NEOMEDIA TECHNOLOGIES INC
Form 10QSB
November 05, 2004

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

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

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

COMMISSION FILE NUMBER 0-21743

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

DELAWARE	36-3680347
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2201 SECOND STREET, SUITE 402, FORT MYERS, FLORIDA	33901
(Address of Principal Executive Offices)	(Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

As of October 25, 2004, there were 371,137,314 outstanding shares of the issuer's Common Stock.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE DATA)

	SEPTEMBER 30, 2004
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,732

Trade accounts receivable, net of allowance for doubtful accounts of $54	208
Inventories, net of allowance for obsolete & slow-moving inventory of $13	111
Prepaid expenses and other current assets	432
Total current assets	2,483
Property and equipment, net	122
Capitalized patents, net	2,229
Capitalized and purchased software costs, net	94
Excess of purchase price over tangible assets of CSI	3,056
Investment in IPoint-media, Ltd.	1,000
Other long-term assets	737
Total assets	$ 9,721
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable	$ 1,667
Amounts payable under settlement agreements	477
Liabilities of discontinued business unit	664
Sales taxes payable	131
Accrued expenses	1,490
Deferred revenues and other	475
Investment payable	1,000
Notes payable	2,117
Total current liabilities	8,021
Shareholders' equity:	
Preferred stock, $0.01 par value, 25,000,000 shares authorized, none issued and outstanding	--
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 390,382,372 shares issued and 361,204,990 outstanding	3,612
Additional paid-in capital	81,012
Deferred stock-based compensation	(458)
Accumulated deficit	(81,640)
Accumulated other comprehensive loss - foreign currency translation adjustment	(47)
Treasury stock, at cost, 201,230 shares of common stock	(779)
Total shareholders' equity	1,700
Total liabilities and shareholders' equity	$ 9,721

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

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMB	
	2004	2003
NET SALES:		
License fees	$ 96	$
Resale of software and technology equipment and service fees	138	
Micro paint repair products and services	237	
Total net sales	471	
COST OF SALES:		
License fees	79	
Resale of software and technology equipment and service fees	147	
Micro paint repair products and services	151	
Total cost of sales	377	
GROSS PROFIT (LOSS)	94	
Sales and marketing expenses	514	
General and administrative expenses	516	1
Research and development costs	114	
Loss from operations	(1,050)	(2
OTHER INCOME (EXPENSE)		
Gain (loss) on extinguishment of debt	6	
Amortization of debt discount	(334)	
Interest expense, net	(62)	
NET LOSS	(1,440)	(2
Other comprehensive loss:		
Foreign currency translation adjustment	(31)	
COMPREHENSIVE LOSS	$ (1,471)	$ (2
LOSS PER SHARE--BASIC AND DILUTED	$ (0.00)	$ (
WEIGHTED AVERAGE NUMBER OF COMMON SHARES--BASIC AND DILUTED	342,990,471	151,698

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

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	NINE MONTHS ENDED SEPTEMBER	
	2004	2003
NET SALES:		
License fees	$ 256	$
Resale of software and technology equipment and service fees	501	1,
Micro paint repair products and services	512	
Total net sales	1,269	2,
COST OF SALES:		
License fees	249	
Resale of software and technology equipment and service fees	480	1,
Micro paint repair products and services	376	
Total cost of sales	1,105	1,
GROSS PROFIT (LOSS)	164	
Sales and marketing expenses	1,461	
General and administrative expenses	1,293	3,
Research and development costs	354	
Loss from operations	(2,944)	(3,
OTHER INCOME (EXPENSE)		
Gain (loss) on extinguishment of debt	129	
Amortization of debt discount	(2,500)	
Interest expense, net	(178)	(
NET LOSS	(5,493)	(4,
Other comprehensive loss:		
Foreign currency translation adjustment	(47)	
COMPREHENSIVE LOSS	$ (5,540)	$ (4,
LOSS PER SHARE--BASIC AND DILUTED	$ (0.02)	$ (0
WEIGHTED AVERAGE NUMBER OF COMMON SHARES--BASIC AND DILUTED	324,471,293	89,440,

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

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

	NINE MO SEPTE
	2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	($5,493
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of discount on note payable	2,500
Depreciation and amortization	367
Provision for doubtful accounts	24
Expense (decrease of fair value) for repriced options	(240
Fair value of expense portion of stock-based compensation granted for professional services	545
Interest expense allocated to debt	3
Discount related to issuance of employee common stock	--
Loss on payment of accounts payable in stock	--
(Increase)/decrease in value of life insurance policies	17
Changes in operating assets and liabilities	
Trade accounts receivable, net	(8
Inventory	(54
Other current assets	90
Accounts payable, amounts due under financing agreements, liabilities in excess of assets of discontinued business unit, accrued expenses and stock liability	(1,211
Deferred revenue other current liabilities	(40
Net cash used in operating activities	(3,500
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capitalization of software development and purchased intangible assets	(109
Acquisition of property and equipment	(103
Net cash used in investing activities	(212
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from issuance of common stock, net of issuance costs of $620 in 2004 and $308 in 2003	5,926
Net proceeds from cash advances payable through the issuance of common stock	--
Net proceeds from exercise of stock options and warrants	581
Borrowings under notes payable and long-term debt	8,000
Repayments on notes payable and long-term debt	(6,687
Transfer to restricted cash for long-term debt	--
Cash paid to acquire CSI International, Inc. (net of cash acquired)	(2,390
Net cash provided by financing activities	5,430
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(47
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,671
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	61

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,732
	=======
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid/(received) during the period	$ 50
Income taxes paid	--
Non-cash investing and financing activities:	
Reduction in accounts payable and accruals for debt paid in stock	190
Fair value of stock and warrants issued with debt	--
Fair value of stock issued for services and deferred to future periods	585
Fair value of shares issued to acquire CSI Int'l (net of costs of registration)	695
Change in net assets resulting from acquisition of CSI (net of cash acquired)	3,090
Gain on extinguishment of debt	129
Direct costs associated with Standby Equity Distribution Agreement	1,447

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

5

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES
UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

BASIS OF PRESENTATION

The condensed consolidated financial statements include the financial statements of NeoMedia Technologies, Inc. and its wholly-owned subsidiaries ("NeoMedia" or the "Company"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's Form 10-KSB for the fiscal year ended December 31, 2003. In the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the consolidated financial position of NeoMedia as of September 30, 2004, the results of operations for the three-month and nine-month periods ended September 30, 2004 and 2003, and cash flows for the nine-month periods ended September 30, 2004 and 2003. The results of operations for the three-month and nine-month periods ended September 30, 2004 and 2003 are not necessarily indicative of the results which may be expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated in preparation of the condensed consolidated financial statements.

NATURE OF BUSINESS OPERATIONS

NeoMedia is structured as three distinct business units: NeoMedia Internet Software Service (NISS), NeoMedia Consulting and Integration Services (NCIS), and NeoMedia Micro Paint Repair (NMPR).

NISS (physical world-to-Internet offerings) is the core business and is based in the United States, with development and operating facilities in Fort Myers, Florida. NISS develops and supports NeoMedia's physical world to Internet core technology, including the linking "switch" and application platforms. NISS

also manages NeoMedia's intellectual property portfolio, including the identification and execution of licensing opportunities surrounding the patents.

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

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

RECLASSIFICATIONS

Certain amounts in the 2003 condensed consolidated financial statements have been reclassified to conform to the 2004 presentation.

6

ACQUISITION OF CSI INTERNATIONAL, INC. ("CSI")

On February 6, 2004, NeoMedia acquired 100% ownership of CSI International, Inc., of Calgary, Alberta, Canada, a private technology products company in the micro paint repair industry. NeoMedia paid a purchase price including an issuance of 7,000,000 shares of its common stock, and cash of $2,500,000 in exchange for all outstanding shares of CSI. The shares were valued at $0.10 per share, which was the market price of NeoMedia's common stock on the Over-the-counter Bulletin Board exchange around the acquisition date. NeoMedia also incurred direct costs of the business combination totaling $5,000, which are included in the purchase price for purposes of allocating assets acquired and liabilities assumed.

The acquisition was accounted for under the purchase method. The actual purchase price was based on cash paid, the fair value of NeoMedia stock around the date of the acquisition, and direct costs associated with the combination. The purchase price was allocated as follows:

	(Dollars in Thousands)
Value of 7 Million Shares Issued ($0.10 per share)	$700
Cash paid	2,500
Direct costs of acquisition	5
Total Fair Value of Purchase Price	$3,205
Assets Purchased:	
Cash	$115
Accounts receivable, net	67
Inventory	54
Other current assets	12
Investments	25
Property, plant & equipment	8
Excess of purchase price over net tangible assets	3,059
Total Assets Purchased	3,340

Less Liabilities Assumed:	
Accounts payable	(23)
Accrued liabilities	(12)
Notes payable	(100)
Total Liabilities Assumed	(135)

The combination is being accounted for as a purchase business combination as defined by Statement of Financial Accounting Standards No. 141, Business Combinations. The allocation of the purchase price is preliminary and is subject to revision as the Company continues to evaluate the allocations. The Company has not amortized the excess of purchase price over net tangible assets since the allocation is not yet final. With limited operation history of CSI, the Company expects to evaluate the results of operations of CSI in the coming months in order to accurately finalize the allocation. The Company expects to finalize this process in the second half of 2004. If the excess of purchase price over net tangible assets is determined to be allocated fully or partially to intangible assets with definite lives upon final allocation, the Company will determine the economic useful lives based on its best estimate and amortize such assets accordingly. The Company will continue to evaluate this asset for impairment until such time as the purchase price allocation is final.

The accompanying consolidated statement of operations presented herein contains the results of operations for CSI for the period February 6, 2004, through September 30, 2004.

Pro-forma results of operations as if NeoMedia and CSI had combined as of January 1, 2004 are as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2004					NINE MONTHS	
	NEOMEDIA	CSI INT'L	(A) PRO-FORMA ADJUST- MENTS		PRO-FORMA COMBINED	NEOMEDIA	CS INT
Total net sales	$471	--	--	(A)	$471	$1,269	
							5
Loss from operations	($1,050)	--	--	(A)	($1,050)	($2,944)	(1,0
Net loss	($1,440)	--	--	(A)	($1,440)	($5,493)	(1,0
Net loss per share-basic and diluted	($0.00)				($0.00)	($0.02)	
Weighted average number of common shares - basic and diluted	342,990,471		--		342,990,471	324,471,293	

Pro-forma Adjustments

(A) - Adjustments are to reflect operations of CSI from February 6, 2004 through September 30, 2004, which are included in NeoMedia's operations for the three months ended September 30, 2004.

(B) - To adjust weighted average shares outstanding as if the 7,000,000 shares issued as part of the purchase price of CSI on February 6, 2004, had been issued on January 1, 2004

Pro-forma results of operations as if NeoMedia and CSI had combined as of January 1, 2003 are as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2003				NINE MONTHS	
	NEOMEDIA	CSI INT'L	(A) (A) PRO-FORMA ADJUST-MENTS	PRO-FORMA COMBINED	NEOMEDIA	CS INT
Total net sales	$461	$158	--	$619	$2,009	$
Income (loss) from operations	($2,157)	$28	--	($2,129)	($3,843)	
Net income (loss)	($2,205)	$28	--	($2,177)	($4,060)	
Net loss per share-basic and diluted	($0.01)			($0.01)	($0.05)	
Weighted average number of common shares - basic and diluted	151,698,465		7,000,000 (C)	158,698,465	89,440,869	

Pro-forma Adjustments

(C) - To adjust weighted average shares outstanding as if the 7,000,000 shares issued as part of the purchase price of CSI on February 6, 2004, had been issued on January 1, 2003

8

STANDBY EQUITY DISTRIBUTION AGREEMENT WITH CORNELL CAPITAL PARTNERS, LP ("CORNELL")

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

On October 27, 2003, the Company and Cornell entered into a $20 million Standby Equity Distribution Agreement. The terms of the agreement are identical to the terms of the previous Equity Line of Credit, except that the maximum "draw" under the new agreement is $280,000 per week, not to exceed $840,000 in any 30-day period, and Cornell will purchase up to $20 million of the Company's common stock over a two-year period. As a consideration fee for Cornell to enter into the agreement, the Company issued 10 million warrants to Cornell with an

exercise price of $0.05 per share, and a term of five years. Cornell exercised the warrants in January 2004, resulting in $500,000 cash receipts to the Company. In November 2003, the Company filed a Form SB-2 to register 200 million shares under this $20 million Standby Equity Distribution Agreement. In January 2004, the Form SB-2 was declared effective by the Securities and Exchange Commission. In April 2004, the Company filed a Form SB-2 to register 40 million shares underlying warrants granted to Cornell in connection with a promissory note issued by the Company to Cornell (see "Notes Payable to Cornell" below). In May 2004, the Form SB-2 was declared effective by the Securities and Exchange Commission.

