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NEOMEDIA TECHNOLOGIES INC  
Form 10-Q  
November 14, 2002

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10 - Q  
(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-21743

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

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

2201 SECOND STREET, SUITE 600, FORT MYERS, FLORIDA  
(Address of Principal Executive Offices)

33901  
(Zip Code)

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

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

As of November 8, there were 25,141,298 outstanding shares of the issuer's Common Stock.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

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(IN THOUSANDS, EXCEPT SHARE DATA)

	SEPTEMBER 30, 2002 ---- (Unaudited)
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents.....	\$ 9
Trade accounts receivable, net of allowance for doubtful account of \$81 in 2002 and \$65 in 2001.....	3,230
Costs and estimated earnings in excess of billings on uncompleted contracts.....	6
Inventories.....	141
Assets held for sale.....	---
Prepaid expenses and other current assets.....	786
Total current assets.....	----- 4,172
Property and equipment, net.....	121
Capitalized patents, net.....	2,311
Capitalized and purchased software costs, net.....	184
Other long-term assets.....	677
Total assets.....	----- \$ 7,465 =====
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable.....	\$ 3,939
Amounts due under financing agreements.....	2,375
Liabilities in excess of assets of discontinued business unit.....	1,489
Accrued expenses.....	2,351
Current portion of long-term debt.....	160
Notes payable.....	785
Sales taxes payable.....	356
Billings in excess of costs and estimated earnings on uncompleted contracts.....	2
Deferred revenues.....	913
Other.....	10
Total current liabilities.....	----- 12,380
Long-term debt, net of current portion.....	268
Total liabilities.....	----- 12,648 -----
Shareholders' equity:	
Preferred stock, \$.01 par value, 25,000,000 shares authorized, none issued and outstanding in 2002, 452,489 issued and outstanding in 2001.....	---
Additional paid-in capital, preferred stock.....	---
Common stock, \$.01 par value, 200,000,000 shares authorized, 26,782,724 shares issued and 25,141,298 outstanding in 2002 and 17,446,343 shares issued and 15,804,917 outstanding in 2001.....	251
Additional paid-in capital.....	65,237
Stock subscription receivable.....	---
Deferred stock-based compensation.....	(47)
Accumulated deficit.....	(69,845)

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Treasury stock, at cost, 201,230 shares of common stock.....	(779)
	-----
Total shareholders' equity.....	(5,183)
	-----
Total liabilities and shareholders' equity.....	\$ 7,465
	=====

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

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

	NINE MONTHS
	2002
	----
NET SALES:	
License fees.....	\$ 303
Resale of software and technology equipment and service fees.....	8,149
	-----
Total net sales.....	8,452
	-----
COST OF SALES:	
License fees.....	764
Resale of software and technology equipment and service fees.....	6,607
	-----
Total cost of sales.....	7,371
	-----
GROSS PROFIT (LOSS).....	1,081
Sales and marketing expenses.....	719
General and administrative expenses.....	3,556
Research and development costs.....	683
Loss on impairment of assets.....	1,003
Loss on Digital:Convergence license contract.....	---
	-----
Loss from operations.....	(4,880)
Interest expense (income), net.....	99
	-----
Loss from continuing operations.....	(4,979)
Discontinued operations (Note 1):	
Loss from operations of discontinued business unit.....	---
Loss on disposal of discontinued business unit, including provision of \$424 in 2001 for operating losses during phase-out period.....	(1,523)
	-----
NET LOSS.....	\$ (6,502)
	=====

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NET LOSS PER SHARE FROM CONTINUING OPERATIONS-	
BASIC AND DILUTED.....	\$ (0.24) =====
NET LOSS PER SHARE FROM DISCONTINUED OPERATIONS-	
BASIC AND DILUTED.....	\$ (0.07) =====
NET LOSS PER SHARE--BASIC AND DILUTED.....	\$ (0.31) =====
Weighted average number of common shares--basic and diluted .....	20,736,080 =====

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

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### NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED
	2002 ----
NET SALES:	
License fees.....	\$ 150
Resale of software and technology equipment and service fees.....	3,254
Total net sales.....	----- 3,404 -----
COST OF SALES:	
License fees.....	80
Resale of software and technology equipment and service fees.....	2,742
Total cost of sales.....	----- 2,822 -----
GROSS PROFIT (LOSS).....	582
Sales and marketing expenses.....	207
General and administrative expenses.....	996
Research and development costs.....	150
Loss on impairment of assets.....	---
Loss from operations.....	(771)
Interest expense (income), net.....	2
Loss from continuing operations.....	----- (773) -----
Discontinued operations (Note 1):	
Loss from operations of discontinued business unit.....	---
Loss on disposal of discontinued business unit, including provision of \$424 in 2001 for operating losses during phase-out period	----- ----- -----
NET LOSS.....	\$ (773) =====

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NET LOSS PER SHARE FROM CONTINUING OPERATIONS-	
BASIC AND DILUTED.....	\$ (0.03)
	=====
NET LOSS PER SHARE FROM DISCONTINUED OPERATIONS-	
BASIC AND DILUTED.....	\$ ---
	=====
NET LOSS PER SHARE--BASIC AND DILUTED.....	\$ (0.03)
	=====
Weighted average number of common shares--basic and diluted .....	22,979,755
	=====

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

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NEOMEDIA TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	NINE MONTHS ENDED 2002 ----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss.....	\$ (6,502)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization.....	938
Loss on disposal of discontinued business unit.....	1,523
Loss on impairment of assets.....	1,003
Effect of Digital Convergence write-off.....	---
Preferred stock issued to pay advertising expense.....	---
Expense associated with warrant repricing.....	38
Stock options and warrants granted for services.....	383
Changes in operating assets and liabilities:	
Trade accounts receivable.....	(610)
Prepaid - Digital:Convergence.....	---
Other current assets.....	491
Accounts payable, amounts due under financing agreements, liabilities in excess of assets of discontinued business unit, and accrued expenses	1,916
Deferred revenue.....	148
Other current liabilities.....	3
	-----
Net cash used in operating activities.....	(669)
	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Capitalization of patent costs, software development and purchased intangible assets	(24)
(Increase)/decrease in value of life insurance policies.....	80
Acquisition of property and equipment.....	---
	-----
Net cash used in investing activities.....	56
	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Net proceeds from issuance of common stock	
net of \$0 issuance costs in 2002 and \$10 in 2001.....	198

