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NEOMEDIA TECHNOLOGIES INC
Form 8-K/A
June 21, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2 TO
FORM 8-K
CURRENT REPORT

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

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

NEOMEDIA TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

| | | |
|--|--------------------------|--------------------------------------|
| Delaware | 0-21743 | 36-3680347 |
| ----- | ----- | ----- |
| (State or Other Jurisdiction Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

2201 Second Street, Suite 600,
Fort Myers, Florida

(Address of Principal Executive
Offices)

33901

(Zip Code)

(239) - 337-3434

(Registrant's Telephone
Number, including Area Code)

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

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

ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

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Completion of Acquisition of Sponge Limited

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

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

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

On February 24, 2006, NeoMedia filed a Form 8-K with respect to Item 2.01, disclosing the completion of the acquisition of Sponge. On May 9, 2006, NeoMedia filed Amendment No. 1 to the Form 8-K, which included Sponge's financial statements required by Items 7(a) and (b) of Form 8-K. This Amendment No. 2 to Form 8-K is being filed in order to provide restated financial statements of Sponge.

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ITEM 9.01. FINANCIAL STATEMENTS, PRO FORMA INFORMATION AND EXHIBITS

(a) Financial Statements of Acquired Businesses - Sponge Ltd.

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

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

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September 30, 2005 and 2004 Statements of cash flows for the years ended September 30, 2005 and 2004 Notes to financial statements

(b) Pro Forma Financial Information

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

(c) Exhibits

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

EXPLANATORY NOTE: A portion of Sponge's sales for the periods presented in Amendment No. 1 to Form 8-K filed on May 9, 2006 were presented gross with an accompanying cost of goods sold. In connection with its first quarter 2006 review, NeoMedia evaluated the technical aspects of the revenue recognition treatment as it relates to Sponge's sales and cost of sales. Based on that review, NeoMedia concluded that the sales in question should be recognized on a net basis. The financial statements presented herein reflect the sales on a net basis. The effect of the adjustment is to reduce sales and cost of sales, and does not affect gross profit, operating expenses or net income. The adjustment also does not affect any balance sheet accounts or cashflow disclosures. Please see footnote 9 of the enclosed interim financial statements and footnote 15 of the enclosed audited financial statements for additional discussion.

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(a) Financial Statements of Acquired Business - Sponge Ltd.

Interim Financial Statements for the
three months ended December 31, 2005 and 2004 (unaudited)

Supplementary Financial Information

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

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

| | DECEMBER 31, 2005 \$ (unaudited) |
|--------------------------------------|---|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | 439,210 |
| Accounts receivable | 223,210 |
| Accrued income | 238,756 |
| Other receivables | 26,487 |
| Prepaid expenses | 47,978 |
| | ----- |
| Total current assets | 975,641 |
| | ----- |
| Property and equipment | |
| Equipment and furniture | 96,957 |
| Accumulated depreciation | (48,611) |
| | ----- |
| Total property and equipment | 48,346 |
| | ----- |
| Total assets | \$1,023,987 |
| | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Current liabilities | |

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| | |
|--|-------------|
| Accounts payable | 298,010 |
| Accrued expenses | 266,444 |
| Taxes payable | 89,693 |
| Other current liabilities | 22,742 |
| Customer deposits | 50,390 |
| Deferred taxes | --- |
| | ----- |
| Total current liabilities | 727,279 |
| | ----- |
| Long-term debt | 104,969 |
| | ----- |
| Total long-term liabilities | 104,969 |
| | ----- |
| Shareholders' equity | |
| Common stock | 631 |
| Additional paid in capital | 10,781 |
| Accumulated earnings/(deficit) | 220,536 |
| Accumulated foreign exchange | (40,209) |
| | ----- |
| Total shareholders' equity/(deficit) | 191,739 |
| | ===== |
| Total liabilities and shareholders' equity | \$1,023,987 |
| | ===== |

These financial statements were approved by the directors on 5th May 2006, except for Note 15, which is as of June 20, 2006, and are signed on their behalf by:

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

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED

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

| | 2005 | 2004 |
|-------------------------------------|-----------|-----------|
| | \$ | \$ |
| Sales | 622,969 | 415,852 |
| Cost of sales | (260,544) | (54,610) |
| | ----- | ----- |
| Gross Profit | 362,425 | 361,242 |
| General and administrative expenses | (389,371) | (252,343) |

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| | | |
|----------------------------|----------|------------|
| Operating income | (26,946) | 108,899 |
| Other income | 21,400 | -- |
| Interest | 4,657 | 1,317 |
| Total Other Income | 26,057 | 1,317 |
| (Loss)/income before taxes | (889) | 110,216 |
| Tax expense | -- | -- |
| Net (loss)/income | \$ (889) | \$ 110,216 |

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED

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

| | 2005 | 2004 |
|--|-----------|-----------|
| | \$ | \$ |
| Operating Activities | | |
| Net (loss)/income | (889) | 110,216 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 4,488 | 3,720 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 31,163 | (21,025) |
| Other current assets | 328,579 | (39,420) |
| Accounts payable | (957,469) | (204,572) |
| Accrued expenses and other current liabilities | (38,184) | 60,731 |
| Net cash used by operating activities | (632,312) | (90,350) |
| Investing activities: | | |
| (Purchase) disposal of equipment | 2,723 | (6,670) |
| Net cash used in investing activities | 2,723 | (6,670) |