During the nine months ended September 30, 2004, the Company sold 87,787,740 shares of its common stock to Cornell under the Standby Equity Distribution Agreement. The following table summarizes funding received from Cornell during the nine months ended September 30, 2004:

	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2004	NI MON EN SEPTE 20
Number of shares sold to Cornell	21,282,203	29,819,873	36,685,664	87,7
Gross Proceeds from sale of shares to Cornell	$ 2,332,000	$ 2,308,000	$ 2,734,270	7,3
Less: discounts and fees*	(500,000)	(465,000)	(483,000)	(1,4
Net Proceeds from sale of shares to Cornell	$ 1,832,000	$ 1,843,000	$ 2,251,270	$ 5,9

* - Per Standby Equity Distribution Agreement, stock is valued at 98% of the lowest closing bid price during the week it is sold

PROMISSORY NOTES PAYABLE TO CORNELL

On January 20, 2004, the Company borrowed from Cornell the gross amount of $4,000,000 before Cornell discounts and fees. Of the $4,000,000 funding, $2,500,000 was used to fund the acquisition of CSI International, Inc. during February 2004. Cornell withheld a $315,000 retention fee related to the issuance of stock to pay off the debt in the future. The Company paid this note in full during the third quarter of 2004.

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

On July 2, 2004, the Company borrowed from Cornell the gross amount of $1,000,000 before Cornell discounts and fees. Cornell withheld a $76,000 retention fee related to the issuance of stock to pay off the debt in the future. The Company paid this note in full during the third quarter of 2004.

On August 6, 2004, the Company borrowed from Cornell the gross amount of $2,000,000 before Cornell discounts and fees. Cornell withheld a retention fee of $153,000 related to the issuance of stock to pay off the debt in the future. As of September 30, 2004, the Company had not made any payments against the principal. The note matures on December 13, 2004. The note accrues interest at a rate of 12% per annum, increasing to 14% per annum upon maturity, if not paid off. The Company has the option to repay any remaining principal of the note in cash. The Company expects to pay the remaining note balance by applying the proceeds from the sale of stock under the terms of the Standby Equity Distribution Agreement toward the outstanding principal on the notes.

The Company also granted to Cornell 40,000,000 warrants to purchase shares of NeoMedia stock with an exercise price of $0.05 per share during January 2004. In April 2004, the Company filed a Form SB-2 to register 40 million shares underlying warrants granted to Cornell in connection with a promissory note issued by the Company to Cornell. In May 2004, the Form SB-2 was declared effective by the Securities and Exchange Commission. The fair value of the warrants using the Black/Scholes pricing model was $5,000,000. In accordance with APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", the Company has compared the relative fair values of the warrants and the face value of the notes, and has allocated a value of $2.5 million to the warrants. Of the $2.5 million, $2 million was allocated to the $4 million note issued in January 2004 and $0.5 million against the $1 million note in April 2004. The $2.5 million was recorded as a discount against the carrying value of the note. The $2.5 million that was allocated to the notes is considered a discount on the promissory notes, and therefore was amortized over the life of the notes using the effective interest method, in accordance with Staff Accounting Bulletin No. 77, Topic 2.A.6, "Debt Issue Costs" of SFAS 141, "Business Combinations". Accordingly, the Company recorded an amortization of discount of $334,000 and $2,500,000 related to the warrants during the three months and nine months ended September 30, 2004, respectively.

iPOINT-MEDIA LTD.

On September 7, 2004, NeoMedia and iPoint-media Ltd. ("iPoint-media") of Tel Aviv, Israel, entered into a business development agreement whereby NeoMedia will provide the following services to iPoint-media:

- NeoMedia and iPoint-media will jointly pursue select opportunities in the areas of distributing video, audio and data over an interactive broadband media access platform.

- NeoMedia may serve as a reseller of iPoint-media's products and services in North America on a non-exclusive basis with special focus on the government (including state and local).

- NeoMedia will seek to introduce iPoint-media to NeoMedia's other channel and alliance partners which may have interest in doing business with iPoint-media.

    - NeoMedia and iPoint-media will reciprocate contracts to each of the respective parties' partners and clients for opportunities of synergy where reseller of finder's fee compensation may apply.

    - NeoMedia will make available appropriate resources for market analysis and tactical evaluations for achieving business goals surrounding iPoint-media operations in North America.

- o NeoMedia will provide resources in order to market iPoint-media technology in strategic industry verticals including government and telecommunications.

- o NeoMedia will contribute sales activities, both conceptual/planning and direct, for iPoint-media products including branding and repackaging initiatives, if desired by iPoint, to further advance distribution of the iPoint-media product suite.

- o NeoMedia will supply resources to manage accounts and perform post sale support activities for iPoint-media technology implementations.

- Where appropriate, NeoMedia will support iPoint-media's efforts to assist in securing approvals for iPoint-media's technology within appropriate government and industry standards groups.

In exchange for entering into the service agreement, NeoMedia received 7% ownership in iPoint-media, consisting of 28,492 shares of iPoint-media common stock. NeoMedia had not performed any services under the agreement as of September 30, 2004.

In addition to the business development agreement, NeoMedia acquired an additional 10% ownership of iPoint-media, consisting of 40,704 shares of common stock, for $1 million cash. The $1 million investment is being funded to NeoMedia in the form of a note payable to Cornell Capital Partners in the amount of $1,085,000, with net proceeds to NeoMedia of $1,000,000. The note was funded on October 18, 2004, and the funds were subsequently transferred to iPoint. As a result, as of September 30, 2004, NeoMedia has recorded an "Investment in IPoint-media, Ltd" of $1,000,000 in the accompanying condensed consolidated balance sheet, and "Investment payable" of $1,000,000 in the accompanying condensed consolidated balance sheet.

iPoint-media was founded in April 2001 as a spin off from Imagine Visual Dialog LTD, whose shareholders include Israeli-based Nisko group, a leading Israeli holding company, Singapore-based Keppel T&T, and marketing and advertising group WPP. iPoint-media specializes in Customer Interaction Management and is the world's 1st developer of IP Video Call Centers for Deutsche Telecom. Muki Geller, the founder of Imagine Visual Dialog, is the founder, President & CEO of iPoint-media. iPoint-media is located in Tel Aviv, Israel, with a European customer support center in The Netherlands. iPoint-media's mission is to become the video access platform and application engine of choice for service providers.

OPTION REPRICING PROGRAM

During May 2003, the Company re-priced approximately 8.0 million stock options under a 6-month repricing program. Under the terms of the program, the exercise price for outstanding options under the Company's 2002, 1998, and 1996 Stock Option Plans was restated to $0.01 per share. During June 2004, the deadline for the option repricing was extended to December 31, 2004 by the Stock Option Committee of NeoMedia's Board of Directors. In accordance with FASB Interpretation, FIN 44, "Accounting for Certain Transactions Involving Stock Transactions", the award has been accounted for as variable from May 19, 2003 through the period ended September 30, 2004. The closing price of the Company's common stock on September 30, 2004, June 30, 2004, March 31, 2004, and December

31, 2003 was $0.068, $0.067, $0.09, and $0.137 per share, respectively. As a result, the Company recorded a charge/(reduction) to general and administrative expense of ($163,000), ($80,000), and $3,000 during the three months ended March 31, 2004, June 30, 2004, and September 30, 2004, respectively. The adjustment was recorded in order to reflect the increase/(decrease) of the fair value of options still unexercised under the repricing program under variable accounting.

OTHER EVENTS

On August 31, 2004, the Company's Board of Directors named Charles T. Jensen as the Company's permanent Chief Executive Officer. Jensen, president and Chief Operating Officer of NeoMedia since June 2002, had also been acting CEO since that time. Jensen joined NeoMedia in 1995 as Chief Financial Officer, and acted in that capacity until June 2002.

On August 30, 2004, the Company entered into a consulting agreement with an unrelated third party, under which the consultant provides tax advisory services to the Company. As consideration for the contract, the Company issued 183,129 shares of common stock to the consultant. The fair value of the stock at the time of issuance was $13,000. The Company recognized $13,000 in expense relating the contract during the nine months ended September 30, 2004.

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

On July 30, 2004, the Company entered into a consulting agreement with an unrelated third party, under which the consultant agreed to provide sales and marketing services relating to the Company's PaperClick business for the period from July 2004 through September 2004. As consideration for the contract, the Company issued 258,104 shares of common stock to the consultant. The fair value of the stock at the time of issuance was $18,000. The Company recognized this amount as sales and marketing expense during the three months ended September 30, 2004.

On June 25, 2004, the Company issued 322,228 shares of its common stock valued at $24,000, plus $8,000 cash to an unrelated distributor of the Company's micro paint repair products, in exchange for the forfeiture by the distributor of exclusive distribution rights in the greater Edmonton, Alberta, Canada area. The distributor had purchased the exclusivity rights in 1992 from CSI International, Inc.

On February 6, 2004, the Company entered into a consulting agreement with an unrelated third party, under which the consultant will provide sales and marketing services relating to the Company's Micro Paint business unit over a period of three years. As consideration for the contract, the Company issued

6,055,556 options with an exercise price of $0.01 to the consultant. The fair value of the options at the time of issuance was $550,000. The Company is recognizing the fair value as sales and marketing expense over the term of the contract (three years). Accordingly, the Company recognized $50,000 and $131,000 in expense relating the contract during the three and nine months ended September 30, 2004, respectively.

During January 2004, the Company entered into a consulting agreement with James J. Keil, a member of the Company's board of directors, for consulting services to be provided over a period of six months in connection with NeoMedia's sales strategies and processes. The contract calls for monthly payments of $4,500 during the term of the contract. The Company recognized $27,000 in general and administrative expense relating to the contract during the nine months ended September 30, 2004.

SUBSEQUENT EVENTS

On October 18, 2004, the Company borrowed from Cornell the gross amount of $1,085,000 before Cornell discounts and fees. Cornell withheld a retention fee of $85,000 related to the issuance of stock to pay off the debt in the future. The note matures on January 20, 2005. The note accrues interest at a rate of 12% per annum, increasing to 14% per annum upon maturity, if not paid off. The Company has the option to repay any remaining principal of the note in cash. The Company expects to pay the remaining note balance by applying the proceeds from the sale stock under the terms of the Standby Equity Distribution Agreement toward the outstanding principal on the notes. The Company invested the proceeds from the note in iPoint pursuant to the investment agreement between NeoMedia and iPoint (see "iPoint-Media Ltd." for description of agreement).

On October 27 2004, NeoMedia announced that it had entered into a marketing alliance with Science Applications International Corporation (SAIC) to jointly establish, launch, promote and manage the new worldwide mobile "PaperClick WordRegistry," a linking and switching platform for use on Web-enabled cell phones and PDA's. When used with PaperClick Mobile Go-Window, NeoMedia's new wireless product which creates a text-entry window on a phone or PDA screen, registered words (or registered phrases) are entered to bring up an automatic link to specific targeted products and promotions. No date has been set for the launch of the WordRegistry.

PRO-FORMA INFORMATION REQUIRED BY SFAS 148

At September 30, 2004, the Company has five stock-based employee compensation plans (the 2003 Stock Incentive Plan, the 2003 Stock Option Plan, the 2002 Stock Option Plan, the 1998 Stock Option Plan, and the 1996 Stock Option Plan). The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, except when options granted under those plans had an exercise price less than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Net Loss, as reported	($1,440)	($2,205)	($5,493)	($4,060

Compensation recognized under APB 25	--	623	9	623
Compensation recognized under SFAS 123	(372)	(925)	(1,073)	(1,361
Pro-forma net loss	($1,812)	($2,507)	($6,557)	($4,798
Net Loss per share:				
Basic and diluted - as reported	($0.00)	($0.01)	($0.02)	($0.05
Basic and diluted - pro-forma	($0.01)	($0.02)	($0.02)	($0.05

SEGMENT REPORTING

The Company is structured and evaluated by its Board of Directors and Management as three distinct business units:

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

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

NeoMedia Micro Paint Repair (NMPR) is the business unit encompassing the Company's recently-acquired CSI International micro paint repair line. NMPR is attempting to commercialize its micro-paint repair solution. The Company completed its acquisition of CSI on February 6, 2004

The Company's reportable segments are strategic business units that offer different technology and marketing strategies. NCIS operates principally in the United States. NISS operates principally in the United States and Europe. NMPR is headquartered in Ft. Myers, Florida, and currently sells into Canada, the United States, Australia, and New Zealand. During the three and nine months ended September 30, 2004, NeoMedia derived 44% and 36%, respectively, of its revenue from customers based in Canada.

