NEOMEDIA TECHNOLOGIES INC
Form 10-K
March 25, 2011

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

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934: For the Fiscal Year Ended December 31, 2010

¨ 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 registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 36-3680347<br>(I.R.S. Employer<br>Identification No.) |

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

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

| | |
|---|---|
| Securities Registered Under Section 12(b) of the Exchange Act: | None - Quoted on the OTC Bulletin Board® (OTCBB) |
| Name of exchange on which registered: | |
| Securities registered pursuant to Section 12(g) of the Act: | None |

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $3.6 million, based on the closing sale price for the registrant's common stock on that date. For purposes of determining this number, all officers and directors of the registrant are considered to be affiliates of the registrant. This number is provided only for the purpose of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

The number of outstanding shares of the registrant's Common Stock on March 22, 2011 was 58,418,784.

Documents Incorporated By Reference - None

NeoMedia Technologies, Inc.

INDEX

NeoMedia Technologies, Inc.

PART I

ITEM 1. Business

In this Annual Report on Form 10-K, unless otherwise indicated, the words "NeoMedia", "Company" "we," "us," and "our" re to NeoMedia Technologies, Inc., a Delaware corporation, and all entities owned or controlled by NeoMedia Technologies, Inc., except where it is made clear that the term only means the parent or a subsidiary company. As of December 31, 2010, we had one active wholly-owned subsidiary: NeoMedia Europe AG, ("NeoMedia Europe") incorporated in Germany. In addition, there are several dormant subsidiaries which are listed in Exhibit 21.

Overview

We are a Delaware corporation, founded in 1989 and based in Atlanta, Georgia. We are an innovator and a global market leader in 2D mobile barcode technology and infrastructure solutions that enable the mobile barcode ecosystem world-wide. With our state-of-the-art mobile barcode technology, we believe that NeoMedia harnesses the power of the mobile phone in a whole new way. With this technology, mobile phones with cameras become barcode scanners and this enables a range of practical applications including consumer oriented advertising, mobile ticketing and couponing, and business-to-business commercial track and trace solutions. As a leading technology pioneer in the global mobile barcode industry, we believe that our suite of products, services and IP portfolio makes us the only provider able to offer a comprehensive end-to-end mobile barcode solution. We offer barcode management and infrastructure, reader solutions and IP licensing, as well as mobile couponing and ticketing products and services. Our current customers include handset manufacturers, platform providers, brands and agencies looking to offer innovative mobile barcode solutions to their customer base. NeoMedia offers "one stop" for all of our customers' mobile barcode needs.

NeoMedia also provides a full end-to-end solution for global mobile 2D barcode implementations. NeoMedia is able to provide comprehensive solutions for mobile barcode creation, management, resolution, and data reporting as well as mobile coupon, ticketing and hardware scanning solutions. We believe that this comprehensive offering is unlike any other provider in the marketplace. NeoMedia has been a pioneer in the mobile barcode field since the mid-1990s, and during that time has spearheaded the development of a robust IP portfolio that encompasses many preferred mobile barcode implementations. We have an IP portfolio currently consisting of over sixty (60) issued and pending patents. We are willing and able to license our IP and platforms to the entire ecosystem, including competitors, to facilitate the growth of the mobile barcode ecosystem world-wide. We have also worked closely with the standards bodies to help overcome the hurdles to full market development. We believe that brands are interested in scale and are not interested in proprietary solutions. We promote an open and interoperable approach to the market to empower the mobile ecosystem.

We believe that the market for barcode services is rapidly developing in several regions around the world. We believe also that brands of all sizes are recognizing the enormous potential for mobile barcodes and we continue to position ourselves to take part in this growing marketplace. We are focusing our efforts primarily in the United States and Europe and continue to maximize our five key solution portfolios. We are expanding our sales and business development activities both directly to brands and to advertising agencies in these key markets, and we are working with our customers to help drive consumer awareness and adoption of mobile barcodes.

From our perspective, two of our strategic approaches continue to show progress. The first is the maximization of our patent portfolio through IP licensing, and the second is our development of relationships with key mobile agency/platform resellers to maximize the reach of our barcode management, infrastructure solutions and our barcode reader products. However, we anticipate that by broadening our outreach and approaching brands directly, we can continue to accelerate our sales activities. Our NeoMedia Europe business continues to focus on building the opportunities for mobile couponing, ticketing and hardware scanning solutions in Europe. NeoMedia Europe has had success in markets in Europe and Asia and we intend to build on these successes, with heavy emphasis in Europe, which will continue to contribute to our overall revenue mix.

Since 2009, we have been building IP licensing programs around our patent portfolios. A summary of our key IP licensing agreements is as follows:

- Mobile Tag: On July 28, 2009, we entered into a three year non-exclusive patent licensing agreement with Mobile Tag, Inc. (“Mobile Tag”). Under the terms of that agreement, we will receive annual minimum royalties and then a percentage of revenue generated by Mobile Tag through the use of our barcode ecosystem patent portfolio within a defined field of use in the United States.

- Neustar: On October 2, 2009, we entered into a four year agreement with Neustar, Inc. (“Neustar”) in which we granted to Neustar a right to sub-license our barcode ecosystem patent portfolio to their customers primarily for the purpose of establishing and providing registry and clearinghouse services within a defined field of use in the territory of the United States and Mexico. Neustar’s sub-license rights were originally exclusive within their territory. However, on December 14, 2010, this right was changed to a non-exclusive right. Since February 12, 2010 we have participated in and have helped to facilitate the Neustar Mobile Codes Pilot Program.

- Scanbuy: On October 16, 2009, we entered into a ten year settlement and license agreement with Scanbuy, Inc. (“Scanbuy”), in which we and Scanbuy settled all of our pending litigation against each other and we granted non-exclusive licenses and a sublicense to each other. Under the terms of that agreement, we will receive annual minimum royalties and then a percentage of revenue generated by Scanbuy through the use of our barcode ecosystem patent portfolio within a defined field of use in the United States.

- eBay: On December 21, 2010, we entered into a license, covenant not to sue and release agreement to grant a five year, non-exclusive, non-sublicensable license to eBay Inc. (“eBay”). The license grants freedom to operate to eBay, its affiliates and certain third parties, by providing a worldwide right to use our barcode technology patents. We received a license fee from eBay for the initial term. The Agreement also provided mutual covenants not to sue and mutual releases to the parties. The Agreement also granted to eBay a sixty (60) day option to a similar license for our search technology patents, which they exercised on February 15, 2011, and for which we received an additional license fee for the initial term. The initial term of the licenses expires on December 31, 2015, and the licenses may be extended for successive 3 year terms, for additional license fees, from eBay.

During 2009 and 2010, we also entered into strategic agreements for our services with mobile marketing agencies and platform resellers. These resellers typically represent brands and mobile technology solutions in Europe and the United States. Currently there are six (6) such active agreements.

Given the need to drive consumer adoption of barcode scanning, we are also seeking to have the barcode reader scanning software pre-installed on mobile phones in order to make it easy for the consumer to access the barcode reader application. Thus far, we have entered a strategic relationship with Sony Ericsson and Samsung Electronics Italy, as described below:

- Sony Ericsson: On November 27, 2009, we entered into an agreement with Sony Ericsson Mobile Communications, AB, through which they have selected NeoMedia as their strategic 2D barcode partner and NeoReader will be pre-installed across all Sony Ericsson platforms.

- Samsung Electronics Italy: On September 13, 2010, we entered into an agreement with Samsung Electronics Italy, Italian subsidiary of Samsung Electronics, to pre-load NeoReader onto Samsung’s Omnia II devices.

Discussions with other leading handset manufacturers are also underway. In addition, our NeoReader (“NeoReader”) scanning product is available for download in key “app stores” including Android, Apple, Blackberry, Nokia, and Ovi.

We plan to continue to take this diversified sales approach to ensure that we maximize all revenue opportunities for our business in this time of tremendous market growth and opportunity.

Products and Services

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

Software - Our barcode ecosystem includes software designed to read 2D barcodes using camera and web-enabled wireless communications devices and products to create unique barcodes, to create and manage advertising campaigns using barcodes, to act as a gateway managing activity between the consumer and the advertiser, and to gather and interpret the results of advertising campaigns. These products include:

- NeoReader – a barcode scanning application that transforms mobile camera phones into universal barcode readers. Users simply launch the NeoReader application on their mobile phone, scan the barcode and are linked either directly or indirectly through a resolution server to a specific web page. There they can access real-time product or service information, download content or complete a mobile commerce transaction. Any product, magazine/newspaper, retail display or billboard with a 2D barcode provides access to the multimedia capability of the mobile web anytime, anywhere. NeoReader features our patented resolution technology with an ultra-small footprint and platform-independent algorithms. This application provides interoperability among 2D barcodes in the market and operates on a wide variety of handsets.

