NEOMEDIA TECHNOLOGIES INC
Form 10QSB
August 12, 2005

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10 - QSB
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2005

OR

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

Commission File Number 0-21743

NEOMEDIA TECHNOLOGIES, INC.
(Exact Name of Small Business Issuer as Specified In Its Charter)

Delaware	36-3680347
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2201 Second Street, Suite 402, Fort Myers, Florida	33901
(Address of Principal Executive Offices)	(Zip Code)

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

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

As of July 27, 2005, there were 455,669,128 outstanding shares of the issuer's Common Stock.

1

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NeoMedia Technologies, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet (Unaudited)
(In Thousands, Except Share Data)

	June 30, 2005
ASSETS	

Current assets:	
Cash and cash equivalents	$ 7,075
Trade accounts receivable, net of allowance for doubtful accounts of $80	786
Inventories	136
Investment in marketable securities	121
Prepaid expenses and other current assets	288
Total current assets	8,406
Property and equipment, net	179
Leasehold improvements, net	40
Capitalized patents, net	3,542
Micro paint chemical formulations and proprietary process, net	1,540
Goodwill	1,099
Other Intangible assets, net	191
Investment in IPoint-media, Ltd.	1,000
Cash surrender value of life insurance policy	719
Other long-term assets	277
Total assets	$ 16,993
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable	$ 1,588
Amounts payable under settlement agreements	78
Liabilities of discontinued business unit	676
Sales taxes payable	55
Accrued expenses	1,675
Deferred revenues and other	453
Notes payable	7,299
Total current liabilities	11,824
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, 473,949,163 shares issued and 453,984,483 outstanding	4,540
Additional paid-in capital	102,009
Deferred stock-based compensation	(269)
Deferred equity financing costs	(13,256)
Accumulated deficit	(86,896)
Accumulated other comprehensive loss	(180)
Treasury stock, at cost, 201,230 shares of common stock	(779)
Total shareholders' equity	5,169
Total liabilities and shareholders' equity	$ 16,993

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

NeoMedia Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
and Comprehensive Loss (Unaudited)
(In Thousands, Except per Share Data)

	Three Months Ended June 3	
	2005	2004
NET SALES:		
License fees	$ 174	$
Resale of software and technology equipment and service fees	103	
Micro paint repair products and services	261	
Total net sales	538	
COST OF SALES:		
License fees	160	
Resale of software and technology equipment and service fees	53	
Micro paint repair products and services	237	
Total cost of sales	450	
GROSS PROFIT	88	
Sales and marketing expenses	1,230	
General and administrative expenses	862	
Research and development costs	160	
Loss from operations	(2,164)	(
Gain / (loss) on extinguishment of debt	33	
Amortization of debt discount	--	
Interest expense, net	(169)	
NET LOSS	(2,300)	(
Other comprehensive loss:		
Unrealized loss on marketable securities	(87)	
Foreign currency translation adjustment	(2)	
COMPREHENSIVE LOSS	$ (2,389)	$ (
LOSS PER SHARE--BASIC AND DILUTED	$ (0.00)	$
Weighted average number of common shares--basic and diluted		

	448,777,048	305,32

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

NeoMedia Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
and Comprehensive Loss (Unaudited)
(In Thousands, Except per Share Data)

	Six Months Ended June 3	
	2005	2004
NET SALES:		
License fees	$ 338	$
Resale of software and technology equipment and service fees	231	
Micro paint repair products and services	716	
Total net sales	1,285	
COST OF SALES:		
License fees	248	
Resale of software and technology equipment and service fees	141	
Micro paint repair products and services	510	
Total cost of sales	899	
GROSS PROFIT	386	
Sales and marketing expenses	2,025	
General and administrative expenses	1,561	
Research and development costs	344	
Loss from operations	(3,544)	(
Gain on extinguishment of debt	171	
Amortization of debt discount	--	(
Interest expense, net	(146)	
NET LOSS	(3,519)	(
Other comprehensive loss:		
Unrealized loss on marketable securities	(129)	
Foreign currency translation adjustment	9	
COMPREHENSIVE LOSS	$ (3,639)	$ (

LOSS PER SHARE--BASIC AND DILUTED	$ (0.01)	$
Weighted average number of common shares--basic and diluted	443,301,430	287,73

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

NeoMedia Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of discount on note payable	
Depreciation and amortization	
Stock issued to reacquire rights under a contract	
Fair value of expense portion of stock-based compensation granted for professional services	
Interest expense allocated to debt	
Decrease in value of life insurance policies	
Decrease of fair value of repriced options	
Changes in operating assets and liabilities	
Trade accounts receivable, net	
Inventory	
Other current assets	
Accounts payable, amounts due under financing agreements, liabilities in excess of assets of discontinued business unit, accrued expenses and stock liability	
Deferred revenue other current liabilities	
Net cash used in operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in iPoint-media	
Capitalization of software development and purchased intangible assets	
Acquisition of property and equipment	
Net cash used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from issuance of common stock, net of issuance costs of $105 in 2005 and $391 in 2004	

Net proceeds from exercise of stock options and warrants	
Borrowings under notes payable and long-term debt	
Repayments on notes payable and long-term debt	
Cash commitment fee for $100 million Standby Equity Distribution Agreement	
Cash paid to acquire CSI International, Inc. (net of cash acquired)	
Net cash provided by financing activities	
EFFECT OF EXCHANGE RATE CHANGES ON CASH	
NET INCREASE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid during the period	$
Income taxes paid	
Non-cash investing and financing activities:	
Reduction in accounts payable and accruals for debt paid in stock	
Fair value of stock issued for services and deferred to future periods	
Fair value of shares issued to acquire CSI Int'l (net of costs of registration)	
Change in net assets resulting from acquisition of CSI (net of cash acquired)	
Gain on extinguishment of debt	
Direct costs associated with Standby Equity Distribution Agreement and Equity Line of Credit	

