

NEOMEDIA TECHNOLOGIES INC

Form 10-K

April 14, 2009

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

Form 10-K

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

For the Fiscal Year Ended December 31, 2008

Commission File Number 0-21743

NeoMedia Technologies, Inc.
(Exact name of registrant 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)

Securities Registered Under Section 12(b) of the Exchange Act:

Common Stock, par value \$.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the
Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the
Securities 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained
herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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.

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 Exchange Act). Yes No

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008 based upon the closing price was approximately \$3.4 million.

The number of outstanding shares of the registrant's Common Stock on April 1, 2009 was 1,696,581,883.

NeoMedia Technologies, Inc.
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NeoMedia Technologies, Inc.

PART I

ITEM 1. Business

In this Annual Report on Form 10-K, unless otherwise indicated, the words “we,” “us,” and “our” refer to NeoMedia Technologies, Inc. and all entities owned or controlled by NeoMedia Technologies, Inc. All references to “NeoMedia” or the “Company” in this Annual Report mean NeoMedia Technologies, Inc., a Delaware corporation, and all entities owned or controlled by NeoMedia Technologies, Inc., except where it is made clear that the term only means the parent company.

Statements contained in this Annual Report that are not purely historical are forward-looking statements and are being provided in reliance upon the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” or similar expressions identify forward-looking statements. These forward-looking statements include but are not limited to statements regarding NeoMedia’s expectations of our future liquidity needs, our expectations regarding our future operating results including our planned increase in our revenue levels and the actions we expect to take in order to maintain our existing customers and expand our operations and customer base. All forward-looking statements are made as of the date hereof and are based on current management expectations and information available to us as of such date. We assume no obligation to update any forward-looking statement. It is important to note that actual results could differ materially from historical results or those contemplated in the forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and include risks associated with our target markets and risks pertaining to competition, other trend information and our ability to successfully enhance our operations. Factors that could cause actual results to differ materially include, but are not limited to, those identified in “Item 1A-Risk Factors” and in our other filings with the U.S. Securities and Exchange Commission. All tabular amounts are stated in thousands except shares and per share data. All amounts, herein, are stated in U.S. Dollars unless otherwise noted.

Overview

NeoMedia is harnessing the power of the mobile phone in a new and powerful way by leveraging barcodes (printed symbols) as a seamless mechanism to link mobile phone users to the power of the mobile internet.

With our state-of-the art barcode reading 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 an individual to the multimedia capability of the mobile Web, anytime, anywhere. Combining this technology with advanced analytics and reporting capabilities revolutionizes the way advertisers market to mobile consumers.

NeoMedia provides the infrastructure to make mobile barcode scanning and its associated commerce easy, universal, and reliable – worldwide. Our barcode ecosystem software tools include, NeoReader, which reads and transmits 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 state-of-the art technology is supported by our impressive array of 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.

We are Delaware corporation and were founded in 1989 and based in Atlanta, Georgia, NeoMedia currently has 30 active patents spanning 13 countries, with 29 additional patents pending.

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 barcode ecosystem business and the related intellectual property. On April 4, 2007, we sold our 12Snap business unit and on October 30, 2007 we completed the sale of our Telecom Services business. On November 15, 2007, we completed the sale of our Micro Paint Repair business unit, excluding the assets of the Micro Paint Repair-US operations (which operated under the brand name “AutoXperience”). On November 30, 2007, we shut down the operations of AutoXperience. These divestitures have been accounted for as discontinued operations and our consolidated financial information presents the net effect of these discontinued operations for all periods presented separate from the results of our continuing operations. As a consequence of these divestitures, we now evaluate our business as a single unit – our code-reading business and the related intellectual property. These divestitures were integral to our turnaround plan and have allowed us to invest in our principal line of business – our code-reading business and the related intellectual property.

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 of our Board of Directors; and in March 2009 Mr. Dean Wood became our Vice President - Business Development.

As of December 31, 2008 we have two active wholly-owned subsidiaries: NeoMedia Europe, AG, (formerly known as Gavitec, AG and hereinafter referred to as “NeoMedia Europe”) incorporated in Germany, and NeoMedia Migration, Inc., incorporated in Delaware. In addition, there are several dormant subsidiaries which are listed in Exhibit 21.1.

Products and Services

We provide a complete suite of software and hardware for processing 1D and 2D barcodes in the mobile environment, and enabling applications in mobile marketing, mobile couponing, mobile ticketing and mobile payment.

Our barcode ecosystem products include; our software products designed to read 1D and 2D barcodes using camera and web enabled wireless communications devices; to create unique barcodes; to create and manage advertising campaigns using barcodes; to act as a gateway managing activity between consumers and advertisers; and to gather and interpret the results of advertising campaigns. These products include:

- NeoReader™ – a barcode scanning application that transforms mobile camera phones into universal barcode readers. Users simply launch the NeoReader application on their mobile phone, scan the barcode and are linked directly to a specific web page. There they can access real-time product or service information, download content or complete a mobile commerce transaction. Any product, magazine/newspaper, retail display or billboard with a 2D code provides direct access to the multimedia capability of the mobile web...anytime, anywhere. NeoReader™ features our patented resolution technology with an ultra-small footprint and platform-independent algorithms. This application provides interoperability among 2D codes in the market and operates on a variety of handsets.
- NeoReader Enterprise & Lavasphere Enterprise – software solutions for commercial applications where mobile phones are utilized to manage products through manufacturing or distribution channels. These applications equip mobile devices to read 1D & 2D barcodes with their built-in camera. The mobile phones become universal code readers, allowing users to “track and trace” products and services anytime, anywhere

These solutions are ideal tools for a variety of business applications including data collection, logistics, price comparison, content linking, and accessing information on the go. They provide the ability to capture lifecycle data for products and services in real time and to share relevant data in a secure and selective manner.

- o NeoReader Enterprise: a standard solution utilizing our NeoReader technology to route transactions to a customer's existing mobile web application
- o Lavasphere Enterprise: a customized solution using LavaSphere code reading technologies for functions that are too complex to be handled by a mobile web application
- NeoSphere - a web-based campaign management system that allows users (typically agencies & advertisers) to easily develop, launch & manage a mobile code campaign by delivering three critical components:
 - o Code Creation tools
 - o Campaign Management tools
 - o Reporting & Analytics

NeoSphere offers a customizable feature that uses rules to deliver dynamic content to a single code based on preferences like language, gender, age and location.

- NeoMedia Code Routing Service – is used in conjunction with NeoSphere and includes an intelligent gateway configurable to support global interoperability and a code resolution server designed to retrieve and deliver any form of internet content to mobile phones worldwide. Our Code Resolution Service uniquely provides:
 - o Interoperability with other campaign management systems
 - o Access to all bar code enabled handsets worldwide
 - o Data tracking, collection, and monetization of each mobile transaction
- NeoMedia MSS – MSS is a completely stand-alone system supporting third-party ticketing/coupons systems and databases as well as adding all missing components to existing mobile systems essential for the successful completion and fulfillment of mobile applications. Based on our customers' needs and requirements, we believe that we provide the best solution –
 - o Integrating third-party ticketing and couponing systems
 - o Providing marketing databases and our own coupon system
 - o Encrypting and sending codes to mobile phones
 - o Decrypting and analyzing code contents
 - o Enabling customer's own coupon and ticket configuration
 - o Supplying statistics and information on mobile activities, and
 - o Implementing and delivering customized hard and software solutions

Our hardware products read, interpret and transmit barcodes and barcode information to facilitate related transactions. These products include:

-

EXIO II - introduced at the end of 2008, is a multi-application smart scanner for mobile couponing and ticketing applications. The cutting-edge technology of the EXIO II smart scanner allows customers to redeem mobile tickets and coupons making it easy and affordable to use creative new mobile marketing text messaging programs to track and reach customers. EXIO II is the evolution of EXIO® and combines all the advantages of EXIO® with improved reading capabilities and a programmable Linux platform that was developed based on customer feedback we received during our more than 10 years of operation. The EXIO II is the ideal tool for one-to-one marketing applications and highly targeted customer campaigns. With its color LCD touch-screen and video playback capability, the EXIO II can be customized to display targeted content and brand messages. During 2008 and 2007 we offered EXIO®, a complete solution including printer, display, keypad and GSM/GPRS module. EXIO® read and processed 2-D symbologies such as Data Matrix from mobile phone displays as well as printed 1D barcodes. Utilizing a high-speed Digital Signal Processor (DSP) and a high-resolution camera, EXIO® automatically recognizes 2D codes such as Data Matrix, sent as MMS (Multimedia Message Service), EMS (Enhanced Message Service) or Picture Message (Smart Message) to any compatible mobile phone.

- XELIA – introduced at the end of 2008, is a versatile desktop scanner that incorporates Honeywell Adaptus® Imaging Technology 5.0 to enable high-performance reading of 2D codes from mobile phone displays. Equipped with a high-speed Digital Signal Processor (DSP), XELIA automatically recognizes 2D codes sent as text messages (SMS, MMS or EMS) as well as printed 1D barcodes. It processes rapidly and with extreme accuracy. Its compact size and sleek design make XELIA ideal for counter-top use at a point-of-sale or service desk. It can also be used for sweepstakes, mobile advertising (tickets and coupons) and boarding passes. During 2008 and 2007 we offered our model MD-20 – a high-performance OEM code reader providing unparalleled flexibility in scanning 2-D symbologies such as Data Matrix from mobile phone displays as well as printed 1-D barcodes. Because of its compact size, speed and flexibility, MD-20 is the ideal high-performance fixed-position 2-D code reader for a wide range of applications where mobile code reading, mobile couponing, mobile ticketing and mobile marketing are required, thus enabling the phone to be used as the single universal mobile device.

Our legacy software products include:

- MaxiCode Encoder – our MaxiCode Encoder creates symbols in the print stream of choice, ranging from PC to midrange and mainframe platforms. MaxiCode is a 2-D symbology which can encode about 100 characters of data in an area of one square inch. One of MaxiCode's key features is that it can be located and read at high speeds in a large field of view. Because of these unique features, it has been adopted as the standard symbology for high-speed sorting at a number of well known businesses.
- PDF417 – our Portable Data File 417 (PDF417) Encoder creates bar code print streams for desktop, mid-range and mainframe platforms. PDF417 is a high-capacity 2-D barcode capable of storing any binary or textual information. Industry applications for PDF417 include driver's licenses, ID cards, EDI, insurance cards and any other situation in which a large amount of machine-readable data must be printed in a small area.
- WISP – Wang Interchange Source Processor (WISP) is an integrated set of utilities that facilitates the complete migration of Wang VS COBOL applications to the open systems and internet-ready world of UNIX or Windows NT. WISP provides the added flexibility of maintaining source files on the Wang VS system and migrating them to the target system as needed.

Sales, Marketing and Distribution Relationships

We are focusing our current marketing and sales efforts on the Americas and Europe. We believe our products and services can be marketed to potential customers world-wide.

Data Centers

As of December 31, 2008, we do not own any data centers. We have servers located in a data center in Miami, Florida, where our network infrastructure is supported by an outside vendor.

Proprietary Technology

Many of the products we sell to our customers rely on hardware and software technologies provided to us by third parties under license. Certain of our products and services combine these third party technologies with technologies that are proprietary to us. Our proprietary technology may be protected by patent law, copyright law, trade secret law and other forms of intellectual property protection. Our proprietary technology includes technologies that enable us to automate a number of back-end functions and technologies that allow customers to order, change and manage their accounts easily without technical expertise. Some of our proprietary technologies are unique and may not legally be utilized by competitors without a license from us. Although we believe that our suite of proprietary technologies offers customers significant benefits, we do not believe that our proprietary technologies are sufficient to deter

competitors from providing competing products and services.

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International Revenue

Our international revenues totaled \$0.7 million and \$1.3 million for the years ended December 31, 2008 and 2007, respectively. International revenues are denominated and paid primarily in Euros and represent revenues from international customers.

Competition

We believe we have positioned ourselves to compete as a global leader in mobile marketing solutions. However, within the mobile marketing industry there are a number of competitors, many of which are just beginning to appear, who offer parts of the mobile marketing equation. In general, due to the relative immaturity of the mobile marketing industry, small players have sprung up offering very specialized products and services.

As the mobile marketing industry matures, we expect consolidation as industry leaders emerge. Moreover, we believe we are well positioned at the onset due to our intellectual property, including many patents, on which our products and services are based. We expect that our intellectual property will serve as a competitive advantage as this market matures.

Intellectual Property

We rely on a combination of laws (including patent, copyright, trademark, service mark and trade secret laws) and contractual restrictions to establish and protect proprietary rights in our services. As of December 31, 2008, we have 30 active patents spanning 13 countries, with 29 additional patents pending. Our patents cover core concepts behind our techniques for linking the physical world to the electronic world. These patents cover various linkage methods including barcodes, RF/ID, Mag Stripe, Voice and other machine readable and keyed entry identifiers.

On February 17, 2009 we received a notice from the United States Patent and Trademark Office that a reexamination certificate would be issued for our United States Patent No. 6,199,048 (“the ‘048 Patent”). The ‘048 Patent was under reexamination at the request of third party Electronic Frontier Foundation, and the Patent Office had subsequently ruled that the inventions as described in the claims amended during the reexamination are patentable over the prior art.

