from March 29, 1999 (inception) to December 31, 1999

	Redeemable Preferred Stock -----	Common Stock Shares -----	Amount -----	Capital Deficiency -----	Deficit Accumulated During the Development Stage -----
Issuance of common stock on March 29, 1999 (inception)	\$ --	8,000,000	\$800	\$--	\$--
Issuance of redeemable preferred stock with detachable warrants valued at \$46,000, net of issuance costs of \$25,000	1,954,000	--	--	46,000	--
Issuance of common stock	--	23,000	2	22,998	--
Issuance of warrants in exchange for services	--	--	--	82,156	--
Preferred dividends and redemption accretion	200,711	--	--	(200,711)	--
Net loss	--	--	--	--	(1,247,987)
	-----	-----	-----	-----	-----
Balance at December 31, 1999	\$2,154,711	8,023,000	\$802	\$ (49,557)	\$ (1,247,987)
	=====	=====	=====	=====	=====

See accompanying notes.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Statement of Cash Flows

Period from March 29, 1999 (inception) to December 31, 1999

Operating activities	
Net loss	\$(1,247,987)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	17,522
Issuance of warrants in exchange for services	82,156
Changes in assets and liabilities:	
Other current assets	(18,151)
Deposits	(30,229)
Accounts payable	151,588
Accrued expenses	47,246
Due to officers	73,333
	-----
Net cash used in operating activities	(924,522)
	-----
Investing activities	
Purchases of property and equipment	(126,791)
	-----
Net cash used in investing activity	(126,791)
	-----
Financing activities	
Proceeds from the issuance of redeemable preferred stock, net of issuance costs of \$25,000	2,000,000
Proceeds from the issuance of common stock	23,800
	-----
Net cash provided by financing activities	2,023,800
	-----
Net increase in cash and cash equivalents	972,487
Cash at beginning of period	--
	-----
Cash at end of period	\$972,487
	=====
Supplemental disclosure of cash flow information	
Interest paid	\$171
Noncash financing and investing activities	
Accrued dividends on redeemable preferred stock	\$195,997

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Accretion of redeemable preferred stock

\$4,714

See accompanying notes.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements

Period from March 29, 1999 (inception) to December 31, 1999

### 1. NATURE OF BUSINESS

#### ORGANIZATION

Qode.com, Inc. (the Company) commenced operations on March 29, 1999 and is incorporated in the state of Florida. Qode.com is a development stage company, as defined in Statement of Financial Accounting Standards (SFAS) No. 7, Accounting and Reporting By Development Stage Enterprises. The Company intends to provide manufactures, retailers, advertisers, and users a unique tool for Web site navigation by the use of imbedded standard bar codes and Uniform Product Codes (UPC). It is the Company's mission to develop, operate, maintain and promote the use of Qode.com technologies to enable any bar code to interface with their technology.

The Company has incurred losses since its inception as it has devoted substantially all of its efforts toward building network infrastructure, internal staffing, developing systems, expanding into new markets, building a proprietary database and raising capital. The Company has generated no revenue to date and is subject to a number of risks similar to those of other development stage companies, including dependence on key individuals, the ability to demonstrate technological feasibility, and the need to obtain adequate additional financing necessary to fund the development and marketing of its products and services, and customer acceptance.

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a limited operating history and intends to significantly increase its operational expenses in fiscal year 2000 to pursue certain sales and marketing plans. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may results from the outcome of this uncertainty. In fiscal year 2000, the Company plans to raise additional financing from private equity financing. The Company entered into a financing agreement subsequent to year end that will provide the Company with an additional \$3 million, see Note 8.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### USE OF ESTIMATES

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

### CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Computer hardware and software are being depreciated over a three year period and furniture and fixtures are being depreciated over a five year period.

