

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

NEOMEDIA TECHNOLOGIES INC
Form 8-K/A
May 09, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): February 23, 2006

NEOMEDIA TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

0-21743

36-3680347

(State or Other Jurisdiction
Incorporation)

(Commission
File Number)

(IRS Employer
Identification No.)

2201 SECOND STREET, SUITE 600,
FORT MYERS, FLORIDA

33901

(Address of Principal Executive
Offices)

(Zip Code)

(239) - 337-3434

(Registrant's Telephone Number, including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

COMPLETION OF ACQUISITION OF SPONGE LIMITED

On February 20, 2006, NeoMedia Technologies, Inc. ("NeoMedia") and Sponge Limited ("Sponge") of London (www.spongegroup.com) signed a definitive share purchase agreement, subject to closing conditions, under which NeoMedia acquired all of the outstanding shares of Sponge in exchange for (pound)3,450,000 (approximately \$6 million) cash and (pound)6,550,000 (approximately \$11.4 million) in shares of NeoMedia common stock. The (pound)6,550,000 stock portion of the purchase price is represented by 33,097,135 shares of NeoMedia common stock, calculated by dividing (pound)6,550,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 8, 2006. The agreement also calls for Sponge to earn an additional (pound)2,500,000 (approximately \$4.4 million) in the form of NeoMedia common stock if, during the two-year period beginning at closing, the Sponge business earns in excess of (pound)1,300,000 (approximately \$2.3 million) in net profits. Pursuant to the terms of the merger agreement, the number of shares of NeoMedia common stock to be issued as consideration was calculated using a share price of \$0.384. In the event that NeoMedia's stock price at the time the consideration shares are saleable is less than \$0.384, NeoMedia is obligated to compensate Sponge shareholders in cash for the difference between the price at the time the shares become saleable and \$0.384.

On February 23, 2006, NeoMedia and Sponge completed the closing requirements and the acquisition became effective.

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

This Form 8-K/A is being filed as Amendment No. 1 to NeoMedia's Form 8-K filed with the SEC on February 24, 2006, in order to provide the financial statements required by Items 7(a) and (b) of Form 8-K.

2

ITEM 9.01. FINANCIAL STATEMENTS, PRO FORMA INFORMATION AND EXHIBITS

(A) FINANCIAL STATEMENTS OF ACQUIRED BUSINESSES - SPONGE LTD.

Interim Financial Statements for the three months ended December 31, 2005 and 2004 (unaudited): Balance sheet as of December 31, 2005 Statements of income for the three months ended December 31, 2005 and 2004 Statements of cash flows for the three months ended December 31, 2005 and 2004 Notes to financial statements

Audited Financial Statements for the years ended September 30, 2005 and 2004:
Report of Independent Auditors
Balance sheet as of September 30, 2005
Statements of income for the years ended September 30, 2005 and 2004
Statements of changes in stockholders' deficit for the years ended September 30, 2005 and 2004
Statements of cash flows for the years ended September 30, 2005 and 2004
Notes to financial statements

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

(B) PRO FORMA FINANCIAL INFORMATION

Notes to pro forma combined financial statements Pro forma combined balance sheet as of December 31, 2005 (unaudited)
Pro forma combined statement of operations for the twelve months ended December 31, 2005 (unaudited)

(C) EXHIBITS

23.1 - Consent of Brebner Allen & Trapp, Independent Auditors of Sponge Ltd.

EXPLANATORY NOTE: A portion of Sponge's sales for the periods presented in this filing are presented gross with an accompanying cost of goods sold. In connection with its first quarter 2006 review, NeoMedia is evaluating the technical aspects of the revenue recognition treatment as it relates to Sponge's sales and cost of sales. Any adjustments to sales and cost of sales resulting from such evaluation that relate to the periods presented herein will be reflected in an amendment to this 8-K. NeoMedia expects that any such potential adjustment would affect sales and cost of sales only, and would not change Sponge's net income (loss) for periods shown herein.

3

(A) FINANCIAL STATEMENTS OF ACQUIRED BUSINESS - SPONGE LTD.

INTERIM FINANCIAL STATEMENTS FOR THE
THREE MONTHS ENDED DECEMBER 31, 2005 AND 2004 (UNAUDITED)

4

SUPPLEMENTARY FINANCIAL INFORMATION

The following information presents Sponge Ltd.'s unaudited quarterly operating results for the three months ended December 31, 2005 and 2004. The data has been prepared by Sponge Ltd. on a basis consistent with the consolidated financial statements included elsewhere in this Form 8-K/A, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof. These operating results are not necessarily indicative of our future performance.

SPONGE LIMITED
BALANCE SHEETS
AS AT DECEMBER 31, 2005 AND SEPTEMBER 30, 2005

DECEMBER 31, SEPTEMBER 30,
2005 2005
\$ \$

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

ASSETS	(UNAUDITED)	
CURRENT ASSETS		
Cash and cash equivalents	439,210	1,077,138
Accounts receivable	223,210	254,373
Accrued income	238,756	563,471
Other receivables	26,487	41,737
Prepaid expenses	47,978	36,592
	-----	-----
Total current assets	975,641	1,973,311
	-----	-----
PROPERTY AND EQUIPMENT		
Equipment and furniture	96,957	99,680
Accumulated depreciation	(48,611)	(44,123)
	-----	-----
Total property and equipment	48,346	55,557
	-----	-----
TOTAL ASSETS	\$ 1,023,987	\$ 2,028,868
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	298,010	1,255,479
Accrued expenses	266,444	317,320
Taxes payable	89,693	87,685
Other current liabilities	22,742	21,695
Customer deposits	50,390	39,009
Deferred taxes	--	1,744
	-----	-----
TOTAL CURRENT LIABILITIES	727,279	1,722,932
	-----	-----
Long-term debt	104,969	107,915
	-----	-----
TOTAL LONG-TERM LIABILITIES	104,969	107,915
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock	631	631
Additional paid in capital	10,781	10,781
Accumulated earnings/(deficit)	220,536	221,425
Accumulated foreign exchange	(40,209)	(34,816)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)	191,739	198,021
	=====	=====
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,023,987	\$ 2,028,868
	=====	=====

These financial statements were approved by the directors on 5th May 2006 and are signed on their behalf by:

.....

