

NEOMEDIA TECHNOLOGIES INC  
Form 10-Q  
May 15, 2009

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

FORM 10 - Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-21743

NeoMedia Technologies, Inc.  
(Exact Name of Issuer as Specified In Its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

Two Concourse Parkway, Suite 500, Atlanta, GA 30328  
(Address, including zip code, of principal executive offices)

678-638-0460  
(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The number of outstanding shares of the registrant's Common Stock on May 7, 2009 was 1,799,867,143.

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NeoMedia Technologies, Inc.  
Form 10-Q  
For the Quarterly Period Ended March 31, 2009  
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## FORWARD LOOKING STATEMENTS

This Form 10-Q contains “forward-looking statements” relating to NeoMedia Technologies, Inc, a Delaware corporation, which represent our current expectations or beliefs including, but not limited to, statements concerning our operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-Q that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as “may”, “anticipate”, “intend”, “could”, “estimate”, or “continue” or the negative or other comparative terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, such as credit losses, dependence on management and key personnel, variability of quarterly results, the ability to continue our growth strategy and competition, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for us to predict all of such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## PART I -- FINANCIAL INFORMATION

## ITEM 1. Financial Statements

NeoMedia Technologies, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(in thousands, except share and per share data)

|  | March 31,<br>2009<br>(Unaudited) | December 31,<br>2008 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Current assets:  |                                  |                      |
| Cash and cash equivalents  | \$ 230                           | \$ 1,259             |
| Trade accounts receivable, net of allowance for doubtful accounts of \$0 and \$0, respectively   | 153                              | 102                  |
| Inventories, net of allowance for obsolete & slow-moving inventory of \$61 and \$80 respectively | 93                               | 117                  |
| Prepaid expenses and other current assets  | 498                              | 544                  |
| Total current assets   | 974                              | 2,022                |
| Property, equipment and leasehold improvements, net  | 86                               | 79                   |
| Goodwill   | 3,418                            | 3,418                |
| Proprietary software, net  | 2,572                            | 2,738                |
| Patents and other intangible assets, net   | 2,218                            | 2,293                |
| Cash surrender value of life insurance policies  | 472                              | 508                  |
| Other long-term assets   | 437                              | 430                  |
| Total assets   | \$ 10,177                        | \$ 11,488            |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>   |                                  |                      |
| Current liabilities:   |                                  |                      |
| Accounts payable   | \$ 543                           | \$ 134               |
| Taxes payable  | 11                               | 7                    |
| Accrued expenses   | 6,532                            | 5,787                |
| Deferred revenues and customer prepayments   | 318                              | 403                  |
| Notes payable  | 24                               | 50                   |
| Accrued purchase price guarantee   | 4,614                            | 4,614                |
| Deferred tax liability   | 706                              | 706                  |
| Derivative financial instruments - warrants  | 34,470                           | 1,189                |
| Derivative financial instruments - debentures payable  | 72,797                           | 26,256               |
| Debentures payable - carried at amortized cost   | 11,311                           | 11,227               |
| Debentures payable - carried at fair value   | 42,924                           | 19,892               |
| Total current liabilities  | 174,250                          | 70,265               |

## Commitments and contingencies (Note 7)

Series C convertible preferred stock, \$0.01 par value, 30,000 shares authorized, 18,736 and 19,144 shares issued and outstanding,

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|  |           |           |
|--|-----------|-----------|
| liquidation value of \$18,736 and \$19,144   | 18,736    | 19,144    |
| Shareholders' deficit:   |           |           |
| Common stock, \$0.01 par value, 5,000,000,000 shares authorized, 1,711,271,614 and 1,375,056,229 shares issued and 1,708,120,345 and 1,371,904,960 outstanding, respectively | 17,081    | 13,719    |
| Additional paid-in capital   | 120,612   | 120,430   |
| Accumulated deficit  | (319,680) | (211,305) |
| Accumulated other comprehensive loss   | (43)      | 14        |
| Treasury stock, at cost, 201,230 shares of common stock  | (779)     | (779)     |
| Total shareholders' deficit  | (182,809) | (77,921)  |
| Total liabilities and shareholders' deficit  | \$ 10,177 | \$ 11,488 |

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

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NeoMedia Technologies, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Operations (Unaudited)  
 (in thousands, except share and per share data)

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2009  | March 31,<br>2008 |
| Net sales   | \$ 490             | \$ 264            |
| Cost of sales   | 527                | 313               |
| Gross deficit   | (37)               | (49)              |
| Sales and marketing expenses  | 286                | 628               |
| General and administrative expenses                                   | 923                | 1,290             |
| Research and development costs  | 324                | 562               |
| Operating loss  | (1,570)            | (2,529)           |
| Gain on extinguishment of debt  | -                  | 4                 |
| Gain (loss) from change in fair value of hybrid financial instruments | (23,031)           | 1,344             |
| Gain (loss) from change in fair value of warrants                     | (33,281)           | 2,032             |
| Gain (loss) from change in fair value of debentures                   | (47,654)           | 3,360             |
| Other interest expense, net   | (1,063)            | (173)             |
| Income (loss) from continuing operations                              | (106,599)          | 4,038             |
| Loss from discontinued operations                                     | -                  | (445)             |
| Net income (loss)   | (106,599)          | 3,593             |
| Dividends on convertible preferred stock                              | (375)              | (399)             |
| Net income (loss) attributable to common shareholders                 | (106,974)          | 3,194             |
| Comprehensive income (loss):  |                    |                   |
| Net income (loss)   | (106,599)          | 3,593             |
| Other comprehensive loss:   |                    |                   |
| Foreign currency translation adjustment                               | (57)               | -                 |
| Comprehensive income (loss)   | \$ (106,656)       | \$ 3,593          |
| Net income (loss) per share, basic:                                   |                    |                   |
| Continuing operations   | \$ (0.07)          | \$ 0.00           |
| Discontinued operations   | \$ -               | \$ (0.00)         |
| Net income (loss) per share, basic                                    | \$ (0.07)          | \$ 0.00           |
| Net income (loss) per share, fully diluted:                           |                    |                   |
| Continuing operations   | \$ (0.07)          | \$ 0.00           |
| Discontinued operations   | \$ -               | \$ (0.00)         |
| Net income (loss) per share, fully diluted                            | \$ (0.07)          | \$ 0.00           |

Weighted average number of common shares:

|               |               |               |
|---------------|---------------|---------------|
| Basic         | 1,503,082,652 | 1,028,798,182 |
| Fully diluted | 1,503,082,652 | 9,570,919,928 |

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

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

|  | For the three months ended |          |
|--|----------------------------|----------|
|  | March 31,<br>2009          | 2008     |
| Cash Flows from Operating Activities:  |                            |          |
| Income (loss) from continuing operations   | \$ (106,599)               | \$ 3,593 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                            |          |
| Loss from discontinued operations  | -                          | 445      |
| Depreciation and amortization  | 261                        | 269      |
| Loss on sale of assets   | -                          | 84       |
| Gain on early extinguishment of debt   | -                          | (4)      |
| (Gain) loss from change in fair value of hybrid financial instruments                | 23,031                     | (1,344)  |
| (Gain) loss from change in fair value of warrants                                    | 33,281                     | (2,032)  |
| (Gain) loss from change in fair value of debentures                                  | 47,654                     | (3,360)  |
| Other interest expense, net  | 1,063                      | 187      |
| Stock-based compensation expense   | 80                         | 359      |
| Decrease/ (increase) in value of life insurance policies                             | 36                         | -        |
| Changes in operating assets and liabilities  |                            |          |
| Trade and other accounts receivable  | (51)                       | 246      |
| Inventories  | 24                         | (22)     |
| Prepaid expenses and other assets  | 39                         | 26       |
| Accounts payable and accrued liabilities   | 172                        | (127)    |
| Deferred revenue and other current liabilities                                       | (111)                      | 16       |
| Net cash used in operating activities  | (1,120)                    | (1,664)  |
| Cash Flows from Investing Activities:  |                            |          |
| Acquisition of property and equipment  | (24)                       | (66)     |
| Loans repaid from subsidiaries   | -                          | 289      |
| Expenses of discontinued operations  | -                          | (445)    |
| Proceeds from sale of investments  | -                          | 750      |
| Payment of purchase price guarantee obligations                                      | -                          | (14)     |
| Net cash used in investing activities  | (24)                       | 514      |
| Cash Flows from Financing Activities:  |                            |          |
| Repayment of notes payable   | -                          | (29)     |
| Net proceeds from exercise of stock options  | 116                        | -        |
| Net cash provided by (used in) financing activities                                  | 116                        | (29)     |
| Effect of exchange rate changes on cash for continuing operations                    | (1)                        | (16)     |
| Net Increase (Decrease) in cash and cash equivalents from continuing operations      | (1,029)                    | (1,195)  |

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|  |    |       |    |       |
|--|----|-------|----|-------|
| Cash and cash equivalents, beginning of period                 |    | 1,259 |    | 1,415 |
| Cash and cash equivalents, end of period                       | \$ | 230   | \$ | 220   |
| Supplemental cash flow information:                            |    |       |    |       |
| Interest paid during the period                                | \$ | 1     | \$ | 14    |
| Accretion of dividends on Series C Convertible Preferred Stock |    | 375   |    | 399   |
| Series C Convertible Preferred Stock converted to common stock |    | 408   |    | 225   |
| Deemed dividend on preferred stock conversions                 |    | 1,776 |    | 21    |
| Derivative liability settled by preferred stock conversions    |    | 1,113 |    | 60    |

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

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

Note 1 - General

Business – NeoMedia utilizes the mobile phone by leveraging barcodes (printed symbols) as a seamless mechanism to link brands, advertisers, carriers, retailers and consumers using the power of the mobile internet.

With our barcode ecosystem technology, NeoMedia transforms mobile phones with cameras into barcode scanners which provide instant access to mobile web content whenever a barcode is scanned. A barcode makes any medium immediately interactive – the code links consumers to the multimedia capability of the mobile Web. Combining this technology with analytics and reporting capabilities improves the way advertisers market to mobile consumers.

NeoMedia provides the infrastructure to facilitate mobile barcode scanning and its associated commerce worldwide. Our mobile barcode ecosystem software reads and transmits data from 1D and 2D barcodes to its intended destination. Our code management and clearinghouse platforms create, connect, record, and transmit the transactions embedded in the barcodes, like web-URLs, text messages (SMS), and telephone calls, ubiquitously and reliably.

In order to provide complete mobile marketing solutions, NeoMedia also offers barcode scanning hardware that reads barcodes displayed on mobile phone screens. NeoMedia provides infrastructure solutions to enable mobile ticketing and couponing programs – including scanner hardware and system support software for seamless implementation.