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

NeoMedia Technologies, Inc. and Subsidiaries
Unaudited Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Nature of Business Operations

Basis of Presentation

The condensed consolidated financial statements include the financial statements of NeoMedia Technologies, Inc. and its wholly-owned subsidiaries ("NeoMedia" or the "Company"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's Form 10-KSB for the fiscal year ended December 31, 2004. In the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the consolidated financial position of NeoMedia as of June 30, 2005, the results of operations for the three-month and six-month periods ended June 30, 2005 and 2004, and cash flows for the six-month periods ended June 30, 2005 and 2004. The results of operations for the three-month and six-month periods ended June 30, 2005 and 2004 are not necessarily indicative of the results which may be expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated in preparation of the condensed consolidated financial statements.

Going Concern

The accompanying condensed 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 $2,300,000 and $1,831,000 for the three months ended June 30, 2005 and 2004, respectively, and net losses of $3,519,000 and $4,053,000 for the six months ended June 30, 2005 and 2004, respectively, and has an accumulated deficit of $86,896,000 as of June 30, 2005. In addition, the Company had working capital deficit of $3,418,000 as of June 30, 2005.

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.

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.

Nature of Business Operations

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).

6

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

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

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

In addition, on December 21, 2004, NeoMedia signed a definitive Agreement and Plan of Merger to acquire and merge with BSD Software, Inc. 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. On April 4, 2005 NeoMedia and BSD filed a joint registration/information statement with the United States Securities and Exchange Commission (the "SEC"). NeoMedia expects to complete the merger when the SEC review is complete, the registration is declared effective and the information statement is mailed to BSD's shareholders of record. At this time, the exchange rate will be determined and closing will be held. Closing is subject to the terms and conditions outlined in the merger agreement, as well as regulatory approval of the merger and registration/information statement by the SEC. Upon the anticipated closing of the merger, NeoMedia expects to integrate a new business unit called "NeoMedia Telecom Services" encompassing Triton's business.

Reclassifications

Certain amounts in the 2004 condensed consolidated financial statements have been reclassified to conform to the 2005 presentation.

Standby Equity Distribution Agreements with Cornell Capital Partners, LP ("Cornell")

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

On October 27, 2003, the Company and Cornell entered into a $20 million Standby Equity Distribution Agreement (the "2003 SEDA") The terms of the agreement are identical to the terms of the previous Equity Line of Credit, except that the maximum "draw" under the new agreement is $280,000 per week, not to exceed $840,000 in any 30-day period, and Cornell will purchase up to $20 million of the Company's common stock over a two-year period. As a 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 "Notes Payable to Cornell" below).

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'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 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. NeoMedia also issued 4 million warrants with an exercise price of $0.227 to a consultant as a fee for negotiating and structuring the 2005 SEDA. NeoMedia has 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. NeoMedia expects to file a registration statement with the SEC during 2005 to register the shares underlying the $100 million 2005 SEDA. The new SEDA would become available at the time the SEC declares effective a registration statement containing such shares.

During the six months ended June 30, 2005, the Company sold 14,257,025 shares of its common stock to Cornell under the 2003 SEDA. The following table summarizes funding received from Cornell during the six-month periods ended June 30, 2005 and 2004:

	2005			
	First Quarter	Second Quarter	Six Months Ended June 30	First Quarter
Number of shares sold to Cornell	6,998,931	7,258,094	14,257,025	21,282,203
Gross Proceeds from sale of shares	$ 1,709,000	$ 3,219,000	$ 4,928,000	$ 2,332,000
Less: discounts and fees*	(204,000)	(489,000)	(693,000)	(500,000)
Net Proceeds from sale of shares	$ 1,505,000	$ 2,730,000	$ 4,235,000	$ 1,832,000

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

Promissory Notes Payable to Cornell

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 common restricted stock as security for the note. As of June 30, 2005, NeoMedia had made payments of $2,730,000 against the principal, reducing the principal balance to $7,270,000.

On April 8, 2004, NeoMedia borrowed from Cornell the gross amount of $1,000,000 before discounts and fees. Cornell withheld a $76,000 retention fee related to the issuance of stock to pay off the debt in the future. 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 a $315,000 retention fee related to the issuance of stock to pay off the debt in the future. NeoMedia paid this note in full during 2004.

In connection with the January 20, 2004 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 during January 2004. 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.

Other Events

During February 2004, the Company entered into a Consulting Agreement with an unrelated third party, under which the consultant will provide sales and marketing services relating to the Company's Micro Paint business unit over a period of three years. As consideration for the contract, the Company issued 6,055,556 options with an exercise price of $0.01 to the consultant. The fair value of the options at the time of issuance was $550,000. The Company is recognizing the fair value as sales and marketing expense over the term of the contract (three years). The contract was terminated during the second quarter of 2005, accordingly, the Company recognized professional services expense of $267,000 to write off the remaining deferred stock compensation. The Company recognized $368,000 and $81,000 in expense relating the contract during the six month periods ended June 30, 2005 and 2004, respectively.