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

/s/ A T J Meisl
Director

The accompanying notes are an integral part of these statements.

5

SPONGE LIMITED

STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED DECEMBER 31, 2005 AND 2004 (UNAUDITED)

	2005	2004
	\$	\$
Sales	804,274	738,430
Cost of sales	(441,849)	(377,188)
Gross Profit	362,425	361,242
General and administrative expenses	(389,371)	(252,343)
Operating income	(26,946)	108,899
Other income	21,400	--
Interest	4,657	1,317
Total Other Income	26,057	1,317
(Loss)/income before taxes	(889)	110,216
Tax expense	--	--
Net (loss)/income	\$ (889)	\$ 110,216

The accompanying notes are an integral part of these statements.

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

6

SPONGE LIMITED

STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2005 AND 2004 (UNAUDITED)

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net (loss)/income	(889)	110,216
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,488	3,720
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Accounts receivable	31,163	(21,025)
Other current assets	328,579	(39,420)
Accounts payable	(957,469)	(204,572)
Accrued expenses and other current liabilities	(38,184)	60,731
	-----	-----
Net cash used by operating activities	(632,312)	(90,350)
	=====	=====
INVESTING ACTIVITIES:		
(Purchase) disposal of equipment	2,723	(6,670)
	-----	-----
Net cash used in investing activities	2,723	(6,670)
	=====	=====
FINANCING ACTIVITIES:		
Issuance (payment) of long-term debt	(2,946)	7,137
	-----	-----
Net cash provided by financing activities	(2,946)	7,137
	=====	=====
Net decrease in cash	(632,535)	(89,883)
Foreign currency adjustment	(5,393)	(1,149)
Cash at beginning of year	1,077,138	541,660
	-----	-----
Cash at end of period	\$ 439,210	\$ 450,628
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest received	4,657	1,317
Taxes paid	97,035	67,861
	=====	=====

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

The accompanying notes are an integral part of these statements.

7

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004 (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Sponge Limited (the Company) was incorporated on September 12, 1995. The company is engaged in the provision of marketing services via the telecommunications industry.

BASIS OF PRESENTATION

These condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited financial statements and related footnotes for the fiscal years ended September 30, 2005 and 2004. In the opinion of management, these financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the financial position of the Company as of December 31, 2005, the results of operations for the three-month periods ended December 31, 2005 and 2004, and cash flows for the three-month periods ended December 31, 2005 and 2004. The results of operations for the three-month periods ended December 31, 2005 are not necessarily indicative of the results which may be expected for the entire fiscal year.

REVENUE RECOGNITION

The company records sales for services provided as a principal when the service has been provided to the customer, the sales price is fixed and determinable, and the collection is reasonably assured.

Revenue can be divided into two main sources:-

- (i) Media - a premium rate text promotional service
- (ii) Brand - a standard rate promotional text service

In both cases Revenue is dependent on message volumes and recognised according to the date of the message.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 DECEMBER 31, 2005 AND 2004 (UNAUDITED)

CREDIT CONCENTRATIONS

The company's customers are concentrated in the telecommunications industry. Concentrations of credit risk with respect to trade receivables are limited to major network providers within the industry.

FOREIGN CURRENCIES

The functional currency of the company's operations is sterling. The financial statements are reported in United States dollars and are translated to United States dollars at the exchange rates in effect at the balance sheet date for assets and liabilities and at average rates for the period for revenues and expenses. Resulting exchange differences are accumulated as a component of accumulated other comprehensive income. Transaction foreign exchange gains and losses are included in the income statement.

FINANCIAL INSTRUMENTS

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

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

2. SALES

The sales and profit before tax are attributable to the one principal activity of the company. An analysis of sales is given below:

	3 MONTHS ENDED DECEMBER 31	
	2005	2004
	\$	\$
United Kingdom	694,476	506,646
USA	1,780	231,784
Other	108,018	--
	804,274	738,430
	804,274	738,430

3. TAXES PAYABLE

	DECEMBER 2005	SEPTEMBER 2005
	\$	\$
Employment taxes	33,819	31,989
Corporation tax	55,874	55,696
	89,693	87,685

=====

=====

9

4. LEASE COMMITMENTS

The company's office space lease commenced May 27, 2005 and expires on May 26, 2015. Rental expense in respect of this lease totalled \$32,698 and \$Nil for the three months ended December 31, 2005 and 2004, respectively. The company is obligated to pay (pound)59,025 in the first year of the lease and (pound)78,700 thereafter until the first review date on the fifth anniversary.

10

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2005 AND 2004 (UNAUDITED)

5. RELATED PARTY TRANSACTIONS

Included in Other Receivables is an amount of \$Nil (September 2005: \$8,846) due from A Meisl (Director) in respect of a loan made. The maximum balance outstanding during the period was \$8,846.

Included in Other Receivables is an amount of \$Nil (September 2005: \$8,846) due from D Parker (Director) in respect of a loan made. The maximum balance outstanding during the period was \$8,846.