We have licensed our patents to, or settled patent-related lawsuits with Digital Convergence, A.T. Cross Company, Symbol Technologies, Brandkey Systems Corporation, Virgin Entertainment Group, and AirClic, Inc. We are in discussions with other companies with regard to the licensing of our patents. However, there can be no guarantee that any of these discussions will result in future revenues.

We have ongoing relationships with several law firms specializing in intellectual property licensing and litigation. These firms assist us in seeking out potential licensees of our intellectual property portfolio, including any resulting litigation.

We have entered into confidentiality and other agreements with our employees and contractors, including agreements in which the employees and contractors assign their rights in inventions to us. We have also entered into nondisclosure agreements with our suppliers, distributors and some customers in order to limit access to and disclosure of our proprietary information. Nonetheless, neither the intellectual property laws nor contractual arrangements, nor any of the other steps we have taken to protect our intellectual property can ensure that others will not use our technology, or that others will not develop similar technologies.

We license, or lease from others, many technologies used in our services. We expect that we and our customers could be subject to third-party infringement claims as the number of competitors grows. Although we do not believe that our technologies or services infringe the proprietary rights of any third parties, we cannot ensure that third parties will

not assert claims against us in the future or that these claims will not be successful.

Periodically, we may be made aware that technology we have used in our operations may have infringed intellectual property rights held by others. We will evaluate all such claims and, if necessary and appropriate, seek to obtain licenses for the use of such technology. If we or our suppliers are unable to obtain licenses necessary to use intellectual property in our operations, we may be legally liable to the owner of such intellectual property. Moreover, even in those instances where we are justified in denying claims that we have infringed on the intellectual property rights of others, we may nonetheless be forced to defend or settle legal actions taken against us relating to allegedly protected technology, and such legal actions may require us to expend substantial funds. See “Item 1A Risk Factors – We may be unable to protect our intellectual property rights and may be liable for infringing the intellectual property rights of others.”

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Government Regulation

Existing or future legislation could limit the growth or use of the internet, which would curtail our revenue growth. Statutes and regulations directly applicable to internet communications, commerce and advertising are becoming more prevalent. Congress has passed laws regarding children's online privacy, copyrights and taxation. The law remains largely unsettled even in areas where there has been legislative action. It may take years to determine whether and how existing laws governing intellectual property, privacy, libel and taxation apply to the internet, e-commerce, m-commerce and online advertising. In addition, the growth and development of e-commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad.

Certain of our proprietary technology allow for the storage of demographic data from our users. In 2000, the European Union adopted a directive addressing data privacy that may limit the collection and use of certain information regarding internet users. This directive may limit our ability to collect and use information collected by our technology in certain European countries. In addition, the Federal Trade Commission and several state governments have investigated the use by certain internet companies of personal information. We could incur significant additional expenses if new regulations regarding the use of personal information are introduced or if our privacy practices are investigated.

Employees

As of April 1, 2009, we had 25 employees, including 11 employees managed from our headquarters in Atlanta, Georgia, and 14 employees managed from our offices in Würseln, Germany. None of our employees are represented by a labor union or bound by a collective bargaining agreement. We believe that our employee relations are good.

Environmental Regulations

Some risks of costs and liabilities related to environmental matters were inherent in our discontinued operations, as with many similar businesses, and our operations are subject to certain federal, state, and local environmental regulatory requirements relating to environmental and waste management. In connection with our discontinued operations, we periodically generated and handled limited amounts of materials that were considered hazardous waste under applicable law. We contracted for the off-site disposal of these materials. We believe we have operated in compliance with applicable environmental regulations related to these materials through the date of their disposal and/or sale.

Research and Development

We have incurred \$2.0 million and \$1.9 million in research and development expenses during the years ended December 31, 2008 and 2007, respectively. None of these expenses were directly borne or reimbursed by our customers.

ITEM 1A. Risk Factors

You should carefully consider the following factors and all other information contained in this Form 10-K before you make any investment decisions with respect to our securities. The risks and uncertainties described below may not be the only risks we face.

Risks Related to Our Business

We have incurred losses since inception and could incur losses in the future, and we have a substantial accumulated deficit and a substantial working capital deficit, which means that we may not be able to continue operations.

We have incurred substantial operating losses since inception, and could continue to incur substantial losses for the foreseeable future. To succeed, we must develop new client and customer relationships and substantially increase our revenue derived from improved products and additional value-added services. We have expended, and to the extent we have available financing, we intend to continue to expend, substantial resources to develop and improve our products, increase our value-added services and to market our products and services. These development and marketing expenses must be incurred well in advance of the recognition of revenue. As a result, we may not be able to achieve or sustain profitability. A number of factors could increase our operating expenses, such as:

- adapting corporate infrastructure and administrative resources to accommodate additional customers and future growth;
 - developing products, distribution, marketing, and management for the broadest-possible market;
 - broadening customer technical support capabilities;
 - developing or acquiring new products and associated technical infrastructure;
 - developing additional indirect distribution partners;
 - increased costs from third party service providers;
 - improving data security features; and
 - legal fees and settlements associated with litigation and contingencies.

To the extent that increases in operating expenses are not offset by increases in revenues, operating losses will increase.

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 loss for the years ended December 31, 2008 and 2007 was \$8.0 million and \$40.6 million, respectively. Net cash used for operations was \$6.7 million and \$8.3 million for the years ended December 31, 2008 and 2007, respectively. We also have an accumulated deficit of \$211.3 million and a working capital deficit of \$68.2 million as of December 31, 2008.

We have a continuing obligation as of December 31, 2008 of \$4.6 million relating to a purchase price guarantee associated with our prior acquisition of 12Snap, which we sold on April 4, 2007.

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

We do not have any commitments for capital, and we need to raise additional funds in order to continue our operations.

In order to satisfy our obligations that are currently due and that will come due, and maintain our operations in the absence of a material increase in revenues, we will need to raise additional cash from outside sources during 2009. There can be no assurances that such funding sources will be available.

We had cash balances of approximately \$1.3 million as of December 31, 2008. On July 29, 2008 we entered into a Securities Purchase Agreement with YA Global Investments, L.P., (“YA Global”) which provided for the sale of convertible debentures to YA Global to fund our operations. On April 6, 2009 we amended that agreement and completed the first amended closing under that amended agreement. This first amended closing provided us with \$0.5 million of additional funding. As of April 7, 2009 we had cash balances of approximately \$0.7 million. The amended agreement also provides YA Global with an option to provide us with up to an additional \$0.5 million in additional funding. Should YA Global not choose provide us with capital financing, as they have in the past; or 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 April 30, 2009.

We have warrant agreements outstanding which can provide for additional funding depending upon the market value of our common stock. The market value of our stock may not increase to levels where we can force the exercise of enough of our outstanding warrants to generate material operating capital or support the sale of shares underlying such warrants or other funding sources.

If necessary funds are not available, our business and operations would be materially adversely affected and in such event, we would be forced to attempt to reduce costs and adjust our business plan, and could be forced to sell certain assets, including but not limited to, our remaining subsidiaries and curtail or cease our operations.

Our management and Board of Directors may be unable to execute their plans to turn around the Company, grow our revenues and achieve profitability and positive cash flows, which could cause us to discontinue our operations.

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 of our Board of Directors; and in March 2009 Mr. Dean Wood became our Vice President - Business Development. If our management and Board of Directors are unable to attract and retain management to execute our plans, then we may fail to grow our revenues, contain costs and achieve profitability and positive cash flows.

Because our historical financial information is not representative of our future results, investors and analysts will have difficulty analyzing our future earnings potential.

Because we have grown through acquisitions, and disposed of other lines of business, our past operating results reflect the costs of integrating these acquisitions, as well as revenues from operations which have now been sold, and our historical results are not representative of future expected operating results. We have recognized very sizable charges and expenditures in the past for impairment charges and discontinued operations. Because these items are not recurring, it is more difficult for investors to predict future results.

We have material weaknesses in our internal control over financial reporting that may prevent us from being able to accurately report our financial results or prevent fraud, which could harm our business and operating results.

Effective internal controls are necessary for us to provide reliable and accurate financial reports and prevent fraud. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that we assess the design and operating effectiveness of internal control over financial reporting. If we cannot provide reliable and accurate financial reports and prevent fraud, our business and operating results could be harmed. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. We have identified material weaknesses in our internal control as of December 31, 2008. These matters and our efforts regarding remediation of these matters, as well as efforts regarding internal controls generally are discussed in detail in Part II, Item 9A., Controls and Procedures, of this Annual Report. However, as our material weaknesses in our internal controls demonstrate, we cannot be certain that the remedial measures we have taken to date will ensure that we design, implement, and maintain adequate controls over our financial processes and reporting in the future. Additionally, because the requirements of Section 404 are ongoing and apply for future years, beginning in 2009, our auditors will be required to attest to the adequacy of our assessment and we cannot be certain that we or our independent registered public accounting firm will not identify additional deficiencies or material weaknesses in our internal controls in the future, in addition to those identified as of December 31, 2008. Remedying the material weaknesses that have been presently identified, and any additional deficiencies, significant deficiencies or material weaknesses that we or our independent registered public accounting firm may identify in the future, could in the future require us to incur significant costs, hire additional personnel, expend significant time and management resources or make other changes. Any delay or failure to design and implement new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results, cause us to fail to meet our financial reporting obligations, or prevent us

from providing reliable and accurate financial reports or avoiding or detecting fraud. Disclosure of our material weaknesses, any failure to remediate such material weaknesses in a timely fashion or having or maintaining ineffective internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital.

We have guaranteed the value of stock issued in connection with prior-year mergers through the registration of the shares, which could result in a material cash liability.

Pursuant to the terms of the merger agreement with 12Snap, we were obligated to compensate the sellers in cash for the difference between the price at the time the shares become saleable and the price at which the shares were valued for purposes of the merger agreement. At the time the shares became saleable, such obligation amounted to \$16.2 million.

On March 19, 2007, we issued 197,620,948 shares valued at \$9.4 million as partial settlement of the \$16.2 million obligation, leaving a balance of \$6.8 million after the stock payment. Also during 2007, we made payments of \$0.5 million and negotiated a reduction of \$1.76 million in the obligation, leaving a balance due at December 31, 2007 of \$4.5 million in purchase price guarantees, the entire balance of which is currently due and payable. As of December 31, 2008, the balance due increased to \$4.6 million and the parties to whom the balance is due have not come forward to claim or otherwise resolve the balance due.

All of our assets are pledged to secure certain debt obligations, which if we fail to repay, could result in the foreclosure upon our assets.

Pursuant to our secured convertible debentures issued to YA Global, in the principal amounts of \$7.5 million, \$5.0 million, \$2.5 million, \$1.8 million, \$2.4 million, \$2.3 million and \$0.5 million dated March 27, 2007, August 24, 2006, December 29, 2006, August 24, 2007, July 29, 2008, October 28, 2008 and April 6, 2009, respectively, we were required to secure repayment of the convertible debentures with substantially all of our assets. In the event we are unable to repay the secured convertible debentures we could lose all of our assets and be forced to cease our operations. Effective on December 31, 2008, we received a waiver from YA Global, of several events of non-compliance related to the debentures and related financial instruments. However, in the future we could again become non-compliant with the provisions of those instruments and be required to accrue the related penalties. On April 6, 2009, in connection with the amendment of our SPA with YA Global we were granted additional waivers. There can be no assurance that YA Global will continue to grant us waivers for past, present or future events of non-compliance.

There is limited information upon which investors can evaluate our business because the physical-world-to-internet market rapidly changing and developing.

The physical-world-to-internet market in which we operate is a rapidly changing and developed market. Consequently, we have limited operating history upon which an investor may base an evaluation of our primary business and determine our prospects for achieving our intended business objectives. To date, we have had limited sales of our physical-world-to-internet products. We are prone to all of the risks inherent to the establishment of any new business venture, including unforeseen changes in our business plan. An investor should consider the likelihood of our future success to be highly speculative in light of our limited operating history in our primary market, as well as the limited resources, problems, expenses, risks, and complications frequently encountered by similarly situated companies in new and rapidly evolving markets, such as the physical-world-to-internet space. To address these risks, we must, among other things:

- maintain and increase our client base;
- implement and successfully execute our business and marketing strategy;
- continue to develop and upgrade our products;
- continually update and improve service offerings and features;

- respond to industry and competitive developments; and
 - attract, retain and motivate qualified personnel.

We may not be successful in addressing these risks. If we are unable to do so, our business, prospects, financial condition, and results of operations would be materially and adversely affected.

Our future success depends on the timely introduction of new products and the acceptance of these new products in the marketplace.

Rapid technological change and frequent new product introductions are typical for the markets we serve. Our future success will depend in large part on continuous, timely development and introduction of new products that address evolving market requirements. To the extent that we fail to introduce new and innovative products, we may lose market share to our competitors, which may be difficult to regain. Any inability, for technological or other reasons, to successfully develop and introduce new products could materially and adversely affect our business.

Our common stock is deemed to be “penny stock” which may make it more difficult for investors to sell their shares due to suitability requirements.