14

Consolidated net sales, net operating losses for the three-month and nine-month periods ended September 30, 2004 and 2003, and identifiable assets as of September 30, 2004, were as follows:

	(in thousands)			
	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003

NET SALES:				
NeoMedia Consulting & Integration Services	$230	$448	$711	$1,971
NeoMedia Internet Switching Service	4	13	46	38
NeoMedia Micro Paint Repair	237	--	512	--
	$471	$461	$1,269	$2,009
NET LOSS:				
NeoMedia Consulting & Integration Services	($189)	($1,855)	($682)	($3,310
NeoMedia Internet Switching Service	(482)	(350)	(1,326)	(750
NeoMedia Micro Paint Repair	(421)	--	(985)	--
Amortization of Cornell Debt Discount	(348)	--	(2,500)	--
	($1,440)	($2,205)	($5,493)	($4,060
IDENTIFIABLE ASSETS:				
NeoMedia Consulting & Integration Services	$264			
NeoMedia Internet Switching Service	2,332			
NeoMedia Micro Paint Repair	3,313			
Corporate	3,812			
	$9,721			

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

OVERVIEW

NISS (PHYSICAL-WORLD-TO-INTERNET OFFERINGS) BUSINESS UNIT DEVELOPMENTS.

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

On September 8, 2003, NeoMedia announced its PaperClick for Camera Cell PhonesTM product, which reads and decodes UPC/EAN or other bar codes to link users to the Internet, providing information and enabling e-commerce on a compatible camera cell phone, such as the Nokia 3650 model. During the second quarter of 2004, NeoMedia introduced its PaperClick Mobile Go-WindowTM, a horizontal bar on the screen of a wireless device where users can enter numeric strings from UPC or other bar codes to link directly to targeted online information via patented PaperClick technology and software. The PaperClick Mobile Go-WindowTM currently works with Palm(TM) Tungsten C PDA, the Handspring(TM) Treo 270 and 600 Smartphones, Pocket PC(R), Java MIDP 2.0 (Mobile Independent Device

Profile) standard, and Microsoft Windows Mobile(TM)-based Smartphones.

On October 30, 2003, NeoMedia unveiled the go-to-market strategy for its PaperClick suite of products. Over the past several months, NeoMedia has signed contracts with several key partners outlined in the strategy, including agents Big Gig Strategies and SRP Consulting, resellers AURA Digital Communications and Relyco, systems integrator Science Applications International Corporation (SAIC), and European advertising agency 12Snap. In June 2004, NeoMedia entered into a collaborative agreement with Intel Corporation for NeoMedia's PaperClick mobile connectivity platform to operate on the recently introduced Intel PXA27x processor family-based cellular phones.

On June 3, 2004, NeoMedia announced that it signed a teaming agreement with IPSO, an integrator of proprietary solutions developed by its provider companies for financial institution members and a leader in meeting Check 21 standards. Enacted by Congress and signed into law last year, Check 21 requires banks to begin accepting substitute checks (called IRDs for image replacement documents) in lieu of original checks as of October 29, 2004. NeoMedia and IPSO could partner on proposals and presentations surrounding Check 21.

During October 2004, NeoMedia and SAIC entered into a marketing alliance to jointly establish, launch, promote and manage the new worldwide mobile "PaperClick WordRegistry," a linking and switching platform for use on Web-enabled cell phones and PDA's. When used with PaperClick Mobile Go-Window, NeoMedia's new wireless product which creates a text-entry window on a phone or PDA screen, registered words (or registered phrases) are entered to bring up an automatic link to specific targeted products and promotions. No date has been set for the launch of the WordRegistry.

16

NMPR (MICRO PAINT REPAIR) BUSINESS UNIT DEVELOPMENTS.

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

On June 1, 2004, NeoMedia announced that it had entered into a distribution agreement with Micro Paint Systems (Australasia) Limited of New Zealand for exclusive distribution rights to NeoMedia's micro paint repair products in Australia and New Zealand. The agreement is contingent upon a minimum purchase of 500 systems over five years in that territory. NeoMedia received an initial payment on signing of the contract, which included the fee for four initial systems.

On June 22, 2004, NeoMedia announced its new product called "Silver Solutions," a process created specifically to mend the popular high metallic and pearl paint finishes on new cars.

On July 7, 2004, NeoMedia announced the appointment of Arthur W. Gilfus to the newly-created position of global vice president of sales for the Micro Paint Repair Business Unit.

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

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

NCIS (SYTEMS INTEGRATION) BUSINESS UNIT DEVELOPMENTS.

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

SEC INQUIRY

During 2003, NeoMedia received requests from the SEC's Southeast Regional Office for certain documents including those concerning negotiations and arrangements with certain strategic partners and consultants, patents, recent issuances of securities, investor relations, and the stock ownership by NeoMedia's officers and directors. NeoMedia responded promptly and fully and will cooperate with any further requests. The SEC's letter states that the staff's inquiry is informal and should not be construed as an indication of any violation of law or as a reflection on any person, entity, or security.

17

ACQUISITIONS

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

BSD SOFTWARE, INC. On December 9, 2003, NeoMedia signed a non-binding letter of intent ("LOI") to acquire Triton Global Business Services Inc. and its parent company, BSD Software Inc. (Pink Sheets: BSDS), both of Calgary, Alberta, Canada. The LOI outlined terms, including an exchange of one share of NeoMedia common stock for each share of BSD Software, not to exceed 40 million shares. The transaction is dependent on due diligence by both companies, approval by NeoMedia's Board of Directors, BSD Software's Board of Directors and shareholders, and any required regulatory approvals. Triton, formed in 1998 and acquired by BSD in 2002, is an Internet Protocol-enabled provider of live and automated operator calling services, e-business support, billing and clearinghouse functions and information management services to telecommunications, Internet and e-business service providers. The companies are currently completing their due diligence.

NeoMedia's operating results have been subject to variation and will continue to be subject to variation, depending upon factors, such as the mix of business among services and products, the cost of material, labor and technology, particularly in connection with the delivery of business services,

the costs associated with initiating new contracts, the economic condition of NeoMedia's target markets, and the cost of acquiring and integrating new businesses.

CRITICAL ACCOUNTING POLICIES

The U.S. Securities and Exchange Commission ("SEC") issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, NeoMedia's most critical accounting policies include: inventory valuation, which affects cost of sales and gross margin; and the valuation of intangibles, which affects amortization and write-offs of goodwill and other intangibles. NeoMedia also has other key accounting policies, such as policies for revenue recognition, including the deferral of a portion of revenues on sales to distributors, allowance for bad debt, and stock-based compensation. The methods, estimates and judgments NeoMedia uses in applying these most critical accounting policies have a significant impact on the results it reports in its consolidated financial statements..

Intangible Asset Valuation. The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, NeoMedia primarily uses the weighted-average probability method outlined in SFAS 144. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates NeoMedia has used are consistent with the plans and estimates that NeoMedia uses to manage its business, based on available historical information and industry averages. The

judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect NeoMedia's net operating results.

Allowance for Bad Debt. NeoMedia maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Allowance for doubtful accounts is based on NeoMedia's assessment of the collectibility of specific customer accounts, the aging of accounts receivable, NeoMedia's history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or NeoMedia's customers' actual defaults exceed historical experience, NeoMedia's estimates could change and impact its reported results.

Stock-based Compensation. NeoMedia records stock-based compensation to outside consultants at fair market value in general and administrative expense. NeoMedia does not record expense relating to stock options granted to employees with an exercise price greater than or equal to market price at the time of grant. NeoMedia reports pro-forma net loss and loss per share in accordance with the requirements of SFAS 123 and 148. This disclosure shows net loss and loss per share as if NeoMedia had accounted for its employee stock options under the

fair value method of those statements. Pro-forma information is calculated using the Black-Scholes pricing method at the date of grant. This option valuation model requires input of highly subjective assumptions. Because NeoMedia's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of its employee stock options.

Estimate of Litigation-based Liability. NeoMedia is defendant in certain litigation in the ordinary course of business (see "Legal Proceedings"). NeoMedia accrues liabilities relating to these lawsuits on a case-by-case basis. NeoMedia generally accrues attorney fees and interest in addition to the liability being sought. Liabilities are adjusted on a regular basis as new information becomes available. NeoMedia consults with its attorneys to determine the viability of an expected outcome. The actual amount paid to settle a case could differ materially from the amount accrued.

Revenue Recognition. NeoMedia derives revenues from three primary sources: (1) license revenues and (2) resale of software and technology equipment and service fee revenues, and (3) sale of its proprietary micro paint repair solution.

(1) License fees, including Intellectual Property licenses, represent revenue from the licensing of NeoMedia's proprietary software tools and applications products. NeoMedia licenses its development tools and application products pursuant to non-exclusive and non-transferable license agreements. Resales of software and technology equipment represent revenue from the resale of purchased third party hardware and software products and from consulting, education, maintenance and post contract customer support services.

The basis for license fee revenue recognition is substantially governed by American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), as amended. License revenue is recognized if persuasive evidence of an agreement exists, delivery has occurred, pricing is fixed and determinable, and collectibility is probable.

(2) Revenue for resale of software and technology equipment and service fee is recognized based on guidance provided in Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements," as amended (SAB 104). Software and technology equipment resale revenue is recognized when all of the components necessary to run software or

hardware have been shipped. Service revenues including maintenance fees for providing system updates for software products, user documentation and technical support are recognized over the life of the contract. Software license revenue from long-term contracts has been recognized on a percentage of completion basis, along with the associated services being provided. Other service revenues, including training and consulting, are recognized as the services are performed. NeoMedia uses stand-alone pricing to determine an element's vendor specific objective evidence (VSOE) in order to allocate an arrangement fee amongst various pieces of

a multi-element contract. NeoMedia records an allowance for uncollectible accounts on a customer-by-customer basis as appropriate.

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition." SAB 104 supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers ("the FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104, which was effective upon issuance. The adoption of SAB 104 did not impact the consolidated financial statements.

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2003

Net sales. Total net sales for the three months ended September 30, 2004 were $471,000, which represented an increase of $10,000, or 2%, from $461,000 for the three months ended September 30, 2003. This increase resulted from revenue generated by the Company's micro paint repair business unit acquired in February 2004. This increase in micro paint revenue was offset by reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy, or if pending court cases involving its intellectual property are resolved in NeoMedia's favor. NeoMedia could also realize a material increase in micro paint repair revenue if the Company is successful in implementing its business plan for that business unit.

License fees. License fees were $96,000 for the three months ended September 30, 2004, compared with $69,000 for the three months ended September 30, 2003, an increase of $27,000, or 39%. The increase was due to higher sales of internally developed software licenses in 2004. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy, or if pending court cases involving its intellectual property are resolved in NeoMedia's favor.

Resales of software and technology equipment and service fees. Resales of software and technology equipment and service fees decreased by $254,000, or

65%, to $138,000 for the three months ended September 30, 2004, as compared to $392,000 for the three months ended September 30, 2003. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions. NeoMedia intends to continue to pursue additional resales of equipment, software and services. NeoMedia expects resales to more closely resemble the results for the three months ended September 30, 2004, rather than the three months ended September 30, 2003.

Micro paint repair products and services. Sales of micro paint repair products and services were $237,000 for the three months ended September 30, 2004. NeoMedia acquired this business on February 6, 2004, and as a result there were no sales of micro paint repair products and services during the three months ended September 30, 2003. NeoMedia could realize a material increase in micro paint repair revenue if the Company is successful in implementing its business plan for that business unit.

Cost of license fees. Cost of license fees was $79,000 for the three months ended September 30, 2004, an increase of $3,000, or 4%, compared with $76,000 for the three months ended September 30, 2003. The increase resulted from increased amortization of capitalized patent costs during 2004.

Cost of resales of software and technology equipment and service fees. Cost of resales of software and technology equipment and service fees was $147,000 for the three months ended September 30, 2004, a decrease of $231,000, or 61%, compared with $378,000 for the three months ended September 30, 2003. The decrease resulted from decreased resales in 2004 compared with 2003. Cost of resales as a percentage of related resales was 107% in 2004, compared to 96% in 2003. This increase is due to revenue declining more rapidly than the fixed portion of costs of resales. NeoMedia expects costs of resales to fluctuate with the mix of sales of equipment, software, and services over the next 12 months.