On February 25, 2005, NeoMedia invested $250,000 in exchange for 8,333,333 shares of Pickups Plus, Inc. ("PUPS")(OTCBB:PUPS) restricted common stock. PUPS is a retail operator and franchiser of retail automotive parts and accessories stores catering to the light truck market, and also provides new vehicle preparation, environmental protection packages, detailing and reconditioning products and services. The 8,333,333 shares represent approximately 5.8% of PUPS outstanding shares (based on 125,249,954 PUPS shares outstanding as of September 30, 2004). Because the investment represents less than 20% of PUPS outstanding shares, NeoMedia has recorded the investment at cost and analyze it for impairment going forward. As of June 30, 2005, NeoMedia has recorded an impairment of $129,000 due to the decrease in the quoted market price.

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 Intenr 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 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 2, 2005, NeoMedia announced that it had signed a Letter of Intent with Jinche Yingang Automobile Co. of Beijing, China ("Jinche"), under which Jinche will act as a distributor of NeoMedia's micro paint repair products in China. Jinche is a Beijing PRC-registered company specializing in automobile sales, financing, insurance and repair.

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 cods 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 June 20, 2005, NeoMedia announced that it has signed a Letter of Intent with WI-THO AS of Oslo, Norway, where WI-THO AS will become the exclusive master distributor of NeoMedia's micro paint repair products, systems and licenses to automotive service facilities throughout Demark, Sweden and Norway.

On June 29, 2005, NeoMedia announced that it had reached an out-of-court agreement with Virgin Entertainment Group, Inc. whom it sued for patent infringement. In the agreement, Virgin agreed to purchase a license of NeoMedia's PaperClick(R) technology platform through 2006.

Investment in Marketable Securities

On February 25, 2005, NeoMedia invested $250,000 in exchange for 8,333,333 shares, or approximately 5.8% of Pickups Plus, Inc. ("PUPS") restricted common stock. PUPS is a retail operator and franchiser of retail automotive parts and accessories stores catering to the light truck market, and also provides new vehicle preparation, environmental protection packages, detailing and reconditioning products and services. In accordance with Statements of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the investment in PUPS is being recorded as available-for-sale securities and reported at fair value. Accordingly, unrealized gains and losses on the equity securities are reflected in the condensed consolidated statement of operations and comprehensive income (loss).

The investments in marketable securities are summarized as follows:

	As of June 30, 2005		
	Amortized Cost	Unrealized Holding Gain	Unrealized Holding Losses
Available-for-sale	$250,000	$ -	($ 129,000)

Financial Instruments

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

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

It is not practicable to estimate the fair value of the Company's 17% investment in the common stock of i-Point Media Ltd. and its investments of 250,000 shares of preferred stock of Intactis Software, Inc., because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs. However, management believes that the total carrying amount of $1,250,000 in the investments in iPoint Media Ltd. and Intactis Software, Inc. at June 30, 2005 was not impaired.

For all available-for-sale investment securities, the carrying values represents fair value of the securities and unrealized gain (losses) that are other than temporary are recognized as other comprehensive income (loss). The

Company does not hold these securities for speculative or trading purposes.

Pro-forma Information Required by SFAS 148

At June 30, 2005, the Company has five stock-based employee compensation plans (the 2003 Stock Incentive Plan, the 2003 Stock Option Plan, the 2002 Stock Option Plan, the 1998 Stock Option Plan, and the 1996 Stock Option Plan). The Company accounts for those 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net Loss, as reported	$ (2,300)	$ (1,831)	$ (3,519)	$ (4
Compensation recognized under APB 25	--	5	--	
Compensation recognized under SFAS 123	(1,051)	(368)	(1,404)	
Pro-forma net loss	$ (3,351)	$ (2,194)	$ (4,923)	$ (4
Net Loss per share:				
Basic and diluted - as reported	$ (0.00)	$ (0.01)	$ (0.01)	$ (
Basic and diluted - pro-forma	$ (0.00)	$ (0.01)	$ (0.01)	$ (

Subsequent Events

On July 8, 2005, NeoMedia reached an out-of-court agreement with AirClic, Inc. whom it sued for patent infringement. In the agreement, AirClic agreed to compensate NeoMedia for past and future activities. AirClic did not receive a license to use NeoMedia's patented PaperClick(R) technology as part of the settlement.

On July 12, 2005, NeoMedia entered into a consulting agreement with Silicon Space, Inc., under which Silicon Space is developing NeoMedia's PaperClick(R) WordRegistry interface. 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 July 27, 2005, NeoMedia signed a non-binding Letter of Intent to acquire Mobot(TM), Inc. ("Mobot"), of Lexington, Massachusetts. Mobot develops and commercializes mobile visual search technologies.

The Letter of Intent calls for NeoMedia to acquire 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 LOI is subject to due diligence by both parties.

On July 28, 2005, NeoMedia loaned Mobot the principal amount of $600,000 in the form of an unsecured promissory note. The Note accrues interest at a rate of 6% per annum. The Note will be forgiven upon signing of a definitive purchase agreement for the acquisition of all of the outstanding shares of Mobot by NeoMedia, as contemplated by the Letter of Intent. In the event the acquisition is not consummated, the Note will become due 90 days after written notice of cancellation of the Letter of Intent. In the event the Letter of Intent is terminated and the Note is note repaid within 90 days of such cancellation, the note will convert into shares of Mobot common stock with a value equal to the unpaid principal and accrued interest on the Note.