Our common stock is deemed to be “penny stock” as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934, as amended. These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline. Penny stocks are stock:

- with a price of less than \$5.00 per share;
- that are not traded on a “recognized” national exchange;
- whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ listed stock must still have a price of not less than \$5.00 per share); or
- in issuers with net tangible assets less than \$2 million (if the issuer has been in continuous operation for at least three years) or \$10 million (if in continuous operation for less than three years), or with average revenues of less than \$6 million for the last three years.

Broker-dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker-dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor.

Existing shareholders will experience significant dilution when certain investors convert their preferred stock to common stock, convert outstanding convertible debentures or when the investors exercise their warrants and receive common stock shares under the investment agreement with the investors.

The issuance of shares of common stock pursuant to the conversion of Series C convertible preferred stock, the conversion of convertible debentures or the exercise of warrants pursuant to our transactions with YA Global will have a dilutive impact on our stockholders. As a result, our net income or loss per share could decrease in future periods, and the market price of our common stock could decline. In addition, the lower our stock price is, the more shares of common stock we will have to issue pursuant to the conversion of preferred stock or the convertible debentures. If our stock price is lower, then existing stockholders would experience greater dilution.

Due to the accounting treatment of certain convertible preferred stock and convertible debenture instruments issued by us, a fluctuation in our stock price could have a material impact on our results of operations.

During the years ended December 31, 2008 and 2007, we recognized a loss in the amount of \$2.3 million and \$7.6 million, respectively, resulting from adjustments recorded to reflect the change in fair value from revaluation of warrants and embedded conversion features in connection with our Series C convertible preferred stock and our convertible debentures. We adjust the carrying value of these derivative instruments to market at each balance sheet date. As a result, we could experience significant fluctuations in our net income (loss) in future periods from such charges or credits, based on movements in our share price.

We are uncertain of the success of our mobile business and the failure of this business would negatively affect the price of our stock.

We provide products and services that provide a link from physical objects, including printed material, to the mobile internet. We can provide no assurance that:

- our mobile business unit will ever achieve profitability;
- our current product offerings will not be adversely affected by the focusing of our resources on the physical-world-to-internet space; or
 - the products we develop will obtain market acceptance.

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

A large percentage of our assets are intangible assets, which will have little or no value if our operations are unsuccessful, which could have a materially adverse effect on our business.

At December 31, 2008, approximately 74% of our total assets used in continuing operations were intangible assets and goodwill, consisting primarily of rights related to our patents, other intellectual property, and the excess of the purchase price over the fair value of tangible assets acquired in our purchase of NeoMedia Europe. If our operations are unsuccessful, these assets will have little or no value, which would materially adversely affect the value of our stock and the ability of our stockholders to recoup their investments in our stock.

We review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in an impact on results of operations.

Our emerging products and services have limited history and may not result in success, which could have a materially adverse effect on our business.

To date, we have conducted limited marketing efforts directly relating to our emerging technology products. Many of our marketing efforts with respect to these emerging technologies have been largely untested in the marketplace, and may not result in materially increased sales of these emerging products and services. To penetrate the emerging markets in which we compete, we expect that we will have to exert significant efforts to create awareness of, and demand for, our emerging products and services. To the extent funding is available, we intend to continue to expand our sales and marketing resources as the market continues to mature. Our failure to further develop our sales and marketing capabilities and successfully market our emerging products and services would have a material adverse effect on our business, prospects, financial condition, and results of operations.

Our internally developed systems are inefficient and may put us at a competitive disadvantage, which could have a materially adverse effect on our business.

We use internally developed technologies for a portion of our systems integration services, as well as the technologies required to interconnect our clients' and customers' physical-world-to-internet systems and hardware with our own. As we develop these systems in order to integrate disparate systems and hardware on a case-by-case basis, these systems

may require a significant amount of customization. Additionally, changes to the underlying operating systems used by our clients may cause us to expend resources to update our systems in order to conform to new or upgraded operating systems. Such client and customer-specific customization, or changes imposed by upgrades to operating systems, is time consuming and costly and may place us at a competitive disadvantage when compared to competitors with more efficient systems.

We could fail to attract or retain key personnel, which could have a materially adverse effect on our business.

Our future success will depend in large part on our ability to attract, train, and retain additional highly skilled executive level management, creative, technical, and sales personnel. Competition is intense for these types of personnel from other technology companies and more established organizations, many of which have significantly larger operations and greater financial, marketing, human, and other resources than we have. We may not be successful in attracting and retaining qualified personnel on a timely basis, on competitive terms, or at all. Our failure to attract and retain qualified personnel could have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may be unable to protect our intellectual property rights and may be liable for infringing the intellectual property rights of others, which could have a materially adverse effect on our business.

Our success in the physical-world-to-internet market is dependent upon our proprietary technology, including patents and other intellectual property, and on the ability to protect proprietary technology and other intellectual property rights. In addition, we must conduct our operations without infringing on the proprietary rights of third parties. We also intend to rely upon unpatented trade secrets and the know-how and expertise of our employees, as well as our patents. To protect our proprietary technology and other intellectual property, we rely primarily on a combination of the protections provided by applicable patent, copyright, trademark, and trade secret laws as well as on confidentiality procedures and licensing arrangements. Although we believe that we have taken appropriate steps to protect our unpatented proprietary rights, including requiring that our employees and third parties who are granted access to our proprietary technology enter into confidentiality agreements, we can provide no assurance that these measures will be sufficient to protect our rights against third parties. Others may independently develop or otherwise acquire patented or unpatented technologies or products similar or superior to ours.

We license from third parties certain software tools that are included in our services and products. If any of these licenses were terminated, we could be required to seek licenses for similar software from other third parties or develop these tools internally. We may not be able to obtain such licenses or develop such tools in a timely fashion, on acceptable terms, or at all. Companies participating in the software and internet technology industries are frequently involved in disputes relating to intellectual property. We may in the future be required to defend our intellectual property rights against infringement, duplication, discovery, and misappropriation by third parties or to defend against third party claims of infringement. Likewise, disputes may arise in the future with respect to ownership of technology developed by employees who were previously employed by other companies. Any such litigation or disputes could result in substantial costs to, and a diversion of resources by us. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from, or pay royalties to, third parties, or require us to develop appropriate alternative technology. Some or all of these licenses may not be available to us on acceptable terms or at all, and we may be unable to develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on our business, prospects, financial condition, and results of operations.

We are exposed to product liability claims and an uninsured claim could have a material adverse effect on our business, prospects, financial condition, and results of operations, as well as the value of our stock.

Many of our projects are critical to the operations of our clients' businesses. Any failure in a client's information system could result in a claim for substantial damages against us, regardless of our responsibility for such failure. We could, therefore, be subject to claims in connection with the products and services that we sell. We currently maintain product liability insurance. There can be no assurance that:

- We have contractually limited our liability for such claims adequately or at all; or
- We would have sufficient resources to satisfy any liability resulting from any such claim.

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

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We utilize data centers maintained by third parties, which could affect our ability to support our customers or financial performance.

Many of the network services and computer servers utilized by us in our provision of services to customers are housed in data centers owned by third-party vendors. In the future, we may house additional servers and hardware items in facilities owned or operated by other vendors.

A disruption in the ability of one of these data centers to provide service to us could cause a disruption in service to our customers. A data center could be disrupted in its operations through a number of contingencies, including unauthorized access, computer viruses, accidental or intentional actions, electrical disruptions, and other extreme conditions. Although we believe we have taken adequate steps to protect our operations through our contractual arrangements with our data centers, we cannot eliminate the risk of a disruption in service resulting from the accidental or intentional disruption in service by a data center. Any significant disruption could cause significant harm to us, including a significant loss of customers. In addition, a data center could raise its prices or otherwise change its terms and conditions in a way that adversely affects our ability to support our customers or financial performance.

We will not pay cash dividends and investors may have to sell their shares in order to realize their investment.

We have not paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and marketing of our products and services. As a result, investors may have to sell their shares of common stock to realize their investment.

Some provisions of our certificate of incorporation and bylaws may deter takeover attempts, which may limit the opportunity of our stockholders to sell their shares at a premium to the then-current market price.

Some of the provisions of our Certificate of Incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares at a premium to the then-current market price. On December 10, 1999, our Board of Directors adopted a stockholders rights plan and declared a non-taxable dividend of one right to acquire our Series A Preferred Stock, par value \$0.01 per share, on each outstanding share of our common stock to stockholders of record on December 10, 1999 and each share of common stock issued thereafter until a pre-defined hostile takeover date. The stockholder rights plan was adopted as an anti-takeover measure, commonly referred to as a “poison pill”. The stockholder rights plan was designed to enable all stockholders not engaged in a hostile takeover attempt to receive fair and equal treatment in any proposed takeover of us and to guard against partial or two-tiered tender offers, open market accumulations, and other hostile tactics to gain control of us. The stockholders rights plan was not adopted in response to any effort to acquire control of us at the time of adoption. This stockholders rights plan may have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of us or a change in control of us. Certain stockholders, who were our founders, Charles W. Fritz, William E. Fritz and The Fritz Family Limited Partnership and their holdings were exempted from the triggering provisions of our “poison pill” plan, as a result of the fact that, as of the plan’s adoption, their holdings might have otherwise triggered the “poison pill”.

In addition, our Certificate of Incorporation authorizes our Board of Directors to designate and issue preferred stock, in one or more series, the terms of which may be determined at the time of issuance by our Board of Directors, without further action by stockholders, and may include voting rights, including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion, redemption rights, and sinking fund provisions.

We are authorized to issue a total of 25 million shares of preferred stock, par value \$0.01 per share. The issuance of any preferred stock could have a material adverse effect on the rights of holders of our common stock, and, therefore,

could reduce the value of shares of our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to, a third party. The ability of our Board of Directors to issue preferred stock could have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of us or a change in our control.

Risks Relating To Our Industry

The security of the internet poses risks to the success of our entire business.

Concerns over the security of the internet and other electronic transactions, and the privacy of consumers and merchants, may inhibit the growth of the internet and other online services generally, especially as a means of conducting commercial transactions, which may have a material adverse effect on our physical-world-to-internet business.

We will only be able to execute our physical-world-to-internet business plan if internet usage and electronic commerce continue to grow.

Our future revenues and any future profits are substantially dependent upon the widespread acceptance and use of the internet and camera devices on mobile telephones. If use of the internet and camera devices on mobile telephones does not continue to grow or grows more slowly than expected, or if the infrastructure for the internet and camera devices on mobile telephones does not effectively support the growth that may occur, or does not become a viable commercial marketplace, our physical-world-to-internet business, and therefore our business, prospects, financial condition, and results of operations, could be materially adversely affected. Rapid growth in the use of, and interest in, the internet and camera devices on mobile telephones is a recent phenomenon, and may not continue on a lasting basis. In addition, customers may not adopt, and continue to use mobile telephones as a medium of information retrieval or commerce. Demand and market acceptance for recently introduced services and products over the mobile internet are subject to a high level of uncertainty, and few services and products have generated profits. For us to be successful, consumers and businesses must be willing to accept and use novel and cost efficient ways of conducting business and exchanging information.

In addition, the public in general may not accept the use of the internet and camera devices on mobile telephones as a viable commercial or information marketplace for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. To the extent that mobile phone internet usage continues to experience significant growth in the number of users, their frequency of use, or in their bandwidth requirements, the infrastructure for the mobile internet may be unable to support the demands placed upon them. In addition, the mobile internet and mobile interactivity could lose its viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of mobile internet activity, or due to increased governmental regulation. Significant issues concerning the commercial and informational use of the mobile internet, and online network technologies, including security, reliability, cost, ease of use, and quality of service, remain unresolved and may inhibit the growth of internet business solutions that utilize these technologies. Changes in, or insufficient availability of, telecommunications services to support the internet, the web or other online services also could result in slower response times and adversely affect usage of the internet, the web and other online networks generally and our physical-world-to-internet product and networks in particular.

We may not be able to adapt as the internet, physical-world-to-internet, and customer demands continue to evolve.

We may not be able to adapt as the mobile internet and physical-world-to-internet markets and consumer demands continue to evolve. Our failure to respond in a timely manner to changing market conditions or client requirements would have a material adverse effect on our business, prospects, financial condition, and results of operations. The mobile internet and physical-world-to-internet markets are characterized by:

- rapid technological change;
- changes in user and customer requirements and preferences;

- frequent new product and service introductions embodying new technologies; and
- the emergence of new industry standards and practices that could render proprietary technology and hardware and software infrastructure obsolete.

Our success will depend, in part, on our ability to:

- enhance and improve the responsiveness and functionality of our products and services;

- license or develop technologies useful in our business on a timely basis;
- enhance our existing services, and develop new services and technologies that address the increasingly sophisticated and varied needs of our prospective or current customers; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

We may not be able to compete effectively in markets where our competitors have more resources.

While the market for physical-world-to-internet technology is relatively new, it is already highly competitive and characterized by an increasing number of entrants that have introduced or developed products and services similar to those offered by us. We believe that competition will intensify and increase in the near future. Our target market is rapidly evolving and is subject to continuous technological change. As a result, our competitors may be better positioned to address these developments or may react more favorably to these changes, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Some of our competitors have longer operating histories, larger customer bases, longer relationships with clients, and significantly greater financial, technical, marketing, and public relations resources than we do. We may not successfully compete in any market in which we conduct or may conduct operations. We may not be able to penetrate markets or market our products as effectively as our better-funded more-established competitors.