Cost of micro paint repair products and services. Cost of micro paint repair products and services was $151,000 for the three months ended September 30, 2004. NeoMedia acquired this business on February 6, 2004, and as a result there were no cost of sales of micro paint repair products and services during the three months ended September 30, 2003. Cost of micro paint repair products and services as a percentage of related sales was 64%. NeoMedia expects cost of micro paint repair products and services to increase over the next 12 months as revenue continues to increase with the roll-out.

Gross Profit. Gross profit was $94,000 for the three months ended September 30, 2004, an increase of $87,000, or 1,243%, compared with gross profit of $7,000 for the three months ended September 30, 2003. This increase was primarily the result of increased sales of higher-margin micro paint repair products and internally developed software licenses during 2004.

Sales and marketing. Sales and marketing expenses were $514,000 for the three months ended September 30, 2004, compared to $146,000 for the three months ended September 30, 2003, an increase of $368,000 or 252%. The increase is a result of the addition of the micro paint business sales force in February 2004, and cost associated with marketing and promotion of the Company's PaperClick and micro paint repair products. NeoMedia expects sales and marketing expense to increase over the next 12 months with the continued development and anticipated rollout of the PaperClick and Micro Paint Repair product suites.

General and administrative. General and administrative expenses decreased by $1,424,000, or 73%, to $516,000 for the three months ended September 30, 2004, compared to $1,940,000 for the three months ended September 30, 2003. The decrease resulted primarily from non-cash expenses relating to the Company's option repricing program, expense for stock options issued with exercise prices below market price, and higher stock-based professional service expense in 2003

as compared with 2004. NeoMedia expects general and administrative expense to increase over the next 12 months with the recent acquisition of CSI International and the potential acquisition of BSD Software.

Research and development. During the three months ended September 30, 2004, NeoMedia charged to expense $114,000 of research and development costs, an increase of $36,000 or 46% compared to $78,000 for the three months ended September 30, 2003. The increase is primarily due to the addition of one developer and development computer systems during 2004. NeoMedia expects research and development costs to increase over the next 12 months with the continued development efforts, and the anticipated rollout of NeoMedia's PaperClick product suite.

Gain on extinguishment of debt. During the six months ended June 30, 2004, NeoMedia recognized a gain on extinguishment of debt of $6,000, an increase of $30,000 or 125% compared to a loss of $24,000 during the three months ended September 30, 2003. These gains resulted from a difference between the cash or market value of stock issued to settle the debt and the carrying value of the debt at the time of settlement.

Amortization of debt discount. During the three months ended September 30, 2004, NeoMedia recognized an amortization of debt issuance cost of $334,000 relating to the amortization of the fair value of warrants granted to Cornell Capital Partners in connection with promissory notes issued to Cornell by NeoMedia during January 2004. NeoMedia did not recognize any such expense during the three months ended September 30, 2003. During the nine months ended September 30, 2004, NeoMedia amortized the full $2.5 million discount value relating to the Cornell warrants, and as a result does not expect to recognize such expense in the next 12 months.

Interest expense. Interest expense consists primarily of interest accrued for creditors as part of financed purchases, past due balances, notes payable and interest earned on cash equivalent investments. Interest expense increased by $38,000, or 158%, to $62,000 for the three months ended September 30, 2004 from $24,000 for the three months ended September 30, 2003, due to higher expense associated with notes payable in 2004 compared with 2003.

Net Loss. The net loss for the three months ended September 30, 2004 was $1,440,000, which represented a decrease of $765,000, or 35% from a loss of $2,205,000 for the three months ended September 30, 2003. The decrease resulted primarily from expenses relating to the Company's option repricing program and expense for stock options issued with exercise prices below market price in 2003, combined with increased gross profit from the company's micro paint repair business. These items were offset by increased sales and marketing expenses relating to the rollout of the Company's micro paint repair and PaperClick business units.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2004 AS COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2003

Net sales. Total net sales for the nine months ended September 30, 2004 were $1,269,000, which represented a decrease of $740,000, or 37%, from $2,009,000 for the nine months ended September 30, 2003. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions, offset by new sales from the Company's micro paint repair business acquired during February 2004. NeoMedia could realize an increase in license fees over the next 12 months if the Company

is successful in implementing its PaperClick go-to-market strategy, or if pending court cases involving its intellectual property are resolved in NeoMedia's favor. NeoMedia could also realize a material increase in micro paint repair revenue if the Company is successful in implementing its business plan for that business unit.

License fees. License fees were $256,000 for the nine months ended September 30, 2004, compared with $338,000 for the nine months ended September 30, 2003, a decrease of $82,000, or 24%. The decrease was due to lower sales of internally developed software licenses in 2004. NeoMedia could realize an increase in license fees over the next 12 months if the Company is successful in implementing its PaperClick go-to-market strategy, or if pending court cases involving its intellectual property are resolved in NeoMedia's favor.

Resales of software and technology equipment and service fees. Resales of software and technology equipment and service fees decreased by $1,170,000, or 70%, to $501,000 for the nine months ended September 30, 2004, as compared to $1,671,000 for the nine months ended September 30, 2003. This decrease primarily resulted from reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions. NeoMedia intends to continue to pursue additional resales of equipment, software and services. NeoMedia expects resales to more closely resemble the results for the nine months ended September 30, 2004, rather than the nine months ended September 30, 2003.

Micro paint repair products and services. Sales of micro paint repair products and services were $512,000 for the nine months ended September 30, 2004. NeoMedia acquired this business on February 6, 2004, and as a result there were no sales of micro paint repair products and services during the nine months ended September 30, 2003. NeoMedia could realize a material increase in micro paint repair revenue if the Company is successful in implementing its business plan for that business unit.

Cost of license fees. Cost of license fees was $249,000 for the nine months ended September 30, 2004, an increase of $22,000, or 10%, compared with $227,000 for the nine months ended September 30, 2003. The increase resulted from increased amortization of capitalized patent costs during 2004.

Cost of resales of software and technology equipment and service fees. Cost of resales of software and technology equipment and service fees was $480,000 for the nine months ended September 30, 2004, a decrease of $1,086,000, or 69%, compared with $1,566,000 for the nine months ended September 30, 2003. The decrease resulted from decreased resales in 2004 compared with 2003. Cost of resales as a percentage of related resales was 96% in 2004, compared to 94% in 2003. This increase is due to revenue declining more rapidly than the fixed portion of costs of resales. NeoMedia expects costs of resales to fluctuate with the mix of sales of equipment, software, and services over the next 12 months.

Cost of micro paint repair products and services. Cost of micro paint repair products and services was $376,000 for the nine months ended September 30, 2004. Cost of micro paint repair products and services as a percentage of related sales was 73%. NeoMedia acquired this business on February 6, 2004, and as a result there were no cost of sales of micro paint repair products and services during the nine months ended September 30, 2003. NeoMedia expects cost of micro paint repair products and services to increase over the next 12 months as revenue continues to increase with the roll-out.

Gross Profit. Gross profit was $164,000 for the nine months ended September 30, 2004, a decrease of $52,000, or 24%, compared with gross profit of

$216,000 for the nine months ended September 30, 2003. This decrease was primarily the result of reduced resales of Sun Microsystems equipment due to increased competition and general economic conditions, offset by profit form the micro paint repair business acquired in February 2004.

Sales and marketing. Sales and marketing expenses were $1,461,000 for the nine months ended September 30, 2004, compared to $407,000 for the nine months ended September 30, 2003, an increase of $1,054,000 or 259%. This increase resulted primarily from the addition of recently-acquired micro paint business sales force and cost associated with marketing, as well as promotion of the Company's PaperClick and Micro Paint Repair products. NeoMedia expects sales and marketing expense to increase over the next 12 months with the continued development and anticipated rollout of the PaperClick and Micro Paint Repair product suites.

23

General and administrative. General and administrative expenses decreased by $2,116,000, or 62%, to $1,293,000 for the nine months ended September 30, 2004, compared to $3,409,000 for the nine months ended September 30, 2003. The decrease resulted primarily from non-cash expenses relating to the Company's option repricing program, expense for stock options issued with exercise prices below market price, and higher stock-based professional service expense in 2003 as compared with 2004. NeoMedia expects general and administrative expense to increase over the next 12 months with the recent acquisition of CSI International and the potential acquisition of BSD Software

Research and development. During the nine months ended September 30, 2004, NeoMedia charged to expense $354,000 of research and development costs, an increase of $111,000 or 46% compared to $243,000 for the nine months ended September 30, 2003. The increase is primarily due to the addition of a developer and development computer systems during 2004. NeoMedia expects research and development costs to increase over the next 12 months with the continued development efforts, and the anticipated rollout of NeoMedia's PaperClick product suite.

Gain on extinguishment of debt. During the nine months ended September 30, 2004, NeoMedia recognized a gain on extinguishment of debt of $129,000, resulting from the payment of debt at a discount to the book value of the debt, an increase of $153,000, or 638%, compared with a loss on extinguishment of debt of $24,000 for the nine months ended September 30, 2003. These gains resulted from a difference between the cash or market value of stock issued to settle the debt and the carrying value of the debt at the time of settlement.

Amortization of debt discount. During the nine months ended September 30, 2004, NeoMedia recognized an amortization of debt issuance cost of $2,500,000 relating to the fair value of warrants granted to Cornell Capital Partners in connection with promissory notes issued to Cornell by NeoMedia during January 2004. NeoMedia did not recognize any such expense during the nine months ended September 30, 2003. During the nine months ended September 30, 2004, NeoMedia amortized the full $2.5 million discount value relating to the Cornell warrants, and as a result does not expect to recognize such expense in the next 12 months.

Interest expense. Interest expense consists primarily of interest accrued for creditors as part of financed purchases, past due balances, notes payable and interest earned on cash equivalent investments. Interest expense decreased by $15,000, or 8%, to $178,000 for the nine months ended September 30, 2004 from $193,000 for the nine months ended September 30, 2003, due to reduced expense associated with vendor settlements and debt in 2004 compared with 2003.

Net Loss. The net loss for the nine months ended September 30, 2004 was $5,493,000, which represented a $1,433,000, or 35% increase from a $4,060,000 loss for the nine months ended September 30, 2003. The increase resulted primarily from the amortization of debt issuance cost of $2,500,000 in 2004, offset by reduced general and administrative costs in 2004.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $3,500,000 for the nine months September 30, 2004, compared with $2,057,000 for the nine months ended September 30, 2003. NeoMedia's net cash flow used in investing activities for the nine months ended September 30, 2004 and 2003 was $212,000 and $64,000, respectively. Net cash provided by financing activities for the nine months ended September 30, 2004 and 2003 was $5,430,000 and $3,099,000, respectively.

During the nine months ended September 30, 2004 and 2003, NeoMedia's net loss totaled $5,493,000 and $4,060,000, respectively. As of September 30, 2004, NeoMedia had accumulated losses from operations of $81,640,000, had a working capital deficit of $5,538,000, and $1,732,000 in cash balances.

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

NeoMedia may obtain up to $20 million over the next year and a half through its Standby Equity Distribution Agreement with Cornell Capital Partners. As of September 30, 2004, NeoMedia had drawn $7 million against the Standby Equity Distribution Agreement in the form of promissory notes which may be repaid from the proceeds of sale of common stock.

In addition, if the average closing bid price of NeoMedia's common stock for any five day period exceeds $0.10, NeoMedia may force the exercise of 40 million warrants held by Cornell, resulting in additional cash to the Company of $2 million. In the absence of any major sales from its Micro Paint Repair or PaperClick products, management believes that it has sufficient funding to sustain operations through December 31, 2004, however, there can be no assurances that the market for NeoMedia's stock will support the sale of sufficient shares of NeoMedia's common stock to raise sufficient capital to sustain operations for such a period, or that actual revenue will meet management's expectations. If necessary funds are not available, NeoMedia's business and operations would be materially adversely affected and in such event, NeoMedia would attempt to reduce costs and adjust its business plan.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. NeoMedia's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of NeoMedia's "disclosure controls and procedures" (as defined in Sections 13a-14(c) of the Securities Exchange Act of 1934) as of the end of the period reported in this annual report (the "Evaluation Date"), concluded that NeoMedia's disclosure controls and procedures were effective and designed to ensure that material information relating to NeoMedia and its consolidated

subsidiaries is accumulated and would be made known to them by others within those entities as appropriate to allow timely decisions regarding required disclosures.