In the event a definitive purchase agreement is not executed by the parties, or the Letter of Intent is not terminated, by September 26, 2005, Mobot has the right to demand an additional $200,000 loan from NeoMedia. In the event a definitive purchase agreement is not executed by the parties, or the Letter of Intent is not terminated, by October 26, 2005, Mobot has the right to demand an additional $200,000 loan from NeoMedia. Both of the additional loans would be in the form of a unsecured promissory notes subject to the same terms as the Note.

Segment Reporting

As of June 30, 2005 NeoMedia was structured and evaluated by its Board of Directors and Management as three distinct business units:

NeoMedia Internet Switching Services (NISS), 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 linking "switch" and application platforms. NISS also manages the Company's valuable intellectual property portfolio, including the identification and execution of licensing opportunities surrounding the patents.

NeoMedia Consulting and Integration Services (NCIS) is the Company's systems integration business unit. This unit resells client-server equipment and related software, and general and specialized consulting services. NCIS also identifies prospects for custom applications based on NeoMedia's products and services. The operations are based in Lisle, Illinois.

NeoMedia Micro Paint Repair (NMPR) is the business unit encompassing the Company's micro paint repair products and services acquired in 2004.

The Company's reportable segments are strategic business units that offer different technology and marketing strategies. NCIS operates principally in the United States. NISS operates principally in the United States and Europe. NMPR is headquartered in Ft. Myers, Florida, and currently sells into Canada, the United States, Australia, and New Zealand, and has entered into letters of intent to begin distribution in China and Scandinavia.

Consolidated net sales, net operating losses by geographic area for the three-month and six-month periods ended June 30, 2005 and 2004, and long-lived assets by geographic area as of June 30, 2005, were as follows:

(in thousands)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Sales:				
United States	$ 350	$ 259	$ 960	$ 523
Canada	188	189	325	275
	$ 538	$ 448	$ 1,285	$ 798
Net Loss:				
United States	$ (1,882)	$ (1,435)	$ (2,882)	$ (3,490)
Canada	(418)	(396)	(637)	(563)
	$ (2,300)	$ (1,831)	$ (3,519)	$ (4,053)
Long-Lived Assets				
United States	$ 5,706			
Canada	2,881			
	$ 8,587			

13

Consolidated net sales, net operating losses for the three-month and six-month periods ended June 30, 2005 and 2004, and identifiable assets as of June 30, 2005, were as follows:

	(in thousands)		
	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Mon Jun 2005
Net Sales:			
NeoMedia Consulting & Integration Services	$ 124	$ 230	$ 396
NeoMedia Internet Switching Service	153	29	173
NeoMedia Micro Paint Repair	261	189	716
	$ 538	$ 448	$ 1,285
Net Loss:			
NeoMedia Consulting & Integration Services	$ (874)	$ (227)	$ (1,388)
NeoMedia Internet Switching Service	(778)	(436)	(1,223)
NeoMedia Micro Paint Repair	(648)	(396)	(908)
Amortization of Cornell Debt Discount	--	(772)	--
	$ (2,300)	$ (1,831)	$ (3,519)

Identifiable Assets	
NeoMedia Consulting & Integration Services	$ 453
NeoMedia Internet Switching Service	3,700
NeoMedia Micro Paint Repair	3,482
Corporate	9,358
	$ 16,993

Effect Of Recently Issued Accounting Pronouncements

In March 2005, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"). The interpretations in SAB 107 express views of the staff regarding the interaction between Statement of Financial Accounting Standards Statement No. 123 (revised 2004), "Share-Based Payment" ("Statement 123(R)") and certain SEC rules and regulations and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular SAB 107 provides guidance related to share-based payment transactions with nonemployees, the transition from public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of Statement 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of Statement 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of Statement 123(R).

In May 2005, the FASB issued SFAS No.154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3 " ("SFAS No. 154"). SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 "Accounting Changes," previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 is effective for

accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005; however earlier adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date of issuance of SFAS No 154. The Company is in the process of evaluating whether the adoption of SFAS 154 will have a significant impact on the Company's overall results of operations or financial position.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

PaperClick Developments.

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

On September 8, 2003, NeoMedia announced its PaperClick(R) for Camera Cell PhonesTM product, which reads and decodes UPC/EAN or other bar codes to link users to the Internet, providing information and enabling e-commerce on a compatible camera cell phone, such as the Nokia(R) 3650 model. During the second quarter of 2004, NeoMedia introduced its PaperClick(R) Mobile Go-WindowTM, a horizontal bar on the screen of a wireless device where users can enter numeric strings from UPC or other bar codes to link directly to targeted online information via patented PaperClick technology and software.

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

In addition, during June 2004 NeoMedia signed a teaming agreement with IPSO, an integrator of proprietary solutions developed by its provider companies for financial institution members and a leader in meeting Check 21 standards. Enacted by Congress and signed into law last year, Check 21 requires banks to begin accepting substitute checks (called "IRDs" for image replacement documents) in lieu of original checks as of October 29, 2004. NeoMedia and IPSO could partner on proposals and presentations surrounding Check 21. On March 10, 2005, NeoMedia and Intactis Software, Inc., (IPSO's successor), 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 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. Intactis also placed an order for an initial 100 copies of NeoMedia's PaperClick Print Encoder software.

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

phones and PDA's. ActivShopper is a free software download designed to automatically scan, locate and compare prices for items a consumer selects at an e-commerce site.

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 for co-marketing and sales efforts in the U.S., as well as in Europe, the Middle East, Africa and Latin America.