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Net proceeds from exercise of stock warrants.....	43
Net proceeds from exercise of stock options.....	272
Net proceeds from release of restricted cash held for line of credit.....	---
Net proceeds from issuance of notes payable.....	21
Issuance of stock-based deferred compensation.....	(46)
Repayments on notes payable and long-term debt.....	---
	-----
Net cash provided by financing activities.....	488
	-----
NET INCREASE (DECREASE) IN CASH	
AND CASH EQUIVALENTS.....	(125)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	134
	-----
CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2001.....	\$          9
	=====
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid/(received) during the nine months ended September 30 (net)...	\$          (66)
Non-cash investing and financing activities:	
Net assets acquired as part of Qode purchase agreement	
in exchange for common stock and forgiveness of note.....	---
Issuance costs for shares issued through private placements.....	---
Shares earned by Qode under purchase agreement.....	---
Common stock issued to settle debt.....	27
Cancellation of common stock issued	
in 2001 to offset stock subscription receivable.....	(240)
Net effect of issuance and subsequent	
cancellation of common stock underlying notes receivable .....	(190)
Accounts payable converted to note payable.....	---

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

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

#### 1. BASIS OF PRESENTATION AND NATURE OF BUSINESS OPERATIONS

##### BASIS OF PRESENTATION

The condensed consolidated financial statements include the financial statements of NeoMedia Technologies, Inc. and its wholly-owned subsidiaries. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's Form 10-K for the fiscal year ended December 31, 2001. In the opinion of management, these condensed consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the consolidated financial position of NeoMedia as of September 30, 2002, and the results of operations for the three- and nine-month periods ended September 30, 2002 and 2001, and cash flows for the nine-month period ended September 30, 2002 and 2001. The results of operations for the three- and nine-month periods ended September 30, 2002 are not necessarily indicative of the results which may be expected for the entire fiscal year. All significant intercompany accounts and transactions have been

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eliminated in preparation of the condensed consolidated financial statements.

### NATURE OF BUSINESS OPERATIONS

The Company is structured and evaluated by its Board of Directors and Management as two distinct business units: NeoMedia Internet Switching Service (NISS) and NeoMedia Consulting and Integration Service (NCIS).

#### NEOMEDIA INTERNET SWITCHING SERVICE (NISS)

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

#### NEOMEDIA CONSULTING AND INTEGRATION SERVICES (NCIS)

NCIS (systems integration service offerings) is the original business line upon which the Company was organized. This unit resells client-server equipment and related software, and general and specialized consulting services targeted at software driven print applications, especially at process automation of production print facilities through its integrated document factory solution. Systems integration services also identify prospects for custom applications based on the Company's products and services. This unit recently moved its business offerings to a much higher Value-Add called Storage Area Networks (SAN). The operations are based in Lisle, Illinois.

### RECLASSIFICATIONS

Certain amounts in the 2001 condensed consolidated financial statements have been reclassified to conform to the 2002 presentation.

### RECENT ACCOUNTING PRONOUNCEMENTS

On July 21, 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 (SFAS No. 141), "Business Combinations", and No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS No. 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001 and establishes specific criteria for the recognition of intangible assets separately from goodwill; SFAS No. 142 addresses financial accounting and reporting for goodwill and other

intangible assets subsequent to their acquisition. SFAS No. 142 provides that goodwill and intangible assets which have indefinite useful lives will not be amortized, but rather will be tested at least annually for impairment. It also provides that intangible assets that have finite useful lives will continue to be amortized over their useful lives, but those lives will no longer be limited to forty years. SFAS No. 141 is effective for all business combinations after June 30, 2001. The provisions of SFAS No. 142 are effective beginning January 1, 2002. The Company has implemented the provisions of SFAS No. 141 and No. 142 and has concluded that the adoption does not have a material impact on the Company's financial statements.

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In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement is effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption to have a material impact to its financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company does not expect the adoption to have a material impact to the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146 "Accounting for Exit or Disposal Activities." The provisions of this statement are effective for disposal activities initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption of FASB No. 146 to have a material impact on the Company's financial position or results of operations.

### PURCHASE AND DISPOSAL OF QODE.COM, INC.

On March 1, 2001, NeoMedia purchased all of the net assets of Qode.com, Inc. (Qode), except for cash. Qode is a development stage company, as defined in Statement of Financial Accounting Standards (SFAS) No. 7, "Accounting and Reporting By Development Stage Enterprises". In consideration for these assets, NeoMedia issued 274,699 shares of common stock, valued at \$1,359,760. Additionally, the Company placed in escrow 1,676,500 shares of its common stock valued at \$8,298,675 at the time of issuance. Stock issued was valued at \$4.95 per share, which is the average closing price for the few days before and after the measurement date of March 1, 2001. As of December 31, 2001 the Company had released 35,074 shares of common stock from escrow for performance for the period March 1, 2001 to August 31, 2001. The remaining 1,641,426 shares are being held in escrow pending the results of negotiations between the Company and Qode with respect to the performance of the Qode business unit for the period March 1, 2001 through February 28, 2002. As a result, all such shares may be



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released to Qode.

The Company accounted for this purchase using the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations". The excess fair market value of the net assets acquired

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over the purchase price was allocated to reduce proportionately the values assigned to noncurrent assets. The accompanying consolidated statements of operations include the operations of Qode from March 1, 2001, through September 30, 2002.