- NeoReader SDK & Lavasphere Enterprise – software solutions for commercial applications where mobile devices are utilized to manage products through manufacturing or distribution channels. These applications equip mobile devices to read 1D and 2D barcodes with their built-in camera. The mobile devices become universal barcode readers, allowing users to “track and trace” products and services anytime, anywhere. These solutions are ideal tools for a variety of business applications including data collection, logistics, content linking, and accessing information on the go. They provide the ability to capture lifecycle data for products and services in real time and to share relevant data in a secure and selective manner.

  - NeoReader SDK: a standard solution utilizing our NeoReader technology to route transactions to a customer’s existing mobile web application
  - Lavasphere Enterprise: a customized solution using LavaSphere barcode-reading technologies for functions that are too complex to be handled by a mobile web application

- NeoSphere - a web-based system that supports barcode management and allows users (typically agencies and brands) to easily develop, launch and manage a mobile barcode campaign by delivering three critical components:

  - Barcode creation tools
  - Campaign management tools
  - Reporting and analytics

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

- NeoMedia Code Routing Service – is used in conjunction with NeoSphere and includes an intelligent gateway configurable to support global interoperability and a barcode resolution server designed to retrieve and deliver any form of internet content to mobile phones worldwide. Our Code Resolution Service uniquely provides:

  - Interoperability with other campaign management systems

- o Access to all barcode-enabled handsets worldwide
- o Data tracking, collection, and monetization of each mobile transaction

- NeoMedia MSS – MSS is a completely stand-alone system supporting third-party ticketing/couponing systems and databases as well as adding all missing components to existing mobile systems essential for the successful completion and fulfillment of mobile applications. Based on our customers' needs and requirements, we believe that we provide the best solution by:

- Integrating third-party ticketing and couponing systems
- Providing marketing databases and our own coupon system
- Encrypting and sending codes to mobile phones
- Decrypting and analyzing code contents
- Enabling customer's own coupon and ticket configuration
- Supplying statistics and information on mobile activities, and
- Implementing and delivering customized hardware and software solutions

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

- EXIO II - a multi-application smart scanner for mobile couponing and ticketing applications. The cutting-edge technology of the EXIO II smart scanner allows customers to redeem mobile tickets and coupons making it easy and affordable to use creative new mobile marketing text messaging programs to track and reach customers. EXIO II is the evolution of EXIO® and combines all the advantages of EXIO® with improved reading capabilities and a programmable Linux platform that was developed based on customer feedback we have received during our more than 10 years of operation. The EXIO II is the ideal tool for one-to-one marketing applications and highly targeted customer campaigns. With its color LCD touch-screen and video playback capability, the EXIO II can be customized to display targeted content and brand messages. Prior to 2009, we offered EXIO®, a complete solution including printer, display, keypad and GSM/GPRS module. EXIO® read and processed 2-D symbologies such as Data Matrix from mobile phone displays as well as printed 1D barcodes. Utilizing a high-speed Digital Signal Processor (DSP) and a high-resolution camera, EXIO® automatically recognizes 2D barcodes such as Data Matrix, sent as MMS (Multimedia Message Service), EMS (Enhanced Message Service) or Picture Message (Smart Message) to any compatible mobile phone.

- XELIA – a versatile desktop scanner that incorporates Honeywell Adaptus® Imaging Technology 5.0 to enable high-performance reading of 2D codes from mobile phone displays. Equipped with a high-speed Digital Signal Processor (DSP), XELIA automatically recognizes 2D codes sent as text messages (SMS, MMS or EMS) as well as printed 1D barcodes. It processes rapidly and with extreme accuracy. Its compact size and sleek design make XELIA ideal for counter-top use at a point-of-sale or service desk. It can also be used for sweepstakes, mobile advertising (tickets and coupons) and boarding passes. Prior to 2009, we offered our model MD-20 – a high-performance OEM code reader providing unparalleled flexibility in scanning 2-D symbologies such as Data Matrix from mobile phone displays as well as printed 1-D barcodes. Because of its compact size, speed and flexibility, MD-20 was the ideal high-performance fixed-position 2-D code reader for a wide range of applications where mobile code reading, mobile couponing, mobile ticketing and mobile marketing was required, thus enabling the phone to be used as the single universal mobile device.

Sales and Marketing Relationships

We have worked to establish a network of direct salespeople, affiliates, resellers and business development personnel to market our suite of products and services. We market our products and services to potential customers primarily in the Americas and Europe.

Data Centers

As of December 31, 2010, we do not own any data centers. We have servers located in a data center in Miami, Florida, where our network infrastructure is supported by an outside vendor.

Proprietary Technology

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

International Revenue

Revenues from our international customers totaled $382,000 and $1.1 million for the years ended December 31, 2010 and 2009, respectively. These revenues are denominated and received primarily in Euros.

Competition

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

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

Intellectual Property

We rely on a combination of laws (including patent, copyright, trademark, service mark and trade secret laws) and contractual restrictions to establish and protect our proprietary rights. As of December 31, 2010, we owned 68 patents spanning 22 countries. Our patents cover core concepts behind our technology for linking the physical world to the electronic world. These patents cover various linkage methods including barcodes, RF/ID, Mag Stripe, Voice and other machine readable and keyed entry identifiers.

On June 9, 2009 we received an Ex Parte Reexamination Certificate from the United States Patent and Trademark Office ("USPTO") for our United States Patent No. 6,199,048 (the "'048"). The '048 patent was under reexamination at the request of third party Electronic Frontier Foundation, and the Patent Office ruled that the inventions as described in the claims, amended during the reexamination, are patentable over the prior art.

On June 9, 2010 we were informed by our counsel that our US Patent No. 6,766,363 (the "'363"), is not currently enforceable because we do not own U.S. Patent No. 6,101,534, as required by the Terminal Disclaimer filed during the prosecution of the application that issued as the '363 patent.

On August 25, 2010, we were notified by The Webb Law Firm that they had filed a request for ex parte reexamination with the USPTO of our '048 patent. The request for reexamination asserts that certain claims in our patent are invalid over prior art references not previously before the USPTO. On November 23, 2010 the USPTO issued an office action agreeing to the ex parte reexamination. On November 30, 2010 the USPTO issued a further communication indicating the extent to which the reexamination will evaluate the patent and which claims of the patent would be addressed. On January 29, 2011, we filed an amendment of the ‘048 patent with the USPTO in response to the reexamination. The amendment proposes several minor changes and clarifications to the ‘048 patent to address the issues enumerated in the reexamination. We believe that the amendment supports the continued validity of the ‘048 patent. We expect that the USPTO will respond to our amendment during May or June of 2011.

Although the ‘048 and ‘363 patents are important to our business, we have a broad portfolio consisting of U.S. and foreign patents and pending applications relating to our barcode technology and to our search technology.

During 2010 and 2009 we have licensed our patents to Mobile Tag, Neustar, Scanbuy and eBay. In addition, we have also entered into platform license agreements with mobile marketing agencies and platform resellers for our services. These resellers typically represent brands and mobile technology solutions in Europe and the United States. Currently there are six (6) such active agreements. We are in discussions with other companies with regard to the licensing of our patents and our technology platforms. However, there can be no guarantee that any of these discussions will result in future revenues.

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

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

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

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

Government Regulation

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

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

Employees

As of March 22, 2011, we had 21 employees, including six (6) employees managed from our headquarters in Atlanta, Georgia, and 15 employees managed from our offices in Würseln, Germany. Two of our employees are employed on a part-time basis and the remaining 19 employees are employed on a full-time basis. None of our employees are represented by a labor union or bound by a collective bargaining agreement. We believe that our employee relations are good.  In addition to our employees, we retain several independent contractors under written agreements to provide specific services. As of March 22, 2011 we have retained the services of five (5) independent contractors.

Research and Development

We have incurred $1.7 million and $1.4 million in research and development expenses during the years ended December 31, 2010 and 2009, respectively. None of these expenses were directly borne or reimbursed by our customers.

ITEM 1A. Risk Factors

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

Risks Related to Our Business

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

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

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

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

We have historically incurred net losses from operations and we expect that we will continue to have negative cash flows as we implement our business plan. There can be no assurance that our continuing efforts to execute our business plan will be successful and that we will be able to continue as a going concern. The accompanying consolidated financial statements have been prepared in conformity with US GAAP, which contemplate our continuation as a going concern.  Net income for the year ended December 31, 2010 was $35.1 million and our net loss for the year ended December 31, 2009 was $67.4 million, respectively. Net cash used by operations during the years ended December 31, 2010 and 2009 was $5.7 million and $4.2 million, respectively.  At December 31, 2010, we have an accumulated deficit of $244.4 million. We also have a working capital deficit of $88.4 million, of which $72.3 million is related to our financing instruments, including $29.7 million related to the fair value of warrants and those debentures that are recorded as hybrid financial instruments, and $42.6 million related to the amortized cost carrying value of certain of our debentures and the fair value of the associated derivative liabilities. We also have a continuing purchase price guarantee obligation of $4.5 million associated with an acquisition of a business in 2006, which we subsequently sold in 2007.