Patent Developments

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 June 29, 2005, NeoMedia announced that it had reached an out-of-court agreement with Virgin Entertainment Group, Inc. whom it sued for patent infringement. In the agreement, Virgin agreed to purchase a license of NeoMedia's PaperClick(R) technology platform through 2016.

On July 8, 2005, NeoMedia reached an out-of-court agreement with AirClic, Inc. whom it sued for patent infringement. In the agreement, AirClic agreed to compensate NeoMedia for past and future activities. AirClic did not receive a license to use NeoMedia's patented PaperClick(R) technology as part of the settlement.

NMPR (Micro Paint Repair) Business Unit Developments.

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

On June 1, 2004, NeoMedia announced that it had entered into a Distribution Agreement with Micro Paint Systems (Australasia) Limited of New Zealand for exclusive distribution rights to NeoMedia's Micro Paint Repair products in Australia and New Zealand. The agreement is contingent upon a minimum purchase of 500 systems over five years in that territory. NeoMedia received an initial payment on signing of the contract, which included the fee for four initial systems. During the first quarter of 2005, NeoMedia shipped a $290,000 order for paints and related materials to Micro Paint Systems (Australasia) Limited.

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

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

On March 29, 2005, NeoMedia's Micro Paint Repair business signed a National Marketing and Sales Agreement with Restex, Inc., of Dallas, Texas, a provider of products to automobile dealerships. The agreement calls for Restex to sell and market NeoMedia's proprietary micro paint repair system to its customers in the automotive industry.

On May 2, 2005, NeoMedia announced that it had signed a Letter of Intent with Jinche Yingang Automobile Co. of Beijing, China ("Jinche"), under which Jinche will act as a distributor of NeoMedia's micro paint repair products in China. Jinche is a Beijing PRC-registered company specializing in automobile sales, financing, insurance and repair.

On June 20, 2005, NeoMedia announced that it has signed a Letter of Intent with WI-THO AS of Oslo, Norway, where WI-THO AS will become the exclusive master distributor of NeoMedia's micro paint repair products, systems and licenses to automotive service facilities throughout Demark, Sweden and Norway.

Acquisitions

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

BSD Software, Inc. On December 21, 2004, NeoMedia and BSD signed a definitive Agreement and Plan of Merger. BSD owns 90% of the outstanding shares of Triton Global Business Services, Inc., a provider of live and automated operator calling services and e-business support, including billing, clearinghouse and information management services, to companies in the telecommunications industry. BSD's shareholders will receive, for each share of BSD stock owned, NeoMedia stock equivalent to .07 divided by the volume-weighted average price of NeoMedia stock for the five days prior to the effective time of the merger. The agreement has been approved by holders of approximately 63% of BSD's outstanding shares and its Board of Directors. On April 4, 2005 NeoMedia and BSD filed a Form S-4 registration/information statement with the United States Securities and Exchange Commission (the "SEC"). NeoMedia expects to complete the merger when the SEC review is complete, the registration is declared effective and the information statement is mailed to the BSD's shareholders of record. At this time, the exchange rate will be determined and closing will be held. Closing is subject to the terms and conditions outlined in the Agreement and Plan of Merger, as well as regulatory approval of the merger and the Form S-4 registration/information statement by the SEC.

Automotive 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, Pickups Plus, Inc. 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. NeoMedia is currently engaged in due diligence relating to both Letters of Intent.

Mobot, Inc. On July 27, 2005, NeoMedia signed a non-binding Letter of Intent to acquire Mobot, Inc., a pioneer and leader in mobile visual search technologies. The Letter of Intent calls for NeoMedia to acquire 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 Letter of Intent is subject to due diligence by both parties.

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 agreement, NeoMedia received 7% ownership in iPoint-media, consisting of 28,492 shares of iPoint-media common stock. In addition to the agreement, NeoMedia acquired an additional 10% ownership of iPoint-media, consisting of 40,704 shares of common stock, for $1 million cash.

iPoint-media was founded in April 2001 as a spin-off from Imagine Visual Dialog LTD, whose shareholders include Israeli-based Nisko group, an Israeli holding company, Singapore-based Keppel T&T, and marketing and advertising group WPP. iPoint-media specializes in customer interaction management and is the world's first 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 intends to distribute 5% (or 20,435 shares) of iPoint-media's common stock to NeoMedia shareholders of record as of November 17, 2004. The date of the property dividend payment will be announced after the SEC declares iPoint-media's registration statement on Form SB-2 effective. On July 1, 2005, IPoint filed a Form SB-2 registration statement to register 2,032,200 shares of its common stock, included in which are the shares NeoMedia intends to distribute.

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

Critical Accounting Policies

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.

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.

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

Results Of Operations For The Three Months Ended June 30, 2005 As Compared To The Three Months Ended June 30, 2004

Net sales. Total net sales for the three months ended June 30, 2005 were $538,000, which represented an increase of $90,000, or 20%, from $448,000 for the three months ended June 30, 2004. This increase resulted from revenue generated by the Company's micro paint repair business unit acquired in February 2004 and licensing fees from the settlement of the Virgin lawsuit. This increase in micro paint revenue and licensing fees was offset by reduced resales of Sun Microsystems equipment, software and services. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy and/or its business plan for its Micro Paint Repair business unit.

License fees. License fees were $174,000 for the three months ended June

30, 2005, compared with $88,000 for the three months ended June 30, 2004, an increase of $86,000, or 98%. The increase was due primarily to licensing fees from settlement of the Virgin lawsuit. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy.