CHANGES IN INTERNAL CONTROLS. NeoMedia does not believe that there are significant deficiencies in the design or operation of its internal controls that could adversely affect its ability to record, process, summarize and report financial data. Although there were no significant changes in NeoMedia's internal controls or in other factors that could significantly affect those controls subsequent to the Evaluation Date, NeoMedia's senior management, in conjunction with its Board of Directors, continuously reviews overall company policies and improves documentation of important financial reporting and internal control matters. NeoMedia is committed to continuously improving the state of its internal controls, corporate governance and financial reporting.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS. NeoMedia's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure or internal controls will prevent all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

26

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NeoMedia is involved in the following legal actions arising in the normal course of business, both as claimant and defendant.

AIRCLIC, INC., SCANBUY, INC., AND LSCAN TECHNOLOGIES, INC.

On January 23, 2004, NeoMedia filed a patent infringement lawsuit against AirClic, Inc., Scanbuy, Inc., and LScan Technologies, Inc. in the Northern District of Illinois, claiming that each of the parties has manufactured, or has manufactured for it, and has used, or actively induced others to use, technology which allows customers to use a built-in UPC bar code scanner to scan individual items and access information, thereby infringing NeoMedia's patents. The complaint states that on information and belief, AirClic, Scanbuy and LScan have 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 suit against AirClic and Scanbuy for lack of personal jurisdiction.

On April 19, 2004, AirClic filed a declaratory judgment action against NeoMedia in the Eastern District of Pennsylvania. NeoMedia answered and counterclaimed on May 18, 2004. AirClic answered NeoMedia's counterclaim on June 10, 2004. On April 20, 2004, NeoMedia re-filed its suit against AirClic in Pennsylvania for patent infringement. AirClic answered and counterclaimed on May 13, 2004. NeoMedia filed its answer to AirClic's counterclaims on June 2, 2004. NeoMedia filed an amended complaint on July 1, 2004, and AirClic answered and counterclaimed on July 20, 2004. NeoMedia's answer to AirClic's counterclaims was filed on August 3, 2004.

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

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

VIRGIN ENTERTAINMENT GROUP

On January 2, 2004, NeoMedia filed a patent infringement lawsuit against Virgin(R) Entertainment Group, Inc., Virgin Megastore Online and Virgin Megastore ("Virgin"). The complaint for Patent Infringement and Damages was filed in the United States District Court for the Northern District of Illinois, by Baniak Pine & Gannon, NeoMedia's intellectual property law firm. The complaint claims that Virgin has infringed four of NeoMedia's patents - U.S. Patents Nos. 5,933,829, 5,978,773, 6,108,656, and 6,199,048. The complaint alleges that the Virgin Megaplay Stations located in Virgin's Megastores infringe NeoMedia's patents by using Virgin's Megascan technology to allow customers to scan UPC codes from in-store CDs and DVDs to access Internet-based product information, such as music and movie previews, and album and video art. The complaint also alleges that Virgin had notice of NeoMedia's patents since the latter part of 2002 or before, yet it continued with its infringing

27

activities. The complaint seeks compensatory damages for Virgin's infringement, with those damages to be trebled due to the willful and wanton nature of the infringement. NeoMedia also seeks to preliminarily and permanently enjoin Virgin from its infringing activities. Virgin answered NeoMedia's complaint on March 1, 2004.

OTHER LITIGATION

On September 12, 2002, R. R. Donnelley & Sons Company filed a summons in the Circuit Court of The Twentieth Judicial Circuit in and for Lee County, Florida, seeking payment of approximately $92,000 in past due professional services bills, plus interest and attorney fees. During July 2003, NeoMedia settled the suit for cash payments over a period of approximately one year. NeoMedia had an accrued liability of approximately $27,000 relating to this matter as of September 30, 2004.

On October 28, 2002, Merrick & Klimek, P.C., filed a complaint against NeoMedia seeking payment of approximately $170,000 in past due legal services. The amount in question is subject to an unsecured promissory note that matured unpaid on February 28, 2002. On May 1, 2003, NeoMedia settled the suit for cash payments totaling approximately $196,000, to be paid at a rate of $30,000 per quarter until the balance is satisfied. NeoMedia had a remaining liability of approximately $54,000 relating to this matter as of September 30, 2004, which was included in notes payable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS (A), (B), (C) AND (D)

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

(a) NeoMedia is in default on an unsecured promissory note payable held by Merrick & Klimek, P.C. During 2002, Merrick & Klimek, P.C. sued NeoMedia for nonpayment of the note. During 2003, the two parties settled the suit and NeoMedia is making installment payments against the balance through December 31, 2004.

28

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

On September 14, 2004, NeoMedia filed a proxy statement in which the Company is asking its shareholders to vote on the re-election of current directors. The meeting is schedule for October 29, 2004.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

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

(b) REPORTS ON FORM 8-K:

NeoMedia filed a Form 8-K on September 17, 2004, reporting that it had entered into a business development agreement with, and invested $1 million in, iPoint-media Ltd., in exchange for 17% ownership in iPoint-media.

NeoMedia filed a Form 8-K on September 7, 2004, reporting that its

Board of Directors named Charles T. Jensen as the Company's permanent Chief Executive Officer.

SIGNATURES

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

NEOMEDIA TECHNOLOGIES, INC.
Registrant

Date: November 4, 2004 By: /s/ Charles T. Jensen

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

Date: November 4, 2004 By: /s/ David A. Dodge

David A. Dodge, Vice President, Chief Financial Officer, and Controller

TD>

Liabilities assumed on reverse merger transaction

$1,325,000 $-

The accompanying notes are an integral part of these financial statements

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009

(UNAUDITED)

1. Organization and nature of business:

Through its operating subsidiary, Mr. Prepaid Inc., a Florida corporation (Mr. Prepaid), markets and distributes electronic prepaid telecommunication products and services through independent retailers in the Eastern United States.

Through February 24, 2010, Mr. Prepaid was a wholly-owned subsidiary of Blackbird Corporation (Blackbird), a telecommunications company. On February 24, 2010, Mr. Prepaid was party to the initial closing under a Share Exchange Agreement, dated October 13, 2009, as amended by an Amendment to Share Exchange Agreement dated January 21, 2010 (collectively, the Share Exchange Agreement), by and among Rapid Link, Incorporated (Rapid Link), Blackbird, certain of Rapid Link s principal shareholders, certain principal shareholders of Blackbird, and Mr. Prepaid. Pursuant to the Share Exchange Agreement, Rapid Link acquired from Blackbird all of the issued and outstanding shares of capital stock of Mr. Prepaid in exchange for 10,000,000 shares of Rapid Link s newly-created Series A Convertible Preferred Stock (the Series A Preferred Stock). As a result, Mr. Prepaid has become a wholly-owned subsidiary of Rapid Link. In June 2010, the name of the entity was changed to Spot Mobile International Ltd. (Spot Mobile or the Company).

The Series A Preferred Stock has certain rights and preferences including full voting rights. In addition, the shares of Series A Preferred Stock issued to Blackbird upon the initial closing are convertible into 520,000,000 shares of the Company s common stock. As a result, on an as-converted basis, these 520,000,000 shares of common stock would constitute approximately 80% of the then-issued and outstanding shares of common stock. The conversion of the Series A Preferred Stock issued to Blackbird was subject to the amendment of the Company s certificate of incorporation to increase the amount of shares of common stock authorized to be issued by the Company to an amount sufficient to permit the conversion of all such shares of Series A Preferred Stock, which occurred in June 2010 (Note 12). The description of the rights and preferences of the Series A Preferred Stock is qualified in its entirety by reference to the Certificate of Designations, Rights and Preferences of Series A Convertible Preferred Stock (the Certificate of Designations).

Immediately after the initial closing, all of the outstanding capital stock of Rapid Link s former wholly-owned subsidiaries, Telenational Communications, Inc. (Telenational) and One Ring Networks, Inc. (One Ring), was transferred to a third party. In connection with this transfer, the transferee also assumed the balance of the indebtedness due to the Lenders. The transfer of Telenational and One Ring is without recourse or liability to the Company. After the transfer, and in accordance with the Share Exchange Agreement, the Company retained no significant assets of Rapid Link and assumed approximately $1,325,000 of liabilities, consisting of a $1,250,000 senior secured note payable (Note 8) and $75,000 of accounts payable. Because all of the operating businesses of Rapid Link were transferred immediately after initial closing, the transaction has been accounted for as a recapitalization of Mr. Prepaid.

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009

(UNAUDITED)

1. Organization and nature of business (continued):

The Company is subject to various risks in connection with the operation of its business including, among other things, (i) changes in external competitive market factors, (ii) inability to satisfy anticipated working capital or other cash requirements, (iii) changes in the Company s business strategy or an inability to execute its strategy due to unanticipated changes in the market, (iv) various competitive factors that may prevent the Company from competing successfully in the marketplace, and (v) the Company s lack of liquidity and its ability to raise additional capital. The Company has an accumulated deficit of approximately $3,813,000 as of April 30, 2010. For the fiscal year ended October 31, 2009, the Company s net loss was approximately $713,000, on revenues of approximately $24 million.

Funding of the Company s current and future anticipated operating losses, and expansion of the Company will require continuing capital investment. The Company s strategy is to fund these cash requirements through debt and equity financing.

There can be no assurance that sufficient debt or equity financing will be available in the future or that it will be available on terms acceptable to the Company. Failure to obtain sufficient capital could materially affect the Company s operations in the short term and hinder expansion strategies. The Company continues to explore external financing opportunities. Historically, some of the Company s funding has been provided by its shareholder. At April 30, 2010, approximately 52% of the Company s debt is due to a related party.

The Company s operating history makes it difficult to accurately assess its general prospects in the prepaid telecommunications industry and the effectiveness of its business strategy. In addition, the Company has limited meaningful historical financial data upon which to forecast its future sales and operating expenses. The Company s future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, the Company cannot assure that it will successfully implement its business strategy or that its actual future cash flows from operations will be sufficient to satisfy debt obligations and working capital needs.

Our independent auditors have included a going concern emphasis paragraph in their audit opinion on our financial statements for the fiscal year ended October 31, 2009. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The accompanying balance sheet as of April 30, 2010, and the statements of operations for the three months and six months ended April 2010 and 2009, and statements of cash flows for the six months ended April 30, 2010 and 2009, have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for such periods have been made. The results of operations for the three and six months ended April 30, 2010 and 2009 are not necessarily indicative of operating results for the full year. Certain information and footnote data necessary for a fair presentation of financial position and results of operations in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted. Therefore, it is suggested that these condensed, consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company s Form 10-K filed on February 16, 2010, and in a Current Report on Form 8-K/A filed May 10, 2010.

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

2. Summary of significant accounting policies:
Use of estimates:

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

Revenue recognition:

Revenues generated by prepaid calling cards and point of sale activated Personal Identification Numbers (PINs), which represent the primary sources of the Company s revenues, are recognized as revenue at the point of sale.

Inventory:

Inventory consists of prepaid calling cards and point of sale activated PINS which are valued at the lower of cost and net realizable value.

Accounts receivable:

Trade accounts receivable are stated at the amount the Company expects to collect. The Company regularly monitors credit risk exposures in accounts receivable and maintains a general allowance for doubtful accounts based on historical experience for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company s future provision for doubtful accounts. Specifically, if the financial condition of the Company s customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. The Company reviews its credit policies on a regular basis and analyzes the risk of each prospective customer individually in order to minimize risk. Based on management s assessment the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Interest is typically not charged on overdue accounts receivable. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The valuation allowance was approximately $99,200 and $64,500 as of April 30, 2010 and October 31, 2009, respectively.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Expenditures for repairs and maintenance are charged to expense as incurred.

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

2. Summary of significant accounting policies (continued):
Goodwill:

The Company reviews goodwill arising from business combinations for impairment annually, or more frequently if impairment indicators arise. Impairment indicators include (i) a significant decrease in the market value of an asset, (ii) a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, (iii) a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action by a regulator, and (iv) a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue.

Net loss per share:

Basic net loss per share is computed by dividing the net loss applicable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted net loss per share reflects the potential dilution that could occur if the preferred shares were converted into common stock. For each of the periods presented, the effect of the inclusion of the dilutive shares would have resulted in a decrease in loss per share and have been excluded from the calculation of diluted loss per common share.

Segment information:

The Company has one operating segment and one reporting unit. For the purpose of identifying the reporting units (i) an operating segment is a reporting unit if discrete financial information is available, (ii) management regularly reviews individual operating results and (iii) similar economic characteristics of components within one operating segment in a single reporting unit. The Company s management regularly reviews one set of financial information, and all of the Company s products share similar economic characteristics. Therefore, the Company has determined that it has one single reporting unit.