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

We currently do not have sufficient cash, or commitments for financing, to sustain our operations for the next twelve months. We will require additional financing in order to execute our operating plan and continue as a going concern. Our management's plan is to secure adequate funding to bridge the commercialization of our patent licensing and barcode ecosystem businesses. We cannot predict whether this additional financing will be in the form of equity, debt, or another form and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In the event that these financing sources do not materialize, or that we are unsuccessful in increasing our revenues and profits, we may be unable to implement our current plans for expansion, repay our debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. During 2010 and in prior years, YA Global Investments, L.P. ("YA Global") has from time to time provided us with financing. Should YA Global choose not to provide us with continued capital financing, as they have in the past, or if we do not find alternative sources of financing to fund our operations or if we are unable to generate significant product revenues, we will only have sufficient funds to sustain our current operations through approximately April 15, 2011.

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

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

During 2010, YA Global provided us with financing, totaling $6.9 million. YA Global has informed us that they intend to provide additional financing for our operations during 2011, and has provided us with an additional $1.6 million in financing as of the date of this Annual Report on Form 10-K. If cash received from our customers and licensees is not sufficient to fund our operations, we will require additional capital financing from YA Global or from other sources in the future in order to continue as a going concern.

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

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

We have made significant changes to strengthen our management team. In October 2010, Ms. Laura Marriott, a Member of our Board of Directors, became our Chairperson and Interim CEO and Mr. George O'Leary, also a member of our Board of Directors, became our Interim COO. In January 2011, Mr. Bruce Braun became our Vice President – Sales and Business Development. If our management and Board of Directors are unable to attract and retain management to execute our plans, then we may fail to grow our revenues, contain costs and achieve profitability and positive cash flows, which could cause us to discontinue our operations.

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

Effective internal controls are necessary for us to provide reliable and accurate financial reports and prevent fraud. In addition, Section 404 under the Sarbanes-Oxley Act of 2002 requires that we assess the design and operating effectiveness of internal control over financial reporting. If we cannot provide reliable and accurate financial reports and prevent fraud, our business and operating results could be harmed. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. We have identified material weaknesses in our internal control as of December 31, 2010. These matters and our efforts regarding remediation of these matters, as well as efforts regarding internal controls generally, are discussed in detail in Part II, Item 9A., Controls and Procedures, of this Annual Report on Form 10-K. However, as our material weaknesses in our internal controls demonstrate, we cannot be certain that the remedial measures we have taken to date will ensure that we design, implement, and maintain adequate controls over our financial processes and reporting in the future. Remedying the material weaknesses that have been presently identified, and any additional deficiencies, significant deficiencies or material weaknesses that we may identify in the future, could in the future require us to incur significant costs, hire additional personnel, expend significant time and management resources or make other changes. Any delay or failure to design and implement new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results, cause us to fail to meet our financial reporting obligations, or prevent us from providing reliable and accurate financial reports or avoiding or detecting fraud. Disclosure of our material weaknesses, any failure to remediate such material weaknesses in a timely fashion or having or maintaining ineffective internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock and our access to capital, which could have a material adverse affect on our business.

We guaranteed the value of our common stock issued in connection with a prior-year acquisition which resulted in a material cash liability.

Pursuant to the terms of a 2006 acquisition agreement, we were obligated to compensate the sellers in cash for the difference between the market price at the time the shares become saleable and the price at which the shares were valued for purposes of the acquisition agreement. At the time the shares became saleable in 2007, such obligation amounted to $16.2 million.

During 2007, we issued 197,620,948 shares of our common stock, valued at $9.4 million, as partial settlement of the $16.2 million obligation, leaving a balance due of $6.8 million. Also during 2007, we made payments of $500,000 and negotiated a reduction of $1.8 million in the obligation, leaving a purchase price guarantee balance due of $4.5 million, the entire balance of which is currently due and payable. As of December 31, 2010, the parties to whom the balance is due have not come forward to claim or otherwise resolve the matter.

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

The repayment of our convertible debentures, issued to YA Global, is secured by substantially all of our assets. As of December 31, 2008, we received a waiver from YA Global, of several events of non-compliance related to the debentures and related financial instruments. On April 6, 2009, in connection with the amendment of our securities purchase agreement with YA Global, we were granted additional waivers. In the future we could again become non-compliant with the provisions of such debentures and there can be no assurance that YA Global will continue to grant us waivers for past, present or future events of non-compliance. In the event we are unable to repay such secured convertible debentures, we could lose substantially all of our assets and be forced to cease our operations.

There is limited information upon which investors can evaluate our business because the physical-world-to-internet market is rapidly changing and developing which could make an investment in the Company a risky investment.

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

- maintain and increase our client base;
- implement and successfully execute our business and marketing strategy;
- continue to develop and upgrade our products;
- continually update and improve service offerings and features;
- respond to industry and competitive developments; and
- attract, retain and motivate qualified personnel.

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

Our future profitability depends on the timely introduction of new products and the acceptance of these new products in the marketplace, without which our business may be materially adversely affected.

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

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

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

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

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

- with a price of less than $5.00 per share;
- that are not traded on a "recognized" national exchange;
- whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ listed stock must still have a price of not less than $5.00 per share); or
- in issuers with net tangible assets less than $2 million (if the issuer has been in continuous operation for at least three years) or $5 million (if in continuous operation for less than three years), or with average revenues of less than $6 million for the last three years.

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

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

During the years ended December 31, 2010 and 2009, we reported net income of $35.1 million and a net loss of $67.4 million, respectively, resulting primarily from adjustments recorded to reflect the change in fair value from the revaluation of warrants and the embedded conversion features in our Series C and D preferred stock, and convertible debentures. We adjust the carrying value of these derivative instruments to market at each balance sheet date. As a result, we could experience significant fluctuations in our earnings in future periods from such gains or losses, based on movements in our share price. As a result, our income from operations may be completely overshadowed by the impact of fluctuations in the fair value of our financial instruments, resulting solely from changes in the price of our Common Stock. Therefore, our financial statements are highly complex and may be difficult for all but the most financially sophisticated readers to comprehend.

We are uncertain of the profitability of our mobile business and the failure of this business would negatively affect the price of our stock, which could have a materially adverse impact on our shareholders.

We provide products and services that provide a link from physical objects, including printed material, to the mobile internet. We can provide no assurance that our mobile business will ever achieve profitability or that the products we develop will obtain market acceptance. In the event that our mobile business never achieves profitability or if our products fail to obtain market acceptance, our business, prospects, financial condition, and results of operations would be materially adversely affected, which in turn could diminish the value of our securities held by shareholders.

A large percentage of our assets are intangible assets, which will have little or no value if our operations are not profitable.

At December 31, 2010, approximately 80% of our total assets were intangible assets and goodwill, consisting primarily of rights related to our patents, other intellectual property, and the excess of the purchase price over the fair value of tangible assets acquired in our purchase of NeoMedia Europe. If our operations are not profitable, these assets will have little or no value, which would materially adversely affect the value of our stock and the ability of our shareholders to recoup their investments in our stock.

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

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

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

Our internally developed systems are inefficient and may put us at a competitive disadvantage.

We use internally developed technologies for a portion of our technologies required to interconnect our clients' and customers' physical-world-to-internet systems and hardware with our own. As we develop these systems in order to integrate disparate systems and hardware on a case-by-case basis, these systems may require a significant amount of customization. Additionally, changes to the underlying operating systems used by our clients may cause us to expend resources to update our systems in order to conform to new or upgraded operating systems. Such client and customer-specific customization, or changes imposed by upgrades to operating systems, is time consuming and costly and may place us at a competitive disadvantage when compared with our competitors with more efficient systems.

We utilize a data center maintained by a third party, which could negatively affect our ability to support our customers and/or our financial performance.

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

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

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

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

We may not be able to compete effectively in markets where our competitors have more resources which could have a material adverse effect on our business.

Although the market for physical-world-to-internet technology is relatively new, it is already highly competitive and characterized by an increasing number of entrants that have introduced or developed products and services similar to those offered by us. We believe that competition will intensify and increase in the near future. Our target market is rapidly evolving and is subject to continuous technological change. As a result, our competitors may be better positioned to address these developments or may react more favorably to these changes, which could have a material adverse effect on our business, prospects, financial condition, and results of operations.
Some of our competitors have longer operating histories, larger customer bases, longer relationships with clients, and significantly greater financial, technical, marketing, and public relations resources than we do. We may not successfully compete in any market in which we conduct or may conduct operations. We may not be able to penetrate markets or market our products as effectively as our better-funded, more-established competitors.

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

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

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

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

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

- we have contractually limited our liability for such claims adequately or at all

- Or that we would have sufficient resources to satisfy any liability resulting from any such claim.

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

We will not pay cash dividends and investors may have to sell their shares in order to realize their investment, which may not be easy for investors to do.