### SOFTWARE DEVELOPMENT COSTS

In accordance with the AICPA SOP No. 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use, all costs related to the development or purchase of internal use software other than those incurred during the application development stage are to be expensed as incurred. Costs incurred during the application development stage are required to be capitalized and amortized over the useful life of the software. The Company has incurred \$259,480 in software development costs for the period from March 29, 1999 (inception) through December 31, 1999. All costs have been expensed since the Company has not entered the application development stage as of December 31, 1999.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INCOME TAXES

The Company accounts for income taxes under the liability method, which requires the establishment of a deferred tax asset or liability for the recognition of future deductions or taxable amounts, and operating loss and tax credit

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carryforwards. Deferred tax expense or benefit is recognized as a result of the change in the deferred asset or liability during the year. If necessary, the Company will establish a valuation allowance to reduce any deferred tax asset to an amount which will, more likely than not, be realized.

### CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents. The Company maintains its cash and cash equivalents with high quality financial institutions to mitigate this credit risk.

### REDEEMABLE PREFERRED STOCK

Redeemable preferred stock is carried at the net consideration to the Company at time of issuance (fair value), increased by accrued and unpaid cumulative dividends and periodic accretion to redemption value using the interest method. Accrued and unpaid dividends and redemption accretion are affected by charges against retained earnings, or, in the absence of retained earnings, paid-in capital (capital deficiency).

### ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. The provisions of SFAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Public Bulletin (APB) Opinion 25, Accounting for Stock Issued to Employees but disclose the pro forma effects on net income or loss as if the fair value had been expensed. The Company has elected to apply APB 25 in accounting for its employee stock options and, accordingly, recognizes compensation expense for the difference between the fair value of the underlying common stock and the grant price of the option at the date of grant.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

### 3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 1999
	----
Computer hardware and software	\$120,791
Furniture and fixtures	6,000
	-----
	126,791
Less accumulated depreciation	(17,522)
	-----

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\$109,269  
 =====

Depreciation and amortization expense was \$17,939 for the period from March 29, 1999 (inception) to December 31, 1999.

4. INCOME TAXES

The net amounts of deferred tax assets recorded in the balance sheet at December 31, 1999 are as follows:

	1999
	-----
Deferred tax asset:	
Net operating loss carryforward	\$469,050
Less valuation allowance	(466,230)
	-----
Total deferred tax asset	\$2,820
Deferred tax liabilities:	
Fixed assets	\$ (2,820)
	-----
Total net deferred taxes	\$ --
	=====

FASB 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a \$466,230 valuation allowance at December 31, 1999 is

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Qode.com, Inc.  
 (A Development Stage Enterprise)

Notes to Financial Statements (continued)

4. INCOME TAXES (CONTINUED)

necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The change in the valuation allowance for the current year is \$466,230. At December 31, 1999, the Company has available net operating loss carryforwards of \$1,246,478, which expire in the year 2019.

A reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense for the year ended December 31, 1999 is as follows:

	1999
Taxes at the U.S. statutory rate	\$(424,315)
State taxes, net of federal benefit	(44,975)
Nondeductible items	3,060
Change in valuation allowance	466,230
	-----



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Total income tax expense \$ --  
=====

### 5. COMMITMENTS

The Company leases its office facility under a non-cancelable operating lease expiring March 2005. Rental expense was \$19,711 for the period from March 29, 1999 (inception) to December 31, 1999.

Lease commitments under these non-cancelable operating leases as of December 31, 1999 are as follows:

2000		\$100,656
2001		104,682
2002		108,876
2003		113,238
2004		117,768
		-----
		\$545,220
		=====