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| | | |
|---|------------|------------|
| | ===== | ===== |
| Financing activities: | | |
| Issuance (payment) of long-term debt | (2,946) | 7,137 |
| | ----- | ----- |
| Net cash provided by financing activities | (2,946) | 7,137 |
| | ===== | ===== |
| Net decrease in cash | (632,535) | (89,883) |
| Foreign currency adjustment | (5,393) | (1,149) |
| Cash at beginning of year | 1,077,138 | 541,660 |
| | ----- | ----- |
| Cash at end of period | \$ 439,210 | \$ 450,628 |
| | ===== | ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest received | 4,657 | 1,317 |
| Taxes paid | 97,035 | 67,861 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED

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

1. Summary of Significant Accounting Policies

Nature of Business

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

Basis of Presentation

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

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Revenue Recognition

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

Revenue can be divided into two main sources:-

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

In both cases Revenue is dependent on message volumes and recognised according to the date of the message. Premium rate text services are recognized net of any fees paid back to the customer.

Use of Estimates

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

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SPONGE LIMITED

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

Credit Concentrations

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

Foreign Currencies

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

Financial Instruments

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

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

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debt.

2. Sales

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

| | 3 Months Ended December 31 | |
|----------------|----------------------------|---------|
| | 2005 | 2004 |
| | \$ | \$ |
| United Kingdom | 694,476 | 506,646 |
| USA | 1,780 | 231,784 |
| Other | 108,018 | - |
| | 804,274 | 738,430 |
| | ===== | ===== |

3. Taxes Payable

| | December 2005 | September 2005 |
|------------------|---------------|----------------|
| | \$ | \$ |
| Employment taxes | 33,819 | 31,989 |
| Corporation tax | 55,874 | 55,696 |
| | 89,693 | 87,685 |
| | ===== | ===== |

4. Lease Commitments

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

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SPONGE LIMITED

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

5. Related Party Transactions

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

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

Included in Accrued Expenses is an amount of \$2,323 (September 2005: \$1,592) due to A Meisl (Director) in respect of business expenses incurred

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but not reimbursed.

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

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

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

Control

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

6. Long-term Debt

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

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SPONGE LIMITED

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

7. Common Stock

Authorised Common Stock

| | As of December 31, 2005 (pound) |
|--|---------------------------------------|
| 1,000,000 Ordinary shares of (pound)1 each | 1,000,000 ===== |

Allotted, called up and fully paid:

| | As of December 31, 2005 | |
|----------------------------------|----------------------------|------------|
| | No. | \$ |
| Ordinary shares of (pound)1 each | 423 === | 631 === |

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

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8. Post Balance Sheet Events

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

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

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SPONGE LIMITED

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

9. Restatement of previously reported financial information

The company, in reviewing its accounting practices, became aware that a net, rather than gross, revenue recognition of its premium rate text promotional services would give a fairer presentation of results. As a result, the company has overstated its sales as well as overstated its cost of sales on its statement of income. The treatment did not affect net income, nor any balance sheet or equity accounts, or cashflow disclosures.

As a result, the company has restated certain financial information that was previously reported in its financial statements for the three months ended December 31, 2005 and 2004. The following tables provide a reconciliation of amounts previously reported by the company:

| | Three Months Ended December 31, 2005 | | | Three Months Ended D | |
|---------------|--------------------------------------|---------------------------|-------------------|------------------------|------------------|
| | Previously Reported | Restatement Adjustment | Restated Total | Previously Reported | Restat Adjust |
| | \$ | \$ | \$ | \$ | \$ |
| Sales | 804,274 | (181,305) | 622,969 | 738,430 | (3 |
| Cost of sales | 441,849 | (181,305) | 260,544 | 377,188 | (3 |
| | ----- | ----- | ----- | ----- | ----- |
| Gross profit | 362,425 | --- | 362,425 | 361,242 | ----- |
| | ===== | ===== | ===== | ===== | ===== |

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Audited Financial Statements for the
years ended September 30, 2005 and 2004

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SPONGE LIMITED

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

We have audited the accompanying balance sheets of Sponge Limited as at September 30 2005 and 2004 and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

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significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

The consolidated financial statements described above have been restated from those previously issued as described in note 15.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sponge Limited as at September 30 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

5th May 2006, except for Note 15, which is as of June 20, 2006.

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

| | 2005 | 2004 |
|---|--------------|--------------|
| | \$ | \$ |
| <hr style="border-top: 1px dashed black;"/> | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 1,077,138 | 541,660 |
| Accounts receivable | 254,373 | 268,863 |
| Accrued income | 563,471 | 179,643 |
| Other receivables | 41,737 | 28,612 |
| Prepaid expenses | 36,592 | 4,205 |
| | ----- | ----- |
| Total current assets | 1,973,311 | 1,022,983 |
| | ----- | ----- |
| Property and equipment | | |
| Equipment and furniture | 99,680 | 41,780 |
| Accumulated depreciation | (44,123) | (28,888) |
| | ----- | ----- |
| Total property and equipment | 55,557 | 12,892 |
| | ----- | ----- |
| Total assets | \$ 2,028,868 | \$ 1,035,875 |
| | ===== | ===== |