In the future, there could be government regulations and legal uncertainties which could harm our business.

Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the internet and other online services, could have a material adverse effect on our business, prospects, financial condition, and results of operations. Due to the increasing popularity and use of the internet, the web and other online services, federal, state, and local governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the internet or other online services covering issues such as taxation, user privacy, pricing, content, copyrights, distribution, and characteristics and quality of products and services. The growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws to impose additional burdens on companies conducting business online. The adoption of any additional laws or regulations may decrease the growth of the internet, the Web or other online services, which could, in turn, decrease the demand for our services and increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations. Moreover, the relevant governmental authorities have not resolved the applicability to the internet, the Web and other online services of existing laws in various jurisdictions governing issues such as property ownership and personal privacy and it may take time to resolve these issues definitively.

Certain of our proprietary technology allows for the storage of demographic data from our users. In 2000, the European Union adopted a directive addressing data privacy that may limit the collection and use of certain information regarding internet users. This directive may limit our ability to collect and use information collected by our technology in certain European countries. In addition, the Federal Trade Commission and several state governments have investigated the use by certain internet companies of personal information. We could incur significant additional expenses if new regulations regarding the use of personal information are introduced or if our privacy practices are investigated.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

As of December 31, 2008, we had leases on two facilities, our corporate headquarters in Atlanta, Georgia, and NeoMedia Europe's office in Würseln, Germany.

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Our principal executive, development and administrative office is located in Atlanta, Georgia. We occupy approximately 10,025 square feet under the terms of a written lease from an unaffiliated party which expires on September 29, 2011, with monthly rent totaling approximately \$15,500.

NeoMedia Europe is operated from a facility in Würseln, Germany, where approximately 4,400 square feet are leased under the terms of a written lease which expires on September 30, 2010, with monthly rent totaling approximately \$6,000.

ITEM 3. Legal Proceedings

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 are unlikely to have a material adverse effect on our financial position or operating results.

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 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 recent Notice of Intent to Issue Ex Parte Reexamination Certificate, we have provided the court with a joint summary status of the case. We are now awaiting a status hearing date.

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. 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.

Federal Aviation Administration - On November 25, 2008 we settled the outstanding claim in this matter for \$7,500.

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

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common shares trade on the Over-The-Counter Bulletin Board ("OTCBB") under the symbol "NEOM.OB". As of December 31, 2008, we had 1,371,904,960 common shares outstanding.

The following table summarizes the high and low closing sales prices per share of the common stock for the periods indicated as reported on the Over-the-counter Bulletin Board:

	2008		2007	
	High	Low	High	Low
First quarter	\$ 0.0130	\$ 0.0065	\$ 0.0600	\$ 0.0400
Second quarter	\$ 0.0075	\$ 0.0020	\$ 0.0700	\$ 0.0300
Third quarter	\$ 0.0109	\$ 0.0020	\$ 0.0300	\$ 0.0200
Fourth quarter	\$ 0.0030	\$ 0.0011	\$ 0.0300	\$ 0.0100

The following table presents certain information with respect to our equity compensation plans as of December 31, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	99,736,856	\$ 0.02	112,287,295
Equity compensation plans not approved by security holders	-	-	-
Total	99,736,856	\$ 0.02	112,287,295

We have five stock option plans, the 2005 Stock Option Plan (the "2005 Plan"), the 2003 Stock Option Plan (the "2003 Plan"), 2003 Stock Incentive Plan (the "2003 Incentive Plan"), the 2002 Stock Option Plan (the "2002 Plan"), the 1998 Stock Option Plan (the "1998 Plan"), collectively referred to as the "Option Plans". Options issued under these Option Plans have a term of 10 years. Options may be granted with any vesting schedule as approved by the stock option committee, but generally the vesting periods range from 0 to 5 years. Common shares required to be issued upon the exercise of stock options would be issued from our authorized and unissued shares.

Performance Graph

Not required for smaller reporting company.

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Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

On January 21, 2008 we issued 216,465 shares of our common stock to SKS Consulting of South Florida, Corp. (“SKS”) as partial payment for consulting services provided by Mr. George G. O’Leary who is also a member of our Board of Directors. The shares were valued at \$0.011 per share, which was the fair value at the time of issuance.

On January 21, 2008 we issued 72,155 shares of our common stock to SKS as partial payment for consulting services provided by Mr. Jay Bonk who is an employee of SKS. The shares were valued at \$0.011 per share, which was the fair value at the time of issuance.

On April 17, 2008 we issued 218,937 shares of our common stock to SKS as partial payment for consulting services provided by Mr. George G. O’Leary who is also a member of our Board of Directors. Because the fair value of the shares was less than their par value, the shares were valued at their par value of \$0.01 per share.

On April 17, 2008 we issued 72,979 shares of our common stock to SKS as partial payment for consulting services provided by Mr. Jay Bonk who is an employee of SKS. Because the fair value of the shares was less than their par value, the shares were valued at their par value of \$0.01 per share.

On December 16, 2008, we issued 1,680,000 shares of common stock to Telegraph Hill Group, LLC as partial payment for the advisory board services of Managing Partner, Mr. Clarence Wesley. Because the fair value of the shares was less than their par value, the shares were valued at their par value of \$0.01 per share.

We relied upon the exemption provided in Section 4(2) of the Securities Act and/or Rule 506, which cover “transactions by an issuer not involving any public offering” to issue securities discussed above without registration under the Securities Act. The certificates representing the securities issued displayed a restrictive legend to prevent transfer except in compliance with applicable laws, and our transfer agent was instructed not to permit transfers unless directed to do so by us, after approval by our legal counsel. We believe that the investors to whom securities were issued had such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of the prospective investment. We also believe that the investors had access to the same type of information as would be contained in a registration statement.

Holdings

On April 1, 2009 the closing price of our common stock as reported on the OTCBB was \$0.0321 per share and there were approximately 13,300 shareholders of record. The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

Dividends

We have not declared or paid any cash dividends and do not foresee paying any cash dividends in the foreseeable future.

ITEM 6. Selected Financial Data

Not required for smaller reporting company.

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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, reads and transmits 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 evaluated our continuing business as one consolidated business for the entire 2007 reporting year. 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 with 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.

Critical Accounting Policies and Estimates

This discussion and analysis of financial condition and results of operations has been prepared by management based on our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates our critical accounting policies and estimates, including those related to revenue recognition, valuation of accounts receivable, property, plant and equipment, long-lived assets, intangible assets, derivative liabilities and contingencies. Estimates are based on historical experience and on various other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

We consider the following accounting policies important in understanding the operating results and financial conditions of NeoMedia. These judgments and estimates affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods.

- **Intangible Asset Valuation** – The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the weighted-average probability method outlined in FAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we have used are consistent with the plans and estimates that we use to manage our business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect our net operating results.

According to FAS 144, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We follow the two-step process outlined in FAS 144 for determining if an impairment charge should be taken: (1) the expected undiscounted cashflows from a

particular asset or asset group are compared to the carrying value; if the expected undiscounted cashflows are greater than the carrying value, no impairment is taken, but if the expected undiscounted cashflows are less than the carrying value, then (2) an impairment charge is taken for the difference between the carrying value and the expected discounted cashflows. The assumptions used in developing expected cashflow estimates are similar to those used in developing other information used by us for budgeting and other forecasting purposes. In instances where a range of potential future cashflows is possible, we use a probability-weighted approach to weigh the likelihood of those possible outcomes. In such instances, we use a discount rate equal to the yield on zero-coupon treasury instruments with a life equal to expected life of the assets being tested.

- **Derivative Financial Instruments** – We generally do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of our financial instruments. However, certain financial instruments, such as warrants and the embedded conversion features of our convertible preferred stock and convertible debentures, which are indexed to our common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within our control. In such instances, net-cash settlement is assumed for financial accounting and reporting purposes, even when the terms of the underlying contracts do not provide for net-cash settlement. Derivative financial instruments are initially recorded, and continuously carried, at fair value.

Determining the fair value of these complex derivative financial instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest rate risk, credit risk, equivalent volatility and conversion/redemption privileges. The use of different assumptions could have a material effect on the estimated fair value amounts.

For certain of our convertible debentures, we have elected not to separately account for the embedded conversion feature as a derivative instrument but to account for the entire hybrid instrument at fair value in accordance with FAS 155 “Accounting for Certain Hybrid Financial Instruments”. For the remaining convertible debentures and our convertible preferred stock, the underlying instruments are carried at amortized cost and the embedded conversion feature is accounted for separately at fair value in accordance with FAS 133 “Accounting for Derivative Instruments and Hedging Activities” and EITF Issues 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock” and 07-5 “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock”.

- **Financial Instruments and Concentrations of Credit Risk** – Our financial instruments consist of cash and cash equivalents, accounts receivable, cash surrender value of life insurance policy, accounts payable, accrued expenses, notes payable, derivative financial instruments, other current liabilities, convertible preferred stock, and convertible debenture financing. We believe the carrying values of cash and cash equivalents, accounts receivable, cash surrender value of life insurance policy, accounts payable, accrued expenses, notes payable, and other current liabilities approximate their fair values due to their short-term nature. Our convertible preferred stock and convertible debentures are either recognized as hybrid financial instruments and carried at fair value in accordance with FAS 155 or are carried at amortized cost, with separate recognition of the fair value of any embedded derivative instrument liabilities, including the conversion feature. At December 31, 2008, the face value of debentures carried at amortized cost exceeded their carrying amount by approximately \$1.1 million. At December 31, 2008 the face value of debentures carried at fair value exceeded their carrying amount by approximately 9.0 million.
- **Revenue Recognition** – We derive revenues from the following sources: (1) license revenues relating to patents and internally-developed software, and (2) hardware, software, and service revenues related to mobile marketing campaign design and implementation.
- o **Technology license fees, including Intellectual Property licenses**, represent revenue from the licensing of our proprietary software tools and applications products. We license our development tools and application products pursuant to non-exclusive and non-transferable license agreements. The basis for license fee revenue recognition is substantially governed by American Institute of Certified Public Accountants (“AICPA”) Statement of Position 97-2 “Software Revenue Recognition” (“SOP 97-2”), as amended, and Statement of Position 98-9, Modification of SOP 97-2, “Software Revenue Recognition, With Respect to Certain Transactions”. License revenue is recognized if persuasive evidence of an agreement exists, delivery has occurred, pricing is fixed and determinable, and collectability is reasonably assured. We defer revenue related to license fees for which amounts have been collected but for which revenue has not been recognized in accordance with the above criteria, and recognize that revenue when the criteria are met.

- o Technology service and product revenue, which includes sales of software and technology equipment and service fees is recognized based on guidance provided in SAB 104, "Revenue Recognition in Financial Statements" as amended. Software and technology equipment resale revenue is recognized when persuasive evidence of an arrangement exists, the price to the customer is fixed and determinable, delivery of the service has occurred and collectability is reasonably assured. Service revenues including maintenance fees for providing system updates for software products, user documentation and technical support are recognized over the life of the contract. We defer revenue related to technology service and product revenue for which amounts have been invoiced and or collected but for which the requisite service has not been provided. Revenue is then recognized over the matching service period.
- Valuation of Accounts Receivable – Judgment is required when we assess the likelihood of ultimate realization of recorded accounts receivable, including assessing the likelihood of collection and the credit-worthiness of customers. If the financial condition of our customers were to deteriorate or their operating climate were to change, resulting in an impairment of either their ability or willingness to make payments, an increase in the allowance for doubtful accounts would be required. Similarly, a change in the payment behavior of customers generally may require an adjustment in the calculation of an appropriate allowance. Each month we assess the collectability of specific customer accounts, the aging of accounts receivable, our history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or our customers' actual defaults exceed historical experience, our estimates could change and impact our reported results. We believe that the current allowance for doubtful accounts receivable is adequate to cover the expected level of uncollectible accounts receivable as of the balance sheet date. For the years ended December 31, 2008 and 2007, our bad debt recovery was \$58,000 and expense was \$78,000, respectively.
- Inventory – Inventories are stated at the lower of cost (using the first-in, first-out method) or market. We continually evaluate the composition of our inventories assessing slow-moving and ongoing products and maintain a reserve for slow-moving and obsolete inventory as well as related disposal costs. As of December 31, 2008 and 2007, we recorded a reserve for inventory shrinkage and obsolescence of \$81,000 and \$80,000, respectively.
- Stock-based Compensation – We record stock-based compensation in accordance with FAS 123(R), "Share-Based Payment", which requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. We apply the Black-Scholes-Merton option pricing model and recognize compensation cost on a straight-line basis over the vesting periods for the awards. Inherent in this model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield.

Although the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility, forfeiture rate and option life assumptions require a greater level of judgment which make them critical accounting estimates. We use an expected stock-price volatility assumption that is based on historical volatilities of our stock, and estimate the forfeiture rates and option life based on historical data of prior options. Because these assumptions are based on historical information, actual future expenses may differ materially from the current estimates which are based on these assumptions.