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

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

Some of the provisions of our Certificate of Incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders by providing them with the opportunity to sell their shares at a premium to the then-current market price. On December 10, 1999, our Board of Directors adopted a shareholders rights plan and declared a non-taxable dividend of the right to acquire one-one hundredth of a share of our Series A Preferred Stock, par value $0.01 per share, on each outstanding share of our common stock to shareholders of record on December 20, 1999 and each share of common stock issued thereafter until a pre-defined hostile takeover date. The shareholder rights plan was adopted as an anti-takeover measure, commonly referred to as a “poison pill”. The shareholder rights plan was designed to enable all shareholders not engaged in a hostile takeover attempt to receive fair and equal treatment in any proposed takeover of us and to guard against partial or two-tiered tender offers, open market accumulations, and other hostile tactics to gain control of us. The shareholders rights plan was not adopted in response to any effort to acquire control of us at the time of adoption, however it may have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of us or a change in control of us. Certain shareholders, who were our founders, Charles W. Fritz, William E. Fritz and The Fritz Family Limited Partnership and their holdings, were exempted from the triggering provisions of our “poison pill” plan, as a result of the fact that, as of the plan’s adoption, their holdings might have otherwise triggered the “poison pill”.

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

We are authorized to issue a total of 25 million shares of preferred stock, par value $0.01 per share. The issuance of any preferred stock could have a material adverse effect on the rights of holders of our common stock, and, therefore, could reduce the value of shares of our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to, a third party. The ability of our Board of Directors to issue preferred stock could have the effect of rendering more difficult, delaying, discouraging, preventing, or rendering more costly an acquisition of us or a change in our control.

The internet’s lack of security may inhibit the growth of online services, which could have a materially adverse affect on our business.

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

We may not be able to adapt as the internet, physical-world-to-internet, and customer demands continue to evolve which could have a materially adverse affect on our business.

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

- rapid technological change;

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

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

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

As of December 31, 2010, we had leases on two facilities, our corporate headquarters in Atlanta, Georgia, and NeoMedia Europe’s office in Würselen, Germany. Our principal executive, development and administrative office is located in Atlanta, Georgia.  We occupy approximately 10,000 square feet under a written sublease from an unaffiliated party which expires on September 29, 2011, with monthly rent of approximately $16,000. On March 6, 2010 we entered into a sub-sublease with an unaffiliated party in which we have leased to them approximately 6,400 square feet of our space for approximately $8,000 per month. Our net rental obligation under these agreements is therefore approximately $8,000, per month through the expiration of our sublease term.

NeoMedia Europe operates from a facility in Würselen, Germany, where approximately 4,400 square feet are leased under the terms of a written lease which expires on September 30, 2011, with monthly rent of approximately $6,000.

ITEM 3. Legal Proceedings

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

Ephrian Saguy, iPoint – Media, plc. and iPoint – Media, Ltd. – On or around March 5, 2008, we received a summons and notice that the plaintiffs had commenced a third party action in the Magistrate Court in Tel-Aviv-Jaffa, Israel seeking damages from us and YA Global for breach of contract and unjust enrichment related to services provided by iPoint and investment in us by YA Global. We entered into an assignment agreement with YA Global who settled the matter in 2010 at no cost to us.

William Klawonn v. Y.A. Global Investments, L.P. and NeoMedia Technologies, Inc. – On April 28, 2010, William Klawonn, a shareholder of NeoMedia, filed a derivative action, in the United States District Court for the District of New Jersey, against YA Global and us claiming trading activities that violated section 15 U.S.C. § 78p(b). On July 8, 2010, an order was granted in the case stipulating that the plaintiff had agreed that we have no liability in the action. The order also stipulated that we will be considered a nominal party to the action, and as such we remain subject to the discovery rights and obligations of the action. On December 6, 2010, an order was granted in the case to dismiss for the plaintiff's failure to state a valid claim for relief, without prejudice. However the order also allowed the plaintiff 45 days to amend the complaint. On January 20, 2011, the plaintiff filed an amended complaint. On February 4, 2011, a further order was granted in the case again stipulating that the plaintiff had agreed that we have no liability in the action. The order also again stipulated that we will continue to be considered a nominal party to the action, and as such we remain subject to the discovery rights and obligations of the action. At this time, we are unable to predict with any certainty the outcome of this litigation including the merits or value of the complaint.

The Webb Law Firm – On August 25, 2010, we were notified by The Webb Law Firm that they had filed a request for ex parte reexamination with the United States Patent and Trademark Office (USPTO), of our '048 patent. The request for reexamination asserted that certain claims in our patent are invalid over prior art references not previously before the USPTO. On November 23, 2010, the USPTO issued an office action agreeing to the ex parte reexamination. On November 30, 2010, the USPTO issued a further communication indicating the extent to which the reexamination will evaluate the patent and which claims of the patent would be addressed. On January 29, 2011, we filed an amendment of the '048 patent with the USPTO in response to the reexamination. The amendment proposes several minor changes and clarifications to the '048 patent to address the issues enumerated in the reexamination. We believe that the amendment supports the continued validity of the '048 patent. We expect that the USPTO will respond to our amendment during May or June of 2011.

Baniak Pine & Gannon, LLC, Valauskas & Pine LLC, and McDonnell Boehnen Hulbert & Berghoff LLP – On February 18, 2011, Baniak Pine & Gannon, LLC, Valauskas & Pine LLC, and McDonnell Boehnen Hulbert & Berghoff LLP filed a complaint for injunctive and other relief against us and a member of our Board of Directors, Mr. George G. O'Leary in The United States District Court For The Northern District Of Illinois, Eastern Division. The complaint seeks to recover certain legal fees related to the plaintiff's services to us and other damages for tortuous interference by Mr. O'Leary. Our bylaws provide for the indemnification of our Directors against complaints such as this and we also have in place directors' and officers' liability insurance. At this time, we believe that the complaint against Mr. O'Leary is without merit. We are however unable to predict with any certainty the outcome of the complaint against us, including its merits or value.

ITEM 4. (Removed and Reserved)

# PART II

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

Market Information

Our common shares are quoted on the Over-The-Counter Bulletin Board ("OTCBB") under the symbol "NEOM.OB". As of December 31, 2010, we had 25,678,978 common shares issued and outstanding.

The following table summarizes the high and low closing sales prices per share of the common stock for the periods indicated as reported on the OTCBB. Prices per share for 2009, the first quarter of 2010 and a portion of the second quarter of 2010 have been adjusted to present the information as adjusted for the company's 1 share for 100 share reverse stock split, which became effective on May 10, 2010:

| | High | Low |
|---|---|---|
| 2010: | | |
| Fourth quarter | $ 0.23 | $ 0.07 |
| Third quarter | $ 0.25 | $ 0.16 |
| Second quarter | $ 0.58 | $ 0.15 |
| First quarter | $ 1.14 | $ 0.45 |
| 2009: | | |
| Fourth quarter | $ 2.37 | $ 0.79 |
| Third quarter | $ 1.74 | $ 0.40 |
| Second quarter | $ 3.21 | $ 1.22 |
| First quarter | $ 3.70 | $ 0.12 |

The following table presents certain information with respect to our equity compensation plans as of December 31, 2010:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 701,878 | $ 1.55 | 1,413,431 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 701,878 | $ 1.55 | 1,413,431 |

We have four stock option plans - the 2005 Stock Option Plan, the 2003 Stock Option Plan, the 2003 Stock Incentive Plan, and the 2002 Stock Option Plan. Options issued under these option plans may have a term of up to 10 years. Options may be granted with any vesting schedule as approved by the Stock Option Committee and/or the

Board of Directors, but generally the vesting periods range from immediate vesting to 5 years. Common shares required to be issued on the exercise of stock options would be issued from our authorized and unissued shares.

Performance Graph

We are a “smaller reporting company” as defined by Regulation S-K and, as such, are not required to provide this information.

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

On April 20, 2009, we issued 16,467,078 shares of our common stock to GZ Paul Management Services, GMBH in final settlement of the outstanding balance due to the sellers for our purchase of NeoMedia Europe. The shares were valued at $0.02565 per share, which was 95% of the fair value at the time of issuance.

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

On January 5, 2010, we filed with the Secretary of State of the State of Delaware a Certificate of Designation of Series D Convertible Preferred Stock (“Series D preferred stock”). On January 7, 2010, we filed an amendment with the Secretary of State of the State of Delaware to include certain registration rights in connection with the Series D preferred stock. On March 5, 2010, we filed an amendment with the Secretary of State of the State of Delaware to further amend the voting rights of the Series D preferred stock. By the approval and filing, 25,000 shares were designated as Series D preferred stock, all of which were issued to YA Global. The gross amount of this transaction was $2.5 million and we received net proceeds of $1.9 million, net of $100,000 in transaction fees and the redemption of $500,000 in short term notes payable to YA Global. Our Series D preferred stock, par value $0.01 per share, has the following rights:

- Holders are entitled to dividends at a rate of 8% per annum, if, as and when declared by the Board of Directors;
- Holders receive proceeds of $100 per share upon our liquidation, dissolution or winding up;
- Each Series D preferred share is convertible, at the option of the holder, into shares of our common stock at the lesser of (i) $0.02 or (ii) 97% of the lowest closing bid price of our common stock for the 125 trading days immediately preceding the date of conversion; and
- Holders have voting rights on an as-converted basis with our common stock.