Long-lived assets:

Long-lived assets, including the Company s customer lists and intellectual property arising from business combinations, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if an impairment is indicated by its carrying value not being recoverable through undiscounted cash flows. The impairment loss is the difference between the carrying amount and the fair value of the asset estimated using discounted cash flows. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell.

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

2. Summary of significant accounting policies (continued):
Long-lived assets (continued):

During 2009, the Company completed goodwill and long-lived asset impairment analyses. Based on the work performed, management concluded that an impairment loss existed. Accordingly, the Company recorded non-cash impairment charges for goodwill assets in 2009. The impairment charges resulted primarily from a decline in the customer base. Management estimated the impairment charges by cash flow analyses and by consideration of current market conditions and transactions in the prepaid telecommunications industry.

Fair value of financial instruments:

The carrying amount of financial instruments included in current assets and liabilities and long-term debt is not materially different from fair value because of the short maturity of the instruments and/or their respective interest rate amounts and other terms have been negotiated recently. The fair value of related party notes and advances payable are not practicable to estimate due to the related party nature of the underlying transactions.

Income taxes:

The Company utilizes the asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes and liabilities are computed for differences between the financial statement carrying amounts and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are recorded when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. For the three and six month periods ended April 30, 2010 and 2009, the Company did not record any income tax benefit, because management does not believe realization of such related deferred income tax assets is more likely than not.

Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification (Codification) as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, all references made to US GAAP now use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it did not have any impact on the Company s financial position or results of operations.

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

2. Summary of significant accounting policies (continued):
Recent accounting pronouncements (continued):

In February 2007, the FASB issued guidance under ASC 825, *Fair Value Option for Financial Assets and Financial Liabilities*, which allows companies the option to measure financial assets or liabilities at fair value and include unrealized gains and losses in net income rather than equity. The Company adopted this guidance at the beginning of fiscal year 2009. The adoption of this guidance had no significant impact on the financial position or results of operations of the Company.

In April 2008, the FASB issued guidance under ASC 350, *Determination of the Useful Life of Intangible Assets*. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. Previously, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or material modifications. This guidance removes the requirement for an entity to consider whether an intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions and requires an entity to consider its own experience in renewing similar arrangements. This guidance also increases the disclosure requirements for a recognized intangible asset to enable a user of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent or ability to renew or extend the arrangement. This guidance is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. The adoption of this guidance on November 1, 2009, did not have an impact on the Company. The disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management s best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for the Company in the first quarter of 2011. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this standard may have on its consolidated financial statements.

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

3. Equipment:

	April 30, 2010 *(unaudited)*	October 31, 2009
Computer equipment	$ 1,775	$ 1,775
Furniture and fixtures	2,106	2,106
Point of sale activation terminals	140,942	170,434
	144,823	174,315
Less accumulated depreciation and amortization	99,866	98,877
	$ 44,957	$ 75,438

4. Goodwill and other intangible assets:

The following sets forth information for intangible assets subject to amortization and for intangible assets not subject to amortization.

	April 30, 2010 *(unaudited)*	October 31, 2009
Customer lists:		
Gross carrying amount	$ 750,000	$ 750,000
Accumulated amortization	(462,500)	(387,500)
	$ 287,500	$ 362,500
Intellectual Property:		
Gross carrying amount	$ 500,000	$ 500,000
Accumulated amortization	(308,333)	(258,333)
	$ 191,667	$ 241,667
Unamortized intangible asset		
Goodwill	$ 600,000	$ 600,000

5. Due to related parties:

The amounts due to related parties represent cash advances made to the Company from other companies wholly-owned by a Company shareholder and Director. These amounts are unsecured and non-interest bearing with no specific terms of repayment.

6. Note payable:

This note payable to a third party is non-interest bearing and is secured by a priority claim on all assets of the Company. This note was originally due in June 2008, and extended to December 2009. The note remains unpaid and is now due on demand.

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

7. Convertible promissory note:

This note to a third party bears interest at 3% per year commencing February 28, 2011, with quarterly payments of interest commencing on June 1, 2011, and is due on December 31, 2011. Prior to maturity, the note may be converted at the option of the holder into common shares at a rate of $0.027 per share. Imputed interest through April 30, 2010 was not significant. As the market price of the Company s common stock was not in excess of the conversion price, management determined that there was no beneficial conversion feature.

8. Senior secured note payable:

Upon initial closing under the Share Exchange Agreement on February 24, 2010, the Company assumed a senior secured note payable of $1,250,000. This note payable accrues interest at the rate of 8% per year payable monthly. The principal amount of $1,250,000 is due on February 28, 2013. This note is secured by all assets of the Company.

9. Secured note payable related party:

The Company has a note payable to Blackbird, a company under common control, in which the Company borrowed $2,000,000. The note bears interest at 6% per annum, and is due September 30, 2017. The note is secured by all assets of the Company. Blackbird has waived all interest due through April 30, 2010. The Company has accounted for this waived interest as a contribution of capital from the shareholder.

10. Capital stock:

	April 30, 2010 *(unaudited)*	**October 31, 2009**
Authorized		
Preferred stock:		
Series A preferred stock, $0.001 par value; authorized 10,000,000 shares		
Common stock, $0.001 par value, authorized 175,000,000 shares		
Issued		
10,000,000 shares of Series A preferred stock	$ 10	$ 10
130,000,000 shares of common stock	130,000	-

	$ 130,010	$ 10

14

Table of Contents

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

11. Allocation of expenses:

Many operating expenses, primarily salary costs and rent of Mr. Prepaid Inc., were incurred and paid by Blackbird. In accordance with Staff Accounting Bulletin No. 55, these financial statements reflect all of the costs associated with the operations of Mr. Prepaid, Inc. While certain costs incurred by Blackbird are directly attributable to Mr. Prepaid, Inc., other costs were shared between the two organizations. In situations where the costs were shared, expense has been allocated between Blackbird and Mr. Prepaid, Inc. Management believes that the methodologies used are reasonable. Salaries, taxes and benefits were allocated based upon functions of employees. Rent and occupancy costs were allocated based on space utilized. Total allocated expenses charged to the Company were approximately $54,000, $105,000, $62,000 and $133,800, for the three and six months ended April 30, 2010 and 2009, respectively.

12. Subsequent events:

Termination of Share Exchange Agreements:

As previously disclosed, a subsequent closing under the Share Exchange Agreement was to occur subject to the satisfaction of certain additional conditions including obtaining consents to transfer certain telecommunications licenses from the Federal Communication Commission and state regulatory authorities. At such subsequent closing, Blackbird was to deliver to the Company all of the issued and outstanding shares of capital stock of all other Blackbird subsidiaries. Additionally, certain assets necessary to conduct the core business of Telenational, the Company s former subisidiary, were to be transferred to a wholly-owned subsidiary of the Company in exchange for the assumption by such transferee of certain indebtedness.

On June 7, 2010, Blackbird notified the Company that due to the inability of certain conditions to the consummation of subsequent closing to be satisfied timely, the subsequent closing was incapable of being completed. As a result, Blackbird advised us that it was exercising its rights to terminate the remaining portions of the Share Exchange Agreement which had yet to be performed, namely, the subsequent closing. Accordingly, as of June 7, 2010, the Share Exchange Agreement was terminated with no further force or effect. There are no termination penalties or other obligations triggered by the termination. The Company s board of directors has ratified and confirmed such termination.

Notwithstanding the termination of the Share Exchange Agreement, Blackbird agreed to transfer its wholly-owned subsididiary, Spot Mobile Corp., to the Company. Spot Mobile Corp. is a mobile virtual network operator (MVNO) offering principally prepaid mobile telephones. Spot Mobile Corp. has recently completed network development, testing and market analysis. The Company intends to commence full operations of Spot Mobile Corp. beginning with our Mr. Prepaid retail base and then through expereienced sales agent networks.

SPOT MOBILE INTERNATIONAL LTD.

(FORMERLY RAPID LINK INCORPORATED)

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (CONTINUED)

THREE AND SIX MONTHS ENDED APRIL 30, 2010 AND 2009 (UNAUDITED)

12. Subsequent events (continued):
Amendments to Certificate of Incorporation:

On June 7, 2010, the Company s shareholders approved the amended and restated certificate of incorporation which includes the following amendments: (i) an amendment to change the corporate name to Spot Mobile International Ltd; (ii) an amendment to increase the number of authorized shares of the common stock available for issuance from 175,000,000 to 1,000,000,000 and to increase the number of authorized shares of the preferred stock available for issuance from 10,000,000 to 100,000,000; and (iii) a restatement of the certificate of incorporation to incorporate all prior amendments, including those mentioned above. In this respect, effective June 7, 2010, the Company filed its amended and restated certificate of incorporation with the Secretary of State of Delaware. Upon the filing of the amended and restated certificate of incorporation, all of the outstanding shares of the Series A Convertible Preferred Stock were automatically converted into 520,000,000 shares of the Company s common stock.

Loss on legal settlement:

On June 10, 2010, Coastline Capital Partners was awarded $300,000 as its arbitration award in its litigation against the Company. This matter related to Rapid Link and arose before the Share Exchange Agreement. A provision of this amount was included in the second quarter of fiscal year 2010 as loss on legal settlement.

Secured note payable, related party:

On June 14, 2010, this $2,000,000 note was settled through the issuance of 40,000,000 common shares.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Throughout this Quarterly Report on Form 10-Q, the terms we, Spot Mobile, and the Company refer to Spot Mobile International Ltd., a Delaware corporation, and its subsidiaries.

This Quarterly Report on Form 10-Q contains forward-looking statements , which are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by the use of such terms as expects, will, anticipates, estimates, believes, plans and words of similar meaning. These forward-looking statements relate to business plans, programs, trends, results of future operations, satisfaction of future cash requirements, funding of future growth, acquisition plans, and other matters. In light of the risks and uncertainties inherent in all such projected matters, the inclusion of forward-looking statements in this report should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that our operating expectations will be realized. Revenues and results of operations are difficult to forecast and could differ materially from those projected in forward-looking statements contained herein, including without limitation statements regarding our belief of the sufficiency of capital resources and our ability to compete in the telecommunications industry. Actual results could differ from those projected in any forward-looking statements for, among others, the following reasons: (a) increased competition from existing and new competitors, (b) the price-sensitive nature of consumer demand, (c) the relative lack of customer loyalty to any particular provider of telecommunications services, (d) our dependence upon favorable pricing from our suppliers to compete in the diversified communication services industry, (e) increased consolidation in the telecommunications industry, which may result in larger competitors being able to compete more effectively, (f) failure to attract or retain key employees, (g) our ability to successfully integrate the operations of acquired companies; (h) continuing changes in governmental regulations affecting the telecommunications industry and (i) changing consumer demand, technological developments and industry standards that characterize the industry. You are also urged to carefully review and consider the various disclosures we have made which describe certain factors that affect our business throughout this Report. For a discussion of these factors and others, please see Risk Factors below in this section of this report. Readers are cautioned not to place undue reliance on the forward-looking statements made in this report or in any document or statement referring to this report. All forward-looking statements attributable to the Company are expressly qualified in their entirety by such language, and we are not obligated, and do not intend, to update any forward-looking statements at any time unless an update is required by applicable securities laws. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

General

Spot Mobile International Ltd., a Delaware corporation formerly known as Rapid Link, Incorporated (Rapid Link), is a telecommunications services company which, through its wholly-owned subsidiary, provides prepaid telecommunication and transaction based point of sale activation solutions through over 500 independent retailers in the Eastern United States. The Company plans to expand its product offering to include mobile and wireless services.

Recent Developments

Initial Closing Under Share Exchange Agreement

On February 24, 2010, the Company consummated the initial closing under a Share Exchange Agreement, dated October 13, 2009, as amended by an Amendment to Share Exchange Agreement, dated January 21, 2010 (collectively, the Share Exchange Agreement), by and among Rapid Link, Blackbird Corporation (Blackbird), certain of our principal shareholders, certain principal shareholders of Blackbird, and Mr. Prepaid, formerly a wholly-owned subsidiary of Blackbird.

Pursuant to the Share Exchange Agreement, Rapid Link acquired from Blackbird all of the issued and outstanding shares of capital stock of Mr. Prepaid in exchange for 10,000,000 shares of Rapid Link s newly-created Series A Convertible Preferred Stock (the Series A Preferred Stock). As a result, Mr. Prepaid has become a wholly-owned subsidiary of Rapid Link. Mr. Prepaid is in the business of providing prepaid telecommunication and transaction based point of sale activation solutions through approximately 500 independent retailers in the Eastern United States. Mr. Prepaid s product offering includes prepaid wireless PINs for use with various mobile telephone providers.