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The purchase price at the original purchase date was calculated and allocated as follows:

Original Shares: 274,699 issued at \$4.95	1,360,000
Contingent shares: 35,074 issued at \$0.39	\$ 13,000
	-----
Total purchase price	\$ 1,373,000
	-----
PURCHASE PRICE ALLOCATED AS FOLLOWS:	
ASSETS PURCHASED	
Trade receivables	\$ 5,000
Inventory	144,000
Prepaid expenses	49,000
Furniture & fixtures	913,000
Capitalized development costs	2,132,000
Capitalized software	83,000
Refundable deposits - non-current	38,000
LIABILITIES ASSUMED	
Accounts payable	(981,000)
Forgiveness of note receivable	(440,000)
Interest receivable	(10,000)
Current portion of long-term debt	(117,000)
Note payable	(24,000)
Capitalized lease obligation	(419,000)
	-----
Total purchase price allocated	\$ 1,373,000
	=====

During the third quarter of 2001, the Company issued an additional 35,074 shares under the terms of the earn-out with Qode.com, Inc. (see explanation below). The value of these shares in the amount of \$13,000 was allocated \$9,000 to capitalized development costs and \$4,000 to furniture and fixtures.

CONTINGENT CONSIDERATION

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In accordance with the purchase of the assets of Qode.com, Inc., NeoMedia has placed 1,676,500 shares of its common stock in escrow for a period of one year, subject to downward adjustment, based upon the achievement of certain performance targets over the period of March 1, 2001 to February 28, 2002. As of March 1, 2002, these performance targets were not met and therefore, the remaining 1,641,426 shares held in escrow were not issued. The criteria used to determine the number of shares released from escrow is a weighted combination of revenue, page views, and fully allocated earnings before taxes relating to the Qode Universal Commerce Solution.

At the end of each of certain interim periods as outlined in the purchase agreement, the number of cumulative shares earned by Qode.com is calculated based on revenue and page views and the shares are released. The resulting financial impact on NeoMedia is a proportionate increase in the long-term assets acquired from Qode, with a corresponding increase in depreciation expense from that point forward. The amount of the increase in long-term assets is dependent upon the number of shares released from escrow, as well as the value of NeoMedia stock at the time of measurement. The first such measurement date was July 1, 2001. At the end of the 12-month measurement period (February 28, 2002), the number of shares issued to Qode under the earn-out was 309,773, allocated as outlined in the table above. The remaining 1,641,426 shares are being held in escrow pending the results of negotiations between the Company and Qode with respect to a disagreement over the performance of, and investment in, the Qode business unit for the period March 1, 2001 through February 28, 2002. As a result, all such shares may be released to Qode.

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### INTANGIBLE ASSETS

Intangible assets acquired from Qode.com include:

- i). Purchased software licenses relating to the development of the Qode Universal Commerce Solution, amortized on a straight-line basis over three years.
- ii). Capitalized software development costs relating to the development of the Qode Universal Commerce Solution.

### OTHER

On May 31, 2001, three creditors of Qode.com, Inc. filed in the U.S. Bankruptcy Court an involuntary bankruptcy petition for Qode.com, Inc. On July 22, the case was converted to Chapter 7, U.S. Code.

### DISPOSAL OF QODE BUSINESS UNIT

On August 31, 2001, the Company signed a non-binding letter of intent to sell the assets and liabilities of its Ft. Lauderdale-based Qode business unit, which it acquired in March 2001, to The Finx Group, Inc., a holding company based in Elmsford, NY. The Finx Group was to assume \$620,000 in Qode payables and \$800,000 in long-term leases in exchange for 500,000 shares of the Finx Group, right to use and sell Qode services, and up to \$5 million in affiliate revenues over the next five years. During the third and fourth quarters of 2001 and the first quarter of 2002, the company recorded a \$2.6 million expense from the write-down of the Qode assets/liabilities to net realizable value.

The loss for discontinued operations during the phase-out period from

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August 31, 2001 (measurement date) to September 30, 2001 was \$439,000. No further loss is anticipated.

During June 2002, the Finx Group notified the Company that it did not intend to carry out the letter of intent due to capital constraints. As a result, during the three-month period ended June 30, 2002, the Company recorded an additional expense of \$1.5 million for the write-off of remaining Qode assets. As of September 30, 2002, the Company had \$1.5 million of liabilities relating to the Qode system on its books.

### IMPAIRMENT OF PAPERCLICK ASSET

During the three-month period ending June 30, 2002, the Company recognized an impairment charge of \$1.0 million relating to its PaperClick physical-world-to-internet software solution. Due to capital constraints, the Company is not currently able to devote full-time resources and infrastructure to commercializing the technology. The Company intends to re-focus sales and marketing efforts surrounding the product upon the receipt of sufficient capital.

### OTHER EVENTS

During January 2002, certain of the Company's shareholders filed a complaint with the Securities and Exchange Commission, alleging that the shareholders were not included in the special shareholders meeting of November 25, 2001, to vote on the issuance of 19 million shares of NeoMedia common stock. On March 11, 2002, the Company filed its response claiming that the Company had fully complied with all of its obligations under the laws and regulations administered by the Securities and Exchange Commission, as well as with its obligation under Delaware General Corporation Law.

During January 2002, NeoMedia announced that it had entered into an agreement with Baniak Pine and Gannon, a law firm specializing in patent licensing and litigation, under which the firm will represent NeoMedia in seeking out potential licensees of the Company's patent portfolio.

During February 2002, the Company sold 19 million shares of its common stock to five individuals and two institutional unrelated parties at \$0.17 per share in exchange for promissory notes maturing at the earlier of i) August 12, 2002, or ii) 30 days from registration of the shares. Assuming full payment of the notes, proceeds from this transaction would have been \$3,230,000, of which \$190,000 par value was paid during the first quarter of 2002. During August 2002, the

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notes matured without payment, and the Company subsequently cancelled the 19 million shares issued in connection with such notes. The Company has accrued a liability in the third quarter of \$190,000 relating to the par value paid in connection with the issuance of the shares.

During February 2002, the Company issued 1,646,987 shares of its common stock to two separate vendors as settlement of past due liabilities and future payments relating to equipment leases.

During March 2002, the Company repriced 1.2 million of its common stock warrants for a period of six months. During the term of the warrant repricing program, participating holders are entitled to exercise qualified warrants at an exercise price per share equal to the greater of (1) \$0.12 or (2) 50% of the last sale price of shares of Common Stock on the OTCBB, on the trading date

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immediately preceding the date of exercise. Approximately 370,000 warrants were exercised in connection with the program, and the Company recognized approximately \$38,000 in expense relating to the repricing during the nine months ended September 30, 2002.