Resales of software and technology equipment and service fees. Resales of software and technology equipment and service fees decreased by $68,000, or 40%, to $103,000 for the three months ended June 30, 2005, as compared to $171,000 for the three months ended June 30, 2004. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and fewer resources devoted to this product line. NeoMedia intends to continue to pursue additional resales of equipment, software and services. NeoMedia expects resales to more closely resemble the results for the three months ended June 30, 2005, rather than the three months ended June 30, 2004.

Micro paint repair products and services. Sales of micro paint repair products and services were $261,000 for the three months ended June 30, 2005, compared with $189,000 for the three months ended June 30, 2004 an increase of $72,000 or 38%. The increase resulted primarily from a larger number of paint systems sold since June 30, 2004. NeoMedia expects sales of micro paint to more closely resemble the results for the three months ended June 30, 2005, rather for the three months ended three months ended June 30, 2004.

Cost of license fees. Cost of license fees was $160,000 for the three months ended June 30, 2005, a increase of $79,000, or 98%, compared with $81,000 for the three months ended June 30, 2004. The increase resulted from higher amortization in 2005 due to the acquisition of patents from Loyaltypoint.

Cost of resales of software and technology equipment and service fees. Cost of resales of software and technology equipment and service fees was $53,000 for the three months ended June 30, 2005, a decrease of $120,000, or 69%, compared with $173,000 for the three months ended June 30, 2004. The decrease resulted from decreased resales in 2005 compared with 2004. Cost of resales as a percentage of related resales was 51% in 2005, compared to 101% in 2004. This decrease has a direct coloration to the decrease in revenue. NeoMedia expects costs of resales to fluctuate with the mix of sales of equipment, software, and services over the next 12 months.

Cost of micro paint repair products and services. Cost of micro paint repair products and services was $237,000 for the three months ended June 30, 2005, compared with $168,000 for the three months ended June 30, 2004, an increase of $69,000 or 41%. The increase was primarily due to of the cost of sale of products in relation to increased sales. NeoMedia expects cost of micro paint to more closely resemble the results for the three months ended June 30, 2005, rather for the three months ended June 30, 2004.

Gross Profit. Gross profit was $88,000 for the three months ended June 30, 2005, an increase of $62,000, or 238%, compared with gross profit of $26,000

21

for the three months ended June 30, 2004. This increase was primarily the result of increased sales of higher-margin micro paint repair products and increased intellectual property revenue during 2005.

Sales and marketing. Sales and marketing expenses were $1,230,000 for the three months ended June 30, 2005, compared to $522,000 for the three months ended June 30, 2004, an increase of $708,000 or 136%. The increase is a result of the addition of the micro paint business sales force, recognization of professional services expense due to the cancellation of consulting contract originally recorded as deferred stock compensation and cost associated with marketing and promotion of the Company's PaperClick and micro paint repair products. NeoMedia expects sales and marketing expense to increase over the next 12 months with the continued development and anticipated rollout of the PaperClick and Micro Paint Repair businesses.

General and administrative. General and administrative expenses increased by $463,000, or 116%, to $862,000 for the three months ended June 30, 2005, compared to $399,000 for the three months ended June 30, 2004. The increase resulted primarily from higher legal and professional fees in 2005 resulting from pending acquisitions and registration filings. NeoMedia expects general and administrative expense to increase over the next 12 months with the potential acquisition of BSD Software.

Research and development. During the three months ended June 30, 2005, NeoMedia charged to expense $160,000 of research and development costs, an increase of $38,000 or 31% compared to $122,000 for the three months ended June 30, 2004. The increase is primarily due to the amortization of the micro paint chemical formulations and proprietary process during 2005, as well as additional development resources allocated to the PaperClick product line. NeoMedia expects research and development costs to increase over the next 12 months with the continued development efforts, and the anticipated rollout of NeoMedia's PaperClick product suite.

Gain/(loss) on extinguishment of debt. During the three months ended June 30, 2005, NeoMedia recognized a gain on extinguishment of debt of $33,000, an increase of $36,000 or 1200% compared to a loss of $3,000 during the three months ended June 30, 2004. These gains resulted from a discount in settlement of debt and/or the difference between the cash or market value of stock issued to settle the debt and the carrying value of the debt at the time of settlement.

Amortization of debt discount. During the three months ended June 30, 2004, NeoMedia recognized an amortization of debt issuance cost of $722,000. This cost is related to the amortization of the fair value of warrants granted to Cornell Capital Partners in connection with promissory notes issued to Cornell Capital Partners by NeoMedia during January 2004. No amortization of debt issuance cost was recognized during the three months ended June 30, 2005.

Interest (expense) / income. Interest expense consists primarily of interest accrued on notes payable and past due account balances. Interest income consists primarily of interest earned on cash equivalent investments. During the three months ended June 30, 2005, NeoMedia recognized interest expense of $169,000, an increase of $130,000 or 333% compared to interest expense of $39,000 during the three months ended June 30, 2004. The change is primarily due to interest accrued on a $10 million note payable to Cornell Capital Partners in 2005.

Net Loss. The net loss for the three months ended June 30, 2005 was $2,300,000, which represented increase of $469,000, or 26% from a loss of $1,831,000 for the three months ended June 30, 2004. The increase resulted primarily from expenses relating to increased sales and marketing, and general and administrative expenses relating to the rollout of the Company's micro paint repair and PaperClick business units and increased professional fees.