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LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|--------------|--------------|
| Current liabilities | | |
| Accounts payable | 1,255,479 | 755,029 |
| Accrued expenses | 317,320 | 212,960 |
| Taxes payable | 87,685 | 18,584 |
| Other current liabilities | 21,695 | 12,048 |
| Customer deposits | 39,009 | -- |
| Deferred taxes | 1,744 | -- |
| | ----- | ----- |
| Total current liabilities | 1,722,932 | 998,621 |
| | ----- | ----- |
| Long-term debt | 107,915 | 110,386 |
| | ----- | ----- |
| Total long-term liabilities | 107,915 | 110,386 |
| | ----- | ----- |
| Shareholders' equity | | |
| Common stock | 631 | 631 |
| Additional paid in capital | 10,781 | 10,781 |
| Accumulated earnings/(deficit) | 221,425 | (60,156) |
| Accumulated foreign exchange | (34,816) | (24,388) |
| | ----- | ----- |
| Total shareholders' equity/(deficit) | 198,021 | (73,132) |
| | ===== | ===== |
| Total liabilities and shareholders' equity | \$ 2,028,868 | \$ 1,038,875 |
| | ===== | ===== |

These financial statements were approved by the directors on 5th May 2006, except for Note 15, which is as of June 20, 2006 and are signed on their behalf by:

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

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED

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

| | 2005 | 2004 |
|---------------|-------------|-----------|
| | \$ | \$ |
| Sales | 1,959,599 | 782,403 |
| Cost of sales | (1,008,662) | (390,268) |
| | ----- | ----- |
| Gross Profit | 950,937 | 392,135 |

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| | | |
|-------------------------------------|------------|-----------|
| General and administrative expenses | (659,107) | (345,260) |
| | ----- | ----- |
| Operating income | 291,830 | 46,875 |
| | ----- | ----- |
| Other income | 35,764 | -- |
| Interest | 13,999 | 2,145 |
| | ----- | ----- |
| Total Other Income | 49,763 | 2,145 |
| | ----- | ----- |
| Income before taxes | 341,593 | 49,020 |
| Tax expense | (60,012) | -- |
| | ----- | ----- |
| Net income | \$ 281,581 | \$ 49,020 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED

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

| | 2005 | 2004 |
|--|-----------|-----------|
| | \$ | \$ |
| Operating Activities | | |
| Net income | 281,581 | 49,020 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 16,592 | 11,770 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 8,852 | (141,232) |
| Other current assets | (393,178) | (79,486) |
| Accounts payable | 540,509 | 597,438 |
| Accrued expenses and other current liabilities | 179,228 | (29,759) |

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| | | |
|--|--------------|------------|
| | ----- | ----- |
| Net cash provided by operating activities | 633,584 | 407,751 |
| | ===== | ===== |
| Investing activities: | | |
| Purchase of equipment | (58,835) | (8,905) |
| | ----- | ----- |
| Net cash used in investing activities | (58,835) | (8,905) |
| | ===== | ===== |
| Financing activities: | | |
| Net proceeds from issuance of common stock | -- | 10,792 |
| | ----- | ----- |
| Net cash provided by financing activities | -- | 10,792 |
| | ===== | ===== |
| Net increase in cash | 574,749 | 409,638 |
| Foreign currency adjustment | (39,271) | 15,631 |
| Cash at beginning of year | 541,660 | 116,391 |
| | ----- | ----- |
| Cash at end of year | \$ 1,077,138 | \$ 541,660 |
| | ===== | ===== |
| Supplemental Cash Flow Information: | | |
| Interest received | 13,999 | 2,144 |
| Taxes paid | 323,523 | 77,238 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED
STATEMENT OF SHAREHOLDERS' EQUITY/(DEFICIT)

| | Common Stock Shares of (pound)1 each \$ | Additional Paid in Capital \$ | Accumulated Foreign Exchange \$ | Accumulated Earnings/ (Deficit) \$ | Sha |
|-----------------------------|---|--|--|---|-----|
| Balance September 30, 2003 | 620 | -- | (14,132) | (109,176) | |
| Issuance of common stock | 11 | 10,781 | -- | -- | |
| Comprehensive income: | | | | | |
| Net income | -- | -- | -- | 49,020 | |
| Foreign currency adjustment | -- | -- | (10,256) | -- | |
| | ----- | ----- | ----- | ----- | |

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| | | | | |
|-----------------------------|--------|-----------|-------------|------------|
| Balance September 30, 2004 | 631 | 10,781 | (24,388) | (60,156) |
| Comprehensive income: | | | | |
| Net income | -- | -- | -- | 281,581 |
| Foreign currency adjustment | -- | -- | (10,428) | -- |
| | ----- | ----- | ----- | ----- |
| Balance September 30, 2005 | \$ 631 | \$ 10,781 | \$ (34,816) | \$ 221,425 |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

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SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

1. Summary of Significant Accounting Policies

Nature of Business

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

Revenue Recognition

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

Revenue can be divided into two main sources:-

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

In both cases Revenue is dependent on message volumes and recognised according to the date of the message. Premium rate text services are recognized net of any fees paid back to the customer.

Equipment and Furniture

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

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Income Taxes

The company accounts for income taxes under the liability method.