On March 20, 2002, IOS Capital, Inc. filed a summons seeking full payment of approximately \$38,700 relating to past due and future payments under an office equipment lease. The Company returned the equipment and settled the liability for cash payments totaling \$30,000.

During April 2002, the Company repriced 7.4 million of its common stock options held by employees, consultants and advisors for a period of six months. During the term of the option repricing program, participating holders are entitled to exercise subject options at an exercise price per share equal to the greater of (1) \$0.12 or (2) 50% of the last sale price of shares of Common Stock on the OTCBB, on the trading date immediately preceding the date of exercise. Shortly after the announcement of the repricing program, the market price for the Company's common stock fell below \$0.12, and has not closed above \$0.12 since. As a result, no options were exercised under the terms of the program and the Company did not recognize any expense relating to the repricing program during the nine months ended September 30, 2002 due to immaterial effect on the financial statements.

On May 16, 2002, the Company received notification from the Nasdaq Listing Qualifications Panel that its shares were delisted effective May 17, 2002, due to failure to meet either the minimum net tangible assets (\$2,000,000) or minimum stockholders' equity (\$2,500,000) criteria for continued listing. The Company's shares are now trading on the Over-the-Counter Bulletin Board ("OTCBB").

During May 2002, the Company settled its lawsuit with William Goins, its former President and Chief Operating Officer (see "Legal Proceedings"). The Company is obligated to make cash payments of \$90,000 directly to the plaintiff from the period May 2002 through December 2002, and cash payments to the plaintiff's attorney for legal fees in the amount of \$45,000 due in July and August 2002. In addition, Mr. Goins was granted 360,000 options to purchase shares of NeoMedia common stock at an exercise price of \$0.08. These options were valued at approximately \$36,000. The Company had a remaining liability of approximately \$72,000 as of September 30, 2002.

During May 2002, the Company entered into an Equity Line of Credit Agreement with Cornell Capital Partners LP ("Cornell"). Under the terms of the agreement, Cornell has agreed to purchase up to \$5.0 million of NeoMedia common stock over the next two years at the Company's discretion.

During May 2002, the Company granted a personal, worldwide, non-exclusive, limited intellectual property licensing agreement to Brandkey Systems Corporation. Brandkey will pay the Company \$50,000 upfront licensing fee plus 2.5 % of all royalty-based revenues earned by Brandkey, with minimum royalties of \$25,000 in 2003, \$50,000 in 2004, and \$75,000 in 2005 and after. Royalty revenue earned by the Company may not exceed \$1.0 million in any given year. The Company recognized approximately \$16,000 in revenue relating to this contract during the nine months ended September 20, 2002.

On June 6, 2002, the Company held its annual meeting of shareholders, at which shareholders approved proposals to: i.) amend NeoMedia's Certificate of Incorporation to increase the number of shares of authorized common stock, par value \$.01, from 50,000,000 to 200,000,000 shares and to increase the number of shares of authorized preferred stock, par value \$0.01, from 10,000,000 to 25,000,000; and ii.) implement the 2002 Stock Option Plan, under which the Company is authorized to grant to employees, directors, and consultants up to 10,000,000 options to purchase shares of its common stock.

On June 26, 2002, the Company announced that its chairman, Charles W. Fritz, had been granted a 90-day leave of absence from his responsibilities as Chief Executive Officer by the company's Board, which, concurrently, elected Charles T. Jensen president and Chief Operating Officer, and also named him acting CEO. The Company also announced that it had promoted David Dodge, its Controller, to Vice President and Chief Financial Officer. On September 23, 2002, Mr. Fritz officially resigned his duties as Chief Executive Officer. He will remain Chairman of the Board of Directors and a part-time executive of the Company. Mr. Jensen has assumed the role of acting CEO.

On August 9, 2002, the Company settled its lawsuit with 2150 Western Court L.L.C., the property manager for the Company's Lisle, IL, office, in which 2150 Western Court L.L.C. was seeking payment of past due rent plus possession of the premises. The settlement calls for past due rents of approximately \$72,000 to be paid over a 15-month period, as well as reduced rents for the period August 2002 through March 2003. As additional consideration in the settlement, the Company issued 900,000 shares of its common stock to 2150 Western Court L.L.C. The Company had a liability of approximately \$61,000 relating to this matter as of September 30, 2002.

## 2. LIQUIDITY AND CAPITAL RESOURCES

The accompanying unaudited financial statements have been prepared assuming the Company will continue as a going concern. Accordingly, the financial statements do not include any adjustments that might result from the Company's inability to continue as a going concern. Based on current cash balances and operating budgets, the Company believes it will need to raise operating capital in the next 30 days. If the Company's financial resources are insufficient, the Company may be forced to seek protection from its creditors under the United States Bankruptcy Code or analogous state statutes unless it is able to engage in a merger or other corporate finance transaction with a better capitalized entity. The Company cannot predict whether additional financing will be available, its form, whether equity or debt, or be in another form, or if the Company will be successful in identifying entities with which it may consummate a merger or other corporate finance transactions.

## 3. GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Through September 30, 2002, the Company has not been able to generate significant revenues from its operations to cover its costs and operating expenses. Although the Company has been able to issue its common stock or other financing for a significant portion of its expenses, it is not known whether the Company will be able to continue this practice, or if its revenue will increase significantly to be able to meet its cash operating expenses.

This, in turn, raises substantial doubt about the Company's ability to continue as a going concern. Management believes that the Company will be able to raise additional funds through an offering of its common stock or alternative sources of financing. However, no assurances can be given as to the success of these plans. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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### 4. SUBSEQUENT EVENTS

On October 28, 2002, the Company settled its lawsuit with Wachovia Bank, N.A., the owner of the building in which the Company's headquarters is located. Wachovia was seeking payment of past due rents under its lease agreement with the Company. The settlement calls for cash payments of past due rents of approximately \$250,000 over a period of 16 months. The Company will also vacate approximately 70% of the unused space in its headquarters, and the rent for the remainder of the lease, which expires in January 2004, will be reduced according to square footage used. The Company has accrued a liability of approximately \$250,000 relating to this matter as of September 30, 2002.