Included in Accrued Expenses is an amount of \$2,323 (September 2005: \$1,592) due to A Meisl (Director) in respect of business expenses incurred but not reimbursed.

Included in Accrued Expenses is an amount of \$2,323 (September 2005: \$1,592) due to D Parker (Director) in respect of business expenses incurred but not reimbursed.

Included in Cost of Sales is an amount of \$6,560 (September 2005: \$6,996) paid to P Trelease (Director) in respect of consultancy services rendered. P. Trelease resigned as a director of Sponge Limited on February 23, 2006.

There are no set interest or repayment terms in respect of outstanding balances.

CONTROL

Control of the company rested with A Meisl and D Parker, directors, during the three months ended December 31, 2005 and 2004.

6. LONG-TERM DEBT

On December 16, 2004 the company issued 61,000, out of an authorised 100,000, non-voting 1% preference shares of (pound)1 each. These preference shares were allotted at par via conversion of an existing long term loan.

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 SEPTEMBER 30, 2005 AND 2004 (UNAUDITED)

7. COMMON STOCK

Authorised Common Stock

	AS OF DECEMBER 31, 2005 (POUND)
1,000,000 Ordinary shares of (pound)1 each	1,000,000 =====

Allotted, called up and fully paid:

	AS OF DECEMBER 31, 2005
	NO. \$
Ordinary shares of (pound)1 each	423 631 === ===

Issued share capital is recorded at the historic rate. There were no changes in the authorised or issued share capital during the three months ended December 31, 2005.

8. POST BALANCE SHEET EVENTS

In March 2006 the directors paid a final dividend on the Ordinary Shares for the year ended 30th September 2005 of (pound)105,000 (2004: Nil).

In February 2006 the company's Issued Common Stock was purchased by Neomedia Technologies Inc, a company incorporated and operating in the United States of America.

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

13

SPONGE LIMITED

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS

We have audited the accompanying balance sheets of Sponge Limited as at September 30 2005 and 2004 and the related statements of income, retained earnings, and cash flows for the years then ended. 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.

This report is made solely to the company's directors, as a body and its shareholders. Our audit work has been undertaken so that we might state to them those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the addressees, for our audit work, for this report, or for the opinions we have formed.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 provide 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 Sponge Limited as at September 30 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Brebner, Allen & Trapp
Chartered Accountants and Registered Auditors
The Quadrangle
180 Wardour Street
London W1F 8LB

5th May 2006

14

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

SPONGE LIMITED
BALANCE SHEETS
AS AT SEPTEMBER 30, 2005 AND 2004

	2005	2004
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,077,138	541,660
Accounts receivable	254,373	268,863
Accrued income	563,471	179,643
Other receivables	41,737	28,612
Prepaid expenses	36,592	4,205
	-----	-----
Total current assets	1,973,311	1,022,983
	-----	-----
PROPERTY AND EQUIPMENT		
Equipment and furniture	99,680	41,780
Accumulated depreciation	(44,123)	(28,888)
	-----	-----
Total property and equipment	55,557	12,892
	-----	-----
TOTAL ASSETS	\$ 2,028,868	\$ 1,035,875
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	1,255,479	755,029
Accrued expenses	317,320	212,960
Taxes payable	87,685	18,584
Other current liabilities	21,695	12,048
Customer deposits	39,009	--
Deferred taxes	1,744	--
	-----	-----
TOTAL CURRENT LIABILITIES	1,722,932	998,621
	-----	-----
Long-term debt	107,915	110,386
	-----	-----
TOTAL LONG-TERM LIABILITIES	107,915	110,386
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock	631	631
Additional paid in capital	10,781	10,781
Accumulated earnings/(deficit)	221,425	(60,156)
Accumulated foreign exchange	(34,816)	(24,388)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)	198,021	(73,132)
	=====	=====
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,028,868	\$ 1,038,875

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

=====

These financial statements were approved by the directors on 5th May 2006 and are signed on their behalf by:

.....
/s/ A T J Meisl
Director

The accompanying notes are an integral part of these statements.

15

SPONGE LIMITED

STATEMENT OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
	\$	\$
Sales	4,600,169	2,243,180
Cost of sales	(3,649,232)	(1,851,045)
	-----	-----
Gross Profit	950,937	392,135
General and administrative expenses	(659,107)	(345,260)
	-----	-----
Operating income	291,830	46,875
	-----	-----
Other income	35,764	--
Interest	13,999	2,145
	-----	-----
Total Other Income	49,763	2,145
	-----	-----
Income before taxes	341,593	49,020
Tax expense	(60,012)	--
	-----	-----
Net income	\$ 281,581	\$ 49,020
	=====	=====

The accompanying notes are an integral part of these statements.

SPONGE LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net income	281,581	49,020
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	16,592	11,770
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Accounts receivable	8,852	(141,232)
Other current assets	(393,178)	(79,486)
Accounts payable	540,509	597,438
Accrued expenses and other current liabilities	179,228	(29,759)
Net cash provided by operating activities	633,584	407,751
INVESTING ACTIVITIES:		
Purchase of equipment	(58,835)	(8,905)
Net cash used in investing activities	(58,835)	(8,905)
FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	--	10,792
Net cash provided by financing activities	--	10,792
Net increase in cash	574,749	409,638
Foreign currency adjustment	(39,271)	15,631
Cash at beginning of year	541,660	116,391
Cash at end of year	\$ 1,077,138	\$ 541,660
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest received	13,999	2,144
Taxes paid	323,523	77,238

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

The accompanying notes are an integral part of these statements.