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

### 6. STOCKHOLDERS' EQUITY

#### 15% CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED STOCK SERIES A

The Board of Directors has authorized the issuance of up to 3,000,000 shares of Series A 15% \$.0001 par value, voting, cumulative, redeemable, convertible, preferred stock (the Preferred Stock) which may be issued in series from time to time with such designations, rights, preferences and limitations as the Board of Directors may declare by resolution. In May 1999, the Company issues 2,025,000 shares of Preferred Stock at \$1.00 per share, less issuance costs of \$25,000. One detachable warrant was attached to each share of the Preferred Stock. The Preferred Stock was recorded at \$1,954,000, net of the value of the detachable warrants which was estimated to be \$46,000. The detachable warrants were valued in accordance with SFAS No. 123 at \$.23 per share and are convertible into common stock at \$1.50 per share. The Preferred Stock is convertible at any time at the option of the holder prior to the closing of a Public Offering, as defined in the agreement, or within 20 days following receipt of a Notice of Redemption, as defined in the agreement, into the Company's common stock for each share of the Preferred Stock held plus accrued and unpaid dividends on the Series A Preferred Shares. The Preferred Stock has a liquidation preference of \$1 per share and is mandatorily redeemable on April 15, 2004. As of December 31, 1999, all 2,025,000 shares of the Preferred Stock and related 202,500 detachable warrants remain outstanding.

Dividends on the preferred stock accrue on a daily basis commencing on the date of issuance at an interest rate of 15% per annum and are payable on a semi-annual basis. The Company, at its option, may pay dividends either in cash or by the issuance of additional shares of Series A Preferred Stock. Aggregate

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cumulative dividends in arrears at December 31, 1999 totaled \$195,997.

### COMMON STOCK

The Company is authorized to issue up to 20,000,000 shares of its \$.0001 par value common stock. On March 29, 1999 (inception) the Company received \$800 by issuing 8,000,000 shares of its common stock to its founders.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

### 6. STOCKHOLDERS' EQUITY (CONTINUED)

Additionally, the Company issued 13,000 shares of common stock to a Company employee in lieu of relocation expense reimbursement of \$13,000, and 10,000 shares of common stock to an executive recruiter for a corporate staffing fee of \$10,000. These amounts were expensed.

### STOCK OPTIONS AND WARRANTS GRANTED IN EXCHANGE FOR SERVICES

During 1999, the Company granted 327,200 common stock warrants with an exercise price of \$1.50 per share to consultants for certain advisory and consulting services performed during the Company's start-up phase. The warrants vest immediately upon issuance and can be exercised over a five year period. The Company valued the warrants at \$82,156 in accordance with SFAS No. 123, and recognized the entire amount as a general and administrative expense in the accompanying statement of operations. The Company had 327,200 warrants outstanding at December 31, 1999.

During 1999, the Company granted 400,000 in common stock options to purchase shares of common stock at an exercise price of \$.10 per share to an investment advisor in exchange for investment advisory services. The options expired on June 30, 2000 without being exercised and accordingly no expense has been recorded.

### STOCK OPTIONS

In 1999, the Company's Board of Directors and stockholders approved the 1999 Equity Compensation Plan (the Plan). The Plan provides for the issuance of incentive stock options, nonqualified stock options and restricted stock to directors, officers, and key employees of the Company as well as non-employee directors, advisors, and consultants. The Board administers the Plan. The Company has reserved 5,000,000 shares of common stock to be issued under the Plan.

The exercise price (as established by the Board) of the stock options granted is in excess of fair market value of the Company's Common Stock on the date of the grant. All stock options expire five years from the grant date in 2004. Options granted under the Plan are exercisable as determined by the Board.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

6. STOCKHOLDERS' EQUITY (CONTINUED)

The following table summarizes stock option activity for the period from March 29, 1999 (inception) to December 31, 1999:

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at March 29, 1999 (inception)	-	\$-
Granted	880,600	1.36
Exercised	-	-
Forfeited	-	-
	-----	-----
Outstanding at December 31, 1999	880,600	\$1.36
	=====	=====

At December 31, 1999, 142,642 options are exercisable, at a weighted average exercise price of \$1.28 per share. The weighted-average remaining contractual life of the options is 4.7 years.