Results Of Operations For The Six Months Ended June 30, 2005 As Compared To The Six Months Ended June 30, 2004

Net sales. Total net sales for the six months ended June 30, 2005 were $1,285,000, which represented an increase of $487,000, or 61%, from $798,000 for the six months ended June 30, 2004. This increase resulted from revenue generated by the Company's micro paint repair business unit acquired in February 2004, as well as licensing fees from the settlement of the Virgin lawsuit. This increase in micro paint revenue and licensing fees was offset by reduced resales of Sun Microsystems equipment. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy and/or its business plan for its Micro Paint Repair business unit.

License fees. License fees were $338,000 for the six months ended June 30, 2005, compared with $160,000 for the six months ended June 30, 2004, an increase of $178,000, or 111%. The increase was due primarily to licensing fees from settlement of the Virgin lawsuit. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy.

Resales of software and technology equipment and service fees. Resales of software and technology equipment and service fees decreased by $132,000, or 36%, to $231,000 for the six months ended June 30, 2005, as compared to $363,000 for the six months ended June 30, 2004. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and fewer resources devoted to this product line. NeoMedia intends to continue to pursue additional resales of equipment, software and services. NeoMedia expects resales to more closely resemble the results for the six months ended June 30, 2005, rather than the six months ended June 30, 2004.

Micro paint repair products and services. Sales of micro paint repair products and services were $716,000 for the six months ended June 30, 2005, compared with $275,000 for the period between Febraury 6, 2004 through June 30, 2004 an increase of $441,000 or 160%. The increase was primarily from a $290,000 sale of products to Micro Paint Repair Australasia, NeoMedia's distributor in the Australia and New Zealand market, as well as a larger number of paint systems sold since June 30, 2004. NeoMedia expects sales of micro paint to more closely resemble the results for the six months ended six months ended June 30, 2005, rather for the six months ended six months ended June 30, 2004.

Cost of license fees. Cost of license fees was $248,000 for the six months ended June 30, 2005, a increase of $78,000, or 46%, compared with $170,000 for the six months ended June 30, 2004. The increase resulted from higher amortization in 2005 due to the acquisition of patents from Loyaltypoint.

Cost of resales of software and technology equipment and service fees. Cost of resales of software and technology equipment and service fees was $141,000 for the six months ended June 30, 2005, a decrease of $192,000, or 58%, compared with $333,000 for the six months ended June 30, 2004. The decrease resulted from decreased resales in 2005 compared with 2004. Cost of resales as a percentage of related resales was 61% in 2005, compared to 92% in 2004. This decrease is mainly due to revenue in 2005 resulting from higher-margin maintenance contracts. NeoMedia expects costs of resales to fluctuate with the mix of sales of equipment, software, and services over the next 12 months.

Cost of micro paint repair products and services. Cost of micro paint repair products and services was $510,000 for the six months ended June 30, 2005, compared with $225,000 for the period between February 6, 2004 through June 30, 2004, an increase of $285,000 or 127%. The increase was primarily due to of the cost of sale of products to Micro Paint Repair Australasia, NeoMedia's distributor in the Australia and New Zealand market and the cost of sale of products in relation to increased sales. NeoMedia expects cost of micro paint to more closely resemble the results for the six months ended June 30, 2005, rather for the six months ended June 30, 2004.

Gross Profit. Gross profit was $386,000 for the six months ended June 30, 2005, an increase of $316,000, or 451%, compared with gross profit of $70,000 for the six months ended June 30, 2004. This increase was primarily the result of increased sales of higher-margin licenses and micro paint repair products during 2005.

Sales and marketing. Sales and marketing expenses were $2,025,000 for the six months ended June 30, 2005, compared to $947,000 for the six months ended June 30, 2004, an increase of $1,078,000 or 114%. The increase is a result of the addition of the micro paint business sales force, recognization of professional services expense due to the cancellation of consulting contract originally recorded as deferred stock compensation and cost associated with marketing and promotion of the Company's PaperClick and micro paint repair products. NeoMedia expects sales and marketing expense to increase over the next 12 months with the continued development and anticipated rollout of the PaperClick and Micro Paint Repair business units.

General and administrative. General and administrative expenses increased by $784,000, or 101%, to $1,561,000 for the six months ended June 30, 2005, compared to $777,000 for the six months ended June 30, 2004. The increase resulted primarily from higher legal and professional fees in 2005 resulting from pending acquisitions and registration filings. NeoMedia expects general and administrative expense to increase over the next 12 months with the potential acquisition of BSD Software.

Research and development. During the six months ended June 30, 2005, NeoMedia charged to expense $344,000 of research and development costs, an increase of $104,000 or 43% compared to $240,000 for the six months ended June 30, 2004. The increase is primarily due to the amortization of the micro paint chemical formulations and proprietary process during 2005, as well as additional development resources allocated to the PaperClick product line. NeoMedia expects research and development costs to increase over the next 12 months with the continued development efforts, and the anticipated rollout of NeoMedia's PaperClick product suite.

Gain on extinguishment of debt. During the six months ended June 30, 2005, NeoMedia recognized a gain on extinguishment of debt of $171,000, an increase of $48,000 or 39% compared to a gain of $123,000 during the six months ended June 30, 2004. These gains resulted from a discount in settlement of debt and/or the difference between the cash or market value of stock issued to settle the debt and the carrying value of the debt at the time of settlement.

Amortization of debt discount. During the six months ended June 30, 2004, NeoMedia recognized an amortization of debt issuance cost of $2,166,000. This cost is related to the amortization of the fair value of warrants granted to Cornell Capital Partners in connection with promissory notes issued to Cornell Capital Partners by NeoMedia during January 2004. No amortization of debt issuance cost was recognized during the six months ended June 30, 2005.