On January 13, 2011, we issued 5,000,000 shares of our common stock to four parties in connection with a transaction to acquire certain residual rights related to four of our patents and to settle litigation with Rothschild Trust Holdings, LLC.

Holders

On March 22, 2011, the closing price of our common stock as reported on the OTCBB was $0.038 per share and there were approximately 390 shareholders of record.  The number of record holders does not include beneficial owners of common stock whose shares are held in the names of banks, brokers, nominees or other fiduciaries.

Dividends

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

ITEM 6. Selected Financial Data

We are a “smaller reporting company” as defined by Regulation S-K and, as such, are not required to provide this information.

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

Overview

NeoMedia Technologies, Inc., a Delaware corporation ("NeoMedia", and also referred to herein as "us", "we" and "our"), is an innovator and global market leader in 2D mobile barcode technology and infrastructure solutions that enable the mobile barcode ecosystem world-wide. NeoMedia harnesses the power of the mobile phone in a whole new way with state-of-the-art mobile barcode technology. With this technology, mobile phones with cameras become barcode scanners and this enables a range of practical applications including consumer oriented advertising, mobile ticketing and couponing, and business-to-business commercial track and trace solutions. As a leading technology pioneer in the global mobile barcode industry, we believe that our suite of products, services and IP portfolio makes us the only provider able to offer a comprehensive end-to-end mobile barcode solution. We offer barcode management and infrastructure, reader solutions and IP licensing, as well as mobile couponing and ticketing products and services. Our current customers include handset manufacturers, platform providers, brands and agencies looking to offer innovative mobile barcode solutions to their customer base. NeoMedia offers "one stop" for all of our customers' mobile barcode needs.

NeoMedia provides a full end-to-end solution for global mobile 2D barcode implementations. NeoMedia is able to provide comprehensive solutions for mobile barcode creation, management, resolution, and data reporting as well as mobile coupon, ticketing and hardware scanning solutions. We believe that this comprehensive offering is unlike any other provider in the marketplace. NeoMedia has been a pioneer in the mobile barcode field since the mid-1990s, and during that time has spearheaded the development of a robust IP portfolio that encompasses many preferred mobile barcode implementations. We have an IP portfolio currently consisting of over sixty (60) issued and pending patents. We are willing and able to license our IP and platforms to the entire ecosystem, including competitors, to facilitate the growth of the mobile barcode ecosystem world-wide. We have also worked closely with the standards bodies to help overcome the hurdles to full market development and will continue to do so. Brands are interested in scale and are not interested in proprietary solutions. We promote an open and interoperable approach to the market to empower the mobile ecosystem.

The market for barcode services is rapidly developing in several regions around the world. Brands of all sizes are recognizing the enormous potential for mobile barcodes and we continue to position ourselves to take part in this growing marketplace. We are focusing our efforts primarily in the United States and Europe and continue to maximize our five key solution portfolios. We are expanding our sales and business development activities both directly to brands and to advertising agencies in these key markets, and we are working with our customers to help drive consumer awareness and adoption of mobile barcodes.

From our perspective, two of our strategic approaches continue to show success. The first is the maximization of our patent portfolio through IP licensing, and the second is to partner with key mobile agency/platform resellers to maximize the reach of our barcode management, infrastructure solutions and our barcode reader products. However, we anticipate that by broadening our outreach and approaching brands directly, we can continue to accelerate our sales activities. Our NeoMedia Europe business continues to focus on building the opportunities for mobile couponing, ticketing and hardware scanning solutions in Europe. NeoMedia Europe has had success in markets in Europe and Asia and we plan to build on these successes, with heavy emphasis in Europe, which will continue to contribute to our overall revenue mix.

Since 2009, we have been building IP licensing programs around our patent portfolios. A summary of our key IP licensing agreements is as follows:

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Mobile Tag: On July 28, 2009, we entered into a three year non-exclusive patent licensing agreement with Mobile Tag, Inc. ("Mobile Tag"). Under the terms of that agreement, we will receive annual minimum royalties and then a percentage of revenue generated by Mobile Tag through the use of our barcode ecosystem patent portfolio within a defined field of use in the United States.

- Neustar: On October 2, 2009, we entered into a four year agreement with Neustar, Inc. ("Neustar") in which we granted to Neustar a right to sub-license our barcode ecosystem patent portfolio to their customers primarily for the purpose of establishing and providing registry and clearinghouse services within a defined field of use in the territory of the United States and Mexico. Neustar's sub-license rights were originally exclusive within their territory. However, on December 14, 2010, this right was changed to a non-exclusive right. Since February 12, 2010 we have participated in and have helped to facilitate the Neustar Mobile Codes Pilot Program.

- Scanbuy: On October 16, 2009, we entered into a ten year settlement and license agreement with Scanbuy, Inc. (“Scanbuy”), in which we and Scanbuy settled all of our pending litigation against each other and we granted non-exclusive licenses and a sublicense to each other. Under the terms of that agreement, we will receive annual minimum royalties and then a percentage of revenue generated by Scanbuy through the use of our barcode ecosystem patent portfolio within a defined field of use in the United States.

- eBay: On December 21, 2010, we entered into a license, covenant not to sue and release agreement to grant a five year, non-exclusive, non-sublicensing license to eBay Inc. (“eBay”). The license grants freedom to operate to eBay, its affiliates and certain third parties, by providing a worldwide right to use our barcode technology patents. We received a license fee from eBay for the initial term. The Agreement also provided mutual covenants not to sue and mutual releases to the parties. The Agreement also granted to eBay a 60 day option to a similar license for our search technology patents, which they exercised on February 15, 2011, and for which we received an additional license fee for the initial term. The initial term of the licenses expires on December 31, 2015 and the licenses may be extended for successive 3 year terms, for additional license fees, from eBay.

During 2009 and 2010, we have also entered into strategic agreements with mobile marketing agencies and platform resellers for our services. These resellers typically represent brands and mobile technology solutions in Europe and the United States. Currently there are six (6) such agreements and have begun to conduct trial initiatives and some active campaigns in markets in the US and Europe.

Given the need to drive consumer adoption of barcode scanning, we are also seeking to have the barcode reader scanning software pre-installed on mobile phones in order to make it easy for the consumer to access the barcode reader application. Thus far, we have entered a strategic relationship with Sony Ericsson and Samsung Electronics Italy as described below:

- Sony Ericsson: On November 27, 2009, we entered into an agreement with Sony Ericsson Mobile Communications, AB, through which they have selected NeoMedia as their strategic 2D barcode partner and NeoReader will be pre-installed across all Sony Ericsson platforms.

- Samsung Electronics Italy: On September 13, 2010, we entered into an agreement with Samsung Electronics Italy, Italian subsidiary of Samsung Electronics, to pre-load NeoReader onto Samsung’s Omnia II devices.

Discussions with other leading handset manufacturers are also underway. In parallel, we also have our NeoReader scanning product available for download in the key “app stores” including Android, Apple, Blackberry, Nokia and Ovi.

We will continue to take this diversified sales approach to ensure that we maximize all revenue opportunities for our business in this time of tremendous market growth and opportunity.

Critical Accounting Policies and Estimates

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

We consider the following accounting policies important in understanding our operating results and financial condition:

- 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. Although there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the weighted-average probability method outlined in FASB ASC Topic 360, Property, Plant, and Equipment. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we have used are consistent with the plans and estimates that we use to manage our business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect our net operating results.

According to FASB ASC 360, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We follow the two-step process outlined in FASB ASC 360 for determining if an impairment charge should be taken: (1) the expected undiscounted cashflows from a particular asset or asset group are compared with the carrying value; if the expected undiscounted cashflows are greater than the carrying value, no impairment is recognized, but if the expected undiscounted cashflows are less than the carrying value, then (2) an impairment charge is recognized for the difference between the carrying value and the expected discounted cashflows. The assumptions used in developing expected cashflow estimates are similar to those used in developing other information used by us for budgeting and other forecasting purposes. In instances where a range of potential future cashflows is possible, we use a probability-weighted approach to weigh the likelihood of those possible outcomes. In such instances, we use a discount rate equal to the yield on zero-coupon treasury instruments with a life equal to the expected life of the assets being tested.

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

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

For certain of our convertible debentures, we have elected not to separately account for the embedded conversion feature as a derivative instrument but to account for the entire hybrid instrument at fair value in accordance with FASB ASC Topic 815, Derivatives and Hedging. For the remaining convertible debentures and our convertible preferred stock, the underlying instruments are carried at amortized cost and the embedded conversion feature is accounted for separately at fair value in accordance with FASB ASC 815-40-05 and FASB ASC 815-40-15.