17

SPONGE LIMITED
STATEMENT OF SHAREHOLDERS' EQUITY/(DEFICIT)

	COMMON STOCK SHARES OF (POUND) 1 EACH \$	ADDITIONAL PAID IN CAPITAL \$	ACCUMULATED FOREIGN EXCHANGE \$	ACCUMULATED EARNINGS (DEFICIT) (DE)
Balance September 30, 2003	620	--	(14,132)	(10,000)
Issuance of common stock	11	10,781	--	
Comprehensive income:				
Net income	--	--	--	4,000
Foreign currency adjustment	--	--	(10,256)	
Balance September 30, 2004	631	10,781	(24,388)	(6,000)
Comprehensive income:				
Net income	--	--	--	28,000
Foreign currency adjustment	--	--	(10,428)	
Balance September 30, 2005	\$ 631	\$ 10,781	\$ (34,816)	\$ 22,000

The accompanying notes are an integral part of these statements.

18

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Sponge Limited (the Company) was incorporated on September 12, 1995. The company is engaged in the provision of marketing services via the telecommunications industry.

REVENUE RECOGNITION

The company records sales for services provided as a principal when the service has been provided to the customer, the sales price is fixed and determinable, and the collection is reasonably assured.

Revenue can be divided into two main sources:-

- (i) Media - a premium rate text promotional service
- (ii) Brand - a standard rate promotional text service

In both cases Revenue is dependent on message volumes and recognised according to the date of the message.

EQUIPMENT AND FURNITURE

Equipment and furniture are recorded at cost. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets of three years.

INCOME TAXES

The company accounts for income taxes under the liability method.

DEFERRED TAXES

Deferred tax is recognised in respect of all timing differences between the financial statements carrying amounts of assets and liabilities and their respective tax basis that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are also recognised for operating losses for which the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

19

ADVERTISING

The company has elected to expense all advertising costs, as incurred. Advertising costs charged to expense totalled \$8,354 and \$4,335 for the years ended September 30, 2005 and 2004 respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

Accordingly, actual results could differ from those estimates.

20

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
SEPTEMBER 30, 2005 AND 2004

CREDIT CONCENTRATIONS

The company's customers are concentrated in the telecommunications industry. Concentrations of credit risk with respect to trade receivables are limited to major network providers within the industry.

FOREIGN CURRENCIES

The functional currency of the company's operations is sterling. The financial statements are reported in United States dollars and are translated to United States dollars at the exchange rates in effect at the balance sheet date for assets and liabilities and at average rates for the period for revenues and expenses. Resulting exchange differences are accumulated as a component of accumulated other comprehensive income. Transaction foreign exchange gains and losses are included in the income statement.

FINANCIAL INSTRUMENTS

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

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

2. SALES

The sales and profit before tax are attributable to the one principal activity of the company. An analysis of sales is given below:

	2005	2004
	\$	\$
United Kingdom	4,299,713	2,138,885
USA	294,541	104,295
Other	5,915	--
	-----	-----
	4,600,169	2,243,180
	=====	=====

3. OTHER INCOME

2005	2004
\$	\$

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

Rent	35,764	--
	=====	=====

21

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 SEPTEMBER 30, 2005 AND 2004

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	2005	2004
	NO	NO
Number of commercial staff	4	2
Number of technical staff	4	2
Number of administrative staff	2	1
Number of management staff	3	3
	--	--
	13	8
	==	==

The aggregate payroll costs of the above were:

	2005	2004
	\$	\$
Wages and salaries	824,961	375,321
Social security costs	91,960	40,550
	-----	-----
	916,921	415,871
	=====	=====

5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2005	2004
	\$	\$
Emoluments receivable	266,155	166,457
	=====	=====

6. INTEREST

	2005	2004
	\$	\$
Bank interest	13,999	2,145
	=====	=====

7. TAX EXPENSE

	2005	2004
	\$	\$
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 19% (2004 - 19%)	58,190	--
	-----	-----
Total current tax	58,190	--
Deferred tax		
Deferred tax:		
Origination and reversal of timing differences	1,822	--
	-----	-----
Tax on income	60,012	--
	=====	=====

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
SEPTEMBER 30, 2005 AND 2004

8. TAXES PAYABLE

	2005	2004
	\$	\$
Employment taxes	31,989	18,584
Corporation tax	55,696	--
	-----	-----
	87,685	18,584
	=====	=====

9. LEASE COMMITMENTS

The company's office space lease commenced May 27, 2005 and expires on May 26, 2015. Rental expense in respect of this lease totalled \$46,063 and \$Nil for the years ended September 30, 2005 and 2004, respectively. The company is obligated to pay (pound)59,025 in the first year of the lease and (pound)78,700 thereafter until the first review date on the fifth

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

anniversary.

10. RELATED PARTY TRANSACTIONS

Included in Other Receivables is an amount of \$8,846 (2004: \$10,858) due from A Meisl (Director) in respect of a loan made. The maximum balance outstanding during the year was \$10,858.

Included in Other Receivables is an amount of \$8,846 (2004: \$5,429) due from D Parker (Director) in respect of a loan made. The maximum balance outstanding during the year was \$8,846.

Included in Accrued Expenses is an amount of \$1,592 (2004: \$4,343) due to A Meisl (Director) in respect of business expenses incurred but not reimbursed.

Included in Accrued Expenses is an amount of \$1,592 (2004: \$4,343) due to D Parker (Director) in respect of business expenses incurred but not reimbursed.

Included in Cost of Sales is an amount of \$34,009 (2004: \$5,807) paid to P Trelease (Director) in respect of consultancy services rendered. P. Trelease resigned as a director of Sponge Limited on February 23, 2006.

During the previous year the company paid \$10,721 in respect of server hosting costs to Jingo Digital Limited, a company of which M Gibbons is a director. M Gibbons resigned as a director of Sponge Limited on May 4, 2004.