Interest (expense) / income. Interest expense consists primarily of interest accrued on notes payable and past due account balances. Interest income consists primarily of interest earned on cash equivalent investments. During the six months ended June 30, 2005, NeoMedia recognized interest expense of $146,000, an increase of $30,000 or 26% compared to interest expense of $116,000 during the six months ended June 30, 2004. The change is primarily due to interest accrued on a $10 million note payable to Cornell Capital Partners in

2005.

Net Loss. The net loss for the six months ended June 30, 2005 was $3,519,000, which represented decrease of $534,000, or 13% from a loss of $4,053,000 for the six months ended June 30, 2004. The decrease resulted primarily from expenses relating to the amortization of debt discount relating to debt financing through Cornell in 2004, combined with increased gross profit

from the Company's micro paint repair business and intellectual property licenses in 2005. These items were offset by increased sales and marketing, and general and administrative expenses relating to the rollout of the Company's micro paint repair and PaperClick business units.

Liquidity and Capital Resources

Net cash used in operating activities was $3,455,000 for the six months June 30, 2005, compared with $2,261,000 for the six months ended June 30, 2004. NeoMedia's net cash flow used in investing activities for the six months ended June 30, 2005 and 2004 was $2,211,000 and $155,000, respectively. Net cash provided by financing activities for the six months ended June 30, 2005 and 2004 was $10,098,000 and $2,698,000, respectively.

During the six months ended June 30, 2005 and 2004, NeoMedia's net loss totaled $3,519,000 and $4,053,000, respectively. As of June 30, 2005, NeoMedia had accumulated losses from operations of $86,896,000, had a working capital deficit of $3,418,000, and $7,075,000 in cash balances.

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

On March 30, 2005, NeoMedia obtained $9.9 million cash from Cornell Capital Partners in the form of a promissory note with a face value of $10 million. As of June 30, 2005, NeoMedia had made payments totaling $2.7 million against the principal of the note.

As of June 30, 2005, NeoMedia had drawn $12.3 million against its current $20 million 2003 Standby Equity Distribution Agreement with Cornell Capital Partners, leaving an available balance of $7.7 million. During the three- and six-month periods ended June 30, 2005, NeoMedia sold approximately 7.3 million and 14.3 million shares, respectively, to Cornell under the 2003 SEDA. NeoMedia expects to use proceeds from the 2003 SEDA to repay all or a portion of the $10 million promissory note funded by Cornell. The Company expects to use the cash proceeds as future working capital and to fund potential acquisitions.

On March 30, 2005, NeoMedia and Cornell Capital Partners entered into a Standby Equity Distribution Agreement under which Cornell Capital Partners 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 2005 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. In addition, Cornell Capital Partners holds 50 million warrants to purchase shares of NeoMedia common stock at an exercise price of $0.20 per share. NeoMedia is currently in the process of registering the shares underlying the warrants. Upon registration, NeoMedia can force exercise of the warrants, resulting in an additional $10 million cash to NeoMedia.

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.

ITEM 3. CONTROLS AND PROCEDURES

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 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-QSB.

Changes in Internal Controls. In connection with the evaluation of the Company's internal controls during the Company's first two fiscal quarters ended June 30, 2005, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal controls over financial reporting during the first two fiscal quarters ended June 30, 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-QSB.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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

On April 20, 2004, NeoMedia re-filed its suit against AirClic in Pennsylvania for patent infringement. On July 8, 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 as part of the settlement. A Notice of Dismissal is currently pending with the Court.

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

Virgin Entertainment Group

On January 2, 2004, NeoMedia filed a patent infringement lawsuit against Virgin(R) Entertainment Group, Inc., Virgin Megastore Online and Virgin Megastore ("Virgin"). The complaint for Patent Infringement and Damages was filed in the United States District Court for the Northern District of Illinois, by Baniak Pine & Gannon, NeoMedia's intellectual property law firm. On June 22, 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. A Notice of Dismissal is currently pending with the Court.

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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS (a), (b), (c) AND (d)

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.	Description	Location
31.1	Certification by Chief Executive Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certification by Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Provided herewith

(b) Reports on Form 8-K:

NeoMedia filed a report on Form 8-K on April 1, 2005, with respect to Items 1.01 and 2.03, reporting that it entered into a $100 million Standby Equity Distribution Agreement with Cornell Capital Partners LP (Cornell), and also that it had borrowed from Cornell the principal amount of $10,000,000 in the form of a secured promissory note.

NeoMedia filed a report on Form 8-K on April 13, 2005, with respect to Item 2.01, reporting that it had acquired four United States Patents and two patent applications, one each in Europe and Japan from Loyaltypoint, Inc.

NeoMedia filed a report on Form 8-K, on April 22, 2005, with respect to Item 5.02, reporting that it has named Martin N. Copus as its COO and chief executive of NeoMedia's PaperClick business.

Neomedia filed a report on Form 8-K, on August 1, 2005, with respect to Item 8.01 and 1.01, reporting that it had entered into a non-binding Letter of Intent to acquire Mobot, Inc, and had loaned Mobot $600,000 in the form of an unsecured promissory note.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEOMEDIA TECHNOLOGIES, INC.
Registrant

Date:	August 11, 2005	By: /s/ Charles T. Jensen Charles T. Jensen, President, Chief Executive Officer, and Director
Date:	August 11, 2005	By: /s/ David A. Dodge David A. Dodge, Vice President, Chief Financial Officer and principal accounting officer