The Series A Preferred Stock has certain rights and preferences including full voting rights. In addition, the shares of Series A Preferred Stock issued to Blackbird upon the initial closing are convertible into 520,000,000 shares of common stock of the Company. As a result, on an as-converted basis, these 520,000,000 shares of common stock would constitute approximately 80% of the Company s then-issued and outstanding shares of common stock. The conversion of the Series A Preferred Stock issued to Blackbird was subject to the Company amending its certificate of incorporation to increase the

17

amount of shares of common stock authorized to be issued by the Company to an amount sufficient to permit the conversion of all such shares of Series A Preferred Stock. As more fully described below, as of June 7, 2010, we amended our certificate of incorporation to, among other things, increase the amount of shares of our authorized capital stock. As of that date, all of the outstanding shares of our Series A Preferred Stock were converted into 520,000,000 shares of our common stock.

Immediately following the initial closing, the Company transferred all of the outstanding capital stock of Rapid Link s former wholly-owned subsidiaries, Telenational Communications, Inc. (Telenational) and One Ring Networks, Inc. (One Ring), to a third party. In connection with this transfer, the transferee also assumed the balance of the indebtedness due to the Lenders (see Restructuring of Senior Secured Indebtedness, below). The transfer of Telenational and One Ring is without recourse or liability to the Company. After the transfer, and in accordance with the Share Exchange Agreement, the Company retained no significant assets of Rapid Link and assumed approximately $1,325,000 of liabilities, consisting of a $1,250,000 senior secured indebtedness and $75,000 of accounts payable. Because all of the operating businesses of Rapid Link were transferred immediately after the initial closing, the transaction has been accounted for as a recapitalization of Mr. Prepaid.

As previously disclosed, on the terms and subject to the conditions set forth in the Share Exchange Agreement, at a subsequent closing, subject to the satisfaction of certain additional conditions including obtaining consents to transfer certain telecommunications licenses from the Federal Communication Commission and state regulatory authorities, Blackbird was to deliver to the Company all of the issued and outstanding shares of capital stock of all other Blackbird subsidiaries. At such subsequent closing, certain assets necessary to conduct the core business of Telenational were to be transferred to a wholly-owned subsidiary of the Company in exchange for the assumption by such transferee of $1.85 million of indebtedness owed to certain creditors. As more fully described below, as of June 7, 2010, the remaining portions of the Share Exchange Agreement yet to be performed have been terminated and, as a result, the subsequent closing will not be completed.

In connection with the Share Exchange Agreement, Blackbird and the Company entered into a management agreement on October 13, 2009 pursuant to which representatives designated by Blackbird managed certain Telenational assets during the period between the execution of the Share Exchange Agreement and the closing. Such Blackbird representatives are entitled to receive a management fee of $40,000 per month for such management services after Telenational s accounts payable have been satisfied. This management agreement expired upon the initial closing under the Share Exchange Agreement.

Assumption of Certain Senior Secured Indebtedness

Upon the initial closing under the Share Exchange Agreement on February 24, 2010, we assumed certain senior secured indebtedness owed to certain lenders (Lenders) including Valens U.S. SPV I (Valens), and Valens Offshore SPV II Corp. (Valens II). Pursuant to new loan documents, our outstanding indebtedness to the Lenders was reduced to an aggregate amount of $1,250,000. Pursuant to a Secured Term Note, such indebtedness will accrue interest at the rate of 8.00% per year with monthly payments of interest commencing on March 1, 2010. The principal amount of the Secured Term Note is due on February 28, 2013. In addition, Mr. Prepaid, our newly acquired subsidiary, executed a guaranty of our obligations under the Secured Term Note. Finally, the Company and Mr. Prepaid executed a Master Security Agreement in favor of the Lenders pursuant to which our obligations under the Secured Term Note and Mr. Prepaid s obligations under the Guaranty are secured by a security interest in all of our assets and all of the assets of Mr. Prepaid.

Additional Financing

In addition, on February 24, 2010, we executed a Convertible Promissory Note in the principal amount of $500,000 in favor of a third party lender (the Convertible Note). The principal amount under the Convertible Note will begin to accrue interest on February 28, 2011 at the rate of 3.00% per year with quarterly payments of interest commencing on June 1, 2011. The principal amount of the Convertible Note is due on December 31, 2011. Prior to maturity, the Convertible Note may be converted, at any time at the option of the holder, into shares of our common stock based on an initial conversion rate of $0.027 per share. Imputed interest through April 30, 2010 was not significant. As the market price of the Company s common stock was not in excess of the conversion price, management determined that there was no beneficial conversion feature.

Subsequent Events

Termination of Share Exchange Agreement

As previously disclosed, a subsequent closing under the Share Exchange Agreement was to occur subject to the satisfaction of certain additional conditions including obtaining consents to transfer certain telecommunications licenses from the Federal Communication Commission and state regulatory authorities. At such subsequent closing, Blackbird was to deliver to the Company all of the issued and outstanding shares of capital stock of all other Blackbird subsidiaries. Additionally, certain assets necessary to conduct the core business of Telenational, our former subsidiary, were to be transferred to a wholly-owned subsidiary of the Company in exchange for the assumption by such transferee of certain

indebtedness.

Table of Contents

On June 7, 2010, Blackbird notified us that due to the inability of certain conditions to the consummation of the subsequent closing to be timely satisfied, the subsequent closing was incapable of being completed. As a result, Blackbird advised us that it was exercising its rights to terminate the remaining portions of the Share Exchange Agreement which had yet to be performed, namely, the subsequent closing. Accordingly, as of June 7, 2010, the Share Exchange Agreement was terminated with no further force or effect. There are no termination penalties or other obligations triggered by the termination. Our board of directors has ratified and confirmed such termination.

Notwithstanding the termination of the Share Exchange Agreement, Blackbird agreed to transfer its wholly-owned subsidiary, Spot Mobile Corp., to the Company. Spot Mobile Corp. is a mobile virtual network operator (MVNO) offering principally prepaid mobile telephones. Spot Mobile Corp. has recently completed network development, testing and market analysis. We intend to commence full operations of Spot Mobile Corp. beginning with our Mr. Prepaid retail base and then through experienced sales agent networks.

Amendments to Our Certificate of Incorporation

On June 7, 2010, our shareholders approved our amended and restated certificate of incorporation which includes the following amendments: (i) an amendment to change our corporate name to Spot Mobile International Ltd.; (ii) an amendment to increase the number of authorized shares of our common stock available for issuance from 175,000,000 to 1,000,000,000 and to increase the number of authorized shares of our preferred stock available for issuance from 10,000,000 to 100,000,000; and (iii) a restatement of our certificate of incorporation to incorporate all prior amendments, including those mentioned above. In this respect, effective June 7, 2010, we filed our amended and restated certificate of incorporation with the Secretary of State of Delaware. Upon the filing of the amended and restated certificate of incorporation, all of the outstanding shares of our Series A Convertible Preferred Stock were automatically converted into 520,000,000 shares of our common stock.

Secured Note Due to Related Party

On June 14, 2010, we issued 40,000,000 shares of our common stock in satisfaction of an aggregate of $2,000,000 of indebtedness of our subsidiary, Mr. Prepaid, owed to third party lenders. The issuance of the common stock was made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, or Regulation D promulgated thereunder.

Special Note Regarding Disclosures Contained in this Quarterly Report

The initial closing of the Share Exchange Agreement described in this Quarterly Report was consummated during the fiscal quarter which is the subject of this Quarterly Report. Accordingly, the financial information and related disclosures presented in this Quarterly Report relate to the results of operations of Mr. Prepaid, our recently acquired subsidiary, and results of the parent company from February 25, 2010 to April 30, 2010.

Business Strategy

With the acquisition of Mr. Prepaid, and the subsequent acquisition of Spot Mobile Corp., our business has been altered dramatically. As a result the following is our current business strategy:

Our core objective going forward will be to expand the market for our products by increasing the number of retailers which offer Mr. Prepaid s products. In this respect, we have established and expect to continue to grow a network of sales agents targeting new retail outlets for our products. In addition, Mr. Prepaid has commenced marketing the sale of pre-paid cellular telephones through this network of sales agents and other sales channels. The pre-paid cellular telephones are purchased by Mr. Prepaid from Spot Mobile Corp. We also intend to offer our mobile virtual network operator (MVNO) mobile telephones through Mr. Prepaid s distribution network

We plan to achieve our goal by pursuing both acquisition and organic expansion opportunities in selected markets to gain access to products and services that enhance our offerings, add talent, gain customer recognition in key markets, and improve operational efficiency.

Products and Services

Prepaid Services

We offer prepaid telecommunication and transaction based point of sale activation solutions through approximately 500 independent retailers in the Eastern United States.

Table of Contents

Mobile and Wireless Services

We currently market prepaid cellular telephones and plan to expand our product offering to include additional mobile and wireless services.

Critical Accounting Policies

This disclosure is based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of its consolidated financial statements. Actual results could differ from those estimates. The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our 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 periods. Actual results could differ from those estimates.

Revenue recognition:

Revenues generated by prepaid calling cards and point of sale activated Personal Identification Numbers (PINs), which represent the primary sources of our revenues, are recognized as revenue at the point of sale.

Inventory:

Inventory consists of prepaid calling cards and point of sale activated PINs which are valued at the lower of cost and net realizable value.

Accounts receivable:

Trade accounts receivable are stated at the amount we expect to collect. We regularly monitor credit risk exposures in accounts receivable and maintain a general allowance for doubtful accounts based on historical experience for estimated losses resulting from the inability of our customers to make required payments. We consider the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Should any of these factors change, the estimates made by our management would also change, which in turn would impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. We review our credit policies on a regular basis and analyze the risk of each prospective customer individually in order to minimize risk. Based on our management s assessment we provide for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Interest is typically not charged on overdue accounts receivable. Balances that remain outstanding after we have used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The valuation allowance was approximately $99,200 and $64,500 as of April 30, 2010 and October 31, 2009, respectively.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Expenditures for repairs and maintenance are charged to expense as incurred.

Goodwill:

We review goodwill arising from business combinations for impairment annually, or more frequently if impairment indicators arise. Impairment indicators include (i) a significant decrease in the market value of an asset, (ii) a significant

20

change in the extent or manner in which an asset is used or a significant physical change in an asset, (iii) a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action by a regulator, and (iv) a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue.

Segment information:

We have one operating segment and one reporting unit. For the purpose of identifying the reporting units (i) an operating segment is a reporting unit if discrete financial information is available, (ii) management regularly reviews individual operating results, and (iii) similar economic characteristics of components within one operating segment in a single reporting unit. Our management regularly reviews one set of financial information, and all of our products share similar economic characteristics. Therefore, we have determined that we have one single reporting unit.

Long-lived assets:

Long-lived assets, including our customer lists and intellectual property arising from business combinations, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. We do not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, we recognize an impairment loss only if an impairment is indicated by its carrying value not being recoverable through undiscounted cash flows. The impairment loss is the difference between the carrying amount and the fair value of the asset estimated using discounted cash flows. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell.

During 2009 and 2008, we completed goodwill and long-lived asset impairment analyses. Based on the work performed, our management concluded that an impairment loss existed. Accordingly, we recorded non-cash impairment charges for goodwill and intangible assets in 2009 and in 2008. The impairment charges resulted primarily from the general economic downturn in the U.S. in 2008 and from a decline in the customer base in 2009. Our management estimated the impairment charges by cash flow analyses and by consideration of current market conditions and transactions in the prepaid telecommunications industry.

Fair value of financial instruments:

The carrying amount of financial instruments included in current assets and liabilities and long-term debt is not materially different from fair value because of the short maturity of the instruments and/or their respective interest rate amounts and other terms have been negotiated recently. The fair value of related party notes and advances payable are not practicable to estimate due to the related party nature of the underlying transactions.

Income taxes:

We utilize the asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes and liabilities are computed for differences between the financial statement carrying amounts and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are recorded when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification (Codification) as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, all references made to US GAAP now use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it did not have any impact on our financial position or results of operations.

21

In February 2007, the FASB issued guidance under ASC 825, *Fair Value Option for Financial Assets and Financial Liabilities*, which allows companies the option to measure financial assets or liabilities at fair value and include unrealized gains and losses in net income rather than equity. We adopted this guidance at the beginning of fiscal year 2009. The adoption of this guidance had no significant impact on our financial position or results of operations.