Deferred Taxes

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

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

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

Advertising

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

Use of Estimates

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

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SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
SEPTEMBER 30, 2005 AND 2004

Credit Concentrations

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

Foreign Currencies

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

Financial Instruments

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

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

2. Sales

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

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

3. Other Income

| | 2005 | 2004 |
|------|--------|-------|
| | \$ | \$ |
| Rent | 35,764 | - |
| | ===== | ===== |

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SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
SEPTEMBER 30, 2005 AND 2004

4. Particulars of Employees

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

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

The aggregate payroll costs of the above were:

| | 2005 | 2004 |
|--|------|------|
|--|------|------|

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

5. Directors' Emoluments

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

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

6. Interest

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

7. Tax Expense

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

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SPONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
SEPTEMBER 30, 2005 AND 2004

8. Taxes Payable

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

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| | |
|--------|--------|
| ----- | ----- |
| 87,685 | 18,584 |
| ===== | ===== |

9. Lease Commitments

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

10. Related Party Transactions

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

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

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

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

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

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

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

Control

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

11. Long-term Debt

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

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SEPTEMBER 30, 2005 AND 2004

12. Deferred Taxation

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

| | 2005 | 2004 |
|--------------------------------|-------|-------|
| | \$ | \$ |
| Charge arising during the year | 1,822 | - |
| Foreign currency adjustment | (78) | - |
| | ----- | ----- |
| Liability carried forward | 1,744 | - |
| | ===== | ===== |

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

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

13. Common Stock

Authorised Common Stock

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

Allotted, called up and fully paid:

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

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

14. Post Balance Sheet Events

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

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

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 SEPTEMBER 30, 2005 AND 2004

15. Restatement of previously reported financial information

The company, in reviewing its accounting practices, became aware that a net, rather than gross, revenue recognition of its premium rate text promotional services would give a fairer presentation of results. As a result, the company has overstated its sales as well as overstated its cost of sales on its statement of income. The treatment did not affect net income, nor any balance sheet or equity accounts, or cashflow disclosures.

As a result, the company has restated certain financial information that was previously reported in its audited financial statements for the fiscal years ended September 30, 2005 and 2004. The following tables provide a reconciliation of amounts previously reported by the company:

| | Year Ended September 30, 2005 | | | Year Ended September 30, 2004 | |
|---------------|-------------------------------|------------------------|----------------|-------------------------------|------------------------|
| | Previously Reported | Restatement Adjustment | Restated Total | Previously Reported | Restatement Adjustment |
| | \$ | \$ | \$ | \$ | \$ |
| Sales | 4,600,169 | (2,640,570) | 1,959,599 | 2,243,180 | (1,400,000) |
| Cost of sales | 3,649,232 | (2,640,570) | 1,008,662 | 1,851,045 | (1,400,000) |
| Gross profit | 950,937 | --- | 950,937 | 392,135 | --- |

(b) Pro Forma Financial Information

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

1. Basis of Presentation

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Acquisition of Sponge Ltd.

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

Acquisition of BSD Software, Inc.

On March 21, 2006, NeoMedia acquired all of the outstanding common shares of BSD. Pursuant to the terms of the merger, BSD was merged with and into NeoMedia Telecom Services, Inc., a wholly-owned subsidiary of NeoMedia. The separate corporate existence of BSD ceased as of the effective time of the merger, and NeoMedia Telecom Services, Inc. continues as the surviving corporation. In exchange for all of the outstanding shares of BSD, NeoMedia issued 7,123,698 shares of its common stock, valued at \$0.3467, which is the volume-weighted average closing price of NeoMedia stock for the five days prior to the effective time of the merger. Each BSD shareholder received approximately 0.2019 share of NeoMedia common stock for each share of BSD common stock held.

Acquisition of Gavitec AG

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

Acquisition of 12Snap AG

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

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Acquisition of Mobot, Inc.

On February 17, 2006, NeoMedia Technologies, Inc. ("NeoMedia") acquired all of the outstanding shares of Mobot, Inc. (www.mobot.com) ("Mobot") in exchange for \$3,500,000 cash and \$6,500,000 in shares of NeoMedia common stock. The \$6,500,000 stock portion of the purchase price is represented by 16,931,493 shares of NeoMedia common stock. Pursuant to the terms of the merger agreement, the number of shares of NeoMedia common stock to be issued as stock consideration was calculated using a share price of \$0.3839. In the event that NeoMedia's stock price at the time the consideration shares are saleable is less than \$0.3839, NeoMedia is obligated to compensate Mobot shareholders in cash for the difference between the price at the time the shares become saleable and \$0.3839. In addition to cash and stock, at closing NeoMedia forgave notes payable totaling \$1,500,000 due from Mobot. This amount is considered other additional consideration in the purchase price allocation.

Audited financials statements for Mobot were included in amendment no. 1 to form 8-K filed with SEC on May 3, 2006. Audited financials statements for 12Snap were included in amendment no. 1 to form 8-K filed with SEC on May 8, 2006. Audited financials statements for Gavitec were included in amendment no. 1 to form 8-K filed with SEC on May 8, 2006. Audited financials statements for BSD were included in amendment no. 1 to form 8-K filed with SEC on June 2, 2006. BSD, Gavitec, Mobot and 12Snap balance sheets as of December 31, 2005 and statements of operations for the year ended December 31, 2005 are shown for pro forma purposes only.

Presentation

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

The unaudited pro forma combined financial statements included in this filing have been prepared by the managements of BSD, NeoMedia, Sponge, Gavitec, 12Snap, and Mobot without audit, pursuant to the rules and regulations of the Securities

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and Exchange Commission. Certain information and footnote disclosures normally prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the managements of NeoMedia, BSD, Sponge, Gavitec, 12Snap, and Mobot believe that the disclosures are adequate to make the information not misleading.