There are no set interest or repayment terms in respect of outstanding balances.

CONTROL

Control of the company rested with A Meisl and D Parker, directors, during the year.

11. LONG-TERM DEBT

On December 16, 2004 the company issued 61,000, out of an authorised 100,000, non-voting 1% preference shares of (pound)1 each. These preference shares were allotted at par via conversion of an existing long term loan.

24

SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
SEPTEMBER 30, 2005 AND 2004

12. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was:

2005

2004

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

	\$	\$
Charge arising during the year	1,822	-
Foreign currency adjustment	(78)	-
	-----	-----
Liability carried forward	1,744	-
	=====	=====

The deferred taxation liability consists of the tax effect of timing differences in respect of:

	2005	2004
	\$	\$
Excess of taxation allowances over depreciation on property and equipment	1,744	-
	=====	=====

13. COMMON STOCK

Authorised Common Stock

	2005	2004
	(POUND)	(POUND)
1,000,000 Ordinary shares of (pound)1 each	1,000,000	1,000,000
	=====	=====

Allotted, called up and fully paid:

	2005		2004	
	NO.	\$	NO.	\$
Ordinary shares of (pound)1 each	423	631	423	631
	===	===	===	===

Issued share capital is recorded at the historic rate. There have been no changes in the authorised or issued share capital in the year. In the previous year six Ordinary Shares of (pound)1 each were issued for A total cash consideration of (pound)6,000.

14. POST BALANCE SHEET EVENTS

In March 2006 the directors paid a final dividend on the Ordinary Shares for the year ended 30th September 2005 of (pound)105,000 (2004: Nil).

In February 2006 the company's Issued Common Stock was purchased by Neomedia Technologies Inc, a company incorporated and operating in the United States of America.

(B) PRO FORMA FINANCIAL INFORMATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

ACQUISITION OF SPONGE LTD.

On February 20, 2006, NeoMedia and Sponge signed a definitive share purchase agreement, subject to closing conditions, under which NeoMedia acquired all of the outstanding shares of Sponge in exchange for (pound)3,450,000 (approximately \$6 million) cash and 33,097,135 shares of NeoMedia common stock. The agreement also calls for Sponge to earn an additional (pound)2,500,000 (approximately \$4.4 million) in the form of NeoMedia common stock if, during the two-year period beginning at closing, the Sponge business earns in excess of (pound)1,300,000 (approximately \$2.3 million) in net profits. On February 23, 2006, NeoMedia and Sponge completed the closing requirements and the acquisition became effective. Pursuant to the terms of the merger agreement, the number of shares of NeoMedia common stock to be issued as consideration was calculated using a share price of \$0.384. In the event that NeoMedia's stock price at the time the consideration shares are saleable is less than \$0.384, NeoMedia is obligated to compensate Sponge shareholders in cash for the difference between the price at the time the shares become saleable and \$0.384

ACQUISITION OF GAVITEC AG

On February 17, 2006, NeoMedia and Gavitec signed a definitive sale and purchase agreement, subject to closing conditions, under which NeoMedia acquired all of the outstanding shares of Gavitec in exchange for \$1,800,000 cash and 13,660,511 shares of NeoMedia common stock, calculated by dividing \$5,400,000 by the volume-weighted average closing price of NeoMedia common stock for the ten days up to and including February 16, 2006. On February 23, 2006, NeoMedia and Gavitec completed the closing requirements and the acquisition became effective. In the event that NeoMedia's stock price at the time the consideration shares are saleable is less than \$0.389, NeoMedia is obligated to compensate Gavitec shareholders in cash for the difference between the price at the time the shares become saleable and \$0.389.

ACQUISITION OF 12SNAP AG

On February 10, 2006, NeoMedia and 12Snap signed a definitive sale and purchase agreement, subject to closing conditions, under which NeoMedia acquired all of the outstanding shares of 12Snap in exchange for \$2,500,000 cash and 49,294,581 shares of NeoMedia common stock. On February 28, 2006, NeoMedia and 12Snap completed the closing requirements and the acquisition became effective. Pursuant to the terms of the merger agreement, the number of shares of NeoMedia common stock to be issued as consideration was calculated using a share price of \$0.3956. In the event that NeoMedia's stock price at the time the consideration shares are saleable is less than \$0.3956, NeoMedia is obligated to compensate 12Snap shareholders in cash for the difference between the price at the time the shares become saleable and \$0.3956.

26

ACQUISITION OF MOBOT, INC.

On February 17, 2006, NeoMedia Technologies, Inc. ("NeoMedia") acquired all of the outstanding shares of Mobot, Inc. (www.mobot.com) ("Mobot") in exchange for \$3,500,000 cash and \$6,500,000 in shares of NeoMedia common stock. The \$6,500,000 stock portion of the purchase price is represented by 16,931,493 shares of NeoMedia common stock. Pursuant to the terms of the merger agreement, the number of shares of NeoMedia common stock to be issued as stock consideration was calculated using a share price of \$0.3839. In the event that

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

NeoMedia's stock price at the time the consideration shares are saleable is less than \$0.3839, NeoMedia is obligated to compensate Mobot shareholders in cash for the difference between the price at the time the shares become saleable and \$0.3839. In addition to cash and stock, at closing NeoMedia forgave notes payable totaling \$1,500,000 due from Mobot. This amount is considered other additional consideration in the purchase price allocation.

Audited financials statements for Mobot were included in amendment no. 1 to form 8-K filed with SEC on May 3, 2006. Audited financials statements for 12Snap were included in amendment no. 1 to form 8-K filed with SEC on May 8, 2006. Audited financials statements for Gavitec were included in amendment no. 1 to form 8-K filed with SEC on May 8, 2006. Gavitec, Mobot and 12Snap balance sheets as of December 31, 2005 and statements of operations for the year ended December 31, 2005 are shown for pro forma purposes only.