In April 2008, the FASB issued guidance under ASC 350, *Determination of the Useful Life of Intangible Assets*. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. Previously, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or material modifications. This guidance removes the requirement for an entity to consider whether an intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions and requires an entity to consider its own experience in renewing similar arrangements. This guidance also increases the disclosure requirements for a recognized intangible asset to enable a user of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent or ability to renew or extend the arrangement. This guidance is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. The adoption of this guidance on November 1, 2009, did not have an impact on the Company. The disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of the vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on our management s best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, tangible products containing software and hardware that function together to deliver the tangible products essential functionality are scoped out of the existing software revenue recognition guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for the Company in the first quarter of 2011. Early adoption is permitted. We are currently evaluating the impact that the adoption of this standard may have on its consolidated financial statements.

Results of Operations

Comparison of the Three Months Ended April 30, 2010 to the Three Months Ended April 30, 2009

Operating Revenues

Revenues for the second quarter of fiscal 2010 decreased $1,334,000, or 23%, as compared to the same period of fiscal year 2009. This decrease is due to greater competition and lower margins resulting in a loss of stores from which we operate.

Costs of Revenues

Costs of revenues for the second quarter of fiscal 2010 decreased $1,271,000, or 23%, as compared to the same period of fiscal year 2009. The decrease in costs of revenues is consistent with reduction in revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $26,000, or 13%, for the second quarter of fiscal 2010 as compared to the same period of fiscal year 2009. This increase is primarily attributable to a $9,000 increase in the provision for bad debts, and increased payroll for sales and support staff.

We review our selling, general and administrative expenses regularly and continue to manage the costs accordingly to support our current and anticipated future business; however, it may be difficult to achieve significant reductions in future periods due to the relatively fixed nature of our general and administrative expenses.

Depreciation and Amortization

Depreciation and amortization expense decreased $750 during the second quarter of fiscal 2010 as compared to the same period of fiscal 2009.

Table of Contents

Interest Expense

Interest expense increased by $18,333 which relates to the senior secured debt we assumed.

Comparison of the Six Months Ended April 30, 2010 to the Six Months Ended April 30, 2009

Operating Revenues

Revenues for the six months ended April 30, 2010 have decrease by $1,676,000, or 15%, as compared to the same period of fiscal year 2009. This decrease is due to increased competition and lower margins resulting in our losses of stores, most of which have become unprofitable. Our profit margin of the PINs that represents 50% of sales has been reduced significantly, due to lower discounts from suppliers.

Costs of Revenues

Cost of revenue for the six months ended April 30, 2010 decreased by $1,518,000, or 15%, as compared to the same period of fiscal year 2009. The decrease in costs of revenues is consistent with reduction in revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by $48,000, or 12%, as selling costs were reduced by $35,000, principally relating to a reduction in revenue, and general and administrative expenses were reduced by $13,000 as a result of a reduction in selling agents expense.

Depreciation and Amortization

Depreciation and amortization increased by $2,652 for the six months ended April 30, 2010 as compared to the same period of fiscal year 2009. In this respect, we recorded a loss of $5,490 on the disposal of terminal PIN machines from former customers.

Interest Expense

Interest expense increased by $18,333 from the same period in fiscal year 2009, all relating to the senior secured debt we assumed.

Liquidity and Sources of Capital

On February 24, 2010, we executed a Convertible Promissory Note in the principal amount of $500,000 in favor of a third party lender (the Convertible Note). The principal amount under the Convertible Note will begin to accrue interest on February 28, 2011 at the rate of 3.00% per year with quarterly payments of interest commencing on June 1, 2011. The principal amount of the Convertible Note is due on December 31, 2011. Prior to maturity, the Convertible Note may be converted, at any time at the option of the holder, into shares of our common stock based on an initial conversion rate of $0.027 per share.

Overall Cash Inflows and Outflows

Our operating activities used approximately $193,000 of cash during the six months ended April 30, 2010, which primarily resulted from decreased operating revenues, and changes in our current assets and liabilities. Based on a negative operating cash flow during fiscal year 2009, and generally a history of negative operating cash flows, our fiscal 2009 audit report includes an explanatory paragraph indicating doubt about our ability to continue as a going concern.

At April 30, 2010, we had cash and cash equivalents of $44,000, a decrease in cash and cash equivalents of $27,000 from the balance at October 31, 2009. We had working capital deficits at April 30, 2010 and October 31, 2009 of approximately $1,057,000 and $898,000, respectively. This increase is primarily attributable to the reclassification of certain long term debt, for which we were in default, as current liabilities.

We have an accumulated deficit of approximately $3,683,000 as of April 30, 2010 as well as a significant working capital deficit. As described in Recent Developments, above, we have recently acquired Mr. Prepaid and disposed of certain of our historical operations. In addition, we have obtained financing of $500,000 for our current working capital needs. If our sources of revenue do not generate sufficient capital to fund

operations, we will need to identify other sources

of capital and/or we may be required to modify our business plan. Our inability to obtain needed debt and/or equity financing when needed or to generate sufficient cash from operations may require us to scale back our business plan and limit our planned growth and expansion activities, abandon projects and/or curtail capital expenditures. At this time, we cannot provide any assurance that other sources of capital will be available in the future or that it will be available on terms acceptable to us.

ITEM 4T. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated can provide only reasonable, but not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based upon that evaluation, management concluded that our disclosure controls and procedures were ineffective as of the end of the period covered in this report because of the material weakness in internal controls over financial reporting described below.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. Management identified the following control deficiencies which represent material weaknesses in our internal control over financial reporting:

- We did not maintain a sufficient depth of personnel with clearly delineated and fully documented responsibilities and with an appropriate level of accounting expertise.

- We have insufficient documented procedures to identify and prepare a conclusion on matters involving material accounting issues and to independently review conclusions as to the application of generally accepted accounting principles.

- We did not have effective entity level controls at our Mr. Prepaid subsidiary. These weaknesses included: lack of sufficient formalized and consistent finance and accounting policies and procedures; lack of adequate communication and division of employees duties which includes the lack of delegation of authority guidelines; authority granted to the officers of Mr. Prepaid without sufficient controls; lack of adequate mechanisms for anticipating and identifying financial reporting risks, particularly the lack of risk assessment processes used in reacting to changes in the operating environment that could have a potential effect on financial reporting; and lack of controls to provide reasonable assurance that accounts were complete and accurate and agreed to detailed support and that reconciliations of accounts were properly performed, reviewed and approved.

These control deficiencies could result in material misstatements of significant accounts and disclosures that would result in a material misstatement to our interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that these control deficiencies constitutes a material weaknesses.

Due to the material weaknesses described above, our management performed additional analyses and other post-closing procedures to ensure that our unaudited interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, our management believes that the unaudited interim condensed consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the second quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. It is important to note that though no changes were made to internal controls in the second fiscal quarter of 2010, our management intends to implement enhancements and changes to Mr. Prepaid s internal control over financial reporting to provide reasonable assurance that errors and control deficiencies will not recur. Prior to February 24, 2010, Mr. Prepaid was

Table of Contents

a privately held company and did not have an appropriate internal control structure designed for external reporting purposes. These enhancements include the hiring of additional personnel with appropriate skills and experience in the application of GAAP commensurate with our financial reporting requirements, ongoing training, and development and communication of a delegation of authority policy and other process enhancements. The enhancements and changes we propose to implement represent our plan to remediate the material weaknesses identified above.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks and other intellectual property of third parties by the Company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Coastline Capital On May 5, 2008, we filed a lawsuit against Coastline Capital for Declaratory Relief related to the Valens and Laurus debenture transactions. Our suit for Declaratory Relief seeks a Judgment from the Court that Coastline Capital has not earned a broker s fee in the Valens/Laurus transaction in that Coastline Capital did not represent us in the transaction that closed and, pursuant to the terms of the brokerage contract Coastline Capital was not entitled to a broker s fee. On June 23, 2008, Coastline Capital filed an answer and cross-complaint against us contending that Coastline Capital earned a broker s fee when the Valens/Laurus debenture transaction closed. We have filed an answer to the Cross Complaint which denied the allegations of the Cross Complaint and asserted affirmative defenses. The parties have agreed to binding arbitration to resolve this dispute. The arbitration proceeding was concluded in May 2010. On June 10, 2010, we were notified of the arbitrator s decision and award, in the amount of $300,000, in favor of Coastline Capital in this matter. We have recorded the net amount of the award in the second quarter of fiscal year 2010 as loss on legal settlement.

Ian Caplan On June 23, 2009, Ian Caplan and Click Connect LLC filed a lawsuit in the Los Angeles Superior Court against us claiming the plaintiffs were not paid commissions for revenues generated by one of our former subsidiaries. On September 2, 2009, we filed an answer to the complaint which denied the allegations of the complaint and asserted affirmative defenses. The plaintiffs have never executed a contract with the Company and the Company has not located any documents pursuant to which it assumed any obligations to pay commissions to the plaintiffs. This matter has recently been settled and we have agreed to pay the plaintiffs $7,500 as well as issue the plaintiffs 100,000 shares of our common stock.

Liotta Litigation On November 24, 2009, Matthew Liotta filed a first amended complaint in Fulton County Georgia against us and one of our former subsidiaries alleging wrongful termination and damages for unpaid compensation pursuant to a written employment contract. On January 12, 2010, the Company and its former subsidiary filed an answer denying the allegations of the complaint and asserting affirmative defenses including that neither the Company nor its former subsidiary had ever executed an employment contract with Matthew Liotta. Mr. Liotta s termination was for cause and he was paid all of his salary and benefits, accordingly; we believe that Mr. Liotta has initiated this lawsuit, along with the litigation discussed below, based upon his dismissal for cause as an employee of Telenational, our former subsidiary. We intend to continue to defend this claim.

Former One Ring Networks Shareholders litigation Five of the 11 former shareholders (which include Matthew Liotta, and his father, Dennis Liotta) of One Ring, a former subsidiary of the Company, filed a lawsuit, in The District Court of Nebraska, against the Company claiming that the True Up portion of the purchase price due to them under that certain Stock Purchase Agreement between One Ring and the Company dated March 28, 2008 was incorrectly calculated and unpaid. On January 27, 2010, we filed an answer to the complaint denying the allegations of the complaint and asserted affirmative defenses based upon our documentation that the True Up calculations were accurately prepared and all amounts were properly paid to each of the former One Ring shareholders. On January 20, 2010, the Court denied the Application for a Preliminary Injunction brought by the Plaintiffs requesting that we not transfer or spin off One Ring pending the resolution of this litigation. The Order denying the Preliminary Injunction was based upon the opposition filed by the Company to the application for the Preliminary Injunction. In June 2010, the court set forth a schedule for the discovery phase as well as setting a February 2011 date for the trial in this matter. We will continue to defend this claim.

In connection with the initial closing under the Share Exchange Agreement, our former subsidiary Telenational agreed to indemnify and hold us harmless from all liabilities of Telenational and One Ring including any claims, losses or damages arising from or relating to the legal proceedings described above.

Item 1A. Risk Factors

There are no material changes to the risk factors set forth in Part I, Item 1, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended October 31, 2009. Please refer to that section for disclosures regarding the risks and

uncertainties related to our business. You should carefully consider such risk factors in evaluating our business because such factors may have a significant impact on our business, operating results, liquidity and financial condition. As a result of the identified risk factors, actual results could differ materially from those projected in any forward-looking statements. Additional risks and uncertainties not presently known to us, or that we currently consider to be immaterial, may also impact our business, operating results, liquidity and financial condition, including the potential effects of the current global unrest in the principal financial markets which could negatively affect current and future business prospects in our market segments. If any such risks occur, our business, operating results, liquidity and financial condition could be materially affected in an adverse manner. In addition, the trading price of our stock, when and if a market develops for our stock, could decline.

Item 5. Other Information.

On June 14, 2010, we issued 40,000,000 shares of our common stock in satisfaction of an aggregate of $2,000,000 of indebtedness of our subsidiary, Mr. Prepaid, owed to third party lenders. The issuance of the common stock was made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, or Regulation D promulgated thereunder.

Item 6. Exhibits

Exhibit Index

NO.	DESCRIPTION OF EXHIBIT
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)

Table of Contents

SIGNATURES

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

	SPOT MOBILE INTERNATIONAL LTD.
Date: June 16, 2010	By: /s/ Charles J. Zwebner Charles J. Zwebner Chief Executive Officer
Date: June 16, 2010	By: /s/ David Stier David Stier Chief Financial Officer

Table of Contents

Exhibit Index

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)