This technology is supported by our patents. In addition, NeoMedia has an open standards philosophy designed to make integration and use of the technology easy for handset manufacturers, mobile operators and advertisers; and the consumer's experience safe, reliable and interoperable.

Going Concern – We have historically incurred net losses and losses from operations and we expect that we will continue to have negative cash flows as we implement our business plan. There can be no assurance that our continuing efforts to execute our business plan will be successful and that we will be able to continue as a going concern. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”), which contemplate our continuation as a going concern. Net income (loss) from continuing operations for the three months ended March 31, 2009 and 2008 was (\$106.6) million and \$4.0 million, respectively. Net cash used for operations during the same periods was \$1.1 million and \$1.7 million, respectively. We also have an accumulated deficit of \$319.2 million and a working capital deficit of \$173.3 million as of March 31, 2009, of which \$107.3 million relates to the fair value of hybrid and derivative financial instruments, and \$54.2 million relates to the carrying value of debentures, much of which is related to the derivative value of our financing instruments.

The items discussed above raise substantial doubts about our ability to continue as a going concern.

We currently do not have sufficient cash to sustain us for the next twelve months. We will require additional financing in order to execute our operating plan and continue as a going concern. Our management's plan is to attempt to secure adequate funding to bridge the commercialization of our barcode ecosystem business. We cannot predict whether this additional financing will be in the form of equity, debt, or another form and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. We believe that we can obtain additional financing, but in the event that these financing sources do not materialize, or that we are unsuccessful in increasing our revenues and profits, we may be unable to implement our current plans for expansion, repay our debt obligations as they become due or continue as a going concern, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. In 2009 we have received \$1.0 million in financing from YA Global Investments, L.P (“YA Global”). Should YA Global choose not to provide us with

capital financing, as they have in the past, or if we do not find alternative sources of financing to fund our operations, or if we are unable to generate significant product revenues, we only have sufficient funds to sustain our current operations through May 31, 2009.

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

## Note 2 - Summary of Significant Accounting Policies

**Basis of Presentation** — The accompanying condensed balance sheet as of December 31, 2008, which was derived from audited consolidated financial statements, and the unaudited condensed consolidated financial statements as of and for the periods ended March 31, 2009 and 2008, have been prepared in accordance with US GAAP for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Our operations consist of one reportable segment. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008. The net effect of discontinued operations is reported separately from the results of our continuing operations. Operating results for the three month periods ended March 31, 2009 and 2008 are not necessarily indicative of the results that may be expected for the full fiscal year.

**Use of Estimates** – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

**Basic and Diluted Income (Loss) Per Share** – Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. During the three months ended March 31, 2009, we reported a net loss per share, and as such basic and diluted loss per share were equivalent. We have excluded all outstanding stock options, warrants, convertible debt and convertible preferred stock from the calculation of diluted net loss per share because these securities are anti-dilutive. During the three months ended March 31, 2008, we reported net income per share and included all convertible shares in the fully diluted net income per share calculation. The shares included and excluded from the calculation of net income (loss) per share for the three months ended March 31, 2009 and 2008 are detailed in the table below:

|                             | As of March 31, |               |
|-----------------------------|-----------------|---------------|
|                             | 2009            | 2008          |
| Outstanding stock options   | 103,136,856     | 116,096,867   |
| Outstanding warrants        | 1,010,370,834   | 504,775,000   |
| Convertible debt            | 2,170,996,000   | 4,429,763,074 |
| Convertible preferred stock | 1,173,701,000   | 3,491,486,805 |
|                             | 4,458,204,690   | 8,542,121,746 |

In addition to net income (loss) per share, we have also reported per share amounts on the separate income statement components required by APB 30, “Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,” as the disposal activities of our discontinued operations were initiated prior to our adoption of FAS 144.

**Inventories** - Inventories, consisting of material, material overhead, labor and processing costs, are stated at the lower of cost (first-in, first-out) or market.

## Note 3 – Discontinued Operations

**MicroPaint Repair, 12Snap & Telecom Services** – During 2006, we acquired and in 2007 we subsequently disposed of our Micro Paint Repair (MPR), 12Snap, Mobot and Sponge business units. During the three months ended March 31, 2008, we incurred wind-down expenses related to these discontinued businesses, as shown below (in thousands). There is no tax expense or benefit to report as a result of our net operating loss carry forward tax position.

|                                   | Micro Paint<br>Repair | 12Snap  | Other   | Total |
|-----------------------------------|-----------------------|---------|---------|-------|
| Loss from discontinued operations | \$ (324)              | \$ (92) | \$ (29) | (445) |

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## Note 4 – Financing

On February 17, 2006, the Company issued Series C convertible preferred stock to YA Global, an accredited investor, and between August 24, 2006 and October 28, 2008, has entered into ten secured convertible debentures with YA Global. In addition, in connection with these debentures and preferred stock, the Company also issued common stock warrants to YA Global. The significant terms of the Series C convertible preferred stock, the convertible debentures and the warrants are set out in Note 5 to our December 31, 2008 consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2008, and are summarized below.

**Series C Convertible Preferred Stock** - On February 17, 2006, we issued 22,000 shares of \$1,000 Series C 8% convertible preferred stock, with a face value of \$22,000,000, to YA Global. The Series C convertible preferred stock is convertible into our common stock at the lower of \$0.02 per share, or 97% of the lowest closing bid price of the common stock for the 30 trading days immediately preceding the conversion date.

As of March 31, 2009, YA Global has converted 3,264.1 shares of the original 22,000 shares of Series C preferred stock, leaving 18,735.9 shares, with a face value of \$18,735,900, outstanding, as follows:

|                 | Series C Shares |                                     |
|-----------------|-----------------|-------------------------------------|
| Conversion Date | Converted       | Common Shares Issued (in thousands) |
| Prior Years     | 2,856.1         | 448,228                             |
| 1/13/2009       | 33.0            | 30,000                              |
| 2/5/2009        | 22.0            | 20,000                              |
| 2/11/2009       | 22.0            | 20,000                              |
| 2/19/2009       | 156.0           | 120,000                             |
| 3/4/2009        | 91.0            | 70,000                              |
| 3/25/2009       | 84.0            | 64,615                              |
|                 | 3,264.1         | 772,843                             |

On April 1, 2009 and April 23, 2009, a further 150 shares and 162 shares, respectively, of our Series C preferred stock were converted into 38.5 million and 36.8 million shares, respectively of common stock.

**Secured Convertible Debentures** - The underlying agreements for each of the debentures issued to YA Global are essentially the same, except in regard to the interest rate, varying conversion prices per share, and the number of warrants that were issued in conjunction with each of the debentures. The debentures are convertible into our common stock at the lower of a fixed conversion price per share or a percentage of the lowest volume-weighted average price (“VWAP”) for a specified number of trading days prior to conversion. All of the convertible debentures are secured according to the terms of a Security Pledge Agreement dated August 23, 2006, which was entered into in connection with the first convertible debenture with YA Global and which provides YA Global with a security interest in substantially all of our assets.

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The table below summarizes the significant terms of each of the debentures:

| Debenture Issue Date | Face Amount  | Maturity  | Interest Rate | Conversion Price – Lower of Fixed Price or Percentage of VWAP for Preceding Period |     |                  |
|----------------------|--------------|-----------|---------------|--|-----|------------------|
|                      |              |           |               | Fixed Price  | %   | Preceding Period |
| August 24, 2006      | \$ 5,000,000 | 7/29/2010 | 10%           | \$ 0.01  | 90% | 30 Days          |
| December 29, 2006    | 2,500,000    | 7/29/2010 | 10%           | \$ 0.01  | 90% | 30 Days          |
| March 27, 2007       | 7,458,651    | 7/29/2010 | 13%           | \$ 0.01  | 90% | 30 Days          |
| August 24, 2007      | 1,775,000    | 8/24/2009 | 14%           | \$ 0.01  | 80% | 10 Days          |
| April 11, 2008       | 390,000      | 4/11/2010 | 15%           | \$ 0.01  | 80% | 10 Days          |
| May 16, 2008         | 500,000      | 5/16/2010 | 15%           | \$ 0.01  | 80% | 10 Days          |
| May 29, 2008         | 790,000      | 5/30/2010 | 15%           | \$ 0.01  | 80% | 10 Days          |
| July 10, 2008        | 137,750      | 7/1/2010  | 15%           | \$ 0.01  | 80% | 10 Days          |
| July 29, 2008        | 2,325,000    | 7/29/2010 | 14%           | \$ 0.02  | 95% | 10 Days          |
| October 28, 2008     | 2,325,000    | 7/29/2010 | 14%           | \$ 0.02  | 95% | 10 Days          |
| April 6, 2009        | 550,000      | 7/29/2010 | 14%           | \$ 0.02  | 95% | 10 Days          |
| May 1, 2009          | 550,000      | 7/29/2010 | 14%           | \$ 0.02  | 95% | 10 Days          |

The debentures issued prior to May 29, 2008 were originally issued with higher fixed exercise prices but because those debentures include full-ratchet anti-dilution provisions, their fixed conversion price was reduced to \$0.01 as of May 29, 2008.

Effective September 24, 2008, the maturity dates of the August 24, 2006 and December 29, 2006 debentures, which originally matured after two years, were extended to July 29, 2010. On April 6, 2009 (effective March 27, 2009) the maturity date of the March 27, 2007 debenture was extended to July 29, 2010.

On July 29, 2008, we entered into a Securities Purchase Agreement (the “July 29 SPA”) with YA Global in the principal amount of \$8,650,000. The July 29 SPA provided for the amount to be drawn through three separate secured convertible debentures in the amounts of \$2,325,000, \$2,325,000, and \$4,000,000 respectively. The first and second debentures were issued on July 29, 2008 and October 28, 2008. Upon the achievement of certain milestones, the remaining debenture was scheduled to be issued no earlier than January 1, 2009. On April 6, 2009, we entered into an Amendment Agreement to the July 29 SPA, whereby the third scheduled debenture was reduced from \$4,000,000 to \$1,100,000, and was divided into two separate closings of \$550,000 each, on April 6, 2009 and May 1, 2009. In connection with these two debentures, YA Global retained fees for each debenture of \$50,000, resulting in net proceeds to us of \$500,000 for each debenture.

Default Events and Waiver - As of August 23, 2008, we were in default on our August 23, 2006 Convertible Debenture due to non-payment of principal and interest in accordance with the terms of the agreement. On September 24, 2008, we entered into a Letter Agreement with YA Global which extended the maturity dates of the August 24, 2006 and the December 29, 2006 debentures to July 29, 2010. The extension was considered a one-time extension for the specific period indicated but was not considered a waiver of existing events of default. However, a waiver was subsequently obtained from YA Global, effective as of December 31, 2008, which waiver is discussed further below.