The pro forma adjustments are based on currently available information and upon estimates and assumptions that we believe are reasonable under the circumstances. The unaudited pro forma financial data do not purport to represent what NeoMedia's financial position or results of operations would actually have been if such transactions had occurred on those dates and are not necessarily representative of NeoMedia's financial position or results of operations for any future period. The unaudited pro forma financial statements should be read in conjunction with the separate historical financial statements and footnotes of NeoMedia included in Form 10-KSB for the year ended December 31, 2005, and with the separate historical financial statements and footnotes of Sponge for the years ended September 30, 2005 and 2004 (included herein), with the separate historical financial statements and footnotes of BSD for the years ended December 31, 2005 and 2004 (included in Form 8-K/A filed with the SEC on June 2, 2006), with the separate historical financial statements and footnotes of Gavitec for the years ended December 31, 2005 and 2004 (in Form 8-K/A filed with the SEC on May 8, 2006), with the separate historical financial statements and footnotes of 12Snap for the years ended December 31, 2005 and 2004 (included in Form 8-K/A filed with the SEC on May 8, 2006), and with the separate historical financial statements and footnotes of Mobot for the years ended December 31, 2005 and 2004 (included in Form 8-K/A filed with the SEC on May 3, 2006).

2. Preliminary Purchase Price Allocation

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

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

3. Pro forma Net Loss Per Share

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

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| ASSETS | NeoMedia | Mobot | Sponge | (A) Gavitec |
|--|-----------|----------|---------------|----------------|
| | ----- | ----- | ----- | ----- |
| Current assets: | * | * | (unaudited)** | * |
| Cash and cash equivalents | \$ 2,291 | \$ 909 | \$ 439 | \$ 95 |
| Trade accounts receivable, net | 341 | 78 | 223 | 172 |
| Inventories, net | 423 | -- | -- | 182 |
| Investment in marketable securities | 104 | -- | -- | -- |
| Prepaid expenses and other current assets | 151 | 8 | 314 | 64 |
| | ----- | ----- | ----- | ----- |
| Total current assets | 3,310 | 995 | 976 | 513 |
| Property and equipment, net | 236 | 22 | 48 | 17 |
| Capitalized patents, net | 3,134 | -- | -- | -- |
| Micro paint repair chemical formulations and proprietary process | -- | -- | -- | -- |
| | 1,450 | -- | 1,450 | -- |
| Customer contracts and relationships | -- | -- | -- | -- |
| Capitalized software platform | -- | -- | -- | -- |
| Other intangible assets | 246 | 20 | -- | 3 |
| Goodwill | 1,099 | -- | -- | -- |
| Advances to Mobot, Inc. | 1,500 | -- | -- | -- |
| Cash surrender value of life insurance policy | -- | -- | -- | -- |
| | 769 | -- | 769 | -- |
| Other long-term assets | 667 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 12,411 | \$ 1,037 | \$ 1,024 | \$ 533 |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 1,574 | \$ 344 | \$ 298 | \$ 160 |
| Accrued expenses | 1,844 | 148 | 266 | 50 |
| Amounts payable under settlement agreements | 97 | -- | 97 | -- |
| Taxes payable | 80 | -- | 90 | -- |
| Deferred revenues and other | 898 | 236 | 73 | 362 |
| Liabilities of discontinued business unit | 676 | -- | -- | 676 |
| Notes and loans payable | 3,015 | 1,500 | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total current liabilities | 8,184 | 2,228 | 727 | 572 |
| | ----- | ----- | ----- | ----- |
| Long-term debt and convertible debentures | 500 | 105 | -- | (500) |
| Minority Interest | -- | -- | -- | -- |
| Shareholders' deficit: | | | | |
| Preferred stock | -- | -- | -- | -- |
| Common stock (B) | 4,676 | -- | 1 | 263 |
| Additional paid-in capital | 106,456 | 1 | 11 | 1,180 |
| Deferred equity financing costs | (13,256) | -- | -- | -- |
| Deferred stock-based compensation | (169) | -- | -- | -- |
| Accumulated other comprehensive income (loss) | (177) | -- | (40) | -- |