During 1999, all of the stock options issued were granted to employees of the Company. The Company accounts for issuances to employees under APB 25 and accordingly, no compensation cost has been recognized for the period from March 29, 1999 (inception) to December 31, 1999.

SFAS No. 123 requires pro forma information regarding net income as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rates equal to the three-year U.S. Treasury Bill rate on the grant date, dividend yield of 0%, expected volatility of 81.1%, and an average expected life of the option of three years.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

6. STOCKHOLDERS' EQUITY (CONTINUED)

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For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. All employee options granted to date vest over a one to three year period. The Company's pro forma information is as follows:

	Period from March 29, 1999 (inception) to December 31, 1999 -----
Net loss:	
As reported	\$(1,247,987)
SFAS No. 123 pro forma	\$(1,305,831)

The weighted average fair value of options granted to employees during the period from March 29, 1999 to December 31, 1999 for which the estimated fair value of the stock is less than the exercise price is \$0.29 per share. The weighted average fair value of options granted to employees during the period from March 29, 1999 to December 31, 1999 for which the estimated fair value of the stock equals the exercise price is \$0.47 per share.

### SHARES RESERVED FOR FUTURE ISSUANCE

At December 31, 1999, the Company has reserved the following shares of stock for issuance:

Common stock	11,977,000
Convertible preferred stock	975,000
	-----
	12,952,000
	=====

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Qode.com, Inc.  
(A Development Stage Enterprise)

### Notes to Financial Statements (continued)

#### 7. RELATED PARTIES

The Company's primary legal counsel holds 3,200,000 shares of the Company's common stock in trust for the firm's partners. During 1999, the Company recorded expenses of approximately \$32,000 related to services performed by its primary legal counsel. The Company owed its primary legal counsel approximately \$3,000 at December 31, 1999.

During 1999, Q Productions, Inc. provided various information technology services to the Company. Two owners of Q Productions, Inc. also aggregately own 4,800,000 shares of the Company. The Company recorded approximately \$129,000 in expenses related to services performed by Q Productions, Inc. The Company owed Q Productions, Inc. approximately \$97,000 at December 31, 1999.

#### 8. SUBSEQUENT EVENTS

On January 18, 2000, the Company issued a convertible subordinated promissory

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note for \$3 million with a fixed interest rate of 12% to Novus Holding Corporation. Principal and accrued interest on the note are payable upon the earlier of a) the day immediately following the closing of financing or successive financings which cumulatively aggregate proceeds of \$10,000,000 or b) 180 days from the date of the note. The debt is convertible into common stock at a price equal to 85% of the purchase price per share paid by investors in the next financing or successive financings of \$5,000,000 or more.

On February 11, 2000, the Company entered into a letter of intent with a major supplier to produce portable bar code scanning devices in exchange for payments ranging from \$32,000,000 to \$35,000,000 over a 16 month period commencing April 28, 2000 through August 1, 2001.

On March 15, 2000, the Company entered into a two year term note with a major lender. The principal amount of the note was \$42,500 with a fixed interest rate of 11%. Principal and interest payments of \$1,984 are due monthly through maturity on March 15, 2002.

On March 24, 2000, the Company obtained a letter of credit for \$1,400,000 with the lender of their term note.

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Qode.com, Inc.  
(A Development Stage Enterprise)

Notes to Financial Statements (continued)

### 8. SUBSEQUENT EVENTS (CONTINUED)

On March 27, 2000, the Company entered into a consulting agreement with a consultant for a five month period in return for 250,000 common stock options convertible into the Company's common stock. The options have a term of five years and an exercise price of \$2 per share. 125,000 options vest 45 days from the commencement of the agreement based on the fulfillment of certain contractual obligations. The remaining 125,000 options vest 90 days from the commencement of the agreement based on the fulfillment of certain contractual obligations. Additionally, the Company will pay the consultants \$100,000 over the period of the contract.