All the debentures with YA Global contain provisions for acceleration of principal and interest upon default. Certain of the debentures also contain default interest rates and conversion prices, as follows:

|  | April 11,<br>2008 | May 16,<br>2008 | May 29,<br>2008 | July 10,<br>2008 | July 29,<br>2008 | October 28,<br>2008 |
|--|-------------------|-----------------|-----------------|------------------|------------------|---------------------|
| Default interest rate                              | 24%               | 24%             | 24%             | 24%              | 20%              | 20%                 |
| Convertible into our common stock at the lower of: |                   |                 |                 |                  |                  |                     |
| Fixed conversion price                             | \$ 0.01           | \$ 0.01         | \$ 0.01         | \$ 0.01          | \$ 0.02          | \$ 0.02             |
| or percentage of VWAP                              | 80%               | 80%             | 50%             | 50%              | 50%              | 50%                 |
| for days preceding conversion                      | 10 days           | 10 days         | 10 days         | 10 days          | 10 days          | 10 days             |

We obtained a waiver from YA Global, effective as of December 31, 2008 in which all prior events of default and the related cross default provisions of other financing instruments with YA Global were waived. YA Global waived the right to collect any liquidated damages, penalties or fines which had not previously been paid by us and also acknowledged that as of December 31, 2008, we were not under any obligation to file a registration statement under any of the financing arrangements. YA Global does, however, still have demand rights under certain agreements which would require us to file registration statements in accordance with the terms of the agreements.

Fair Value Considerations - In accordance with FAS 133 we determined that the conversion features of the Series C convertible preferred stock, and the August 2006, December 2006, July 2008 and October 2008 Debentures met the criteria of embedded derivatives and that the conversion features of these instruments needed to be bifurcated and accounted for as derivative instrument liabilities. Changes in the fair value of the derivative liability for the embedded conversion option are charged or credited to income. As permitted by FAS 155, we have elected not to bifurcate the embedded derivatives in the March 2007, August 2007, April 2008 or May 2008 Debentures and accordingly these convertible instruments are being carried in their entirety at their fair values, with the changes in the fair value of the Debentures charged or credited to income each period.

Derivative financial instruments arising from the issuance of convertible financial instruments are initially recorded, and continuously carried, at fair value. Upon conversion of any derivative financial instrument, the carrying amount of the debt, including any unamortized premium or discount is credited to the capital accounts upon conversion to reflect the stock issued and no gain or loss is recognized.

Embedded Derivative Instruments – Series C Preferred Stock and August 2006 and December 2006, July 2008 and October 2008 Convertible Debentures - Embedded derivative financial instruments arising from the convertible instruments consist of multiple individual features that were embedded in each instrument. For each convertible instrument, we evaluated all significant features and, as required under current accounting standards, aggregated the components into one compound derivative financial instrument for financial reporting purposes. For financings recorded in accordance with FAS 133, the compound embedded derivative instruments are valued using the Flexible Monte Carlo methodology because that model embodies certain relevant assumptions (including, but not limited to, interest rate risk, credit risk, and conversion/redemption privileges) that are necessary to value these complex derivatives.

Assumptions used as of March 31, 2009 included exercise estimates/behaviors and the following other significant estimates:

|   | Series C<br>Convertible<br>Preferred<br>Stock | August 24,<br>2006<br>Debenture | December<br>29,<br>2006<br>Debenture | July 10, 2<br>008<br>Debenture | July 29,<br>2008<br>Debenture | October 28,<br>2008<br>Debenture |
|---|---|---------------------------------|--------------------------------------|--------------------------------|-------------------------------|----------------------------------|
| Conversion prices                             | \$ 0.020                                      | \$ 0.010                        | \$ 0.010                             | \$ 0.010                       | \$ 0.020                      | \$ 0.020                         |
| Remaining terms (years)                       | 1.33  | 1.33                            | 1.33                                 | 1.28                           | 1.33                          | 1.33                             |
| Equivalent volatility                         | 248%  | 248%                            | 248%                                 | 238%                           | 248%                          | 248%                             |
| Equivalent interest-risk<br>adjusted rate     | 11.00%  | 14.35%                          | 14.41%                               | 11.15%                         | 10.47%                        | 10.99%                           |
| Equivalent credit-risk adjusted<br>yield rate | 16.32%  | 16.95%                          | 16.95%                               | 16.95%                         | 16.95%                        | 16.95%                           |

Equivalent amounts reflect the net results of multiple modeling simulations that the Flexible Monte Carlo Simulation methodology applies to underlying assumptions. The assumptions included in the calculation are highly subjective and subject to interpretation.

Due to the variable component of the conversion price, rapid fluctuations in the trading market price may result in significant variations to the calculated conversion price. For each debenture, we analyze the ratio of the conversion price (as calculated based on the percentage of VWAP for the 30 day or 10 day prior period) to the trading market price for a period of time equal to the term of the debenture to determine the average ratio for the term of the note. Each quarter, the ratio in effect on the date of the valuation is compared with the average ratio over the term of the debenture to determine if the calculated conversion price is representative of past trends or if it is considered unrepresentative due to a large fluctuation in the stock price over a short period of time. If the calculated conversion price results in a ratio which deviates significantly from the average ratio over the term of the agreement, the average ratio of the conversion price to the trading market price is then multiplied by the current trading market price to determine the variable portion of the conversion price for use in the fair value calculations. This variable conversion price is then compared with the fixed conversion price and, as required by the terms of the debentures, the lower of the two amounts is used as the conversion price in the Monte Carlo model used for valuation purposes. On March 31, 2009, the fixed conversion price for each of the debentures was lower than the calculated variable conversion price. Accordingly, the fixed conversion price was used in the Monte Carlo valuation model. This analysis is performed each quarter to determine if the calculated conversion price is reasonable for purposes of determining the fair value of the embedded conversion features (for instruments recorded under FAS133) or the fair value of the hybrid instrument (for instruments recorded under FAS155).

Hybrid Financial Instruments Carried at Fair Value – 2007 and 2008 Convertible Debentures - The March 2007, August 2007, April 11, 2008, May 16, 2008 and May 29, 2008 convertible debentures are recorded in accordance with SFAS 155 and the entire hybrid instrument was initially recorded at fair value, with subsequent changes in fair value recognized in earnings. These financial instruments are valued using the common stock equivalent approach. The common stock equivalent is calculated using the shares indexed to the debentures valued at the market price of our stock and the present value of the coupon.

Current Period Valuations - For the Series C Convertible Preferred Stock and the August 2006 and December 2006 debentures, due to our previous default position with respect to these instruments, the carrying value of each instrument in effect as of December 31, 2006 was written up to its full face value during the fourth quarter of 2006. For these instruments and the July 2008 and October 2008 debentures, the embedded derivative instrument, primarily the conversion feature, has been separated and accounted for as a derivative instrument liability, as discussed above.

This derivative instrument liability is marked to market each reporting period.

The March 2007, August 2007, April 2008 and May 2008 debentures were each initially recorded at their full fair value pursuant to FAS 155. That fair value is marked-to-market each reporting period, with any changes in the fair value charged or credited to income.

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The face value and the carrying value or fair value, as appropriate, of each instrument as of March 31, 2009 and December 31, 2008 was:

| March 31, 2009                       | Face Value | Carrying Value | Fair value | Total     |
|--------------------------------------|------------|----------------|------------|-----------|
|                                      |            | (in thousands) |            |           |
| Series C Convertible Preferred Stock | \$ 18,736  | \$ 18,736      | \$ -       | \$ 18,736 |
| August 2006 debenture                | \$ 5,000   | \$ 5,000       | \$ -       | \$ 5,000  |
| December 2006 debenture              | 2,500      | 2,500          | -          | 2,500     |
| March 2007 debenture                 | 7,459      | -              | 29,502     | 29,502    |
| August 2007 debenture                | 1,775      | -              | 6,858      | 6,858     |
| April 2008 debenture                 | 390        | -              | 1,531      | 1,531     |
| May 16 ,2008 debenture               | 500        | -              | 1,952      | 1,952     |
| May 29, 2008 debenture               | 790        | -              | 3,081      | 3,081     |
| July 10, 2008 debenture              | 137        | 113            | -          | 113       |
| July 29, 2008 debenture              | 2,325      | 1,832          | -          | 1,832     |
| October 23, 2008 debenture           | 2,325      | 1,866          | -          | 1,866     |
| Total                                | \$ 23,201  | \$ 11,311      | \$ 42,924  | \$ 54,235 |

| December 31, 2008                    | Face Value | Carrying Value | Fair value | Total     |
|--------------------------------------|------------|----------------|------------|-----------|
|                                      |            | (in thousands) |            |           |
| Series C Convertible Preferred Stock | \$ 19,144  | \$ 19,144      | \$ -       | \$ 19,144 |
| August 2006 debenture                | \$ 5,000   | \$ 5,000       | \$ -       | \$ 5,000  |
| December 2006 debenture              | 2,500      | 2,500          | -          | 2,500     |
| March 2007 debenture                 | 7,459      | -              | 13,478     | 13,478    |
| August 2007 debenture                | 1,775      | -              | 3,217      | 3,217     |
| April 2008 debenture                 | 390        | -              | 736        | 736       |
| May 16 ,2008 debenture               | 500        | -              | 955        | 955       |
| May 29, 2008 debenture               | 790        | -              | 1,506      | 1,506     |
| July 10, 2008 debenture              | 137        | 109            | -          | 109       |
| July 29, 2008 debenture              | 2,325      | 1,785          | -          | 1,785     |
| October 23, 2008 debenture           | 2,325      | 1,833          | -          | 1,833     |
| Total                                | \$ 23,201  | \$ 11,227      | \$ 19,892  | \$ 31,119 |

The following table reflects the number of common shares (in thousands) into which the Series C preferred stock and debentures are convertible and the fair values of the embedded conversion features in those debentures that are carried at amortized cost, at March 31, 2009 and December 31, 2008:

|                                      | March 31, 2009            |                                   | December 31, 2008         |                                   |
|--------------------------------------|---------------------------|-----------------------------------|---------------------------|-----------------------------------|
|                                      | Common<br>Stock<br>Shares | Embedded<br>Conversion<br>Feature | Common<br>Stock<br>Shares | Embedded<br>Conversion<br>Feature |
| Series C Convertible Preferred Stock | 1,173,701                 | \$ 36,854                         | 21,456,650                | \$ 10,728                         |
| August 24, 2006 Debenture            | 500,000                   | 19,335                            | 5,555,556                 | 7,260                             |
| December 29, 2006 Debenture          | 333,356                   | 9,721                             | 3,703,957                 | 3,556                             |
| March 27, 2007 Debenture             | 745,865                   | n/a                               | 8,287,390                 | n/a                               |
| August 24, 2007 Debenture            | 177,500                   | n/a                               | 1,972,222                 | n/a                               |
| April 11, 2008 Debenture             | 39,000                    | n/a                               | 433,333                   | n/a                               |
| May 16, 2008 Debenture               | 50,000                    | n/a                               | 555,556                   | n/a                               |
| May 29, 2008 Debenture               | 79,000                    | n/a                               | 877,778                   | n/a                               |
| July 10, 2008 Debenture              | 13,775                    | 414                               | 153,056                   | 158                               |
| July 29, 2008 Debenture              | 116,250                   | 3,242                             | 2,325,000                 | 2,327                             |
| October 23, 2008 debenture           | 116,250                   | 3,231                             | 2,325,000                 | 2,227                             |
|                                      | 3,344,697                 | \$ 72,797                         | 47,645,498                | \$ 26,256                         |

The terms of the embedded conversion features in the convertible instruments presented above provide for variable conversion rates that are indexed to our trading common stock price. As a result, the number of indexed shares is subject to continuous fluctuation. For presentation purposes, the number of shares of common stock into which the embedded conversion feature of the Series C convertible stock was convertible as of March 31, 2009 was calculated as face value plus assumed dividends (if declared), divided by the lesser of the fixed rate (\$.02) or the market price multiplied by the average ratio of market price to conversion price over the term of the note. The number of shares of common stock into which the embedded conversion feature in the convertible debentures was convertible as of March 31, 2009 was calculated as the face value of each instrument divided by the conversion price as of March 31, 2009.