On November 12, 2002, the Company settled the lawsuit with its former General Counsel over payment of the 2000 executive incentive, severance and unpaid vacation days in the amount of approximately \$154,000. The settlement calls for cash payments totaling approximately \$100,000 over a period of 10 months, plus 250,000 vested options to purchase shares of the Company's common

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stock at an exercise price of \$0.01 and a term of five years.

During November 2002, the Company issued Convertible Secured Promissory Notes with an aggregate face value of \$60,000 to 3 separate parties, including Charles W. Fritz, Chairman of the Board of Directors; William E. Fritz, outside director; and James J. Keil, outside director. The notes bear interest at a rate of 15% per annum, and mature at the earlier of i.) four months, or ii.) that date the shares underlying the Cornell Equity Line of Credit are registered with the SEC. The notes are convertible, at the option of the holder, into either cash or shares of the Company's common stock at a 30% discount to either market price upon closing, or upon conversion, whichever is lower. The Company will also grant to the holders an additional 192,000 shares of the Company's common stock and 60,000 warrants to purchase shares of the Company's common stock at \$0.03 per share, with a term of three years. In the event the Company defaults on the note, the Company will issue an additional 1,404,330 shares of its common stock to the note holders. The notes are secured by the Company's intellectual property, which is subject to first lien by AirClic, Inc. (see "Legal Proceedings").

On November 12, 2002, the Company and Cornell terminated the May 2002 Equity Line of Credit Agreement and entered into a new Equity Line of Credit Agreement with Cornell under which Cornell agreed to purchase up to \$10.0 million of NeoMedia's common stock and over the next two years, with the timing and amount of the purchase at the Company's discretion. The maximum amount of each purchase is \$150,000 with a minimum of seven days between purchases. The shares will be valued at 98% of the lowest closing bid price during the five day period following the delivery of a notice of purchase by NeoMedia. The Company will pay 5% of the gross proceeds of each purchase to Cornell as a commission. According to the terms of the agreement, the Company cannot draw on the line of credit until the shares underlying the agreement are registered for trading with the Securities and Exchange Commission.

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

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### RESULTS OF OPERATIONS

#### OVERVIEW

Beginning in the second quarter of 2002, the Company's continued focus was aimed toward the intellectual property commercialization unit of its Internet Switching Systems (NISS, formerly NAS) business. NISS consists of the patented PaperClick™ technology that enables users to link directly from the physical to the digital world, as well as the patents surrounding certain physical-world-to-web linking processes. NeoMedia's mission is to invent, develop, and commercialize technologies and products that effectively leverage the integration of the physical and electronic to provide clear functional value for the Company's end-users, competitive advantage for their business partners and return-on-investment for their investors. To this end, the Company signed an intellectual property license with Brandkey Systems Corporation, the fourth intellectual property license into which the Company has entered. The Company also continued its movement into the Storage Area Network (SAN) market through its NeoMedia Consulting and Integration Services (NCIS) business unit.

NeoMedia's quarterly operating results have been subject to variation and will continue to be subject to variation, depending upon factors, such as the mix of business among NeoMedia's services and products, the cost of material, labor and technology, particularly in connection with the delivery of business services, the costs associated with initiating new contracts, the economic condition of NeoMedia's target markets, and the cost of acquiring and integrating new businesses.

#### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2001

**NET SALES.** Total net sales for the nine months ended September 30, 2002 were \$8.5 million, which represented a \$4.7 million, or 124%, increase from \$3.8 million for the nine months ended September 30, 2001. This increase primarily resulted from revenues relating to the Company's newly created SAN practice in 2002. The Company will continue to pursue additional sales of SAN products and services, and to the extent that such sales can be made, the Company expects total net sales to more closely resemble the results for the first nine months of 2002, rather than the first nine months of 2001.

**LICENSE FEES.** License fees were \$0.3 million for the nine months ended September 30, 2002, a decrease of \$0.2 million or 40%, compared with \$0.5 million for the nine months ended September 30, 2001. The decrease was due to lower sales of internally developed software licenses in 2002. Demand for such licenses has historically fluctuated from year to year. The Company intends to continue to increase sales efforts of its internally developed software licenses in the future.

**RESALES OF SOFTWARE AND TECHNOLOGY EQUIPMENT AND SERVICE FEES.** Resales of software and technology equipment and service fees increased by \$4.8 million, or 145%, to \$8.1 million for the nine months ended September 30, 2002, as compared to \$3.3 million for the nine months ended September 30, 2001. This increase primarily resulted from revenues relating to the Company's newly created SAN practice in 2002. The Company will continue to pursue additional sales of SAN products and services.

**COST OF SALES.** Cost of license fees was \$0.8 million for the nine months ended September 30, 2002, a decrease of \$1.2 million, or 150%, compared with \$2.0 million for the nine months ended September 30, 2001. The decrease resulted from reduced amortization expense of capitalized development costs in 2002 relating to the PaperClick, MLM/Affinity, and Qode products that were written off during 2002. Cost of resales was \$6.6 million for the nine months ended

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September 30, 2002, an increase of \$3.9 million, or 144%, compared with \$2.7 million for the nine months ended September 30, 2001. The increase resulted from increased resales in 2002 compared with 2001. Cost of resales as a percentage of related resales was 81% in 2002 and 84% in 2001. The Company expects the cost of resales as a percentage of related resales to remain relatively stable in the next 12 months.

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**GROSS PROFIT.** Gross profit was \$1.1 million for the nine months ended September 30, 2002, an increase of \$2.0 million, or 222%, compared with a negative gross profit of (\$0.9) million in 2001. The increase was due to higher SAN-related sales in 2002, as well as lower software amortization costs in 2002 due to the write-off of Qode-related assets at the end of 2001, and PaperClick assets in the second quarter of 2002.