- Contingencies – We are subject to proceedings, lawsuits and other claims related to lawsuits and other regulatory proceedings that arise in the ordinary course of business. We are required to assess the likelihood of any adverse judgments or outcomes of these matters as well as potential ranges of probable losses. A determination of the amount of the loss accrual required, if any, for these contingencies, is made after careful analysis of each individual issue. We generally accrue attorney fees and interest in addition to an estimate of the expected liability. We consult with legal counsel and other experts where necessary to assess any contingencies. The required accrual may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy, in dealing with these matters.

- **Income Tax Valuation Allowance** – Deferred tax assets are reduced by a valuation allowance when, in the opinion of our management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have recorded a 100% valuation allowance as December 31, 2008 and 2007.

- Foreign Currency Translation – the U.S. dollar is the functional currency of our operations, except for our operations at NeoMedia Europe, which use the Euro as their functional currency. Foreign currency transaction gains and losses are reflected in income. Translation gains and losses arising from translating the financial statements of NeoMedia Europe into U.S. dollars for reporting purposes are included in “Accumulated other comprehensive income (loss).”

Discontinued Operations

Our consolidated financial information presents the net effect of discontinued operations for all periods presented separate from the results of our continuing operations in accordance with FAS 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”.

AutoXperience

As of November 30, 2007, we discontinued the operations of AutoXperience. We retained all liabilities of AutoXperience, including liabilities for taxes arising prior to the closing of the business, employee termination and related expenses, and any contingent liabilities arising prior to the closing date. As of December 31, 2008, these liabilities have been substantially settled.

During the year ended December 31, 2007, we recognized a loss of \$0.9 million from discontinued operations related to AutoXperience.

NeoMedia Micro Paint Repair

On November 15, 2007, we entered into an Asset Purchase Agreement with Micro Paint Holdings Ltd. (“Buyers”), pursuant to which Buyers purchased from us all the assets of NeoMedia Micro Paint Repair, exclusive of the assets of AutoXperience.

The total selling price for the assets was \$2.2 million, of which \$1.5 million in cash and \$0.2 million in stock of Buyers was received at closing. The remaining purchase price of \$0.5 million was held in escrow pending the settlement of post-closing items. The escrow amount was partially settled in 2008 as an accommodation for several post closing items including an allowance for damaged inventory related to the sale. However, \$0.2 million was determined to be uncollectible and reserved in 2008. This reserve was included in our loss from discontinued operations for the year ended December 31, 2008. At September 30, 2007, in accordance with FAS 144, we analyzed the undiscounted cashflows from the Micro Paint asset group compared to its carrying values, and determined that an impairment of \$0.6 million was required in order for the remaining carrying value of the net assets to equal the anticipated sale proceeds. The entire write-down was applied to goodwill, leaving a balance of \$0.5 million in goodwill. At the time of the sale, we recognized a net loss of \$0.5 million, net of transaction costs in connection with the sale, which was recorded as a loss on disposal of subsidiaries in the Consolidated Statement of Operations for the year ended December 31, 2007. The carrying amounts of assets and liabilities disposed of in relation to this sale totaled approximately \$1.4 million, consisting of \$1.9 million in goodwill and other intangibles, net of amortization, \$0.3 million of other assets, offset by \$0.3 million of deferred revenue and \$0.5 million in cumulative currency translation adjustments. During the year ended December 31, 2008 we recognized a loss from discontinued operations of \$258,000 for various incidental and wind-down expenses related to NeoMedia Micro Paint Repair.

On November 25, 2008 we settled a claim brought by the Federal Aviation Administration related to a spillage of a small quantity of MPR’s products in 2007 for \$7,500. This settlement was included in our loss from discontinued operations in 2008.

NeoMedia Telecom Services

On October 30, 2007, we entered into an Asset Purchase Agreement with the former owners of NeoMedia Telecom Services, pursuant to which the former owners of NeoMedia Telecom Services purchased from us all the assets of NeoMedia Telecom Services.

The total selling price for the assets was \$1.4 million, less costs of sale which included 6,190,476 shares of NeoMedia stock valued at \$130,000 issued as additional consideration to the buyer in the transaction. As a result of the sale, we recognized a net loss of \$3.4 million, which was recorded as a loss on disposal of subsidiaries in the Consolidated Statement of Operations for the year ended December 31, 2007. The carrying amounts of assets and liabilities disposed of in relation to this sale totaled approximately \$4.5 million, consisting of \$5.1 million of intangibles, net of amortization, \$0.5 million in cumulative currency translation adjustments, offset by \$1.1 million in other liabilities.

12Snap

On April 4, 2007, we entered into an Asset Purchase Agreement with Bernd Michael, a private investor and former shareholder of 12Snap prior to our acquisition of 12Snap, pursuant to which Mr. Michael purchased from us 90% of the assets of 12Snap, and we retained a 10% ownership of 12Snap, subject to an option agreement pursuant to which we had the right to sell and Mr. Michael had the right to acquire the remaining 10% stake held by us for a purchase price of \$0.8 million after December 31, 2007. We exercised this option and realized these proceeds on January 28, 2008.

The total fair value of the proceeds received for the assets was \$4.6 million, of which \$1.0 million cash was paid directly to and applied to amounts owed to a group of former shareholders of 12Snap, \$0.6 million cash was received by us, \$1.8 million of guarantee purchase price obligations were waived, 7,750,857 shares of NeoMedia stock valued at \$0.4 million was returned to us and retired, and we retained a 10% ownership interest in 12Snap valued at \$0.8 million. As a result of the sale, we recognized a net loss of \$2.7 million, net of transaction costs in connection with the sale, which was recorded as a loss on disposal of subsidiaries in the Consolidated Statement of Operations for the year ended December 31, 2007. The carrying amounts of assets and liabilities disposed of in relation to this sale totaled approximately \$7.3 million, consisting of \$5.8 million of intangibles, net of amortization and \$1.5 million of other assets. During the year ended December 31, 2008 we recognized a loss from discontinued operations of \$65,000 for various incidental and wind-down expenses related to 12 Snap. At December 31, 2008, we have a continuing purchase price obligation of \$4.6 million related to our original purchase of 12Snap.

Results of Continuing Operations

Our consolidated financial information presents the net effect of discontinued operations separate from the results our continuing operations. Historical financial information has been reclassified to consistently separate and present the results of discontinued operations, and the discussion and analysis that follow generally focuses on continuing operations. The following table sets forth, for the periods indicated, certain data derived from our consolidated statements of operations as a percentage of revenues.

	Year Ended December 31,	
	2008	2007
	(in thousands)	(in thousands)
Net sales	\$ 1,046	\$ 1,864
Cost of sales	1,257	1,431
Gross profit (deficit)	(211)	433
Sales and marketing expenses	2,177	2,582
General and administrative expenses	5,406	7,082
Research and development costs	1,997	1,857
Impairment charge	271	3,065
Operating loss	(10,062)	(14,153)
Gain on extinguishment of debt	2,405	347
Gain (loss) from change in fair value of hybrid financial instruments	3,562	(7,824)
Loss from change in fair value of derivative financial instruments	(2,339)	(7,640)
Other interest expense, net	(1,262)	(2,634)

Loss from continuing operations	\$	(7,696)	\$	(31,904)
Loss per share from continuing operations, basic and diluted	\$	(0.01)	\$	(0.03)

The loss from continuing operations for the year ended December 31, 2008 was \$7.7 million, or \$0.01 per share basic and diluted, on revenues of \$1.0 million. This compares to a loss from continuing operations for the year ended December 31, 2007 of \$31.9 million, or \$0.03 per share basic and diluted, on revenues of \$1.9 million.

Revenues

	Year Ended December 31,	
	2008	2007
	(in thousands)	
Hardware sales	\$ 320	\$ 593
Lavasphere revenue	153	494
Patent licensing	52	85
Legacy product revenue	345	456
Other revenue	176	236
Total net sales	\$ 1,046	\$ 1,864

Year Ended December 31, 2008 Compared With the Year Ended December 31, 2007

Net Sales. Total revenues for the year ended December 31, 2008 were \$1.0 million, which represented a decrease of 0.8 million, or 43.9%, from \$1.9 million for the year ended December 31, 2007. The decrease in our revenues was primarily due to our focus on development and rollout of our products and services to support the emerging barcode ecosystem which is being defined by bodies such as the Open Mobile Alliance, Ltd. (the “OMA”), the Global System for Mobile Communications Association (the “GSMA”) and the Cellular Telephone Industries Association (the “CTIA”). We believe this focus will deliver the most value in the future. Hardware sales were also affected by decreased sales of our older products in anticipation of the new and improved product lines introduced late in 2008. This anticipation of our new hardware products also reduced selling prices as we sold the remaining supplies of older models. Lavasphere revenue, which tends to be project based, decreased due to decreases in client specific software development. Legacy product revenues declined consistent with the lifecycle of these products.

Cost of Sales. Cost of sales was \$1.3 million for the year ended December 31, 2008 compared with \$1.4 million for the year ended December 31, 2007, a decrease of \$0.1 million, or 12.2%. Cost of sales for NeoMedia Europe, related to our hardware products, was \$0.3 million and \$0.4 million in the years ended December 31, 2008 and 2007, respectively. Amortization costs related to our patents, and the proprietary software of NeoMedia Europe were \$1.0 million and \$0.7 million for the years ended December 31, 2008 and 2007, respectively.

Sales and Marketing. Sales and marketing expenses were \$2.2 million for the year ended December 31, 2008, compared with \$2.6 million for the year ended December 31, 2007, a decrease of \$0.4 million or 15.7%. Sales and marketing expenses declined due to scaling back our sales and marketing efforts while reorganizing our business strategy to focus on our core technology. Stock based compensation expense allocated to sales and marketing activities was \$0.8 million and \$0.9 million for the years ended December 31, 2008 and 2007, respectively,

General and Administrative. General and administrative expenses include expenses related to our executives, human resources, finance and accounting, legal and information technologies. General and administrative expenses were \$5.4 million for the year ended December 31, 2008, compared with \$7.1 million for the year ended December 31, 2007, a decrease of \$1.7 million or 23.7%. Expenses decreased as a result of decreased staffing and reductions in the compensation levels of the remaining employees consistent with the reorganization of our business strategy and the reduction in our professional fees consistent with the simplifying of our operations as a result of the disposals of our subsidiaries. For the years ended December 31, 2008 and 2007, stock based compensation expense allocated to general and administrative expenses was \$0.8 and \$1.6 million, respectively.

Research and Development. During the year ended December 31, 2008, expenses for research and development were \$2.0 million for the year ended December 31, 2008, compared with \$1.9 million for the year ended December 31, 2007, an increase of \$0.1 million or 7.5%. Research and development increased slightly as we pushed to complete the development of our upgraded hardware products and complete our barcode ecosystem products. For the years ended December 31, 2008 and 2007, stock based compensation expense allocated to research and development expenses was \$0.2 and \$0.4 million, respectively.

Impairment Charge. During the years ended December 31, 2008 and 2007, we incurred charges of \$0.3 million and \$3.1 million, respectively, to write down long-term investments to their estimated net realizable value. In 2008 we determined that our remaining investment in Micro Paint Repair was unrecoverable, and was fully reserved. In 2007 we determined that our investments related to former subsidiaries disposed of in 2007 and early 2008 were not recoverable and these were fully reserved.

Loss from Operations. In 2008, our loss from operations was reduced to \$10.1 million, from \$14.2 million in 2007. This improvement of \$4.1 million was primarily the result of reductions in our general and administrative expenses of \$1.6 million and impairment charges of \$2.9 million, offset by a reduction in our gross profit margin of \$0.6 million.

Gain on Extinguishment of Debt. Gain on extinguishment of debt was \$2.4 million and \$0.3 million during the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008, we obtained a waiver from YA Global, waiving all outstanding events of non-compliance or default related to our Series C convertible preferred stock and convertible debentures. The waiver effectively eliminated default interest and liquidated damages due related to certain of the instruments and, as a result, reduced our future anticipated cash flows related to those instruments. Because that reduction exceeded the threshold prescribed by EITF Issue 96-19 "Debtor's Accounting for a Modification or Exchange of Debt Instruments", the modification of the amounts due under these instruments was accounted for as an extinguishment. The gain on extinguishment of \$0.3 million in 2007 was primarily related to the settlement of a claim with a former vendor.

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 2008, our liability related to these hybrid instruments declined, primarily as a result of the decline in the value of our common stock, and we recorded a gain of \$3.6 million. In 2007, we recognized a loss of \$7.8 million, as the fair value of the liability increased.

Other Interest Expense, net. Other interest expense was \$1.3 million and \$2.6 million during the years ended December 31, 2008 and 2007, 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 and a waiver of previously accrued liquidation damages related to certain registration rights agreements.

Loss from Change in Value of Derivative Financial Instruments. 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, together with our outstanding common stock warrants that were issued in connection with the preferred stock and our debentures, at fair value. The loss related to changes in the fair value of these derivative financial instruments was \$2.3 million and \$7.6 million for the years ended December 31, 2008 and 2007, respectively.

Loss from Continuing Operations. As a result of the above, our loss from continuing operations was reduced to \$7.7 million in 2008, from \$31.9 million in 2007. This improvement of \$24.2 million reflects the \$4.1 million improvement in our loss from operations and a reduction in our losses and other costs related to our financing and related derivative instruments of \$20.1 million.