The March 2007, August 2007, April 2008 and May 2008 debentures are carried in their entirety at fair value in accordance with FAS 155 and the value of the embedded conversion feature is effectively embodied in those fair values.

Changes in the fair value of convertible instruments that are carried at fair value (the March 2007 Debenture, August 2007 Debenture, April 2008 Debenture and May 2008 Debentures) are reported as “Gain (loss) from change in fair value of hybrid financial instruments” in the accompanying consolidated statement of operations. The following represents a reconciliation of the changes in fair value of financial instruments measured at fair value under FAS 155:

|                           | Three Months Ended March 31, |            |
|---------------------------|------------------------------|------------|
|                           | 2009                         | 2008       |
|                           | (in thousands)               |            |
| March 27, 2007 debenture  | \$ (16,025)                  | \$ (1,079) |
| August 24, 2007 debenture | (3,641)                      | (265)      |
| April 11, 2008 debenture  | (795)                        | -          |
| May 16, 2008 debenture    | (997)                        | -          |
| May 29, 2008 debenture    | (1,573)                      | -          |
| Total                     | \$ (23,031)                  | \$ (1,344) |

Changes in the fair value of derivative instrument liabilities related to the bifurcated embedded derivative features of convertible instruments not carried at fair value are reported as “Gain (loss) from change in fair value of debentures” in the accompanying consolidated statement of operations. The following represents a reconciliation of the changes in fair value of these derivative financial instruments recorded under FAS 133:

|                                      | Three Months Ended March 31, |          |
|--------------------------------------|------------------------------|----------|
|                                      | 2009                         | 2008     |
|                                      | (in thousands)               |          |
| Series C Convertible Preferred Stock | \$ (27,240)                  | \$ 947   |
| August 24, 2006 debenture            | (12,075)                     | 1,609    |
| December 29, 2006 debenture          | (6,165)                      | 804      |
| July 10, 2008 debenture              | (256)                        | -        |
| July 29, 2008 debenture              | (914)                        | -        |
| October 23, 2008 debenture           | (1,004)                      | -        |
| Total                                | \$ (47,654)                  | \$ 3,360 |

Warrants - YA Global holds warrants to purchase shares of our common stock that were issued in connection with the convertible debentures and the Series C convertible preferred stock. The warrants are exercisable at the lower of a fixed exercise price or a specified percentage of the current market price. From time to time, the fixed exercise prices of the warrants held by YA Global have been reduced as an inducement for YA Global to enter into subsequent financing arrangements. In addition to the warrants issued to YA Global, certain other warrants have been issued to consultants and other service providers.

The warrants issued to YA Global and others do not meet all of the established criteria for equity classification in EITF Issue 00-19 and, accordingly, are recorded as derivative liabilities at fair value. Changes in the fair value of the warrants are charged or credited to income or expense each period.

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A summary of the warrants outstanding (in thousands) follows:

|                                      | Exercise Price | Expiration Date | March 31, 2009        |            | December 31, 2008     |            |
|--------------------------------------|----------------|-----------------|-----------------------|------------|-----------------------|------------|
|                                      |                |                 | Common Stock Warrants | Fair Value | Common Stock Warrants | Fair Value |
| Series C Convertible Preferred Stock | \$ 0.0200      | 2/17/2011       | 75,000                | \$ 2,385   | 75,000                | \$ 23      |
| August 24, 2006 debenture            | 0.0200         | 8/24/2011       | 175,000               | 5,863      | 175,000               | 193        |
| December 29, 2006 debenture          | 0.0200         | 12/29/2011      | 42,000                | 1,420      | 42,000                | 50         |
| March 27, 2007 debenture             | 0.0200         | 3/27/2012       | 125,000               | 4,213      | 125,000               | 150        |
| August 24, 2007 debenture            | 0.0200         | 8/24/2012       | 75,000                | 2,535      | 75,000                | 90         |
| April 11, 2008 debenture             | -              | -               | -                     | -          | -                     | -          |
| May 16, 2008 debenture               | 0.0175         | 5/16/2015       | 7,500                 | 266        | 7,500                 | 10         |
| May 29, 2008 debenture               | 0.0100         | 5/29/2015       | 50,000                | 1,775      | 50,000                | 70         |
| July 10, 2008 debenture              | -              | -               | -                     | -          | -                     | -          |
| July 29, 2008 debenture              | 0.0200         | 7/29/2015       | 100,000               | 3,540      | 100,000               | 134        |
| July 29, 2008 debenture              | 0.0400         | 7/29/2015       | 100,000               | 3,510      | 100,000               | 134        |
| July 29, 2008 debenture              | 0.0500         | 7/29/2015       | 125,000               | 4,375      | 125,000               | 167        |
| July 29, 2008 debenture              | 0.0750         | 7/29/2015       | 125,000               | 4,400      | 125,000               | 167        |
| October 23, 2008 debenture           | -              | -               | -                     | -          | -                     | -          |
| Other warrants                       | 0.011-3.45     | Various         | 6,871                 | 188        | 8,471                 | 1          |
| Total                                |                |                 | 1,006,371             | \$ 34,470  | 1,007,971             | \$ 1,189   |

The warrants are valued using the Black-Scholes-Merton valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions used in this model as of March 31, 2009 included an expected life equal to the remaining term of the warrants, an expected dividend yield of zero, estimated volatility of 166% to 243%, and risk-free rates of return of 0.57% to 2.28%.

Fair Value Considerations – We adopted the provisions of FAS 157 as of January 1, 2008, with respect to financial instruments. As required by FAS 157, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments which are required to be measured at fair value on a recurring basis under FAS 155 or FAS 133 and as of March 31, 2009 and December 31, 2008 are all measured at fair value using Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.



The following represents a reconciliation of the changes in fair value of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2009, in thousands:

|                                  |            |
|----------------------------------|------------|
| Beginning balance:               |            |
| Derivative financial instruments | \$ 27,445  |
| Total gains (losses)             | 80,935     |
| Transfers in/out of Level 3      | (1,113)    |
| Ending balance                   | \$ 107,267 |

## Note 5 – Stock-Based Compensation

A total of 15,000,000 stock options were issued to employees and directors during the three months ended March 31, 2009. A total of 5,851,120 stock options were issued to employees during the three months ended March 31, 2008. The grant date fair values of these options were \$93,000 and \$31,000, respectively, which amounts are being recognized over the vesting period of the options. For the three months ended March 31, 2009 and 2008, total stock-based compensation expense recorded in the statement of operations was \$80,000 and \$501,000 respectively.

We used the following assumptions to value the stock options granted during the three months ended March 31, 2009 and 2008:

|                          | Three months ended March 31, |        |
|--------------------------|------------------------------|--------|
|                          | 2009                         | 2008   |
| Volatility               | 140% - 234%                  | 88.00% |
| Expected dividends       | -                            | -      |
| Expected term (in years) | 2.75                         | 6.56   |
| Risk-free rate           | 4.35%                        | 4.35%  |

During the three months ended March 31, 2009 options to purchase 11,600,000 shares of our common stock were exercised. The exercise price of these options was \$0.01 per share, providing us with proceeds of \$116,000. There were no stock option exercises during the three months ended March 31, 2008.

Subsequent Event - On April 29, 2009 the Stock Option Committee of the Board of Directors approved a resolution granting 6,649,560 stock options to 15 of our employees and directors to partially compensate them for reductions in salaries and fees related to our cost control measures. The exercise price of these options was \$0.02 per share. In addition, the resolution included a change in control provision, under which all options held by these employees and directors would vest upon such change in control of the company.

## Note 6 – Accrued Liabilities

Accrued liabilities consist of the following as of March 31, 2009 and December 31, 2008:

|                                | March 31,<br>2009<br>(in thousands) | December 31,<br>2008 |
|--------------------------------|-------------------------------------|----------------------|
| Accruals for disputed services | \$ 2,224                            | \$ 2,224             |
| Accrued operating expenses     | 1,627                               | 1,791                |
| Accrued interest               | 2,681                               | 1,772                |
| Total                          | \$ 6,532                            | \$ 5,787             |

## Note 7 – Contingencies

We are involved in various legal actions arising in the normal course of business, both as claimant and defendant. Although 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 will not have a material adverse effect on our financial position or operating results. We expense professional fees associated with our legal proceedings as they are incurred according to the terms negotiated between us and the respective professional who represents our interests. We have not accrued a loss contingency in relation to any of our pending litigation.

**Electronic Frontier Foundation** - In October 2007, we received a communication from the United States Patent and Trademark Office (USPTO) stating that a request by the Electronic Frontier Foundation for Ex-Parte Reexamination of U.S. Patent No. 6,199,048 (“the ‘048 patent”) had been granted. The reexamination was terminated in favor of NeoMedia when the U.S. Patent and Trademark office issued a Notice of Intent to Issue Ex Parte Reexamination Certificate on February 17, 2009, which indicated allowability of the pending claims of the ‘048 patent.

**Scanbuy, Inc.** - On January 23, 2004, we filed suit against Scanbuy, Inc. (“Scanbuy”) in the Northern District of Illinois, claiming that Scanbuy has manufactured, or has had 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 our patents. The complaint stated that on information and belief, Scanbuy had actual and constructive notice of the existence of the patents-in-suit, and, despite such notice, failed to cease and desist their acts of infringement and continue to engage in acts of infringement of the patents-in-suit. On April 15, 2004, the court dismissed the suits against Scanbuy for lack of personal jurisdiction.