On May 22, 2000, the Board of Directors authorized the issuance of 1,500,000 shares of Series U Convertible Preferred Stock (the Series U Preferred Stock). Dividends on the preferred stock accrue on a daily basis commencing on the date of issuance at an interest rate of 8% per annum. The Series U Preferred Stock is convertible at any time at the option of the holder prior to the closing of a Public Offering, as defined in the agreement, into one share of the Company's common stock for each share of the Company's Series U Preferred Stock held plus accrued and unpaid dividends on the Series U Preferred Shares. In the event of the closing of the next financing of \$4,000,000 or more within 90 days from the authorization of the Series U Preferred Stock, the holder of the Series U Preferred Stock shall have the right to convert all Series U Preferred Shares into a number of shares of stock issued in the next financing which represents the equivalent amount for the consideration paid for the Series U Preferred Stock. The Series U Preferred Stock has a liquidation preference of \$2.00 per share. On May 22, 2000, the Company entered into an agreement for the issuance of 1,500,000 shares of Series U Preferred Stock in exchange for \$3,000,000. The

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shares will be issued in three separate financings. The initial 500,000 shares are to be issued on the date of the agreement. The next 500,000 shares are to be issued upon the Company meeting certain performance goals defined in the agreement. The remaining 500,000 shares are to be issued, not earlier than August 1, 2000 nor later than October 15, 2000, upon the Company meeting certain performance goals defined in the agreement.

On May 31, 2001, three creditors of Qode.com, Inc. filed in the U.S. Bankruptcy Court an involuntary bankruptcy petition for Qode.com, Inc. Qode.com, Inc. has consulted with legal counsel and will be opposing the Chapter 7 proceeding and plans to proceed under Chapter 11, U.S. Code, to reorganize its debts.

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### ITEM 8. EXHIBITS.

#### Exhibit

- |      |  |
|------|--|
| 4    | NeoMedia Technologies, Inc. 2002 Stock Option Plan (incorporated by reference to Appendix A in NeoMedia Technologies 14A Definitive Proxy Statement as filed with the SEC on May 7, 2002). |
| 5.1  | Opinion of Kirkpatrick & Lockhart LLP  |
| 23.1 | Consent of Ernst & Young, LLP, former independent certified public accountants of Qode.com, Inc.   |
| 23.2 | Consent of Stonefield Josephson, Inc., current independent auditors of NeoMedia Technologies, Inc.   |
| 23.4 | Consent of Kirkpatrick & Lockhart LLP (included in Exhibit 5 opinion letter).  |
| 24   | Power of Attorney (included on signature page).  |

In accordance with Securities Act Rule 437a, the consent of Arthur Andersen LLP has not been included as an exhibit herewith. The Company has been unable to obtain a consent of Arthur Andersen LLP due to the departure of their engagement team leaders from such firm. Any recovery by investors posed by the lack of consent is limited by Securities Act Rule 437a.

### ITEM 9. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new

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registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant

has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person connected with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fort Myers, State of Florida, on September 4, 2002.

NEOMEDIA TECHNOLOGIES, INC.

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

POWER OF ATTORNEY

The undersigned officers and directors of NeoMedia Technologies, Inc. hereby constitute and appoint Charles T. Jensen with power to act one without the other, our true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for us and in our stead, in any and all capacities to sign any and all amendments (including post-effective amendments)

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to this Registration Statement and all documents relating thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing necessary or advisable to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitutes, may lawfully do or cause to be done by virtue hereof.

Signatures -----	Title -----	Date -----
/s/ Charles W. Fritz ----- Charles W. Fritz	Chairman of the Board and Director	September 4, 2002
/s/ William E. Fritz ----- William E. Fritz	Secretary and Director	September 4, 2002
/s/ Charles T. Jensen ----- Charles T. Jensen	President, Acting Chief Executive Officer, Chief Operating Officer, and Director	September 4, 2002
/s/ David A. Dodge ----- David A. Dodge	Vice President, Chief Financial Officer, and Controller	September 4, 2002