Loss from Discontinued Operations. The operations of MPR, 12Snap, Telecom Services, Sponge and Mobot, all of which were disposed of in 2007, have been classified as discontinued operations for all periods presented in this Annual Report on Form 10-K. For the years ended December 31, 2008 and 2007, we recognized losses from these discontinued operations of \$0.3 million and \$2.1 million, respectively. In 2008 our losses consisted primarily of a

reserve to write down the uncollectable portion of an escrow account related to MRR and other incidental expenses to wind-down these businesses.

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Loss on Disposal of Subsidiaries. During the year ended December 31, 2007, we recognized a loss on the disposal of our 12Snap, Telecom Services, and MPR subsidiaries in the amount of \$6.6 million, representing the difference between the fair value of the consideration received (as it was a better indicator of fair value) and the carrying value immediately prior to sale.

Liquidity and Capital Resources

	Year Ended December 31,	
	2008	2007
	(in thousands)	
Cash and cash equivalents	\$ 1,259	\$ 1,415
Net cash used in operating activities	\$ (6,678)	\$ (8,268)
Net cash provided by (used in) investing activities	631	(371)
Net cash provided by financing activities	5,786	7,283
Effect of exchange rate changes on cash from continuing operations	105	(42)
Net decrease in cash	\$ (156)	\$ (1,398)

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 years ended December 31, 2008 and 2007 was \$8.0 million and \$40.6 million, respectively and net cash used by operations during the same years was \$6.7 million and \$8.3 million, respectively. We also have an accumulated deficit of \$211.3 million and a working capital deficit of \$68.2 million as of December 31, 2008. We also have a continuing obligation as of December 31, 2008 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 operations 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 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. 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 respond to competitive pressures, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. We do not have any commitments for funding. Should YA Global not choose provide us with capital financing, as they have in the past; or 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 April 30, 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.

2007 Summary

During the year ended December 31, 2007, we funded our liquidity requirements through a combination of cash resources, including borrowing under convertible debt instruments and notes payable, and the proceeds related to the sale of our non-core subsidiaries.

As of December 31, 2007, we had \$1.4 million in cash and cash equivalents, a reduction of \$1.4 million from the \$2.8 million balance as of December 31, 2006.

Cash used in operating activities during the year ended December 31, 2007 was \$8.3 million. Cash used in investing activities was \$0.3 million. Cash provided by financing activities was \$7.2 million resulting from \$8.2 million from borrowing under notes payable and convertible debt instruments, offset by \$1.0 million in repayments on notes payable and convertible debt instruments.

2008 Summary

During the year ended December 31, 2008, we funded our liquidity requirements through a combination of cash resources, including borrowing under convertible debt instruments and notes payable, and the proceeds related to the sale of our non-core subsidiaries.

As of December 31, 2008, we had \$1.3 million in cash and cash equivalents, a reduction of \$0.1 million from the \$1.4 million balance as of December 31, 2007.

Cash used by operating activities during the year ended December 31, 2008 was \$6.7 million. Cash provided by investing activities was \$0.6 million. Cash provided by financing activities was \$5.8 million, resulting from convertible debt instruments.

Recent Events

On February 17, 2009, we received notice of a favorable determination from the reexamination of the '048 Patent. This ruling strengthens our position in pending litigation and in negotiations with potential customers and parties which may be perceived as infringing on our patents and related technology.

During the first quarter of 2009, we have billed revenues for our first paid barcode ecosystem advertising campaigns. We received a favorable response from the agencies / brands who were our customers in these campaigns and are in the process of developing additional campaigns with these and other customers.

On March 2, 2009, we hired a full time Vice President - Business Development to drive our sales process forward and to realize the potential of our barcode ecosystem product line.

On March 24 and 25, 2009, the share price of our common stock had increased to the extent that two former employees who were holding unexpired and vested stock options were able to exercise a portion of their options. These exercises resulted in cash proceeds to us of approximately of \$0.1 million.

On March 31, 2009 we implemented a plan to reduce our costs. These steps included lay-offs of several positions; the conversion of certain full-time positions to part-time or contractor status; reductions in salaries and in the fees paid to our Board of Directors; the indefinite deferral of all bonus payments; the implementation of additional controls on travel costs; and the elimination of certain other costs.

On April 6, 2009, we issued debentures to YA Global in connection with the First Amended Third Closing of the July 29, 2008 Securities Purchase Agreement with YA Global. This provided us with \$0.5 million of additional funding. As of April 7, 2009 we had cash balances of approximately \$0.7 million. YA Global has an option to provide us with up to an additional \$0.5 million in additional funding on May 1, 2009.

Significant Liquidity Events

Sale of Put Option for 12Snap. On January 28, 2008, we exercised a put option related to 12Snap whereby we sold our remaining 10% ownership of 12Snap to Bernd Michael, a private investor and former shareholder of 12Snap prior to our acquisition of 12Snap. The option agreement gave us the right to sell and Mr. Michael had the right to acquire the remaining 10% stake held by us for a purchase price of \$0.8 million after December 31, 2007. This resulted in net proceeds of \$0.8 million to us in January 2008.

Sale of Debentures to YA Global. On July 29, 2008, we entered into a Securities Purchase Agreement (“SPA”) in the amount of \$8,650,000 with YA Global. Under the SPA, YA Global agreed to purchase secured convertible debentures, subject to our meeting certain milestones, which were designed to fund the Company’s business plan to bring our products to market over approximately an 18 month period of time. The first debenture under the SPA was issued on July 29, 2008, in the amount of \$2.325 million, and the second debenture under the SPA was issued on October 28, 2008, also in the amount of \$2.325 million.

On April 6, 2009 the SPA was amended. The Amendment Agreement revised YA Global’s funding commitment to \$0.5 million, payable upon closing, plus an option to fund an additional \$0.5 million on May 1, 2009, at the sole discretion of YA Global.

Limitations and Obligations Imposed in Connection with Convertible Debentures. Pursuant to security agreements between us and YA Global signed in connection with the convertible debentures, YA Global has a security interest in all of our assets. Additionally, pursuant to the terms of the investment agreement between us and YA Global signed in connection with the Series C convertible preferred stock sale, we cannot

- enter into any debt arrangements in which YA Global is not the borrower,
 - grant any security interest in any of our assets, or
 - grant any security below market price.

During 2007 and 2008, and through April 6, 2009, we have issued convertible debentures with an aggregate face amount of \$16.7 million to YA Global and we have incurred both cash and non-cash costs associated with those financing arrangements. We issued to YA Global an aggregate of 707,500,000 warrants and paid cash fees to them from the proceeds of the debentures of approximately \$1.7 million. In addition, approximately \$1.7 million of the proceeds were used to settle interest and liquidated damages outstanding related to existing obligations to YA Global.

In the event that (i) our stock price does not increase to levels where we can force exercise of enough of our outstanding warrants to generate material operating capital, (ii) the market for our stock will not support the sale of shares underlying our warrants or other funding sources, or (iii) we do not realize a material increase in revenue during the next 12 months, we will have to seek additional cash sources. There can be no assurances that such funding sources will be available. We do not have any commitments for funding. If necessary funds are not available, our business and operations would be materially adversely affected and in such event, we would attempt to reduce costs and adjust our business plan, and could be forced to sell certain of our assets, including our remaining subsidiaries and reduce or cease our operations.

Contractual Obligations

We are party to various commitments and contingencies, such as:

- We and our subsidiaries lease office facilities and certain office and computer equipment under various operating leases,
- We are party to various payment arrangements with our vendors that call for fixed payments on past due liabilities,
 - We are party to various consulting agreements that carry payment obligations into future years,
 - We hold notes payable to certain vendors that mature at various dates in the future,
- We issued convertible debentures with outstanding face values of \$23.2 million that are subject to conversion at future dates.

The following table sets forth our future minimum payments due under operating leases, vendor and consulting agreements, convertible stock agreements, and debt agreements:

	2009	2010	2011	2012	2013	Thereafter	Total
	(in thousands)						
Operating leases	\$ 264	\$ 249	\$ 129	\$ 3	\$ -	\$ -	\$ 645
Vendor and consulting agreements	253	30	-	-	-	-	283
Notes payable	50	-	-	-	-	-	50
Subsidiary acquisition commitments	4,614	-	-	-	-	-	4,614
Convertible debentures	9,234	13,967	-	-	-	-	23,201
Total	\$ 14,415	\$ 14,246	\$ 129	\$ 3	\$ -	\$ -	\$ 28,793

As of December 31, 2008, we had a continuing liability of \$4.6 million relating to a purchase price guarantee obligation associated with our original acquisition of 12Snap (which entity we have subsequently disposed of). If our stock price, at the time the shares we issued for the acquisition of 12Snap were registered for sale or otherwise became saleable, was less than the contractual price (\$0.3956), we were obligated to compensate the sellers in cash for the difference between the price at the time the shares become saleable and the relevant contractual price. The shares became saleable during the first quarter of 2007 and at December 31, 2006, we accrued the amount payable under this obligation of \$16.2 million. During the first quarter of 2007, we issued 197,620,948 shares of our common stock in satisfaction of \$9.4 million of the purchase price guarantee obligation, leaving a remaining obligation of \$6.8 million. As part of the sale of 12Snap back to the original owners in April 2007, we negotiated a reduction of \$1.8 million in this guarantee obligation. Additionally, we paid \$0.5 million during the year ended December 31, 2007 to further reduce this obligation to \$4.5 million. During 2008, we have not made any additional payments but have accrued interest on the obligation, resulting in a balance at December 31, 2008 of \$4.6 million.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board, (the “FASB”) issued FAS No. 157, “Fair Value Measurements”. FAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. FAS 157 became effective for the Company as of January 1, 2008 for financial assets and financial liabilities within its scope and it did not have a material impact on our consolidated financial statements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 “Effective Date of FASB Statement No. 157” (“FSP FAS 157-2”) which defers the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of FSP FAS 157-2. The Company is currently assessing the impact, if any, of FAS 157 and FSP FAS 157-2 for non-financial assets and non-financial liabilities on its consolidated financial statements.

In February 2007, the FASB issued FAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities”. FAS 159 provides companies with an option to irrevocably elect to measure certain financial assets and financial liabilities at fair value on an instrument-by-instrument basis with the resulting changes in fair value recorded in earnings. The objective of FAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by using different measurement attributes for financial assets and financial liabilities. FAS 159 became effective for the Company as of January 1, 2008. The Company has not elected to apply

the fair value option to any of its financial assets or financial liabilities, other than certain of the Company's convertible debenture obligations, which are carried at fair value in accordance with FAS 155.

In December 2007, the FASB issued FAS No. 141(R) (Revised 2007), "Business Combinations". FAS 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquire, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141(R) became effective for the Company on January 1, 2009. The impact of the standard on the Company's financial position and results of operations will depend on whether any acquisitions are consummated after the standard became effective.

In December 2007, the FASB issued FAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." FAS 160 requires all entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. This Statement became effective for the Company as of January 1, 2009 and will not have any effect on the Company's financial statements.

In March 2008, the FASB issued FAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This statement requires enhanced disclosures about an entity's derivative and hedging activities. These disclosures include how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under existing accounting pronouncements and related interpretations and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective for financial statements issued for years beginning after November 15, 2008. We do not expect that FAS 161 will have any significant effect on our consolidated financial statement disclosures.

In May 2008, the FASB issued FAS No. 162 "The Hierarchy of Generally Accepted Accounting Principles." This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. Although this statement formalizes the sources and hierarchy of US GAAP within the authoritative accounting literature, it does not change the accounting principles that are already in place. FAS 162 had no effect on the Company's financial statements.

In May 2008, the FASB issued FAS No. 163, "Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60". FAS 163, which is effective for fiscal years beginning after December 15, 2008, is not expected to have any effect on our financial statements.

Off-Balance Sheet Arrangements

We are not currently engaged in the use of off-balance sheet derivative financial instruments, to hedge or partially hedge interest rate exposure nor do we maintain any other off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, or other financial or investment purposes.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks which exist as part of our ongoing business operations. We currently do not engage in derivative and hedging transactions to mitigate the effects of the risks below. In the future, we may enter into foreign currency forward contracts to manage foreign currency risk.

Interest Rate Risk. Because our debt is primarily tied to borrowing rates in the United States, changes in U.S. interest rates could affect the interest paid on our borrowings and/or earned on our cash and cash equivalents. Based on our overall interest rate exposure at December 31, 2008, a near-term change in interest rates, based on historical small movements, would not materially affect our operations or the fair value of interest rate sensitive instruments. Our current debt instruments have fixed interest rates and terms and, therefore, a significant change in interest rates would not have a material adverse effect on our financial position or results of operations; however, changes in interest rates may increase our cost of borrowing in the future.

Investment Risk. As of December 31, 2008, we do not have material amounts invested in other public or privately-held companies and therefore there is minimal associated investment risk with our investment portfolio.

Foreign Currency Risk. We conduct business internationally in two currencies, and as such, are exposed to adverse movements in foreign currency exchange rates. Our exposure to foreign exchange rate fluctuations arise in part from:

(1) translation of the financial results of our NeoMedia Europe subsidiary into U.S. dollars in consolidation; (2) the re-measurement of non-functional currency assets, liabilities and intercompany balances into U.S. dollars for financial reporting purposes; and (3) non-U.S. dollar denominated sales to foreign customers. Historically, neither fluctuations in foreign exchange rates nor changes in foreign economic conditions have had a significant impact on our financial condition or results of operations.