**SALES AND MARKETING.** Sales and marketing expenses were \$0.7 million for the nine months ended September 30, 2002, compared to \$2.1 million for the nine months ended September 30, 2001, a decrease of \$1.4 million or 67%. This decrease resulted from a reduction in sales and marketing personnel following the Company's cost-reduction initiative started in the second half of 2001. The Company does not expect sales and marketing expenses to fluctuate dramatically from 2002 levels over the next 12 months.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses were \$3.6 million for the nine months ended September 30, 2002 compared with general and administrative expenses of \$3.4 million for the nine months ended September 30, 2001, an increase of \$0.2 million or 6%. The increase resulted primarily from increased legal and professional service. The Company expects general and administrative expense to decrease slightly in the next 12 months due to reduced professional service expenses, lease restructuring, and other cost reduction efforts.

**RESEARCH AND DEVELOPMENT.** During the nine months ended September 30, 2002, NeoMedia charged to expense \$0.7 million of research and development costs, compared to \$0.3 million for the nine months ended September 30, 2001, an increase of \$0.4 million or 133%. The increase is primarily due to the fact that the Company was capitalizing the majority of its product development costs in 2001 as the Qode Commerce Solution was being implemented. The implementation was cancelled and the product discontinued in the third quarter of 2001. During the third quarter of 2002, development resources were devoted primarily to system maintenance. The Company expects research and development costs will decline over the next 12 months.

**LOSS ON IMPAIRMENT OF ASSETS.** During the nine months ended September 30, 2002, the Company recognized a loss on impairment of assets of \$1.0 million for the write-off capitalized development costs relating to its PaperClick physical-world-to-internet software. Due to capital constraints, the Company is not currently able to devote full-time resources and infrastructure to commercializing the technology. The Company intends to re-focus sales and marketing efforts surrounding the product upon the receipt of sufficient capital. The Company does not expect any additional losses from asset impairment in the next 12 months.

**WRITE-OFF OF DIGITAL CONVERGENCE LICENSE CONTRACT.** During the second quarter of 2001, the Company took a \$7.4 million charge to income to write off the net assets associated with the Digital Convergence intellectual property license contract. There were no charges related to the contract in 2002. No charges are expected in the next 12 months.



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INTEREST EXPENSE/(INCOME), NET. Interest expense/(income) consists primarily of interest paid to creditors as part of financed purchases, notes payable and NeoMedia's asset-based collateralized line of credit net of interest earned on cash equivalent investments. Interest expense increased by \$129,000 to \$99,000 for the nine months ended September 30, 2002 from income of \$(30,000) for the nine months ended September 30, 2001, due to lower cash balances in 2002, as well as interest charges in 2002 relating to notes payable not held during 2001. The Company expects net interest expense similar to 2002 levels over the next 12 months, due to capital constraints and borrowing costs.

LOSS FROM CONTINUING OPERATIONS. The loss from continuing operations for the nine months ended September 30, 2002 was \$5.0 million, which represented a \$12.0 million, or 71% decrease from a \$17.0 million loss for the nine months ended September 30, 2001. The decrease resulted primarily from the \$7.4 million write-off of the Digital Convergence license contract during the second quarter of 2001, combined with a loss on impairment of the Company's MLM/Affinity product line of \$2.9 million in 2001 and decrease of sales and marketing expense by \$1.4 million due to reduction of sales force.

LOSS FROM OPERATIONS OF DISCONTINUED BUSINESS UNITS. The Company discontinued operations of its Qode business unit in 2001, resulting in a loss from operations of discontinued business units of \$3.7 million for the nine months ended September 30, 2001. The business unit's assets were purchased in March 2001 and the implementation was cancelled during the second quarter of 2001. The Company does not expect any charges relating to the Qode business unit in the next 12 months.

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LOSS ON DISPOSAL OF DISCONTINUED BUSINESS UNITS. During the third quarter of 2001, the Company discontinued operations of its Qode business unit, resulting in a loss on disposal of discontinued business unit of \$3.2 million. The remaining Qode system assets were held for sale subject to a letter of intent with the Finx Group, Inc. As of September 30, 2001, December 31, 2001, and March 31, 2002, the Company recorded on its consolidated balance sheet net assets held for sale in the amount of \$210,000, which was the estimated value to be received by the Company from the Finx Group in exchange for the Qode assets. During the second quarter of 2002, the Finx group withdrew its letter of intent. As a result, during the nine months ended September 30, 2002, the Company recognized an additional loss on disposal of discontinued business unit of \$1.5 million to write off the remaining Qode-related assets. The Company does not expect any charges relating to the Qode business unit in the next 12 months.

NET LOSS. The net loss for the nine months ended September 30, 2002 was \$6.5 million, which represented a \$17.3 million, or 73% decrease from a \$23.8 million loss for the nine months ended September 30, 2001. The decrease primarily resulted from the \$7.4 million write-off of the Digital Convergence license contract during the second quarter of 2001, a loss on impairment of the Company's MLM/Affinity product line of \$2.9 million in 2001, loss from discontinued Qode operations of \$6.9 million in 2001, and a reduction in overhead expenses resulting from a reduction in force initiated in the third quarter of 2001.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2001

NET SALES. Total net sales for the three months ended September 30, 2002 were \$3.4 million, which represented a \$2.5 million, or 278%, increase from \$0.9

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million for the three months ended September 30, 2001. This increase primarily resulted from revenues relating to a \$1.7 million equipment and software order in 2002. The Company intends to continue to pursue additional software and equipment sales, as well as sales of its SAN products and services, and to the extent that such sales can be made, the Company expects future net sales to more closely resemble the results for the first nine months of 2002, rather than the first nine months of 2001.

**LICENSE FEES.** License fees were \$0.2 million for the three months ended September 30, 2002, an increase of \$0.1 million or 100%, compared with \$0.1 million for the three months ended September 30, 2001. The increase was due to higher sales of internally developed software licenses in 2002. Demand for such licenses has historically fluctuated from year to year. The Company intends to continue to increase sales efforts of its internally developed software licenses in the future.