On April 20, 2004, we re-filed our suit against Scanbuy in the Southern District of New York alleging patent infringement. Scanbuy filed their answer on June 2, 2004. We filed our answer on July 23, 2004. On February 13, 2006, Scanbuy filed an amended answer to the complaint. We filed our reply to Scanbuy’s amended answer on March 6, 2006. On January 20, 2007, the court dismissed Scanbuy's request for a summary judgment. Currently the case has been stayed due to the reexamination of the ‘048 patent (see Electronic Frontier Foundation, above). Based on the USPTO’s, February 17, 2009 Notice of Intent to Issue Ex Parte Reexamination Certificate, we have requested that the stay be lifted and a joint summary status of the case has been provided to the court. On April 17, 2009 both parties met with the court to discuss the status of the case. We have requested that the case be set for trial and are currently awaiting the court’s response.

**Rothschild Trust Holdings, LLC** – On September 19, 2008, we were served a complaint by Rothschild Trust Holding, LLC alleging we owed royalty payments for the use of certain patents. On February 25, 2009 we filed an answer to the complaint, and no discovery has taken place to date. We believe the complaint is without merit.

Scanbuy and Marshall Feature Recognition, LLC – On or around December 19, 2008, we received a complaint filed in the Eastern District of Texas by Scanbuy and Marshall Feature Recognition, LLC (“MFR”) alleging infringement of certain patents. On January 8, 2009, we filed an answer denying infringement and asserting that the patents of Scanbuy and MFR are invalid. On or about May 8, 2009 the parties agreed and the case was transferred to the Southern District of New York due to lack of personal jurisdiction in the Eastern District of Texas. We are waiting for the case to be assigned to a judge. We believe the complaint is without merit.

Ephrian Saguy, iPoint – media, plc. and iPoint – media, Ltd. – On or around March 5, 2008 we received a summons and notice that the plaintiffs had commenced a third party action in the Magistrate Court in Tel-Aviv-Jaffa, Israel seeking damages of approximately \$2.2 million from us and YA Global for breach of contract and unjust enrichment related to services provided by iPoint and investment by us and YA Global. We have entered into an assignment agreement with YA Global and have retained legal counsel in Israel to represent us. At this time we are unable to determine a probable outcome in this matter.

Subsequent Event - On April 29, 2009 the Compensation Committee of the Board of Directors approved a resolution reducing the salary and fee compensation of 15 of our employees and directors. related to our cost control measures. In addition, the resolution included a change in control provision, under which the salaries and fees of these employees and directors would revert to their former amounts upon a change in control of the company.

#### Note 8 – Geographic Reporting

We are structured and evaluated by our Board of Directors and management as one business unit.

Consolidated net sales and net loss from continuing operations for the three month ended March 31, 2009 and 2008, and the identifiable assets as of March 31, 2009 and December 31, 2008 by geographic area were as follows:

|   | Three Months Ended March 31, |              |
|---|------------------------------|--------------|
|   | 2009                         | 2008         |
|   | (in thousands)               |              |
| Net Sales:                                    |                              |              |
| United States                                 | \$ 67                        | \$ 116       |
| Germany                                       | 423                          | 148          |
| Total   | \$ 490                       | \$ 264       |
| Net income (loss) from continuing operations: |                              |              |
| United States                                 | (106,276)                    | 4,492        |
| Germany                                       | (323)                        | (454)        |
| Total   | \$ (106,599)                 | \$ 4,038     |
| Identifiable assets:                          |                              |              |
|   | March 31,                    | December 31, |
|   | 2009                         | 2008         |
| United States                                 | \$ 9,644                     | \$ 10,920    |
| Germany                                       | 533                          | 568          |
| Total   | \$ 10,177                    | \$ 11,488    |

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Special Note About Forward-Looking Statements

Certain statements in Management's Discussion and Analysis, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934 ("the Exchange Act"), as amended. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements. For a detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward looking statements, please refer to the section titled "Risk Factors" in the Company's 2008 Form 10-K filed on April 14, 2009 with the SEC. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Overview

NeoMedia provides the infrastructure to make mobile barcode scanning and its associated commerce easy, universal, and reliable – worldwide. Our barcode ecosystem products including mobile barcode reading software, NeoReader, read and transmit data from 1D and 2D barcodes to its intended destination. Our Code Management (NeoSphere) and Code Clearinghouse (NeoRouter) platforms create, connect, record, and transmit the transactions embedded in the barcodes, like web-URLs, text messages (SMS), and telephone calls, ubiquitously and reliably.

In order to provide complete mobile marketing solutions, NeoMedia also offers barcode scanning hardware that reads barcodes displayed on mobile phone screens. NeoMedia provides infrastructure solutions to enable mobile ticketing and couponing programs – including scanner hardware and system support software for seamless implementation.

This technology is supported by our patents. In addition, NeoMedia has an open standards philosophy designed to make integration and use of the technology easy for handset manufacturers, mobile operators and advertisers; and the user experience safe, reliable and interoperable for consumers.

In 2006, we began divesting our non-core businesses in order to focus our efforts on the area that we believe will deliver the most value - our code-reading business and the related intellectual property. In the fourth quarter of 2006, we disposed of two subsidiaries, Mobot and Sponge. During April 2007, we sold the 12Snap business unit and in October 2007, we completed the sale of our Telecom Services business. In November 2007, we sold our Micro Paint Repair business unit. As a consequence of these divestitures, we evaluate our continuing business as one consolidated business. These divestitures were integral to our turnaround plan and the proceeds received from the sale of our non-core business units have been used to continue the development of our code-reading business. A major goal of ours is to provide the industrial and carrier-grade infrastructure to enable reliable, scalable and billable commerce that is customer-focused and drives revenue growth.

During 2008 and early 2009 we have made significant changes to strengthen our management team. In June 2008, Mr. Iain A. McCready became our Chief Executive Officer and Chairman of our Board of Directors; in September 2008, Mr. Michael W. Zima became our Chief Financial Officer and Secretary; in January 2009, Ms. Laura Marriott became a Member our Board of Directors; and in March 2009, Mr. Dean Wood became our Vice President - Business Development.



## Comparison of the Three Months Ended March 31, 2009 and 2008

## Results of Continuing Operations

Beginning in late 2008 and continuing in 2009 we have taken aggressive steps to control our costs. These efforts have resulted in reduced operating losses of \$1.6 million in the three months ended March 31, 2009 compared to \$2.5 million in the three months ended March 31, 2008. However our loss from continuing operations was \$106.6 million during the three months ended March 31, 2009 compared to income from continuing operations of \$4.0 million during the three months ended March 31, 2008. The loss incurred in the three months ended March 31, 2009 was the result of non-cash losses from the change in fair value of our hybrid financial instruments, warrants and debentures, totaling \$104.0 million. We incurred these non-cash losses principally as a result of the recent increase in the market value of our common stock. During the three months ended March 31, 2008 we reported non-cash gains on our hybrid financial instruments, warrants and debentures, totaling \$6.7 million. These non-cash gains were principally the result of declines in the market value of our common stock.

A summary of our net sales is presented below:

|                        | Three Months Ended March 31, |        | Increase (decrease) |      |
|------------------------|------------------------------|--------|---------------------|------|
|                        | 2009                         | 2008   | \$                  | %    |
|                        | (in thousands)               |        |                     |      |
| Hardware sales         | 397                          | \$ 67  | 330                 | 492% |
| Lavasphere revenue     | 21                           | 24     | (3)                 | -11% |
| Legacy product revenue | 57                           | 77     | (20)                | -25% |
| Patent licensing       | 10                           | 39     | (29)                | -75% |
| Other revenue          | 5                            | 57     | (52)                | -92% |
| Net Sales              | \$ 490                       | \$ 264 | 226                 | 86%  |

Net Sales - Total revenues increased \$226,000, or 86%, to \$490,000 for the three months ended March 31, 2009 from \$264,000 for the three months ended March 31, 2008. This increase was the result of increased sales of our hardware products. Sales of hardware products increased to \$397,000 from \$67,000 for the three months ended March 31, 2009 and 2008, respectively, as a result of the introduction of our newest model barcode scanners as well as the sale of remaining quantities of our older models. During the three months ended March 31, 2009, we recorded \$5,000 of sales revenue for our barcode ecosystem products. In succeeding quarters we expect these revenues and related licensing revenues to increase as we shift the focus to our new business strategy of developing products and services to support the emerging barcode ecosystem that is being defined by bodies such as the OMA, GSMA and CTIA. We believe this focus will deliver the most value in the future.

Cost of Sales - Cost of sales was \$527,000 for the three months ended March 31, 2009 compared with \$313,000 for the three months ended March 31, 2008, an increase of \$214,000, or 68%. Cost of sales for NeoMedia Europe, related to our hardware products, was \$289,000 and \$67,000 for the three months ended March 31, 2009 and 2008, respectively. Amortization costs related to our patents, and the proprietary software of NeoMedia Europe were \$238,000 and \$246,000 for the three months ended March 31, 2009 and 2008, respectively.

Sales and Marketing - Sales and marketing expenses were \$286,000 and \$628,000 for the three months ended March 31, 2009 and 2008, respectively, a decrease of \$342,000 or 54%. The decrease in sales and marketing expenses was the result of strict cost controls implemented in mid-late 2008 and further reductions in 2009 compared with the first quarter of 2008.

General and Administrative - General and administrative expenses were \$923,000 and \$1,290,000 for the three months ended March 31, 2009 and 2008, respectively, a decrease of \$367,000, or 28%. The decrease in general and



administrative expenses was the result of reductions in compensation and travel costs, as well as reductions in professional fees implemented in mid-late 2008 and further reductions in 2009 compared with the first quarter of 2008.

Research and Development - Research and development expenses were \$324,000 and \$562,000 for the three month periods ended March 31, 2009 and 2008, respectively, a decrease of \$238,000, or 42%. The decrease in research and development expenses was the result of reductions in compensation and costs associated with the development of our hardware products, which were completed and launched in late 2008. We have also implemented further cost controls in 2009 compared with the first quarter of 2008.

Gain (Loss) from Change in Fair Value of Hybrid Financial Instruments - We carry certain of our convertible debentures at fair value, in accordance with FAS 155 and do not separately account for the embedded conversion feature. The change in the fair value of these liabilities includes changes in the value of the interest due under these instruments, as well as changes in the fair value of the common stock underlying the instruments. In the three months ended March 31, 2009, our liability related to these hybrid instruments increased, primarily as a result of the 2,741% increase in the value of our common stock, and we recognized a loss of \$23.0 million. In the three months ended March 31, 2008, we recognized a gain of \$0.9 million, as the fair value of the liability decreased due to decreases in the value of our common stock. Because our stock price has been volatile and because many of our hybrid financial instruments include relatively low fixed conversion prices it is possible that further increases in the market price of our stock could cause the fair value of our hybrid financial instruments to increase significantly in future periods.