ITEM 8. Financial Statements
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of NeoMedia Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of NeoMedia Technologies, Inc. (the "Company"), as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to such financial statements, the Company has suffered recurring losses from operations and has ongoing requirements for additional capital investment. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kingery & Crouse, P.A

Tampa, FL
April 14, 2009

NeoMedia Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share data)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,259	\$ 1,415
Trade accounts receivable, net of allowance for doubtful accounts of \$0 and \$78, respectively	102	58
Other receivables	-	225
Inventories, net of allowance for obsolete & slow-moving inventory of \$81 and \$80 respectively	117	198
Prepaid expenses and other current assets	544	196
Assets held for sale	-	159
Total current assets	2,022	2,251
Property, equipment and leasehold improvements, net	79	85
Goodwill	3,418	3,418
Proprietary software, net	2,738	3,413
Patents and other intangible assets, net	2,293	2,608
Cash surrender value of life insurance policies	508	747
Other long-term assets	430	1,002
Total assets	\$ 11,488	\$ 13,524
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 134	\$ 309
Liabilities held for sale	-	13
Taxes payable	7	-
Accrued expenses	5,787	6,015
Deferred revenues and customer prepayments	403	669
Notes payable	50	44
Accrued purchase price guarantee	4,614	4,549
Deferred tax liability	706	706
Derivative financial instruments - warrants	1,189	4,834
Derivative financial instruments - debentures payable	26,256	19,817
Debentures payable at amortized cost	11,227	7,500
Debentures payable at fair value	19,892	23,199
Series C convertible preferred stock, \$0.01 par value, 30,000 shares authorized, 20,097 shares issued and outstanding, liquidation value of \$20,097	-	20,097
Total current liabilities	70,265	87,752
Commitments and contingencies (Note 13)		
Series C convertible preferred stock, \$0.01 par value, 30,000 shares authorized, 19,144 shares issued and outstanding,		

liquidation value of \$19,144	19,144	-
Shareholders' deficit:		
Common stock, \$0.01 par value, 5,000,000,000 shares authorized, 1,375,056,229 and 1,025,295,693 shares issued and 1,371,904,960 and 1,022,144,424 outstanding, respectively	13,719	10,221
Additional paid-in capital	120,430	118,427
Accumulated deficit	(211,305)	(201,565)
Accumulated other comprehensive loss	14	(532)
Treasury stock, at cost, 201,230 shares of common stock	(779)	(779)
Total shareholders' deficit	(77,921)	(74,228)
Total liabilities and shareholders' deficit	\$ 11,488	\$ 13,524

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

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

	Year Ended December 31,	
	2008	2007
Net sales	\$ 1,046	\$ 1,864
Cost of sales	1,257	1,431
Gross profit (deficit)	(211)	433
Sales and marketing expenses	2,177	2,582
General and administrative expenses	5,406	7,082
Research and development costs	1,997	1,857
Impairment charge	271	3,065
OPERATING LOSS	(10,062)	(14,153)
Gain on extinguishment of debt	2,405	347
Gain (loss) from change in fair value of hybrid financial instruments	3,562	(7,824)
Loss from change in fair value of derivative financial instruments	(2,339)	(7,640)
Other interest expense, net	(1,262)	(2,634)
LOSS FROM CONTINUING OPERATIONS	(7,696)	(31,904)
DISCONTINUED OPERATIONS (Note 3)		
Loss from operations of discontinued operations	(323)	(2,121)
Loss on disposal of subsidiaries	-	(6,610)
LOSS FROM DISCONTINUED OPERATIONS	(323)	(8,731)
NET LOSS	(8,019)	(40,635)
Dividends on convertible preferred stock	(1,571)	(1,696)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	(9,590)	(42,331)
Comprehensive Loss:		
Net loss	(8,019)	(40,635)
Other comprehensive loss:		
Marketable securities	442	(195)
Foreign currency translation adjustment	104	373
COMPREHENSIVE LOSS	\$ (7,473)	\$ (40,457)
Loss per share from continuing operations - basic and diluted	\$ (0.01)	\$ (0.03)
Loss per share from discontinued operations - basic and diluted	\$ -	\$ (0.01)
Net loss per share - basic and diluted	\$ (0.01)	\$ (0.04)
	\$ (0.01)	\$ (0.04)

Loss per share attributable to common shareholders - basic and diluted

Weighted average number of common shares--basic and diluted	1,167,856,338	1,023,816,862
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The accompanying notes are an integral part of these consolidated financial statements.

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NeoMedia Technologies, Inc. and Subsidiaries`
Consolidated Statements of Shareholders' Equity (Deficit)
(In thousands, except share data)

	Common Stock		Accumulated Other Comprehensive Income Accumulated			Treasury Stock		Total Shareholders' Equity (Deficit)
	Shares	Amount	Additional Paid-in Capital	(Loss)	Deficit	Shares	Amount	
Balance, December 31, 2006	637,591,747	\$ 6,376	\$ 101,911	\$ (710)	\$ (160,930)	201,230	\$ (779)	\$ (54,132)
Adjustment of prior year accrual of dividends on Series C Convertible Preferred Stock	-	-	34	-	-	-	-	34
Shares issued upon conversion of Series C convertible preferred stock	94,096,543	941	1,606	-	-	-	-	2,547
Exercise of stock options	1,639,444	16	-	-	-	-	-	16
Stock based compensation expense	2,901,438	29	4,626	-	-	-	-	4,655
Fair value of shares issued to pay liabilities	28,854,685	289	411	-	-	-	-	700
Fair value of shares issued under make whole provisions for NeoMedia Europe & 12Snap	258,620,948	2,586	10,135	-	-	-	-	12,721
Fair value of shares returned to the Company in connection with sale of 12Snap	(7,750,857)	(78)	(364)	-	-	-	-	(442)
Fair value of shares issued under disposition agreement of Micro Paint Repair	6,190,476	62	68	-	-	-	-	130
Comprehensive loss - foreign currency	-	-	-	373	-	-	-	373

translation adjustment									
Comprehensive loss									
- unrealized loss on marketable securities	-	-	-	(195)	-	-	-	-	(195)
Net Loss	-	-	-	-	(40,635)	-	-	-	(40,635)
Balance, December 31, 2007	1,022,144,424	\$ 10,221	\$ 118,427	\$ (532)	\$ (201,565)	201,230	\$ (779)	\$ (74,228)	
Shares issued upon conversion of Series C convertible preferred stock	347,500,000	3,475	172	-	-	-	-	-	3,647
Deemed Dividend on Conversion of Series C convertible preferred stock	-	-	-	-	(1,721)	-	-	-	(1,721)
Stock based compensation expense	-	-	1,831	-	-	-	-	-	1,831
Fair value of shares issued to pay liabilities	2,260,536	23	-	-	-	-	-	-	23
Comprehensive income - foreign currency translation adjustment	-	-	-	104	-	-	-	-	104
Comprehensive income - realized on marketable securities	-	-	-	442	-	-	-	-	442
Net Loss	-	-	-	-	(8,019)	-	-	-	(8,019)
Balance, December 31, 2008	1,371,904,960	\$ 13,719	\$ 120,430	\$ 14	\$ (211,305)	201,230	\$ (779)	\$ (77,921)	

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

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

	Year Ended December 31,	
	2008	2007
Cash Flows from Operating Activities:		
Loss from continuing operations	(7,696)	(31,904)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,083	1,141
Gain on sale of assets	(4)	-
Impairment charge	271	3,065
Gain on early extinguishment of debt	(2,405)	(347)
Change in fair value from revaluation of warrants and embedded conversion features	2,339	7,640
Stock-based compensation expense	1,831	2,993
Interest expense related to convertible debt	(2,301)	8,605
Decrease in value of life insurance policies	239	116
Changes in operating assets and liabilities		
Trade and other accounts receivable	181	609
Inventories	81	(118)
Prepaid expenses and other current assets	(189)	(471)
Accounts payable and accrued liabilities	158	309
Deferred revenue and other current liabilities	(266)	94
Net cash used in operating activities	(6,678)	(8,268)
Cash Flows from Investing Activities:		
Cash received from sale of (paid to acquire) CSI International, Inc., Mobot, Inc., Sponge Ltd., NeoMedia Europe AG, and 12Snap AG, net of cash acquired	-	1,100
Proceeds from sale of investments	751	-
Acquisition of property and equipment	(75)	(15)
Acquisition of patents and other intangible assets	(12)	(30)
Advances to discontinued subsidiaries Micro Paint Repair, 12Snap, Telecom Services, Mobot, and Sponge	(33)	163
Payment of purchase price guarantee obligations	-	(2,260)
Amounts received (issued) under notes receivable	-	671
Net cash used in investing activities	631	(371)
Cash Flows from Financing Activities:		
Borrowing under notes payable and convertible debt instruments, net of fees of \$681 in 2008 and \$981 in 2007	5,786	8,253
Repayments on notes payable and convertible debt instruments	-	(986)
Preferred stock conversions and deemed dividends on preferred conversion	-	-
Net proceeds from exercise of stock options and warrants	-	16
Net cash provided by financing activities	5,786	7,283

Effect of exchange rate changes on cash for continuing operations	105	(42)
Net Increase (Decrease) in cash and cash equivalents from continuing operations	(156)	(1,398)
Cash and cash equivalents, beginning of period	1,415	2,813
Cash and cash equivalents, end of period	1,259	1,415
Supplemental cash flow information:		
Interest paid during the period	35	638
Unrealized gain (loss) on marketable securities	-	(195)
Fair value of shares issued to satisfy purchase price guarantee obligations	-	12,721
Fair value of shares issued to satisfy debt guarantee obligation	-	700
Deemed dividend on Series C Convertible Preferred Stock	1,721	1,696
Series C Convertible Preferred Stock converted to common stock	3,647	2,547

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

NeoMedia Technologies, Inc.
Notes to Consolidated Financial Statements

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 principals generally accepted in the United States of America (“US GAAP”), which contemplate our continuation as a going concern. Net loss for the years ended December 31, 2008 and 2007 was \$8.0 million and \$40.6 million, respectively and net cash used by operations during the same years was \$6.7 million and \$8.3 million, respectively. We have an accumulated deficit of \$211.3 million and a working capital deficit of \$68.2 million as of December 31, 2008. We also have a continuing obligation as of December 31, 2008 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 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. 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. Should YA Global Investments, L.P (“YA Global”) not choose provide us with capital financing, as they have in the past; or 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 April

30, 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.

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Note 2 - Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements include the accounts of NeoMedia Technologies, Inc. and our wholly-owned subsidiaries. We operate as one reportable segment. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates – The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

Revenue Recognition – We derive revenues from two sources: (1) license revenues relating to patents and internally-developed software, and (2) hardware, software, and service revenues related to mobile marketing campaign design and implementation.

- (1) Technology license fees, including Intellectual Property licenses, represent revenue from the licensing of our proprietary software tools and applications products. We license our development tools and application products pursuant to non-exclusive and non-transferable license agreements. The basis for license fee revenue recognition is substantially governed by The American Institute of Certified Public Accountants, Statements of Position (“SOP”) 97-2 “Software Revenue Recognition”, as amended, and SOP 98-9, Modification of SOP 97-2, “Software Revenue Recognition, With Respect to Certain Transactions.” License revenue is recognized if persuasive evidence of an agreement exists, delivery has occurred, pricing is fixed and determinable, and collectability is reasonably assured. We defer revenue related to license fees for which amounts have been collected but for which revenue has not been recognized in accordance with the above criteria, and we recognize that revenue when the criteria are met
- (2) Technology service and product revenue, which includes sales of software and technology equipment and service fees is recognized based on guidance provided in The Securities and Exchange Commission, Staff Accounting Bulliten (“SAB”) 104, “Revenue Recognition in Financial Statements,” as amended. Software and technology equipment resale revenue is recognized when persuasive evidence of an arrangement exists, the price to the customer is fixed and determinable, delivery of the service has occurred and collectability is reasonably assured. Service revenues including maintenance fees for providing system updates for software products, user documentation and technical support are recognized over the life of the contract. We defer revenue related to technology service and product revenue for which amounts have been invoiced and or collected but for which the requisite service has not been provided. Revenue is then recognized over the matching service period.
- (3) We recognize shipping and handling costs at the time of invoice. All associated transportation and handling costs for products shipped are borne by the customer and provided for as cost of sales. All shipping and handling charges are recognized as part of revenue recognition at the time of invoicing.
- (4) We recognize tax billings related to our sales revenue at the time of invoicing. The customer is responsible for paying all associated taxes to us in connection with the sale as part of the terms and conditions of the sales invoice. Taxes on billings in connection with invoices are paid to the corresponding taxing authority directly by us and recovered from the customer upon payment of the customer invoice.
- (5) When sales transactions include multiple deliverables or shipments, we recognize revenue on only that part of the transaction that has been shipped to the customer. Revenue on subsequent shipments as part of an original order or deliverable, is recognized upon each new shipment or release of deliverables to the

customer.