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| | | | | |
|--|----------------|----------------------------------|-----------------------------------|---------|
| Retained earnings (accumulated deficit) | (92,524) | (1,692) | 220 | (1,482) |
| Treasury stock | (779) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total shareholders' deficit | 4,227 | (1,691) | 192 | (39) |
| | ----- | ----- | ----- | ----- |
| Total liabilities and shareholders' deficit | \$ 12,411 | \$ 1,037 | \$ 1,024 | \$ 533 |
| | ===== | ===== | ===== | ===== |
| | | | | |
| ASSETS | BSD | Pro Forma Adjust- ments | Pro Forma Consol- idated | |
| | ----- | ----- | ----- | |
| Current assets: | (unaudited)*** | (unaudited) | (unaudited) | |
| Cash and cash equivalents | \$ 52 | (\$ 13,941) | (G) (\$ 8,814) | |
| Trade accounts receivable, net | 1,567 | -- | 4,498 | |
| Inventories, net | -- | -- | 605 | |
| Investment in marketable securities | -- | -- | 156 | |
| Prepaid expenses and other current assets | 13 | -- | 1,301 | |
| | ----- | ----- | ----- | |
| Total current assets | 1,632 | (13,941) | (2,254) | |
| Property and equipment, net | 69 | -- | 616 | |
| Capitalized patents, net | -- | -- | 3,134 | |
| Micro paint repair chemical formulations and proprietary process | | | | |
| Customer contracts and relationships | -- | 2,800 | (C) 2,800 | |
| Capitalized software platform | -- | 16,300 | (C) 16,300 | |
| Other intangible assets | -- | 2,900 | (C) 3,267 | |
| Goodwill | -- | 45,906 | (C) 47,005 | |
| Advances to Mobot, Inc. | -- | (1,500) | -- | |
| Cash surrender value of life insurance policy | | | | |
| Other long-term assets | -- | (229) | (D) 438 | |
| | ----- | ----- | ----- | |
| Total assets | \$ 1,701 | \$ 52,236 | \$ 73,525 | |
| | ===== | ===== | ===== | |
| | | | | |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 3,328 | \$ -- | \$ 6,479 | |
| Accrued expenses | -- | -- | 4,461 | |
| Amounts payable under settlement agreements | -- | -- | -- | |
| Taxes payable | -- | -- | 170 | |
| Deferred revenues and other | -- | -- | 3,349 | |
| Liabilities of discontinued business unit | -- | -- | -- | |
| Notes and loans payable | 1,715 | (1,500) | (E) 8,875 | |
| | ----- | ----- | ----- | |
| Total current liabilities | 5,043 | (1,500) | 24,107 | |
| | ----- | ----- | ----- | |

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| | | | | |
|---|----------|-----------|-----|-----------|
| Long-term debt and convertible debentures | -- | -- | (F) | 105 |
| Minority Interest | -- | -- | | 7 |
| Shareholders' deficit: | | | | |
| Preferred stock | -- | -- | | -- |
| Common stock (B) | 32 | (4,567) | (C) | 6,230 |
| Additional paid-in capital | 3,194 | (10,535) | (C) | 149,982 |
| Deferred equity financing costs | -- | -- | | (13,256) |
| Deferred stock-based compensation | -- | -- | | (169) |
| Accumulated other comprehensive income (loss) | (873) | (33) | (C) | (177) |
| Retained earnings (accumulated deficit) | (5,695) | 68,806 | (C) | (92,525) |
| Treasury stock | -- | 565 | | (779) |
| | ----- | ----- | | ----- |
| Total shareholders' deficit | (3,342) | 54,236 | | 49,306 |
| | ----- | ----- | | ----- |
| Total liabilities and shareholders' deficit | \$ 1,701 | \$ 52,236 | | \$ 73,525 |
| | ===== | ===== | | ===== |

* - Derived from audited financial statements

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

*** - BSD balances taken from January 31, 2006 interim unaudited balance sheet

Pro-forma Adjustments

- (A) - For pro forma presentation purposes, Gavitec and 12Snap balances are converted from Euro to US Dollars at a rate of 0.8444 Euros/US Dollar, which was the exchange rate as of December 31, 2005.
- (B) - As of December 31, 2005, NeoMedia's \$0.01 par value common stock consists of 1,000,000,000 authorized shares, 475,387,910 historical shares and 622,974,117 pro forma shares issued; and 467,601,717 historical shares and 615,187,924 pro forma shares outstanding
- (C) - Adjustment for stock and cash issued to acquire Mobot, Sponge, Gavitec, 12Snap, and BSD, assuming acquisitions occurred as of December 31, 2005. Adjustment includes the elimination of \$1,554 common stock and \$43,525 paid-in capital of the subsidiaries. The purchase price for each acquisition was calculated as follows:

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| | Mobot | Sponge | Gavitec | 12S |
|--|--------------|--------------|--------------|-------|
| | ----- | ----- | ----- | ----- |
| Pro forma number of shares of NeoMedia to be treated as purchase price consideration | 22,413,793 | 39,310,345 | 18,620,690 | 67, |
| x NeoMedia closing stock price around December 31, 2005 (measurement date) | \$ 0.290 | \$ 0.290 | \$ 0.290 | \$ |
| | ----- | ----- | ----- | ----- |
| Total stock consideration | \$ 6,500,000 | \$11,400,000 | \$ 5,400,000 | \$19, |

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| | | | | |
|--------------------------|--------------|--------------|--------------|--------------|
| Plus cash consideration | \$ 3,500,000 | \$ 6,141,000 | \$ 1,800,000 | \$ 2,000,000 |
| | ----- | ----- | ----- | ----- |
| Pro forma purchase price | \$10,000,000 | \$17,541,000 | \$ 7,200,000 | \$22,000,000 |
| | ===== | ===== | ===== | ===== |

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

| | Mobot | Sponge | Gavitec | 12Snap |
|---|------------|------------|------------|------------|
| | ----- | ----- | ----- | ----- |
| Actual Shares Issued as Stock Consideration | 16,931,493 | 33,097,135 | 13,660,511 | 49,294,581 |

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

| | (in thousands of US dollars) | | |
|---|------------------------------|------------|------------|
| | Mobot | Sponge | Gavitec |
| | ----- | ----- | ----- |
| Purchase Price Consideration | | | |
| Cash | \$ 3,500 | \$ 6,141 | \$ 1,800 |
| Pro forma number of shares of NeoMedia common stock issued / NeoMedia closing stock price around December 31, 2005 (measurement date) | 22,413,793 | 39,310,345 | 18,620,000 |
| | \$ 0.29 | \$ 0.29 | \$ 0.29 |
| | ----- | ----- | ----- |