27

PRESENTATION

The unaudited pro forma condensed combined historical statement of operations for the year ended December 31, 2005 gives effect to the acquisitions of Sponge, Gavitec, 12Snap and Mobot as if they had occurred as of January 1, 2005, combining the historical results of NeoMedia for the year ended December 31, 2005 with the historical results of Sponge, Gavitec, 12Snap and Mobot for the year ended December 31, 2005. The unaudited pro forma condensed combined balance sheet as of December 31, 2005 gives effect to the acquisitions of Sponge, Gavitec, 12Snap and Mobot as if they had occurred as of December 31, 2005.

The unaudited pro forma combined financial statements included in this filing have been prepared by the managements of NeoMedia, Sponge, Gavitec, 12Snap, and Mobot without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the managements of NeoMedia, Sponge, Gavitec, 12Snap, and Mobot believe that the disclosures are adequate to make the information not misleading.

The pro forma adjustments are based on currently available information and upon estimates and assumptions that we believe are reasonable under the circumstances. The unaudited pro forma financial data do not purport to represent what NeoMedia's financial position or results of operations would actually have been if such transactions had occurred on those dates and are not necessarily representative of NeoMedia's financial position or results of operations for any future period. The unaudited pro forma financial statements should be read in conjunction with the separate historical financial statements and footnotes of NeoMedia included in Form 10-KSB for the year ended December 31, 2005, and with the separate historical financial statements and footnotes of Sponge for the years ended September 30, 2005 and 2004 (included herein), with the separate historical financial statements and footnotes of Gavitec for the years ended December 31, 2005 and 2004 (in Form 8-K/A filed with the SEC on May 8, 2006), with the separate historical financial statements and footnotes of 12Snap for the years ended December 31, 2005 and 2004 (included in Form 8-K/A filed with the SEC on May 8, 2006), and with the separate historical financial statements and footnotes of Mobot for the years ended December 31, 2005 and 2004 (included in Form 8-K/A filed with the SEC on May 3, 2006).

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

2. PRELIMINARY PURCHASE PRICE ALLOCATION

A final determination of the allocation of the purchase price to the assets acquired and liabilities assumed has not been made for Sponge, Gavitec, 12Snap and Mobot. The allocation reflected in the unaudited pro forma combined financial statements is based on management's best judgment and estimate of the fair values of intangible assets being acquired, and should be considered preliminary and is subject to the completion of a comprehensive independent valuation of the assets acquired and liabilities assumed. The final allocation of purchase price could differ materially from the pro forma allocation included herein. NeoMedia expects to obtain the final independent valuation, currently in process, prior to the filing of the 2nd quarter Form 10 Q in August 2006.

Any additional consideration issued pursuant to the stock purchase price protection clause would also change the purchase price allocation.

3. PRO FORMA NET LOSS PER SHARE

The pro forma basic and dilutive net loss per share are based on the weighted average number of shares of pro forma NeoMedia's common stock as if the shares issued to acquire Sponge, Gavitec, 12Snap and Mobot had been issued at the beginning of the period shown. Dilutive shares are not included in the computation of pro forma dilutive net loss per share as their effect would be anti-dilutive.

28

NEOMEDIA TECHNOLOGIES, INC.
 UNAUDITED PRO-FORMA CONDENSED COMBINED BALANCE SHEET
 DECEMBER 31, 2005
 (In thousands of US Dollars)

ASSETS	(A) NEOMEDIA	(A) MOBOT	(A) SPONGE	(A) GAVITEC	1
Current assets:	*	*	(unaudited)**	*	
Cash and cash equivalents	\$ 2,291	\$ 909	\$ 439	\$ 95	\$
Trade accounts receivable, net	341	78	223	172	
Inventories, net	423	--	--	182	
Investment in marketable securities	104	--	--	--	
Prepaid expenses and other current assets	151	8	314	64	
Total current assets	3,310	995	976	513	
Property and equipment, net	236	22	48	17	
Capitalized patents, net	3,134	--	--	--	
Micro paint repair chemical formulations					

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

and	--	--	--	--	
proprietary process	1,450	1,450			
Customer contracts and relationships	--	--	--	--	
Capitalized software platform	--	--	--	--	
Other intangible assets	246	20	--	3	
Goodwill	1,099	--	--	--	
Advances to Mobot, Inc.	1,500	--	--	--	
Cash surrender value of life insurance policy	769	--	--	--	
Other long-term assets	667	--	--	--	

TOTAL ASSETS	\$ 12,411	\$ 1,037	\$ 1,024	\$ 533	\$
	=====				
LIABILITIES AND SHAREHOLDERS' DEFICIT					
Current liabilities:					
Accounts payable	\$ 1,574	\$ 344	\$ 298	\$ 160	\$
Accrued expenses	1,844	148	266	50	
Amounts payable under settlement agreements	97	--	--	--	
Taxes payable	80	--	90	--	
Deferred revenues and other	898	236	73	362	
Liabilities in excess of assets of discontinued business unit	676	--	--	--	
Notes and loans payable	3,015	1,500	--	--	

TOTAL CURRENT LIABILITIES	8,184	2,228	727	572	

Long-term debt and convertible debentures	--	500	105	--	
Minority Interest	--	--	--	7	
Shareholders' deficit:					
Preferred stock	--	--	--	--	
Common stock (B)	4,676	0	1	263	
Additional paid-in capital	106,456	1	11	1,180	
Deferred equity financing costs	(13,256)	--	--	--	
Deferred stock-based compensation	(169)	--	--	--	
Accumulated other comprehensive income (loss)	(177)	--	(40)	--	
Retained earnings (accumulated deficit)	(92,524)	(1,692)	220	(1,482)	
Treasury stock	(779)	--	--	--	