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Basic and Diluted Income (Loss) per Share – Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. During the years ended December 31, 2008 and 2007, we reported 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, assumed conversion of convertible instruments as of the respective dates, were as follows:

	As of December 31,	
	2008	2007
Outstanding Stock Options	99,736,856	115,511,747
Outstanding Warrants	1,007,971,000	514,825,000
Convertible debt	26,188,847,382	3,170,695,000
Convertible preferred stock	21,456,650,327	2,166,031,000
	48,753,205,565	5,967,062,747

Comprehensive Income – We report comprehensive income in accordance with FAS 130, “Reporting Comprehensive Income.” This statement requires the disclosure of accumulated other comprehensive income or loss (excluding net income or loss) as a separate component of shareholders’ equity.

Derivative Financial Instruments – We generally do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of our financial instruments. However, certain financial instruments, such as warrants and the embedded conversion features of our convertible preferred stock and convertible debentures, which are indexed to our common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within our control. In such instances, net-cash settlement is assumed for financial accounting and reporting purposes, even when the terms of the underlying contracts do not provide for net-cash settlement. Derivative financial instruments are initially recorded, and continuously carried, at fair value.

Determining the fair value of these complex derivative financial instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest rate risk, credit risk, equivalent volatility and conversion/redemption privileges. The use of different assumptions could have a material effect on the estimated fair value amounts.

For certain of our convertible debentures, we have elected not to separately account for the embedded conversion feature as a derivative instrument but to account for the entire hybrid instrument at fair value in accordance with FAS 155. For the remaining convertible debentures and our convertible preferred stock, the underlying instruments are carried at amortized cost and the embedded conversion feature is accounted for separately at fair value in accordance with FAS 133 and EITF Issues 00-19 and 07-5.

Financial Instruments and Concentration of Credit Risk – Our financial instruments consist of cash and cash equivalents, accounts receivable, cash surrender value of life insurance policy, accounts payable, accrued expenses, notes payable, derivative financial instruments, other current liabilities, convertible preferred stock, and convertible debenture financing. We believe the carrying values of cash and cash equivalents, accounts receivable, cash surrender value of life insurance, accounts payable, accrued expenses, notes payable, and other current liabilities approximate their fair values due to their short-term nature. Our convertible preferred stock and convertible debentures are either recognized as hybrid financial instruments and carried at fair value in accordance with FAS 155 or are carried at amortized cost, with separate recognition of the fair value of any embedded derivative instrument liabilities, including the conversion feature. At December 31, 2008, the face value of debentures carried at amortized cost exceeded their carrying amount by approximately \$1.1 million. At December 31, 2007, the face value of debentures carried at amortized cost exceeded their carrying amount by approximately \$1.1 million. At December 31, 2007 the face value

of debentures carried at fair value exceeded their carrying amount by approximately 9.0 million.

Our cash balances are held by a highly rated financial institution. The balances in our accounts often exceed the amounts covered by the insurance obligations of the Federal Deposit Insurance Corporation (“FDIC”). We invest our cash on an overnight basis in a money market fund which invests in highly liquid short-term investments, but is not insured by the FDIC. Our financial institution participates in the U. S. Department of the Treasury’s Temporary Guarantee Program for Money Market Funds. Through April 30, 2009 approximately \$0.6 million of our cash balances are guaranteed under this program. Similarly, our cash balances in our European location, are also deposited and maintained in financial institutions that provide deposit guarantees and are governed by local public law. Our policies limit the concentration of credit exposure by restricting investments with any single obligor, instrument, or geographic area.

Our policies limit the concentration of accounts receivable credit exposure by requiring the majority of customers to prepay their renewal licenses prior to initiating services. To the extent credit is granted to our customers, all open accounts receivable beyond 90 days are evaluated for recovery, or the need to establish a reserve for potential un-collectability. We do not require collateral.

Accounts Receivable – We report accounts receivable at net realizable value. Our terms of sale provide the basis for when accounts become delinquent or past due. We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts. Our estimate is based on historical collection experience and a review of the current status of accounts receivable. Receivables are generally charged off and sent to a collections agency after ninety days past due, unless we believe that collection is reasonably assured. It is at least reasonably possible that our estimate of the allowance for doubtful accounts will change in the near-term. At December 31, 2008 and 2007, the allowance for doubtful accounts was \$0 and \$78,000, respectively. Substantially all of our receivables were collectible through the issuance date of these financial statements.

Inventories – Inventories are stated at the lower of cost or market and were comprised of barcode-reading equipment at our NeoMedia Europe location. Cost is determined using the first-in, first-out method.

	As of December 31,	
	2008	2007
	(in thousands)	
Raw material	\$ 61	\$ 59
Finished goods	137	218
Work in process	-	1
Total	198	278
Less: reserve for slow-moving and obsolete inventory	(81)	(80)
Total Inventory, net of reserves	\$ 117	\$ 198

Goodwill – Goodwill consists of the excess of the purchase price paid for NeoMedia Europe over the fair value of the identifiable net assets and liabilities acquired, based on an independent appraisal of the assets and liabilities acquired. In accordance with FAS 142, “Goodwill and Other Intangible Assets,” goodwill is no longer amortized, but is tested for impairment, at least annually, by applying the recognition and measurement provisions of FAS 142, which compare the carrying amount of the asset to its fair value. If impairment of carrying value based on the calculated fair value exists, we measure the impairment through the use of projected discounted cash flows.

Other Intangible Assets – Intangible assets acquired as part of a business combination are accounted for in accordance with FAS 141, “Business Combinations,” and are recognized apart from goodwill if the intangible asset arises from contractual or other legal rights or the asset is capable of being separated from the acquired enterprise. Intangible assets are reviewed for impairment by applying the recognition and measurement provisions of FAS 142, which compare the carrying amount of the intangible asset to its fair value. If the carrying amount exceeds fair value, an impairment loss is recognized. Intangible assets are amortized, using the straight-line method, over the estimate of their period of benefit of five to seventeen years. Other intangible assets consist of patents, customer contracts, copyrighted material, acquired software products, and brand names which are amortized straight-line over the expected life of each asset. The estimated service lives of other intangible assets are as follows:

Capitalized patents	5 - 17 years
Customer contracts	5 years
Copyrighted materials	5 years
Acquired software products	7 years
Brand names	10 years

Evaluation of Long-Lived Assets – We periodically perform impairment tests on each of our intangible assets, which include goodwill, capitalized patent costs, customer base and trademarks, and capitalized and purchased software costs. In doing so, we evaluate the carrying value of each intangible asset with respect to several factors, including historical revenue generated from each intangible asset, application of the assets in our current business plan, and projected cash flow to be derived from the asset.

The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. Where practicable, we will obtain an independent valuation of intangible assets, and place reliance on such valuation. Then on an ongoing basis, we use the weighted-average probability method outlined in FAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” to estimate the fair value. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we have used are consistent with the plans and estimates that we use to manage our business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect our net operating results.

According to FAS 144, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We follow the two-step process outlined in FAS 144 for determining if an impairment charge should be taken: (1) the expected undiscounted cash flows from a particular asset or asset group are compared to the carrying value; if the expected undiscounted cash flows are greater than the carrying value, no impairment is taken, but if the expected undiscounted cash flows are less than the carrying value, then (2) an impairment charge is taken for the difference between the carrying value and the expected discounted cash flows. The assumptions used in developing expected cash flow estimates are similar to those used in developing other information used by us for budgeting and other forecasting purposes. In instances where a range of potential future cash flows is possible, we use a probability-weighted approach to weigh the likelihood of those possible outcomes. For purposes of discounting cash flows we use a discount rate equal to the yield on a zero-coupon US Treasury instrument with a life equal to the expected life of the intangible asset or asset group being tested.

We recognized impairment charges of \$0.3 million and \$3.1 million during the years ended December 31, 2008 and 2007, respectively as a result of writing down the carrying value of our long-term investments to their net realizable value.

Property, Plant and Equipment – Property, plant and equipment, including software, are stated at cost less accumulated depreciation and amortization. The straight-line depreciation method is used for property, plant, and equipment over the estimate of their useful lives. Changes in technology or changes in the intended use of property, plant, and equipment may cause the estimated period of use or the value of these assets to change. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Estimates and assumptions used in both setting depreciable lives and testing for recoverability require management judgment. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvement. Gains and losses related to the retirement or disposal of fixed assets are recognized in the period in which the transaction occurred. The cost of normal maintenance and repairs is charged to operations as incurred. Material expenditures, which increase the life of an asset, are capitalized and depreciated over the estimated remaining life of the asset. The estimated service lives of property and equipment are as follows:

Furniture and fixtures	7 years
Equipment	3 - 5 years

Fair-valued Financial Instruments – Fair value measurement requirements are embodied in certain accounting standards applied in the preparation of our financial statements. The most significant application is in connection with our Convertible Preferred Stock, Convertible Debentures and Warrants, where we determine the fair value of certain hybrid instruments carried at fair value under FAS 155 and certain derivative liabilities which are recorded at fair value under FAS 133. See Note 5 for further information regarding the accounting treatment of our financing instruments. In applying FAS 157 to the determination of fair values, we do not believe that the amounts would have been materially different than those reflected in our consolidated financial statements under previous standards.

Shipping and Handling Costs – Shipping and handling costs are passed through to our customers, and are recorded as revenue with the associated costs recorded as cost of goods sold.

Research and Development – Costs associated with the planning and designing phase of software development, including coding and testing activities, and related overhead, necessary to establish technological feasibility of our internally-developed software products, are classified as research and development and expensed as incurred.

Stock Based Compensation – FAS 123R “Share-Based Payment”, requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the grant date fair value of the award.

We record the grant date fair value of stock-based compensation awards as an expense over the vesting period of the related stock options. In order to determine the fair value of the stock options on the date of grant, we use the Black-Scholes-Merton option-pricing model. Inherent in this model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield. Although the risk-free interest rates and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility, forfeiture rate and option life assumptions require a greater level of judgment which make them critical accounting estimates.

We use an expected stock-price volatility assumption that is based on historical volatilities of the underlying stock which is obtained from public data sources. With regard to the weighted-average option life and forfeiture rate assumptions, we consider the behavior of past grants.

Income Taxes – We account for income taxes under the provisions of FAS 109, “Accounting for Income Taxes”, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the difference is expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have recorded a 100% valuation allowance as of December 31, 2008 and 2007.

Beginning January 1, 2007, we adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”). The Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. See Note 10 to our Consolidated Financial Statements for discussions of our implementation of FIN 48.

Translation of Foreign Currency – The U.S. dollar is the functional currency of our operations, except for our operations at NeoMedia Europe, which use the Euro as their functional currency. Foreign currency transaction gains

and losses are reflected in income. Translation gains and losses arising from translating the financial statements of NeoMedia Europe into U.S. dollars for reporting purposes are included in “Accumulated other comprehensive income (loss).”

Reclassifications – Due to the completed divestitures of 12Snap, Telecom Services, and Micro Paint Repair during 2007 and 2008, results of operations from these units have been reclassified under the caption “Discontinued Operations” for all periods shown in the accompanying consolidated statement of operations, and prior year assets and liabilities relating to these business units are combined into the captions “Assets held for sale” and “Liabilities held for sale,” respectively, in the accompanying consolidated balance sheets.

Note 3 - Discontinued Operations

MPR, Mobot, Sponge, 12Snap, and Telecom Services Businesses – During August 2006, we decided to sell our Micro Paint Repair business unit; this sale was completed on November 15, 2007. In the fourth quarter of 2006, we disposed of two subsidiaries, Mobot and Sponge, including all assets and liabilities associated with these two subsidiaries. During the first quarter of 2007, we decided to sell our remaining non-core business units, including 12Snap and Telecom Services. Our sale of 12Snap was completed in April 2007, and our sale of Telecom Services was completed in October 2007. The results of operations of these business units have been reclassified as discontinued operations for all periods presented and the assets of these operations are included in Assets held for sale in the consolidated balance sheet..

The operating results of these business units, which have been classified as discontinued operations, are indicated in the following table. There is no tax expense or benefit to report due to our net operating loss carry forward tax position.

	Micro Paint Repair	Mobot	Sponge	12Snap	Telecom Service	Total
2008						
Net sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of sales	-	-	-	-	-	-
Gross profit	-	-	-	-	-	-
Sales and marketing expenses	-	-	-	-	-	-
General and administrative expenses	258	-	-	65	-	323
Research and development costs	-	-	-	-	-	-
Loss from operations of discontinued business	(258)	-	-	(65)	-	(323)
Loss on disposal of business	-	-	-	-	-	-
Loss from discontinued operations	\$ (258)	\$ -	\$ -	\$ (65)	\$ -	\$ (323)
2007						
Net sales	\$ 1,200	\$ -	\$ -	\$ 2,621	\$ 1,550	\$ 5,371
Cost of sales	1,518	-	-	361	479	2,358
Gross profit	(318)	-	-	2,260	1,071	3,013
Sales and marketing expenses	784	30	58	1,181	343	2,396
General and administrative expenses	702	-	1	434	1,008	2,145
Research and development costs	171	15	-	407	-	593
Loss from operations of discontinued business	(1,975)	(45)	(59)	238	(280)	(2,121)
Loss on disposal of business	(457)	-	-	(2,724)	(3,429)	(6,610)
Loss from discontinued operations	\$ (2,432)	\$ (45)	\$ (59)	\$ (2,486)	\$ (3,709)	\$ (8,731)