Financial Instruments and Concentrations of Credit Risk – Our financial instruments include cash and cash equivalents, accounts receivable, the cash surrender value of life insurance policies, accounts payable, accrued expenses, our accrued purchase price guarantee obligation, notes payable, and other current liabilities. For these financial investments, we believe the carrying values approximate their fair values due to their short-term nature.

Certain of our convertible debentures are recognized as hybrid financial instruments and are carried in their entirety at fair value in accordance with FASB ASC 815. At December 31, 2010 and 2009, the fair value of these debentures of $27,484,000 and $37,678,000, respectively, exceeded their face amount of $10,914,000 by $16,570,000 and $26,694,000, respectively. Outstanding common stock warrants that are accounted for as derivative liabilities are also carried at fair value.

Our Series C and D preferred stock and most of our convertible debentures are carried at amortized cost, with separate recognition of the fair value of any embedded derivative instrument liabilities, including the conversion feature.

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

- License revenues, including intellectual property licenses, represent revenue from the licensing of our intellectual property and proprietary software tools and application products. We license our development tools and application products under non-exclusive and non-transferable license agreements. The basis for license fee revenue recognition is substantially governed by FASB ASC 985-605, Software Revenue Recognition. License revenue is recognized if persuasive evidence of an agreement exists, delivery has occurred, pricing is fixed and determinable, and collectability is reasonably assured. We defer revenue related to license fees for which amounts have been invoiced and/or collected in accordance with the payment terms of the licensing agreements, but for which the above criteria have not been fully met. We recognize licensing revenue over the term of the licensing agreement, and we evaluate our deferrals periodically for any potential adjustments.

- Hardware, software, and service revenues, which includes sales of software and technology equipment and service fees, is recognized based on guidance provided in FASB ASC 650-10-S99, Revenue Recognition in Financial Statements. Software and technology equipment resale revenue is recognized when persuasive evidence of an arrangement exists, the price to the customer is fixed and determinable, delivery of the service has occurred and collectability is reasonably assured. Service revenues, including maintenance fees for providing system updates for software products, user documentation and technical support, are recognized over the life of the contract. We defer revenue related to technology service and product revenue for which amounts have been invoiced and/or collected but for which the requisite service has not been provided. Revenue is then recognized over the matching service period.

- We recognize shipping and handling costs at the time of invoice. All associated transportation and handling costs for products shipped are borne by the customer and are recognized as part of revenue at the time of invoicing and are accrued as cost of revenues.

- We recognize tax billings related to our sales revenue at the time of invoicing. The customer is responsible for paying all associated taxes to us in connection with the sale as part of the terms and conditions of the sales invoice. Taxes on billings in connection with invoices are paid to the corresponding taxing authority directly by us and recovered from the customer upon payment of the customer invoice.

- When sales transactions include multiple deliverables or shipments, we recognize revenue on only that part of the transaction that has been shipped to the customer. Revenue on subsequent shipments as part of an original order or deliverable is recognized upon each new shipment or release of deliverables to the customer.

- Valuation of Accounts Receivable – Judgment is required when we assess the likelihood of ultimate realization of recorded accounts receivable, including assessing the likelihood of collection and the credit worthiness of customers. If the financial condition of our customers were to deteriorate or their operating climate were to change, resulting in an impairment of either their ability or willingness to make payments, an increase in the allowance for doubtful accounts would be required. Similarly, a change in the payment behavior of customers generally may require an adjustment in the calculation of an appropriate allowance. Each month we assess the collectability of specific customer accounts, the aging of accounts receivable, our history of bad debts, and the general condition of the industry. If a major customer's credit worthiness deteriorates, or our customers' actual defaults exceed historical experience, our estimates could change and impact our reported results. At December 31, 2010 and 2009, we concluded that no allowance for doubtful accounts was required. For the years ended December 31, 2010 and 2009, our bad debt expense (recovery) was $197,000 and $(9,000), respectively.

- Inventory – Inventories are stated at the lower of cost (using the first-in, first-out method) or market. We continually evaluate the composition of our inventories, assessing slow-moving and ongoing products and maintain a reserve for slow-moving and obsolete inventory as well as related disposal costs. As of December 31, 2010 and 2009, we had recorded reserves for inventory shrinkage and obsolescence of $114,000 and $136,000, respectively.

- Stock-based Compensation – We record stock-based compensation in accordance with FASB ASC 718, Compensation-Stock Compensation, which requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. We use the Black-Scholes-Merton option pricing model and recognize compensation cost on a straight-line basis over the vesting periods of the awards. Inherent in this model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield.

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

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

- Income Tax Valuation Allowance – Deferred tax assets are reduced by a valuation allowance when, in the opinion of our management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We recorded a 100% valuation allowance at December 31, 2010 and 2009.

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

Discontinued Operations

At December 31, 2010, we have a continuing purchase price obligation of $4.5 million related to our acquisition of a business in 2006, and the sale of that business in 2007.

Results of Continuing Operations

The following table sets forth certain data derived from our consolidated statements of operations:

| | Year Ended December 31, 2010 | 2009 |
|---|---|---|
| | (in thousands) | |
| Revenues | $ 1,522 | $ 1,662 |
| Cost of revenues | 1,065 | 1,557 |
| Gross profit | 457 | 105 |
| | | |
| Sales and marketing expenses | 1,103 | 809 |
| General and administrative expenses | 3,854 | 3,942 |
| Research and development costs | 1,683 | 1,381 |
| Impairment of investment | - | 261 |
| Operating loss | (6,183) | (6,288) |
| | | |
| Loss on extinguishment of debt | (6,006) | - |
| Gain (loss) from change in fair value of hybrid financial instruments | 10,932 | (17,786) |
| Gain (loss) from change in fair value of derivative liability - warrants | 11,615 | (8,723) |
| Gain (loss) from change in fair value of derivative liability - Series C and D preferred | 26,949 | (31,442) |

| | | | | | | |
|---|---|---|---|---|---|---|
| stock and debentures | | | | | | |
| Interest expense related to convertible debt | | (2,217 | ) | | (3,139 | ) |
| | | | | | | |
| Net income (loss) | $ | 35,090 | | $ | (67,378 | ) |
| | | | | | | |
| Net income (loss) per share, basic and diluted: | | | | | | |
| Basic | $ | 1.44 | | $ | (3.41 | ) |
| Fully diluted | $ | (0.01 | ) | $ | (3.41 | ) |

26

| | Year Ended December 31, 2010 | Year Ended December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Revenues: | | |
| Hardware | $ 199 | $ 881 |
| Lavasphere | 152 | 167 |
| Barcode ecosystem | 30 | 9 |
| Patent licensing | 1,080 | 313 |
| Legacy products | 2 | 270 |
| Other | 59 | 22 |
| Total revenues | $ 1,522 | $ 1,662 |

Year Ended December 31, 2010 Compared With the Year Ended December 31, 2009

Revenues. Revenues for 2010 were $1.5 million, a decrease of 8%, from $1.7 million for 2009. Our revenues and product mix have changed as a result of changes in our operations and business strategy. For 2010, our hardware product sales were $199,000, a decrease of 77%, from $881,000 for 2009. During 2009, we introduced our newest barcode scanners and sold most remaining quantities of our older models. Our hardware products tend to be sold in large transactions and revenues can fluctuate significantly from period to period. For 2010, our Lavasphere product sales were $152,000, a decrease of 9% from $167,000 for 2009, as a result of slightly slower demand for these products and services. During 2010 and 2009, our Barcode ecosystem revenue was $30,000 and $9,000, respectively. We are focusing additional sales resources in this category in response to important opportunities with agencies and brands in the U.S. and Europe. In succeeding quarters, we expect these revenues to increase as we continue to focus our efforts on the barcode ecosystem. We believe this focus will deliver the most value in the future. During 2010 and 2009, revenues related to patent licensing agreements were $1.1 million and $313,000, respectively, an increase of 251% as a result of licensing agreements we entered into in late 2009 and 2010. During 2009 we disposed of our legacy software products. However, we retained a share of those products' future revenues and, accordingly, we expect these revenues to continue at reduced levels. In 2011, we expect our revenues to continue to change as we increase the focus of our efforts toward patent licensing and the barcode ecosystem, as well as renewing our efforts to increase our sales of our hardware products.

Cost of Revenues. Cost of revenues was $1.1 million for 2010, compared with $1.6 million for 2009, a decrease of $492,000, or 32%. Cost of revenues for NeoMedia Europe, related to our hardware products, was $138,000 and $613,000 in 2010 and 2009, respectively. Amortization costs related to our patents and the proprietary software of NeoMedia Europe were $943,000 and $944,000 for 2010 and 2009, respectively.

Sales and Marketing. Sales and marketing expenses were $1.1 million for 2010, compared with $809,000 for 2009, an increase of $294,000 or 36%. During 2009, we scaled back our sales and marketing efforts while we were reorganizing our business strategy to focus on our core technology. The increase in sales and marketing expense during 2010 over 2009 resulted from increased efforts to promote and drive our business strategy and core technology.