Gain (Loss) from Change in Value of Warrants - We account for our outstanding common stock warrants that were issued in connection with the preferred stock and our debentures, at fair value. In the three months ended March 31, 2009, our liability related to warrants increased, primarily as a result of the 2,741% increase in the value of our common stock, and we recognized a loss of \$33.2 million. In the three months ended March 31, 2008, we recognized a gain of \$2.0 million, as the fair value of the liability decreased due to decreases in the value of our common stock. Because our stock price has been volatile and because many of our warrants include relatively low fixed conversion prices it is possible that further increases in the market price of our stock could cause the fair value of our warrants to increase significantly in future periods.

Gain (Loss) from Change in Value of Debentures - For our Series C convertible preferred stock, and certain of our convertible debentures, we account for the embedded conversion feature separately as a derivative financial instrument. We carry these derivative financial instruments, at fair value. In the three months ended March 31, 2009, our liability related to these derivative instruments increased, primarily as a result of the 2,741% increase in the value of our common stock, and we recognized a loss of \$47.7 million. This liability is significantly greater than the face amount of our debt that would be otherwise due in cash. In the three months ended March 31, 2008, we recognized a gain of \$3.4 million, as the fair value of the liability decreased due to decreases in the value of our common stock. Because our stock price has been volatile and because many of our derivative financial instruments include relatively low fixed conversion prices it is possible that further increases in the market price of our stock could cause the fair value of our derivative financial instruments to increase significantly in future periods.

Other Interest Expense, net - Other interest expense was \$1.1 million and \$0.2 million during the three months ended March 31, 2009 and 2008, respectively. Other interest expense consists of interest charges related to convertible debentures that are not carried at fair value under FAS 155, interest accrued for creditors as part of financed purchases, past due balances and notes payable, net of interest earned on cash equivalent investments.

Results of Discontinued Operations - In 2007, we discontinued the operations of our Mobot, Sponge, 12Snap, Telecom Services and Micro Paint Repair businesses. During the three months ended March 31, 2008, we recognized a loss of \$445,000, primarily attributable to wind-down expenses associated with Micro Paint Repair, 12Snap, and Telecom Services

#### Liquidity and Capital Resources

As of March 31, 2009, we had \$0.2 million in cash and cash equivalents, a decrease of \$1.0 million, or 82%, compared with a total of \$1.3 million as of December 31, 2008.

Cash used in operating activities decreased to \$1.1 million for the three months ended March 31, 2009 compared with \$1.7 million for the period ended March 31, 2008. The decrease in cash used in operations is primarily due to the cost control measures implemented in late 2008 and early 2009.

Cash used in investing activities was \$24,000 for the three months ended March 31, 2009, representing the purchase of equipment. Net cash provided by investing activities was \$0.5 million for the three months ended March 31, 2008. This was primarily due to the sale of our remaining ownership of 12Snap, a partial settlement of intercompany loans and cash retained by us from the shut-down of Micro Paint Repair-US which resulted in net proceeds to us of \$0.8 million.

Cash provided by financing activities was \$0.1 million for the three months ended March 31, 2009 which resulted from the proceeds received upon exercise of stock options by two former employees. Cash used in investing activities during the three months ended March 31, 2008 was \$29,000 and was the result of the repayment of portions of our notes payable.

As of March 31, 2009, we had a working capital deficiency of \$173.3 million, of which \$107.3 million relates to the fair value of hybrid and derivative financial instruments, and \$54.2 million relates to the carrying value of debentures. These values are significantly greater than the face amount of our debt that would be otherwise due in cash and if the conversion feature of the warrants did not exist

#### Significant Liquidity Events

**Going Concern** - We have historically incurred net losses and losses from operations and we expect that we will continue to have negative cash flows as we implement our business plan. There can be no assurance that our continuing efforts to execute our business plan will be successful and that we will be able to continue as a going concern. The accompanying consolidated financial statements have been prepared in conformity with US GAAP, which contemplate our continuation as a going concern. Net loss for the three months ended March 31, 2009 \$106.6 million while net cash used by operations was \$1.1 million. We also have an accumulated deficit of \$319.2 million and a working capital deficit of \$173.3 million as of March 31, 2009, much of which is related to the derivative value of our financing instruments. . We also have a continuing obligation as of March 31, 2009 of \$4.6 million relating to a purchase price guarantee associated with our prior acquisition of 12Snap (which we subsequently sold).

The items discussed above raise substantial doubts about our ability to continue as a going concern.

We currently do not have sufficient cash to sustain us for the next twelve months. We will require additional financing in order to execute our operating plan and continue as a going concern. Our management's plan is to attempt to secure adequate funding to bridge the commercialization of our barcode ecosystem business. We cannot predict whether this additional financing will be in the form of equity, debt, or another form and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. We believe that we can obtain additional financing, but in the event that these financing sources do not materialize, or that we are unsuccessful in increasing our revenues and profits, we may be unable to implement our current plans for expansion, repay our debt obligations as they become due or continue as a going concern, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. In 2009 we have received \$1.0 million in financing from YA Global Investments, L.P ("YA Global"). Should YA Global choose not to provide us with capital financing, as they have in the past, or if we do not find alternative sources of financing to fund our operations, or if we are unable to generate significant product revenues, then we only have sufficient funds to sustain our current operations through May 31, 2009.

The financial statements in this Form 10-Q do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or the amounts and classification of liabilities that might be necessary, should we be unable to continue as a going concern.

**Sources of Cash and Projected Cash Requirements** - As of March 31, 2009, our cash balance was \$0.2 million. NeoMedia's reliance on YA Global as our primary financing source has certain ramifications that could affect future liquidity and business operations. For example, pursuant to the terms of the convertible debenture agreements between us and YA Global, without YA Global's consent we cannot (i) issue or sell any shares of our common stock or our preferred stock without consideration or for consideration per share less than the closing bid price immediately prior to its issuance, (ii) issue or sell any preferred stock, warrant, option, right, contract, call, or other security or instrument granting the holder thereof the right to acquire our common stock for consideration per share less than the closing bid price immediately prior to its issuance, (iii) enter into any security instrument granting the holder a security interest in any of our assets or (iv) file any registration statements on Form S-8. In addition, pursuant to security agreements between us and YA Global, YA Global has a security interest in all of our assets. Such covenants could severely harm our ability to raise additional funds from sources other than YA Global, and would likely result in a higher cost of capital in the event we secured funding.

Additionally, pursuant to the terms of the Investment Agreement between us and YA Global in connection with our Series C convertible preferred stock sale, we cannot (i) enter into any debt arrangements in which we are the borrower, (ii) grant any security interest in any of our assets or (iii) grant any security below market price.

### Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are a "smaller reporting company" as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

### ITEM 4T. Controls and Procedures

**Disclosure Controls and Procedures** - Our management, with the participation of our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report.

These controls are designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of March 31, 2009 at a reasonable assurance level, because of the material weaknesses described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which we are still in the process of remediating. Please see "Management's Report on Internal Control over Financial Reporting" in Item 9A of the 2008 Form 10-K for a full description of these weaknesses.

Notwithstanding the material weaknesses described in Item 9A of the Form 10-K for the fiscal year ended December 31, 2008, we believe that our consolidated financial statements presented in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows for all periods presented herein.

**Inherent Limitations** - Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. In particular, many of our current processes rely upon manual reviews and processes to ensure that neither human error nor system weakness has resulted in erroneous reporting of financial data.

**Changes in Internal Control over Financial Reporting** - There were no changes in the Company's internal control over financial reporting during the period ended March 31, 2009, which were identified in conjunction with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially

affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

There have been no material developments relating to certain pending legal proceedings. For a description of pending legal proceedings, see Note 7 – Contingencies, to the Consolidated Financial Statements set forth in this Form 10-Q.

ITEM 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Submission of Matters to A Vote of Security Holders

Not Applicable

ITEM 5. Other Information

Not Applicable



## ITEM 6. Exhibits

## (a) Exhibits:

| Exhibit<br>Number | Description   | Filed<br>Herewith | Form | Exhibit | Filing<br>Date |
|-------------------|---|-------------------|------|---------|----------------|
| 3.1               | Articles of Incorporation of Dev-Tech Associates, Inc. and amendment thereto  |                   | SB-2 | 3.1     | 11/25/96       |
| 3.2               | Bylaws of DevSys, Inc.  |                   | SB-2 | 3.2     | 11/25/96       |
| 3.3               | Restated Certificate of Incorporation of DevSys, Inc.   |                   | SB-2 | 3.3     | 11/25/96       |
| 3.4               | By-laws of DevSys, Inc.   |                   | SB-2 | 3.4     | 11/25/96       |
| 3.5               | Articles of Merger and Agreement and Plan of Merger of DevSys, Inc and Dev-Tech Associates, Inc.                                  |                   | SB-2 | 3.5     | 11/25/96       |
| 3.6               | Certificate of Merger of Dev-Tech Associates, Inc. into DevSys, Inc.  |                   | SB-2 | 3.6     | 11/25/96       |
| 3.7               | Articles of Incorporation of Dev-Tech Migration, Inc. and amendment thereto   |                   | SB-2 | 3.7     | 11/25/96       |
| 3.8               | By-laws of Dev-Tech Migration, Inc.   |                   | SB-2 | 3.8     | 11/25/96       |
| 3.9               | Restated Certificate of Incorporation of DevSys Migration, Inc.   |                   | SB-2 | 3.90    | 11/25/96       |
| 3.1               | Form of By-laws of DevSys Migration, Inc.   |                   | SB-2 | 3.10    | 11/25/96       |
| 3.11              | Form of Agreement and Plan of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc.                                      |                   | SB-2 | 3.11    | 11/25/96       |
| 3.12              | Form of Certificate of Merger of Dev-Tech Migration, Inc. into DevSys Migration, Inc.   |                   | SB-2 | 3.12    | 11/25/96       |
| 3.13              | Certificate of Amendment to Certificate of Incorporation of DevSys, Inc. changing our name to NeoMedia Technologies, Inc.         |                   | SB-2 | 3.13    | 11/25/96       |
| 3.14              | Form of Certificate of Amendment to Certificate of Incorporation of NeoMedia Technologies, Inc. authorizing a reverse stock split |                   | SB-2 | 3.14    | 11/25/96       |

|      |   |       |       |          |
|------|---|-------|-------|----------|
| 3.15 | Form of Certificate of Amendment to Restated Certificate of Incorporation of NeoMedia Technologies, Inc. increasing authorized capital and creating preferred stock | SB-2  | 3.15  | 11/25/96 |
| 10.1 | Second Agreement and Amendment to Consulting Agreement between NeoMedia and Thornhill Capital, dated July 22, 2005  | S-3/A | 10.3  | 1/30/06  |
| 10.2 | Standby Equity Distribution Agreement, dated March 30, 2005, between NeoMedia and Cornell Capital Partners  | 8-K   | 16.1  | 4/1/05   |
| 10.3 | Placement Agent Agreement, dated March 30, 2005, between NeoMedia and Cornell Capital Partners  | 8-K   | 16.2  | 4/1/05   |
| 10.4 | Escrow Agreement, dated March 30, 2005, between NeoMedia and Cornell Capital Partners   | 8-K   | 16.3  | 4/1/05   |
| 10.5 | Registration Rights Agreement, dated March 30, 2005, between NeoMedia and Cornell Capital Partners  | 8-K   | 16.4  | 4/1/05   |
| 10.6 | Promissory Note, dated March 30, 2005, between NeoMedia and Cornell Capital Partners  | 8-K   | 16.5  | 4/1/05   |
| 10.7 | Security Agreement, dated March 30, 2005, between NeoMedia and Cornell Capital Partners   | 8-K   | 16.5  | 4/1/05   |
| 10.8 | Warrant dated March 30, 2005, granted by NeoMedia to Thornhill Capital LLC  | S-3/A | 10.12 | 7/18/05  |