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| | | | | | | |
|---|--------|------------|--------|------------|--------|-------|
| Pro forma fair value of shares issued as purchase price consideration | \$ | 6,500 | \$ | 11,400 | \$ | 5 |
| Purchase-related costs | | 8 | | 73 | | |
| Other purchase consideration | | 1,500 | | -- | | |
| | | ----- | | ----- | | ----- |
| Total fair value expected to be treated as purchase price consideration | \$ | 11,508 | \$ | 17,614 | \$ | 7 |
| | | ===== | | ===== | | ===== |
| Assets Purchased | | | | | | |
| Cash and cash equivalents | \$ | 909 | \$ | 439 | \$ | |
| Investment in marketable securities | | -- | | -- | | |
| Trade accounts receivable, net | | 78 | | 223 | | |
| Inventory | | -- | | -- | | |
| Prepaid expenses and other current assets | | 8 | | 314 | | |
| Property and equipment, net | | 22 | | 48 | | |
| Customer contracts and relationships (i) (ii) | | 400 | | 400 | | |
| Capitalized software platform (i) (iii) | | 5,000 | | 1,300 | | 5 |
| Other intangible assets (i) (iv) | | 220 | | 550 | | |
| Goodwill (i) (v) | | 5,599 | | 15,172 | | 1 |
| | | ----- | | ----- | | ----- |
| | | 12,236 | | 18,446 | | 7 |
| | | ----- | | ----- | | ----- |
| Liabilities Assumed | | | | | | |
| Accounts payable | | 344 | | 298 | | |
| Accrued expenses | | 148 | | 266 | | |
| Taxes payable | | -- | | 90 | | |
| Deferred revenues and other current liabilities | | 236 | | 73 | | |
| Notes payable | | -- | | -- | | |
| Long-term debt | | -- | | 105 | | |
| | | ----- | | ----- | | ----- |
| | | 728 | | 832 | | |
| | | ----- | | ----- | | ----- |

(i) - For purposes of these unaudited pro forma financial statements, the excess of fair value of consideration paid over net book value for Mobot, Sponge, Gavitec, 12Snap, and BSD is allocated to the following intangible asset categories: customer contracts and relationships, capitalized software platform, other intangible assets, and goodwill. The allocation is made based on NeoMedia management's judgment and best estimate of the value of each category for each business. As of this filing, NeoMedia has not completed an independent valuation of such intangible assets. NeoMedia is in the process of performing an independent valuation of the intangible assets, and a final allocation of the purchase price of each entity will be made based on the results of such valuation, to be completed no more than one year from closing. It is important to note that the final independent valuation, could vary materially from the pro forma allocation presented above. NeoMedia expects to obtain the final independent valuation, currently in process, prior to the filing of the 2nd quarter Form 10 Q in August 2006.

(ii) - Customer contracts and relationships consist of the customers of each business that are under contract, as well as prospects identified for potential future business, the fair value of which is calculated as the discounted after-tax

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expected earnings from current and identified customers. NeoMedia expects to assign an amortization period of 5 years to this class of assets.

- (iii) - Capitalized software platforms consist of proprietary software systems acquired. NeoMedia expects to assign an amortization period of 7 years to this class of assets.
- (iv) - Other intangible assets consist of brand names and other proprietary copyrighted materials. NeoMedia expects to assign an amortization period of 7-10 years to this class of assets.

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- (v) - The remaining excess of purchase price paid over fair value of assets and liabilities assumed is allocated to goodwill, and as such, is not assigned a depreciable life. Goodwill will be tested for impairment as defined by Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.
- (D) - Adjustment to eliminate acquisition-related costs paid by NeoMedia in 2005 that are included in the purchase price allocation.
 - (E) - Adjustment to eliminate note payable from Mobot to NeoMedia that was forgiven at closing.
 - (F) - Adjustment to eliminate Mobot convertible debentures that were converted prior to closing. As a result, the above unaudited condensed consolidated pro forma balance sheet is shown assuming the debentures are converted prior to the pro forma closing date.
 - (G) - Negative cash balance is shown for pro forma purposes only. During February 2006, NeoMedia obtained \$22 million gross financing in the form of a convertible preferred stock sale, a portion of the proceeds of which were used to acquire Mobot, Gavitec, 12Snap, and Sponge.

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NeoMedia Technologies, Inc.
Unaudited Pro-forma Combined Condensed Statement of Operations
For the Year Ended December 31, 2005
(In thousands of US Dollars, except per share data)