**RESALES OF SOFTWARE AND TECHNOLOGY EQUIPMENT AND SERVICE FEES.** Resales of software and technology equipment and service fees increased by \$2.5 million, or 313%, to \$3.3 million for the three months ended September 30, 2002, as compared to \$0.8 million for the three months ended September 30, 2001. This increase primarily resulted from revenues relating to a \$1.7 million equipment and software order in 2002. The Company intends to continue to pursue additional software and equipment sales, as well as sales of its SAN products and services.

**COST OF SALES.** Cost of license fees was \$0.1 million for the three months ended September 30, 2002, a decrease of \$0.6 million, or 86%, compared with \$0.7 million for the three months ended September 30, 2001. The decrease resulted from reduced amortization expense of capitalized development costs in 2002 relating to the PaperClick, MLM/Affinity, and Qode products that were written off during 2002. Cost of resales was \$2.7 million for the nine months ended September 30, 2002, an increase of \$2.0 million, or 286%, compared with \$0.7 million for the nine months ended September 30, 2001. The increase resulted from increased resales in 2002 compared with 2001. Cost of resales as a percentage of related resales for the three months ended September 30 was 84% in 2002 and 91% in 2001. This decrease is primarily due to a higher sales mix of higher-margin equipment, software, and services in 2002.

**GROSS PROFIT.** Gross profit was \$0.6 million for the three months ended September 30, 2002, an increase of \$1.1 million, or 220%, compared with a negative gross profit of (\$0.5) million in 2001. The increase was due to higher SAN-related sales in 2002, as well as lower software amortization costs in 2002 due to the write-off of Qode-related assets at the end of 2001, and PaperClick assets in the second quarter of 2002.

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**SALES AND MARKETING.** Sales and marketing expenses were \$0.2 million for the three months ended September 30, 2002, compared to \$0.7 million for the three months ended September 30, 2001, a decrease of \$0.5 million or 71%. This decrease resulted from a reduction in sales and marketing personnel resulting from the Company's cost-reduction initiative started in the second half of 2001. The Company does not expect sales and marketing expenses to fluctuate dramatically from 2002 levels over the next 12 months.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses increased by \$0.2 million, or 25%, to \$1.0 million for the three months ended September 30, 2002, compared to \$0.8 million for the three months ended September 30, 2001. The increase resulted primarily from increased legal and professional service. The Company expects general and administrative expense to decrease

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slightly in the next 12 months due to reduced professional service expenses, lease restructuring, and other cost reduction efforts.

**RESEARCH AND DEVELOPMENT.** During the three months ended September 30, 2002, NeoMedia charged to expense \$150,000 of research and development costs, an increase of \$13,000, or 9%, compared to \$137,000 for the three months ended September 30, 2001. The company expects research and development costs to remain materially constant over the next 12 months.

**LOSS ON IMPAIRMENT OF ASSETS.** During the three months ended September 30, 2002, the Company did not recognize a loss on impairment of assets. During the three months ended September 30, 2001, the Company recognized an impairment loss of \$2.9 million relating to its MLM/Affinity product line. The Company does not expect any additional losses from asset impairment in the next 12 months.

**INTEREST EXPENSE/(INCOME), NET.** Interest expense/(income) consists primarily of interest paid to creditors as part of financed purchases, notes payable and NeoMedia's asset-based collateralized line of credit net of interest earned on cash equivalent investments. Interest expense decreased by \$20,000 to \$2,000 for the three months ended September 30, 2002 from \$22,000 for the three months ended September 30, 2001. The Company expects net interest expense similar to 2002 levels over the next 12 months, due to capital constraints and borrowing costs.

**LOSS FROM CONTINUING OPERATIONS.** The loss from continuing operations for the three months ended September 30, 2002 was \$0.8 million, which represented a \$4.3 million, or 84% decrease from a \$5.1 million loss for the three months ended September 30, 2001. The decrease resulted primarily from an impairment loss of \$2.9 million relating to the Company's MLM/Affinity product line during the second quarter of 2001, combined with continued company-wide cost reduction efforts during the last quarter of 2001 and the first three quarters of 2002.

**LOSS FROM OPERATIONS OF DISCONTINUED BUSINESS UNITS.** The Company discontinued operations of its Qode business unit in 2001, resulting in a loss from operations of discontinued business units of \$1.0 million for the three months ended September 30, 2001. The business unit's assets were purchased in March 2001 and the implementation was cancelled during the second quarter of 2001. The Company does not expect any charges relating to the Qode business unit in the next 12 months.

**NET LOSS.** The net loss for the three months ended September 30, 2002 was \$0.8 million, which represented an \$8.5 million, or 91% decrease from a \$9.3 million loss for the three months ended September 30, 2001. The decrease resulted from the \$7.4 million write-off of the Digital Convergence license contract and an impairment loss of \$2.9 million relating to the Company's MLM/Affinity product line during the second quarter of 2001.

### FINANCIAL CONDITION

As of September 30, 2002, the Company's cash balance was \$9,000 compared to \$10,000 at June 30, 2002 and \$134,000 at December 31, 2001.

Net cash used in operating activities for the nine months ended September 30, 2002 and 2001, was \$0.7 million and \$4.8 million, respectively. During the nine months ended September 30, 2002, trade accounts receivable increased \$0.6 million, while accounts payable inclusive of amounts due under financing agreements, liabilities in excess of assets of discontinued business unit, accrued expenses and deferred revenue increased \$2.0 million. During the nine

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months ended September 30, 2001, trade accounts receivable decreased \$1.3 million, while accounts payable inclusive of amounts due under financing agreements, accrued expenses and deferred revenue decreased \$0.1 million. NeoMedia's net cash flow from/(used in) investing activities for the nine months ended September 30, 2002 and 2001 was \$0.1 and (\$3.0) million, respectively.