Total shareholders' deficit	4,227	(1,691)	192	(39)	

TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 12,411	\$ 1,037	\$ 1,024	\$ 533	\$
	=====				

* - Derived from audited financial statements

** - Sponge balances taken from December 31, 2005 interim unaudited balance sheet

PRO-FORMA ADJUSTMENTS

(A) - All balance sheets are presented as of December 31, 2005. For pro forma

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

presentation purposes, Gavitec and 12Snap balances are converted from Euro to US Dollars at a rate of 0.8444 Euros/US Dollar, which was the exchange rate as of December 31, 2005.

- (B) - As of December 31, 2005, NeoMedia's \$0.01 par value common stock consists of 1,000,000,000 authorized shares, 475,387,910 historical shares and 622,974,117 pro forma shares issued; and 467,601,717 historical shares and 615,187,924 pro forma shares outstanding
- (C) - Adjustment for stock and cash issued to acquire Mobot, Gavitec, 12Snap, and Sponge assuming acquisitions occurred as of December 31, 2005. Adjustment includes the elimination of \$1,475 common stock and \$41,325 paid-in capital of the subsidiaries. The purchase price for each acquisition was calculated as follows:

	MOBOT -----	SPONGE -----	GAVI -----
Pro forma number of shares of NeoMedia to be treated as purchase price consideration	22,413,793	39,310,345	18,620
x NeoMedia closing stock price around December 31, 2005 (measurement date)	\$ 0.290	\$ 0.290	\$ 0
Total stock consideration	\$ 6,500,000	\$11,400,000	\$ 5,400
Plus cash consideration	\$ 3,500,000	\$ 6,141,000	\$ 1,800
Pro forma purchase price	\$10,000,000	\$17,541,000	\$ 7,200

In accordance with SFAS 141 and EITF 99-12, for the purposes of this unaudited pro forma balance sheet, the fair value of the stock to be issued as purchase price consideration is assumed to be \$0.29 per share, which was the average closing price of NeoMedia common stock for the three days up to and including December 31, 2005 (the measurement date). There are no additional options, warrants, or other stock-based consideration expected to be issued as part of the purchase price for either acquisition. Each of the above transactions was completed in the first quarter of 2006. The actual number of shares issued as stock consideration is shown in the following table:

	MOBOT -----	GAVITEC -----	12SNAP -----	
Actual Shares Issued as Stock Consideration	16,931,493	13,660,511	49,294,581	33

Based on NeoMedia's stock price around the measurement date of December 31, 2005, and the balance sheets of NeoMedia, Mobot, Gavitec, 12Snap, and Sponge as of December 31, 2005, the pro forma purchase price for each acquisition would be allocated as follows:

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

		(in thousands of US except share amo GA	
	MOBOT	SPONGE	GA
PURCHASE PRICE CONSIDERATION			
Cash	\$ 3,500	\$ 6,141	\$
Pro forma number of shares of NeoMedia common stock issued / NeoMedia closing stock price around December 31, 2005 (measurement date)	22,413,793	39,310,345	18,
	\$ 0.29	\$ 0.29	\$
Pro forma fair value of shares issued as purchase price consideration	\$ 6,500	\$ 11,400	\$
Purchase-related costs	8	73	
Other purchase consideration	1,500	--	
Total fair value expected to be treated as purchase price consideration	\$ 11,508	\$ 17,614	\$
ASSETS PURCHASED			
Cash and cash equivalents	\$ 909	\$ 439	\$
Investment in marketable securities	--	--	
Trade accounts receivable, net	78	223	
Inventory	--	--	
Prepaid expenses and other current assets	8	314	
Property and equipment, net	22	48	
Customer contracts and relationships (i)(ii)	400	400	
Capitalized software platform (i)(iii)	5,000	1,300	
Other intangible assets (i)(iv)	220	550	
Goodwill (i)(v)	5,599	15,172	
	12,236	18,446	
LIABILITIES ASSUMED			
Accounts payable	344	298	
Accrued expenses	148	266	
Taxes payable	--	90	
Deferred revenues and other current liabilities	236	73	
Notes payable	--	--	
Long-term debt	--	105	
	728	832	

(i) - For purposes of these unaudited pro forma financial statements, the excess of fair value of consideration paid over net book value for Mobot, Gavitec, 12Snap, and Sponge is allocated to the following intangible asset categories: customer contracts and relationships, capitalized software platform, other intangible assets, and goodwill. The allocation is made based on NeoMedia management's judgment and best estimate of the value of each category for each business. As of this filing, NeoMedia has not completed an independent valuation of such intangible assets. NeoMedia is in the process of performing an independent valuation of the

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

intangible assets, and a final allocation of the purchase price of each entity will be made based on the results of such valuation, to be completed no more than one year from closing. It is important to note that the final independent valuation, could vary materially from the pro forma allocation presented above. NeoMedia expects to obtain the final independent valuation, currently in process, prior to the filing of the 2nd quarter Form 10 Q in August 2006.