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| | NeoMedia | Mobot | (B) Sponge | (A) Gavitec | (A) 12S |
|--|------------|------------|---------------|----------------|------------|
| | ----- | ----- | ----- | ----- | ----- |
| NET SALES: | * | * | (unaudited)** | * | * |
| Technology license, service and products | \$ 877 | \$ 300 | \$ 2,248 | \$ 772 | \$ 7 |
| Micro paint repair products and services | 1,279 | -- | -- | -- | -- |
| Total net sales | 2,156 | 300 | 2,248 | 772 | 7 |
| COST OF SALES: | | | | | |
| Technology license, service and products | 659 | -- | 1,296 | 722 | -- |
| Micro paint repair products and services | 913 | -- | -- | -- | -- |
| Total cost of sales | 1,572 | -- | 1,296 | 722 | -- |
| GROSS PROFIT | 584 | 300 | 952 | 50 | 7 |
| Selling, general and administrative expenses | 7,561 | 1,180 | 796 | 972 | 7 |
| Impairment charge | 335 | -- | -- | -- | -- |
| Research and development costs | 934 | 552 | -- | 503 | 1 |
| Income (loss) from operations | (8,246) | (1,432) | 156 | (1,425) | (1) |
| Loss on extinguishment of debt, net | 172 | -- | -- | -- | -- |
| Other income (loss) | -- | -- | 57 | 296 | -- |
| Impairment charge on investments | (780) | -- | -- | -- | -- |
| Interest income (expense), net | (293) | (42) | 18 | -- | -- |
| Income before provision for income taxes | (9,147) | (1,474) | 231 | (1,129) | (1) |
| Provision for income taxes | -- | -- | (60) | -- | -- |
| Net income (loss) | (9,147) | (1,474) | 171 | (1,129) | (1) |
| Other comprehensive income (loss): | | | | | |
| Unrealized loss on marketable securities | (146) | -- | -- | -- | -- |
| Foreign currency translation adjustment | 29 | -- | -- | -- | -- |
| Comprehensive income (loss) | (\$ 9,264) | (\$ 1,474) | \$ 171 | (\$ 1,129) | (\$ 1) |
| NET INCOME (LOSS) PER SHARE--BASIC AND DILUTED | | | | | |
| | (\$0.02) | | | | |
| COMPREHENSIVE INCOME (LOSS) PER SHARE--BASIC AND DILUTED | | | | | |
| | (\$0.02) | | | | |

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| | Pro Forma Adjust- ments | Pro Forma Consol- idated |
|---|----------------------------------|-----------------------------------|
| | ** (unaudited) | (unaudited) |
| Weighted average number of common shares-basic and diluted | 451,857,851 | |
| ===== | | |
| NET SALES: | | |
| Technology license, service and products | \$ -- | \$ 20,030 |
| Micro paint repair products and services | -- | 1,279 |
| | ----- | ----- |
| Total net sales | -- | 21,309 |
| | ----- | ----- |
| COST OF SALES: | | |
| Technology license, service and products | 2,329 (B) | 11,979 |
| Micro paint repair products and services | -- | 913 |
| | ----- | ----- |
| Total cost of sales | 2,329 | 12,892 |
| | ----- | ----- |
| GROSS PROFIT | (2,329) | 8,417 |
| Selling, general and administrative expenses | 992 (B) | 19,832 |
| Impairment charge | -- | 335 |
| Research and development costs | -- | 3,504 |
| | ----- | ----- |
| Income (loss) from operations | (3,321) | (15,254) |
| Loss on extinguishment of debt, net | -- | 172 |
| Other income (loss) | -- | 583 |
| Impairment charge on investments | -- | (780) |
| Interest income (expense), net | -- | (982) |
| | ----- | ----- |
| Income before provision for income taxes | (3,321) | (16,261) |
| Provision for income taxes | -- | -- |
| | ----- | ----- |
| Net income (loss) | (3,321) | (16,261) |
| Other comprehensive income (loss): | | |
| Unrealized loss on marketable securities | -- | (146) |
| Foreign currency translation adjustment | -- | (248) |
| | ----- | ----- |
| Comprehensive income (loss) | (\$ 3,321) | (\$16,655) |

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| | | |
|-------------------------------------|-----------------|-------------|
| | ===== | ===== |
| NET INCOME (LOSS) PER | | |
| SHARE--BASIC AND DILUTED | | (\$0.03) |
| | | ===== |
| COMPREHENSIVE INCOME (LOSS) | | |
| PER SHARE--BASIC AND DILUTED | | (\$0.03) |
| | | ===== |
| Weighted average number | | |
| of common shares--basic and diluted | 172,717,482 (C) | 624,575,333 |
| | ===== | ===== |

- * - Derived from audited financial statements
- ** - Sponge fiscal year end is September 30. Results shown are for the year ended December 31, 2005, compiled from Sponge's audited financial statements for the year ended September 30, 2005 and interim financial statements for the three months ended December 31, 2005 and 2004.
- *** - BSD fiscal year end is July 31. Results shown are for the year ended January 31, 2006, compiled from BSD's audited financial statements for the year ended July 31, 2005 and interim financial statements for the six months ended January 31, 2006 and 2005

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Pro-forma Adjustments

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

Mobot

Sponge

Gavitec

12Sn

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| | | | | |
|--|--------------|---------------|--------------|---------------|
| NeoMedia stock price around January 1, 2005 (measurement date) | \$ 0.261 | \$ 0.261 | \$ 0.261 | \$ |
| Total stock consideration | \$ 6,500,000 | \$ 11,400,000 | \$ 5,400,000 | \$ 19,500,000 |
| Pro forma number of shares of NeoMedia to be treated as purchase price consideration | 24,904,215 | 43,678,161 | 20,689,655 | 74,710,000 |

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SIGNATURES

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

NeoMedia Technologies, Inc.

(Registrant)

Date: June 20, 2006

By: /s/ Charles T. Jensen

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

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EXHIBIT INDEX

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 23.1 | Consent of Brebner Allen & Trapp, Independent Auditors of Sponge Ltd. |

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