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| Exhibit Number | Description  | Filed Herewith | Form  | Exhibit | Filing Date |
|----------------|--|----------------|-------|---------|-------------|
| 10.9           | Warrant dated March 30, 2005, granted by NeoMedia to Cornell Capital Partners LP   |                | S-3/A | 10.13   | 7/18/05     |
| 10.10          | Definitive Merger Agreement between NeoMedia and Mobot   |                | 8-K   | 16.10   | 2/10/06     |
| 10.11          | Definitive Sale and Purchase Agreement between NeoMedia and 12Snap   |                | 8-K   | 16.10   | 2/14/06     |
| 10.12          | Definitive Sale and Purchase Agreement between NeoMedia and Gavitec  |                | 8-K   | 16.10   | 2/21/06     |
| 10.13          | Definitive Sale and Purchase Agreement between NeoMedia and Sponge   |                | 8-K   | 16.10   | 2/22/06     |
| 10.14          | Promissory Note, dated October 18, 2004, between NeoMedia and Cornell Capital Partners   |                | S-3/A | 10.26   | 1/30/06     |
| 10.15          | Investment Agreement, dated February 17, 2006 between NeoMedia and Cornell Capital Partners  |                | 8-K   | 10.1    | 2/21/06     |
| 10.16          | Investor Registration Rights Agreement, dated February 17, 2006 between NeoMedia and Cornell Capital Partners  |                | 8-K   | 10.2    | 2/21/06     |
| 10.17          | Irrevocable Transfer Agent Instruction, dated February 17, 2006, by and among NeoMedia, Cornell Capital Partners and American Stock Transfer & Trust Co. |                | 8-K   | 10.3    | 2/21/06     |
| 10.18          | Warrant, dated February 17, 2006   |                | 8-K   | 10.4    | 2/21/06     |
| 10.19          | Warrant, dated February 17, 2006   |                | 8-K   | 10.5    | 2/21/06     |
| 10.20          | Warrant, dated February 17, 2006   |                | 8-K   | 10.6    | 2/21/06     |
| 10.21          | Assignment Agreement, dated February 17, 2006 by NeoMedia and Cornell Capital Partners   |                | 8-K   | 10.7    | 2/21/06     |
| 10.22          | Assignment of Common Stock, dated February 17, 2006 between NeoMedia and Cornell Capital Partners  |                | 8-K   | 10.8    | 2/21/06     |
| 10.23          | Securities Purchase Agreement, dated August 24, 2006, between the Company and Cornell Capital Partners, LP   |                | 8-K   | 10.1    | 8/30/06     |
| 10.24          |  |                | 8-K   | 10.2    | 8/30/06     |

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|       |  |       |       |          |
|-------|--|-------|-------|----------|
|       | Investor Registration Rights Agreement, dated August 24, 2006, between the Company and Cornell Capital Partners, LP  |       |       |          |
| 10.25 | Pledge and Security Agreement, dated August 24, 2006, between the Company and Cornell Capital Partners, LP   | 8-K   | 10.30 | 8/30/06  |
| 10.26 | Secured Convertible Debenture, dated August 24, 2006, issued by the Company to Cornell Capital Partners, LP  | 8-K   | 10.40 | 8/30/06  |
| 10.27 | Irrevocable Transfer Agent Instructions, dated August 24, 2006, by and among the Company, Cornell Capital Partners, LP and American Stock Transfer & Trust Co. | 8-K   | 10.50 | 8/30/06  |
| 10.28 | A Warrant, dated August 24, 2006   | 8-K   | 10.60 | 8/30/06  |
| 10.29 | B Warrant, dated August 24, 2006   | 8-K   | 10.70 | 8/30/06  |
| 10.30 | C Warrant, dated August 24, 2006   | 8-K   | 10.80 | 8/30/06  |
| 10.31 | D Warrant, dated August 24, 2006   | 8-K   | 10.9  | 8/30/06  |
| 10.32 | Amendment to Warrant No. CCP-002, dated August 24, 2006, between the Company and Cornell Capital Partners, LP  | 8-K   | 10.1  | 8/30/06  |
| 10.33 | Amendment to "A" Warrant No. CCP-001, dated August 24, 2006, between the Company and Cornell Capital Partners, LP  | 8-K   | 10.11 | 8/30/06  |
| 10.34 | Amendment to "B" Warrant No. CCP-002, dated August 24, 2006, between the Company and Cornell Capital Partners, LP  | 8-K   | 10.12 | 8/30/06  |
| 10.35 | Amendment to "C" Warrant No. CCP-003, dated August 24, 2006, between the Company and Cornell Capital Partners, LP  | 8-K   | 10.13 | 8/30/06  |
| 10.36 | Letter of intent amongst the Company, Global Emerging Markets, and Jose Sada   | 8-K   | 16.1  | 8/31/06  |
| 10.37 | Termination Agreement between NeoMedia Technologies, Inc, and Cornell Capital Partners, LP   | S-3/A | 10.53 | 1/30/07  |
| 10.38 | Definitive share purchase and settlement agreement between NeoMedia and Sponge, dated November 14, 2006  | 8-K   | 16.1  | 11/20/06 |

10.39 Agreement between NeoMedia and FMS 8-K 16.1 12/7/06

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| Exhibit Number | Description  | Filed Herewith | Form | Exhibit | Filing Date |
|----------------|--|----------------|------|---------|-------------|
| 10.40          | Escrow agreement amongst NeoMedia, Mobot, FMS, and Kirkpatrick and Lockhart Nicholson Graham LLP   |                | 8-K  | 16.2    | 12/7/06     |
| 10.41          | Description of Special Preference Stock  |                | 8-K  | 16.3    | 12/7/06     |
| 10.42          | Promissory note payable from NeoMedia to FMS   |                | 8-K  | 16.4    | 12/7/06     |
| 10.43          | License agreement between NeoMedia and Mobot   |                | 8-K  | 16.50   | 12/7/06     |
| 10.44          | Securities Purchase Agreement, dated December 29, 2006, between the Company and Cornell Capital Partners, LP   |                | 8-K  | 10.10   | 1/8/07      |
| 10.45          | Investor Registration Rights Agreement, dated December 29, 2006, between the Company and Cornell Capital Partners, LP  |                | 8-K  | 10.20   | 1/8/07      |
| 10.46          | Secured Convertible Debenture, dated December 29, 2006, issued by the Company to Cornell Capital Partners, LP  |                | 8-K  | 10.30   | 1/8/07      |
| 10.47          | Irrevocable Transfer Agent Instructions, dated December 29, 2006, by and among the Company, Cornell Capital Partners, LP and American Stock Transfer & Trust Co. |                | 8-K  | 10.40   | 1/8/07      |
| 10.48          | A Warrant, dated December 29, 2006   |                | 8-K  | 10.50   | 1/8/07      |
| 10.49          | Amendment to Warrant No. CCP-002, dated December 29, 2006, between the Company and Cornell Capital Partners, LP  |                | 8-K  | 10.6    | 1/8/07      |
| 10.50          | Amendment to "A" Warrant No. CCP-001, dated December 29, 2006, between the Company and Cornell Capital Partners, LP  |                | 8-K  | 10.7    | 1/8/07      |
| 10.51          | Amendment to "B" Warrant No. CCP-002, dated December 29, 2006, between the Company and Cornell Capital Partners, LP  |                | 8-K  | 10.8    | 1/8/07      |
| 10.52          | Amendment to "C" Warrant No. CCP-003, dated December 29, 2006, between the Company and Cornell Capital Partners, LP  |                | 8-K  | 10.9    | 1/8/07      |

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|       |   |     |       |         |
|-------|---|-----|-------|---------|
| 10.53 | Amendment to "A" Warrant No. CCP-001, dated December 29, 2006, between the Company and Cornell Capital Partners, LP                             | 8-K | 10.1  | 1/8/07  |
| 10.54 | Amendment to "B" Warrant No. CCP-001, dated December 29, 2006, between the Company and Cornell Capital Partners, LP                             | 8-K | 10.11 | 1/8/07  |
| 10.55 | Amendment to "C" Warrant No. CCP-001, dated December 29, 2006, between the Company and Cornell Capital Partners, LP                             | 8-K | 10.12 | 1/8/07  |
| 10.56 | Securities Purchase Agreement, dated December 29, 2006, between the Company and Cornell Capital Partners, LP                                    | 8-K | 10.13 | 1/8/07  |
| 10.57 | Amendment Agreement I to the Sale and Purchase Agreement between NeoMedia and certain former shareholders of Gavitec AG, dated January 23, 2007 | 8-K | 10.1  | 1/29/07 |
| 10.58 | Consulting Agreement between the Company and SKS Consulting of South Florida Corp.  | 8-K | 10.1  | 2/6/07  |
| 10.59 | Amendment Agreement III to Sale and Purchase Agreement between NeoMedia and certain former shareholders of 12Snap AG, dated March 16, 2007      | 8-K | 10.1  | 3/22/07 |
| 10.60 | Securities Purchase Agreement between NeoMedia and Cornell Capital Partners LP, dated March 27, 2007  | 8-K | 10.1  | 3/27/07 |
| 10.61 | Investor Registration Rights Agreement between NeoMedia and Cornell Capital Partners LP, dated March 27, 2007                                   | 8-K | 10.2  | 3/27/07 |
| 10.62 | Secured Convertible Debenture, issued by NeoMedia to Cornell Capital Partners, LP, dated March 27, 2007   | 8-K | 10.3  | 3/27/07 |
| 10.63 | Irrevocable Transfer Agent Instructions, by and among NeoMedia, Cornell Capital Partners, LP and Worldwide Stock Transfer, dated March 27, 2007 | 8-K | 10.4  | 3/27/07 |
| 10.64 | Warrant, issued by NeoMedia to Cornell Capital Partners, LP, dated March 27, 2007   | 8-K | 10.5  | 3/27/07 |
| 10.65 | Master Amendment Agreement, by and between NeoMedia and Cornell Capital Partners, LP,   | 8-K | 10.6  | 3/27/07 |

dated March 27, 2007

|       |   |     |      |         |
|-------|---|-----|------|---------|
| 10.67 | Security Agreement, by and between NeoMedia and Cornell Capital Partners, LP, dated on or about August 24, 2006 | 8-K | 10.7 | 3/27/07 |
|-------|---|-----|------|---------|

|       |   |     |      |         |
|-------|---|-----|------|---------|
| 10.68 | Security Agreement, by and between NeoMedia and Cornell Capital Partners, LP, dated March 27,2007 | 8-K | 10.8 | 3/27/07 |
|-------|---|-----|------|---------|