General and Administrative. General and administrative expenses were $3.9 million for 2010, compared with $4.0 million for 2009, a decrease of $88,000 or 2%. Expenses decreased as a result of continued streamlining consistent with simplifying of our operations.

Research and Development. In 2010, expenses for research and development were $1.7 million, compared with $1.4 million for 2009, an increase of $302,000 or 22%. Research and development increased as we continued the development of our barcode ecosystem products.

Impairment of Investment. In 2009, we wrote off the remaining carrying value of our investment in Sponge, Ltd. of $261,000.

Loss from Operations. In 2010, our loss from operations was $6.2 million, compared with $6.3 million in 2009, a decrease of $105,000 or 2%. Our gross margin increased in 2010 by $352,000, but was offset by increases in our sales and marketing expenses of $294,000, a decrease in our General and Administrative expenses of $88,000, and an increase in research and development expenses of $302,000. These increases in costs were mitigated by the reduction of our impairment expense of $261,000.

Loss on Extinguishment of Debt. On January 5, 2010, we modified the terms of our debentures with YA Global which extended the stated maturity dates to July 29, 2012, and increased to 125 days the look-back period used to calculate the variable conversion price per share for all debentures. This modification increased our future anticipated cash flows related to those instruments. Because the increase exceeded the threshold prescribed by FASB ASC 470-50, Debt Modifications and Extinguishments, the modification of the amounts due under these instruments was accounted for as an extinguishment of debt and we recognized a loss in the first quarter of 2010 of approximately $5.6 million. On May 27, 2010, we sold a secured convertible debenture to YA Global in the principal amount of $2,006,137. The debenture provided net proceeds of $1,410,000 after payment of $90,000 in fees and the use of $506,137 to repay the outstanding principal and interest on a promissory note dated April 1, 2010 owed to YA Global. We recognized an extinguishment loss of approximately $400,000 in connection with the repayment of the promissory note.

Gain (Loss) from Change in Fair Value of Hybrid Financial Instruments. We carry certain of our convertible debentures at fair value, in accordance with FASB ASC 815-15-25, and do not separately account for the embedded conversion feature. The change in the fair value of these liabilities includes changes in the value of the interest due under these instruments, as well as changes in the fair value of the common stock underlying the instruments. In 2010, the liability related to these hybrid instruments decreased resulting in a gain of $10.9 million. In 2009, the liability related to these hybrid instruments increased resulting in a loss of $17.8 million. These fair value changes were primarily the result of fluctuations in the value of our common stock during the periods. Because our stock price has been volatile and because many of our hybrid financial instruments include relatively low fixed conversion prices, it is possible that further fluctuations in the market price of our stock could cause the fair value of our hybrid financial instruments to change significantly in future periods.

Gain (Loss) from Change in Fair Value of Derivative Liabilities - Warrants. We account for our outstanding common stock warrants that were issued in connection with our Series C and D convertible preferred stocks and our debentures, at fair value. In 2010, the liability related to warrants decreased resulting in a gain of $11.6 million. In 2009, the liability related to warrants increased resulting in a loss of $8.7 million. These fair value changes were primarily the result of fluctuations in the value of our common stock during the period. Because our stock price has been volatile and because many of our warrants include relatively low fixed exercise prices it is possible that further fluctuations in the market price of our common stock could cause the fair value of our warrants to change significantly in future periods.

Gain (Loss) from Change in Fair Value of Derivative Liabilities - Series C and D Preferred Stock and Debentures. For our Series C and D convertible preferred stocks, and certain of our convertible debentures, we account for the embedded conversion feature separately as a derivative financial instrument. We carry these derivative financial instruments at fair value. In 2010, the liability related to the derivative instruments embedded in the Series C and D preferred stock and these debentures, decreased resulting in a gain of $26.9 million. In 2009, the liability related to the derivative instruments embedded in the Series C and D preferred stock and these debentures, increased resulting in a loss of $31.4 million. These fair value changes were primarily the result of fluctuations in the value of our common stock during the period. Because our stock price has been volatile and because many of our derivative financial instruments include relatively low fixed conversion prices, it is possible that further fluctuations in the market price of our common stock could cause the fair value of our derivative financial instruments to change significantly in future periods.

Interest Expense related to Convertible Debt. Interest expense related to convertible debentures that are carried at amortized cost, and which are not carried as hybrid financial instruments at fair value, was $2.2 million and $3.1 million in 2010 and 2009, respectively. These fluctuations in interest expense in 2010 were primarily the result of reductions in amortization of deferred financing costs and debt discounts and other interest adjustments accounted for under ASC 815-15-25.

Net Income (Loss). As a result of the above, we reported net income during 2010 of $35.1 million, an improvement of $102.5 million compared with our net loss during 2009 of $67.4 million. This change resulted primarily from changes in the gains and losses associated with our derivative instruments of $107.5 million and a decrease in interest expense related to convertible debt of $922,000, offset by a loss on extinguishment of debt of approximately $6.0 million.

Liquidity and Capital Resources

| | Year Ended December 31, 2010 | | Year Ended December 31, 2009 | |
|---|---|---|---|---|
| | (in thousands) | | | |
| Cash and cash equivalents | $ | 80 | $ | 198 |
| Net cash used in operating activities | $ | (5,679) | $ | (4,202) |
| Net cash used in investing activities | | (15) | | (100) |
| Net cash provided by financing activities | | 5,565 | | 3,226 |
| Effect of exchange rate changes on cash | | 11 | | 15 |
| Net (decrease) increase in cash | $ | (118) | $ | (1,061) |

During 2010 and 2009, we funded our liquidity requirements through our existing cash resources and borrowings under our convertible debentures with YA Global. As of December 31, 2010, we had $80,000 in cash and cash equivalents, a reduction of $118,000 from the $198,000 balance as of December 31, 2009.

Going Concern

We have historically incurred net losses from operations and we expect that we will continue to have negative cash flows as we implement our business plan. There can be no assurance that our continuing efforts to execute our business plan will be successful and that we will be able to continue as a going concern. The accompanying consolidated financial statements have been prepared in conformity with US GAAP, which contemplate our continuation as a going concern. Net income for the year ended December 31, 2010 was $35.1 million and our net loss for the year ended December 31, 2009 was $67.4 million, respectively. Net cash used by operations during the years ended December 31, 2010 and 2009 was $5.7 million and $4.2 million, respectively. At December 31, 2010, we have an accumulated deficit of $244.4 million. We also have a working capital deficit of $88.4 million, of which $72.3 million is related to our financing instruments, including $29.7 million related to the fair value of warrants and those debentures that are recorded as hybrid financial instruments, and $42.6 million related to the amortized cost carrying value of certain of our debentures and the fair value of the associated derivative liabilities. We also have a continuing purchase price guarantee obligation of $4.5 million associated with an acquisition of a business in 2006, which we subsequently sold in 2007.

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

We currently do not have sufficient cash, or commitments for financing, to sustain our operations for the next twelve months. We will require additional financing in order to execute our operating plan and continue as a going concern. Our management's plan is to secure adequate funding to bridge the commercialization of our patent licensing and barcode ecosystem businesses. We cannot predict whether this additional financing will be in the form of equity, debt, or another form and we may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In the event that these financing sources do not materialize, or that we are unsuccessful in increasing our revenues and profits, we may be unable to implement our current plans for expansion, repay our debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on our business, prospects, financial condition and results of operations. Should YA Global choose not to provide us with continued capital financing, as they have in the past, or if we do not find alternative sources of financing to fund our operations or if we are unable to generate significant product revenues, we only have sufficient funds to sustain our current operations through approximately April 15, 2011.

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

Significant Liquidity Events

Financing Provided By YA Global. In 2010, we received a gross total of $6.9 million in financing from YA Global through issuance of Series D preferred stock, a promissory note and a series of five convertible debentures. In 2009, we received a gross total of $2.8 million in financing from YA Global through a series of five convertible debentures, and through March 31, 2011 we received a gross total of $1.6 million in financing from YA Global through a series of three convertible debentures. We also issued to YA Global during 2010 warrants to acquire an aggregate of 10,850,000 shares of our common stock, and paid cash fees to them from the proceeds of the secured convertible debentures, promissory note issuance, and Series D preferred stock issuance of approximately $310,000.