- (ii) - Customer contracts and relationships consist of the customers of each business that are under contract, as well as prospects identified for potential future business, the fair value of which is calculated as the discounted after-tax expected earnings from current and identified customers. NeoMedia expects to assign an amortization period of 5 years to this class of assets.
- (iii) - Capitalized software platforms consist of proprietary software systems acquired. NeoMedia expects to assign an amortization period of 7 years to this class of assets.
- (iv) - Other intangible assets consist of brand names and other proprietary copyrighted materials. NeoMedia expects to assign an amortization period of 7-10 years to this class of assets.
- (v) - The remaining excess of purchase price paid over fair value of assets and liabilities assumed is allocated to goodwill, and as such, is not assigned a depreciable life. Goodwill will be tested for impairment as defined by Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

31

PRO-FORMA ADJUSTMENTS (CONT'D)

- (D) - Adjustment to eliminate acquisition-related costs paid by NeoMedia in 2005 that are included in the purchase price allocation
- (E) - Adjustment to eliminate note payable from Mobot to NeoMedia that was forgiven at closing.
- (F) - Adjustment to eliminate Mobot convertible debentures that were converted prior to closing. As a result, the above unaudited condensed consolidated pro forma balance sheet is shown assuming the debentures are converted prior to the pro forma closing date.
- (G) - Negative cash balance is shown for pro forma purposes only. During February 2006, NeoMedia obtained \$27 million gross financing in the form of a convertible preferred stock sale, a portion of the proceeds of which were used to acquire Mobot, Gavitec, 12Snap, and Sponge.

32

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

NEOMEDIA TECHNOLOGIES, INC.
 UNAUDITED PRO-FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2005
 (In thousands of US Dollars, except per share data)

	(A)	(A)	(A)	(A)	(A)
	NEOMEDIA	MOBOT	SPONGE	GAVITEC	12SNAP
NET SALES:	*	*	(unaudited)**	*	*
License fees	\$ 523	--	--	--	
Resale of software and technology equipment and service fees	354	--	--	--	
Micro paint revenue	1,279	--	--	--	
Technology product and service revenue	--	300	4,666	772	7
Total net sales	2,156	300	4,666	772	7
COST OF SALES:					
License fees	453	--	--	--	
Resale of software and technology equipment and service fees	206	--	--	--	
Micro paint direct cost of revenue	913	--	--	--	
Technology product and service revenue		--	3,714	722	
Total cost of sales	1,572	--	3,714	722	
GROSS PROFIT	584	300	952	50	7
Selling, general and administrative expenses	7,561	1,180	796	972	7
Impairment charge	335	--	--	--	
Research and development costs	934	552	--	503	1
Income (loss) from operations	(8,246)	(1,432)	156	(1,425)	(1)
Loss on extinguishment of debt, net	172	--	--	--	
Other income (loss)	--	--	57	296	
Impairment charge on investments	(780)	--	--	--	
Interest income (expense), net	(293)	(42)	18	--	
INCOME BEFORE PROVISION FOR INCOME TAXES	(9,147)	(1,474)	231	(1,129)	(1)
Provision for income taxes	--	--	(60)	--	
NET INCOME (LOSS)	(9,147)	(1,474)	171	(1,129)	(1)
OTHER COMPREHENSIVE INCOME (LOSS):					
Unrealized loss on marketable					

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

securities	(146)	--	--	--
Foreign currency translation adjustment	29	--	--	--

COMPREHENSIVE INCOME (LOSS)	(\$ 9,264)	(\$ 1,474)	\$ 171	(\$ 1,129) (\$ 1,129)
=====				
NET INCOME (LOSS) PER SHARE--BASIC AND DILUTED	(\$0.02)			
=====				
COMPREHENSIVE INCOME (LOSS) PER SHARE--BASIC AND DILUTED	(\$0.02)			
=====				
Weighted average number of common shares-basic and diluted	451,857,851			
=====				

* - Derived from audited financial statements
 ** - Sponge fiscal year end is September 30. Results shown are for the year ended December 31, 2005, compiled from Sponge's audited financial statements for the year ended September 30, 2005 and interim financial statements for the three months ended December 31, 2005 and 2004.

PRO-FORMA ADJUSTMENTS

- (A) - All results shown are for the year ended December 31, 2005. For pro forma presentation purposes, Gavitec and 12Snap results are converted from Euro to US Dollars at a rate of 0.80844 Euro/US Dollar, which was the average exchange rate for the period January 1, 2005 - December 31, 2005.
- (B) - Adjustment to reflect amortization of acquired intangible assets for the year ended December 31, 2005, as if the acquisitions had occurred on January 1, 2005. It is important to note that the actual allocation and estimated useful lives of intangible assets acquired that will be adopted based on an independent valuation could vary from the estimates presented herein (see note C(i) to the pro forma balance sheet for a discussion on useful lives). Such a difference could cause a material difference between the actual periodic amortization charges that NeoMedia will record in its statement of operations, and the amortization amount shown above. Estimated useful lives are based on management's best estimate of the purchase price allocation, and will not be finalized until the results of an independent valuation are received.
- (C) - Adjustment for shares that would have been issued in connection with acquisitions if they had occurred on January 1, 2005, calculated as follows:

	MOBOT	SPONGE	GAVITEC
	-----	-----	-----
NeoMedia stock price around January 1, 2005 (measurement date)	\$0.261	\$0.261	\$0.261

Edgar Filing: NEOMEDIA TECHNOLOGIES INC - Form 8-K/A

Total stock consideration	\$6,500,000	\$11,400,000	\$5,400,000
	-----	-----	-----
Pro forma number of shares of NeoMedia to be treated as purchase price consideration	24,904,215	43,678,161	20,689,600
	=====	=====	=====

34

SIGNATURES

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

NeoMedia Technologies, Inc.

(Registrant)

Date: May 9, 2006

By: /s/ Charles T. Jensen

Charles T. Jensen, President,
Chief Executive Officer and Director

35

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
-----	-----
23.1	Consent of Brebner Allen & Trapp, Independent Auditors of Sponge Ltd.

36