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| Exhibit Number | Description  | Filed Herewith | Form  | Exhibit | Filing Date |
|----------------|--|----------------|-------|---------|-------------|
| 10.69          | Security Agreement (Patent), by and between NeoMedia and Cornell Capital Partners, LP, dated March 27, 2007  |                | 8-K   | 10.9    | 3/27/07     |
| 10.70          | Pledge Shares Escrow Agreement, by and between NeoMedia and Cornell Capital Partners, dated March 27, 2007   |                | 8-K   | 10.10   | 3/27/07     |
| 10.71          | Sale and Purchase Agreement between NeoMedia and Bernd M. Michael  |                | 8-K   | 10.1    | 4/6/07      |
| 10.72          | Completion of Acquisition of Disposition of Assets of BSD Software Inc.  |                | 8-K/A | 10.1    | 6/8/07      |
| 10.73          | Full and Final Settlement Agreement, dated August 14, 2007, by and between NeoMedia, Wayside and Tesscourt   |                | 8-K   | 99.1    | 8/17/07     |
| 10.74          | Letter of intent between NeoMedia Technologies, Inc. and Greywolf Entertainment, Inc.  |                | 8-K   | 16.1    | 8/21/07     |
| 10.75          | Registration Rights Agreement, by and between NeoMedia and YA Global Investments, L.P., dated August 24, 2007  |                | 8-K   | 10.1    | 8/30/07     |
| 10.76          | Secured Convertible Debenture, issued by NeoMedia to YA Global Investments, dated August 24, 2007  |                | 8-K   | 10.2    | 8/30/07     |
| 10.77          | Irrevocable Transfer Agent Instructions, by and among NeoMedia, YA Global Investments, L.P. and Worldwide Stock Transfer, LLC, dated August 24, 2007 |                | 8-K   | 10.3    | 8/30/07     |
| 10.78          | Warrant issued by NeoMedia to YA Global Investments, L.P., dated August 24, 2007   |                | 8-K   | 10.4    | 8/30/07     |
| 10.79          | Repricing Agreement, by and between NeoMedia and YA Global Investments, L.P., dated August 24, 2007  |                | 8-K   | 10.5    | 8/30/07     |
| 10.80          | Security Agreement, by and between NeoMedia and YA Global Investments, L.P., dated August 24, 2007   |                | 8-K   | 10.6    | 8/30/07     |
| 10.81          | Security Agreement (Patent), by and between NeoMedia and YA Global Investments, L.P.,  |                | 8-K   | 10.7    | 8/30/07     |

dated August 24, 2007

|       |   |     |      |          |
|-------|---|-----|------|----------|
| 10.82 | Sale and Purchase Agreement between NeoMedia and Greywolf Entertainment, Inc., dated October 26, 2007                       | 8-K | 10.1 | 11/5/07  |
| 10.83 | Definitive purchase agreement between NeoMedia Technologies, Inc. and Micro Paint Holdings Limited, dated November 1, 2007. | 8-K | 10.1 | 11/7/07  |
| 10.84 | Distribution agreement between NeoMedia Technologies, Inc. and Micro Paint Holdings Limited, dated November 1, 2007.        | 8-K | 16.1 | 11/7/07  |
| 10.85 | Sale of the Assets of the Micro Paint Repair Business Unit.   | 8-K | 10.1 | 11/21/07 |
| 10.86 | Share Purchase and Transfer Agreement, dated January 31, 2008, by and between NeoMedia and Bernd Michael.                   | 8-K | 10.1 | 2/8/08   |
| 10.87 | Arbitration Agreement, dated January 31, 2008, by and between NeoMedia and Bernd Michael.                                   | 8-K | 10.1 | 2/8/08   |
| 10.88 | Secured Convertible Debenture, dated April 11, 2008, issued by the Company to YA Global Investments, L.P.                   | 8-K | 10.1 | 4/17/08  |
| 10.89 | Secured Convertible Debenture, dated May 16, 2008, issued by the Company to YA Global Investments, L.P.                     | 8-K | 10.1 | 5/22/08  |
| 10.90 | Warrant, dated May 16, 2008, issued by the Company to YA Global Investments, L.P.   | 8-K | 10.2 | 5/22/08  |
| 10.91 | Secured Convertible Debenture, dated May 30, 2008, issued by the Company to YA Global Investments, L.P.                     | 8-K | 10.1 | 6/5/08   |
| 10.92 | Warrant, dated May 30, 2008, issued by the Company to YA Global Investments, L.P.   | 8-K | 10.2 | 6/5/08   |

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| Exhibit Number | Description   | Filed Herewith | Form | Exhibit | Filing Date |
|----------------|---|----------------|------|---------|-------------|
| 10.93          | Settlement Agreement and Release, dated June 3, 2008, by and between the Company and William Hoffman  |                | 8-K  | 10.5    | 6/5/08      |
| 10.94          | Resignation Letter, effective May 22, 2008, executed by William Hoffman   |                | 8-K  | 10.6    | 6/5/08      |
| 10.95          | Settlement Agreement and Release, dated June 2, 2008, by and between the Company and Frank J. Pazera  |                | 8-K  | 10.7    | 6/5/08      |
| 10.96          | Resignation Letter, effective May 22, 2008, executed by Frank J. Pazera   |                | 8-K  | 10.8    | 6/5/08      |
| 10.97          | Employment Agreement, dated June 10, 2008, by and between NeoMedia Technologies, Inc. and Iain McCready   |                | 8-K  | 10.1    | 6/16/08     |
| 10.98          | Secured Convertible Debenture, dated July 10, 2008, issued by the Company to YA Global Investments, L.P.  |                | 8-K  | 10.1    | 7/16/08     |
| 10.99          | Securities Purchase Agreement, dated July 29, 2008, by and between the Company and YA Global Investments, L.P.  |                | 8-K  | 10.1    | 8/4/08      |
| 10.100         | Secured Convertible Debenture, dated July 29, 2008, issued by the Company to YA Global Investments, L.P.  |                | 8-K  | 10.2    | 8/4/08      |
| 10.101         | Security Agreement, dated July 29, 2008, by and among the Company, each of the Company's subsidiaries made a party thereto and YA Global Investments, L.P.        |                | 8-K  | 10.3    | 8/4/08      |
| 10.102         | Patent Security Agreement, dated July 29, 2008, by and among the Company, each of the Company's subsidiaries made a party thereto and YA Global Investments, L.P. |                | 8-K  | 10.4    | 8/4/08      |
| 10.103         | Warrant 9-1A, dated July 29, 2008, issued by the Company to YA Global Investments, L.P.   |                | 8-K  | 10.5    | 8/4/08      |
| 10.104         | Warrant 9-1B, dated July 29, 2008, issued by the Company to YA Global Investments, L.P.   |                | 8-K  | 10.6    | 8/4/08      |
| 10.105         | Warrant 9-1C, dated July 29, 2008, issued by the Company to YA Global Investments, L.P.   |                | 8-K  | 10.7    | 8/4/08      |

|   |     |       |         |
|---|-----|-------|---------|
| 10.106 Warrant 9-1D, dated July 29, 2008, issued by the Company to YA Global Investments, L.P.  | 8-K | 10.8  | 8/4/08  |
| 10.107 Escrow Agreement, dated July 29, 2008, by and among the Company, YA Global Investments, L.P., Yorkville Advisors, LLC and David Gonzalez, Esq.               | 8-K | 10.9  | 8/4/08  |
| 10.108 Irrevocable Transfer Agent Instructions, dated July 29, 2008, by and among the Company, the Investor, David Gonzalez, Esq. and WorldWide Stock Transfer, LLC | 8-K | 10.10 | 8/4/08  |
| 10.109 Letter Agreement, dated September 24, 2008, by and among NeoMedia Technologies, Inc. and YA Global Investments, L.P.   | 8-K | 10.1  | 10/1/08 |
| 10.110 Second Secured Convertible Debenture, dated October 28, 2008, issued by the Company to YA Global Investments, L.P.   | 8-K | 10.3  | 11/3/08 |
| 10.111 Revised Exhibit A to Escrow Agreement, dated October 28, 2008  | 8-K | 10.12 | 11/3/08 |
| 10.112 Letter Agreement, dated March 27, 2009, by and between the Company and YA Global Investments, L.P.   | 8-K | 10.13 | 4/13/09 |
| 10.113 Amendment Agreement, dated April 6, 2009, by and between the Company and YA Global Investments, L.P.   | 8-K | 10.14 | 4/13/09 |
| 10.114 Third Secured Convertible Debenture (first closing), dated April 6, 2009, issued by the Company to YA Global Investments, L.P.                               | 8-K | 10.15 | 4/13/09 |

| Exhibit<br>Number | Description  | Filed<br>Herewith | Form | Exhibit | Filing<br>Date |
|-------------------|--|-------------------|------|---------|----------------|
| 10.115            | Waiver, effective as of December 31, 2008, by and between the Company and YA Global Investments, L.P.  |                   | 8-K  | 10.16   | 4/13/09        |
| 10.116            | Fourth Secured Convertible Debenture (second amended third closing), dated May 1, 2009, issued by the Company to YA Global Investments, L.P. |                   | 8-K  | 10.15   | 5/7/09         |
| 31.1              | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | X                 |      |         |                |
| 31.2              | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   | X                 |      |         |                |
| 32.1              | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   | X                 |      |         |                |
| 32.2              | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   | X                 |      |         |                |

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)

Dated: May 15, 2009

/s/ Michael W. Zima  
Michael W. Zima  
Chief Financial Officer & Principal  
Accounting Officer