Net cash provided by financing activities in 2010 was $5.6 million, which included the following:

- Gross proceeds of $2,500,000 from our Series D preferred stock, offset by fees paid of $100,000 and the repayment of a $500,000 promissory note issued on December 23, 2009 and due to YA Global, resulting in net proceeds of $1,900,000; and

- Gross proceeds of $500,000 in connection with a promissory note issued to YA Global on April 1, 2010, accruing interest at 8% per annum, less structuring fees of $10,000 and monitoring fees of $15,000, resulting in net proceeds of $475,000; and

- Gross proceeds of $2,006,137 in connection with a secured convertible debenture entered into with YA Global on May 27, 2010, accruing interest at 14% per annum and payable on the maturity date of July 29, 2012, less repayment of the April 1, 2010 promissory note of $500,000, less accrued interest on the promissory note of $6,137, less structuring and due diligence fees of $90,000, resulting in net proceeds of $1,410,000; and

- Gross proceeds of $550,000 in connection with a secured convertible debenture entered into with YA Global on August 13, 2010, accruing interest at 14% per annum and payable on the maturity date of July 29, 2012, less structuring and due diligence fees of $20,000, resulting in net proceeds of $530,000; and

- Gross proceeds of $475,000 in connection with a secured convertible debenture entered into with YA Global on September 28, 2010, accruing interest at 14% per annum and payable on the maturity date of July 29, 2012, less structuring and due diligence fees of $25,000, resulting in net proceeds of $450,000;and

- Gross proceeds of $400,000 in connection with a secured convertible debenture entered into with YA Global on October 28, 2010, accruing interest at 14% per annum and payable on the maturity date of July 29, 2012, less structuring and due diligence fees of $25,000, resulting in net proceeds of $375,000; and

- Gross proceeds of $450,000 in connection with a secured convertible debenture entered into with YA Global on December 15, 2010, accruing interest at 14% per annum and payable on the maturity date of July 29, 2012, less structuring and due diligence fees of $25,000, resulting in net proceeds of $425,000.

Cash provided by financing activities during 2009 was $2.7 million, which resulted from $2.6 million in convertible debt instruments, net of fees, from Y.A. Global, and proceeds received upon exercise of stock options by two former employees totaling $116,000.

In addition, on December 23, 2009, we issued a $500,000, 8% promissory note to YA Global, which was repaid on January 5, 2010, through the use of proceeds from the issuance of our Series D preferred stock to YA Global as described in Note 4 in the accompanying financial statements.

Under our security agreements with YA Global in connection with the convertible debentures, YA Global has a security interest in all of our assets. Additionally, we cannot

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

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

Subsequent to December 31, 2010, we entered into three Securities Purchase Agreements to issue and sell secured convertible debentures to YA Global in the combined principal amount of $1,550,000. The debentures, dated January 10, 2011, February 8, 2011 and March 11, 2011, are convertible, at the option of the holder, at a conversion price equal to the lesser of (i) $0.10 or (ii) 95% of the lowest closing bid price of our common stock for the 60 trading days preceding the date of conversion. The stated maturity date of the debentures is July 29, 2012. In conjunction with each convertible debenture, we also issued warrants to YA Global to purchase 1,250,000 shares of common stock for an exercise price of $0.10 per share for a period of five years.

Contractual Obligations

We are a "smaller reporting company" as defined by Regulation S-K and, as such, are not required to provide this information.

Recently Issued Accounting Standards

The following Accounting Standards Codification Updates have been issued, or will become effective, after the end of the period covered by this discussion:

| Pronouncement | Issued | Title |
|---|---|---|
| ASU No. 2010-26 | October 2010 | Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emerging Issues Task Force) |
| ASU No. 2010-27 | December 2010 | Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers (a consensus of the FASB Emerging Issues Task Force) |
| ASU No. 2010-28 | December 2010 | Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the FASB Emerging Issues Task Force) |
| ASU No. 2010-29 | December 2010 | Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force) |

| | | |
|---|---|---|
| ASU No. 2011-01 | January 2011 | Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 |

To the extent appropriate, the guidance in the above Accounting Standards Codification Updates is already reflected in our consolidated financial statements and management does not anticipate that these accounting pronouncements will have any future effect on our consolidated financial statements.

Off-Balance Sheet Arrangements

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are a “smaller reporting company” as defined by Regulation S-K and, as such, are not required to provide this information.

ITEM 8. Financial Statements

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of NeoMedia Technologies, Inc. (the "Company"), as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Kingery & Crouse, P.A
Certified Public Accountants
Tampa, FL
March 25, 2011

NeoMedia Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share data)

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 80 | $ 198 |
| Trade accounts receivable, net of allowance of $0 and $0 | 345 | 374 |
| Inventories, net of allowance of $114 and $136 | 112 | 124 |
| Prepaid expenses and other current assets | 151 | 294 |
| Total current assets | 688 | 990 |
| | | |
| Property and equipment, net | 96 | 129 |
| Goodwill | 3,418 | 3,418 |
| Proprietary software, net | 1,414 | 2,076 |
| Patents and other intangible assets, net | 2,048 | 1,996 |
| Cash surrender value of life insurance policies | 738 | 659 |
| Other long-term assets | 171 | 156 |
| Total assets | $ 8,573 | $ 9,424 |
| | | |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | $ 435 | $ 558 |
| Taxes payable | 126 | 4 |
| Accrued expenses | 9,413 | 7,292 |
| Deferred revenues and customer prepayments | 1,417 | 791 |
| Note payable | 69 | 69 |
| Note payable - YA Global | - | 500 |
| Accrued purchase price guarantee | 4,535 | 4,535 |
| Deferred tax liability | 706 | 706 |
| Derivative financial instruments - warrants | 2,213 | 9,912 |
| Derivative financial instruments - Series C and D preferred stock and debentures payable | 28,092 | 50,985 |
| Debentures payable - carried at amortized cost | 14,560 | 12,523 |
| Debentures payable - carried at fair value | 27,484 | 37,678 |
| Total current liabilities | 89,050 | 125,553 |
| | | |
| Commitments and contingencies (Note 12) | | |
| | | |
| Series C convertible preferred stock, $0.01 par value, 27,000 shares authorized, 8,336 and 8,642 shares issued and outstanding, liquidation value of $8,336 and $8,642 | 8,336 | 8,642 |
| Series D convertible preferred stock, $0.01 par value, 25,000 shares authorized, 25,000 and 0 shares issued and outstanding, liquidation value of $2,500 and $0 | 2,500 | - |
| | | |
| Shareholders' deficit: | | |
| | 26 | 23 |

| | | |
|---|---|---|
| Common stock, $0.001 par value, 5,000,000,000 shares authorized, 25,695,392 and 22,707,093 shares issued and 25,678,978 and 22,675,678 shares outstanding as of December 31, 2010 and December 31, 2009, respectively | | |
| Additional paid-in capital | 153,974 | 153,059 |
| Accumulated deficit | (244,395) | (276,985) |
| Accumulated other comprehensive loss | (139) | (89) |
| Treasury stock, at cost, 2,012 shares of common stock | (779) | (779) |
| Total shareholders' deficit | (91,313) | (124,771) |
| Total liabilities and shareholders' deficit | $ 8,573 | $ 9,424 |

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

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

| | Year ended December 31, 2010 | 2009 |
|---|---|---|
| Revenues | $1,522 | $1,662 |
| Cost of revenues | 1,065 | 1,557 |
| Gross profit | 457 | 105 |
| | | |
| Sales and marketing expenses | 1,103 | 809 |
| General and administrative expenses | 3,854 | 3,942 |
| Research and development costs | 1,683 | 1,381 |
| Impairment of investment | - | 261 |
| | | |
| Operating loss | (6,183) | (6,288) |
| | | |
| Loss on extinguishment of debt | (6,006) | - |
| Gain (loss) from change in fair value of hybrid financial instruments | 10,932 | (17,786) |
| Gain (loss) from change in fair value of derivative liability - warrants | 11,615 | (8,723) |
| Gain (loss) from change in fair value of derivative liability - Series C and D preferred stock and debentures | 26,949 | (31,442) |
| Interest expense related to convertible debt | (2,217) | (3,139) |
| | | |
| Net income (loss) | 35,090 | (67,378) |
| | | |
| Dividends on convertible preferred stock | (2,500) | (977) |
| | | |
| Net income (loss) attributable to common shareholders | 32,590 | (68,355) |
| | | |
| Comprehensive income (loss): | | |
| Net income (loss) | 35,090 | (67,378) |
| Other comprehensive loss - foreign currency translation adjustment | (50) | (103) |
| | | |
| Comprehensive income (loss) | $35,040 | $(67,481) |
| | | |
| Net income (loss) per share, basic and diluted: | | |
| Basic | $1.44 | $(3.41) |
| Fully diluted | $(0.01) | $(3.41) |
| | | |
| Weighted average number of common shares: | | |
| Basic | 22,681,031 | 20,064,869 |
| Fully diluted | 629,687,199 | 20,064,869 |

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

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

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Treasury Stock Shares | Treasury Stock Amount | Total Shareholders' Deficit |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2008 | 13,719,050 | $ 14 | $ 134,135 | $ 14 | $ (211,305) | 2,012 | $ (779) | $ (77,921) |
| Shares issued to YA Global on conversion of Series C preferred stock | 8,675,835 | 9 | 15,498 | - | (1,338) | - | - | 14,169 |
| Shares issued on excercisng of employee options | 116,000 | - | 116 | - | - | - | - | 116 |
| Shares issued for prior year acquisition | 25 | | | | | | | |