Net cash provided by financing activities for the nine months ended September 30, 2002 and 2001, was \$0.5 million and \$3.7 million, respectively. The decrease was due to \$1.6 million proceeds for the sale of common stock and \$1.2 million from the exercise of stock options and warrants in 2001. During the nine months ended September 30, 2002, the Company sold 19 million shares of its common stock at \$0.17 per share in exchange for promissory notes maturing at the earlier of i), August 12, 2002, or ii) 30 days from registration of the shares. During August 2002, the notes matured without payment, and the Company subsequently cancelled the 19 million shares issued in connection with such notes. The Company has accrued a liability in the third quarter of \$190,000 relating to the par value paid in connection with the issuance of the shares.

The accompanying unaudited financial statements have been prepared assuming the Company will continue as a going concern. Accordingly, the financial statements do not include any adjustments that might result from the Company's inability to continue as a going concern. Based on current cash balances and operating budgets, the Company believes it will need to raise operating capital in the next 30 days. If the Company's financial resources are insufficient, the Company may be forced to seek protection from its creditors under the United States Bankruptcy Code or analogous state statutes unless it is able to engage in a merger or other corporate finance transaction with a better capitalized entity. The Company cannot predict whether additional financing will be available, its form, whether equity or debt, or be in another form, or if the Company will be successful in identifying entities with which it may consummate a merger or other corporate finance transactions.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange, interest rates and a decline in the stock market. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company has limited exposure to market risks related to changes in interest rates and foreign currency exchange rates. The Company does not currently invest in equity instruments of public or private companies for business or strategic purposes.

The Company generally conducts business, including sales to foreign customers, in U.S. dollars, and as a result, has limited foreign currency exchange rate risk. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on the Company's financial condition or results of operations.

### ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of the Company's President and Chief Financial Officer. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

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CHANGES IN INTERNAL CONTROLS. There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

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### FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

The Company operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The market for software products is generally characterized by rapidly changing technology, frequent new product introductions and changes in customer requirements which can render existing products obsolete or unmarketable. The statements contained in this document that are not historical facts may be forward-looking statements (as such term is defined in the rules promulgated pursuant to the Securities Exchange Act of 1934) that are subject to a variety of risks and uncertainties more fully described in the Company's filings with the Securities and Exchange Commission. The forward-looking statements are based on the beliefs of the management of the Company, as well as assumptions made by, and information currently available to, the Company's management. Accordingly, these statements are subject to significant risks, uncertainties and contingencies which could cause the Company's actual growth, results, performance and business prospects and opportunities to differ materially from those expressed in or implied by, any such forward-looking statements. Wherever possible, words such as "anticipate," "plan," "expect," "believe," "estimate," and similar expressions have been used to identify these forward-looking statements, but are not the exclusive means of identifying such statements. These risks, uncertainties and contingencies include, but are not limited to, the Company's limited operating history on which expectations regarding its future performance can be based, competition from, among others, high technology companies that have greater financial, technical and marketing resources and distribution capabilities than the Company, the availability of sufficient capital, the effectiveness of the Company's efforts to control operating expenses, the Company's ability to sell its products and general economic and business conditions affecting the Company and its customers in the United States and other countries in which the Company sells and anticipates to sell its products and services. The Company does not undertake any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

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### PART II -- OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

On September 6, 2001, AirClic, Inc. ("AirClic") filed suit against the Company in the Court of Common Pleas, Montgomery County, Pennsylvania, seeking,

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among other things, the accelerated repayment of a \$500,000 loan it advanced to the Company under the terms of a letter of intent entered into between AirClic and the Company. The letter of intent was subsequently abandoned on the basis of the Company's alleged breach of certain representations made by the Company in the promissory note issued by the Company to AirClic in respect of such advance. The note issued by the Company in respect of AirClic's \$500,000 advance is secured by substantially all of the Company's intellectual property, including its core physical world-to-Internet technologies. If the Company is deemed to have defaulted under the note, and does not pay the judgment, AirClic, which is one of the NeoMedia's key competitors, could acquire the Company's core intellectual property, which would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. The Company is vigorously defending this lawsuit and has interposed counterclaims against AirClic. Whether or not AirClic is successful in asserting its claims that the Company breached certain representations made by the Company in the note, the note became due and payable in accordance with its terms on January 11, 2002. Based on the cash currently available to the Company, payment of the note and related interest would have a material adverse effect on the Company's financial condition. If the Company fails to pay such note, AirClic could proceed against the Company's intellectual property securing the note, which would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. The Company is aggressively seeking bridge financing to enable it to pay the principal and interest remaining under the note following the resolution of the counterclaims against AirClic. The Company has not accrued any additional liability over and above the note payable and related accrued interest. As of the date of this filing, pleadings were closed and the parties have engaged in written discovery.

AirClic also filed suit against the Company in the United States District Court for the Eastern District of Pennsylvania. In this second action, AirClic sought a declaration that certain core intellectual property securing the note issued by the Company to AirClic, some of which is patented and others for which a patent application is pending is invalid and unenforceable. On November 21, 2001, the Company filed a motion to dismiss the complaint. On December 19, 2001, AirClic filed a response opposing that position. On September 18, 2002, the court ruled in favor of the Company and dismissed AirClic's complaint. The Company has not accrued any liability in connection with this matter.

On June 26, 2001, the Company filed a \$3 million lawsuit in the U.S. District Court, Northern District of Texas, Dallas Division, against Digital:Convergence Corporation for breach of contract regarding a \$3 million promissory note due on June 24, 2001 that was not paid. The Company is seeking payment of the \$3 million note plus interest and attorneys fees. The Company has not accrued any gain contingency related to this matter. On March 22, 2002, Digital:Convergence filed under Chapter 7 of the United States Bankruptcy Code.

In April 2001, the former President and director of NeoMedia filed a lawsuit against the Company and several of its directors. The suit was filed in the Circuit Court of the Twentieth Judicial Circuit for Sarasota, Florida. The claim alleges the individual was fraudulently induced into accepting employment and that the Company breached the employment agreement. The individual's employment with the Company ended in January 2001. During May 2002, the Company settled the suit. The Company is obligated to make cash payments of \$90,000 directly to the plaintiff during the period May 2002 through December 2002, and cash payments to the plaintiff's attorney for legal fees in the amount of \$45,000 due in July and August 2002. In addition, the plaintiff was granted 360,000 options to purchase shares of NeoMedia common stock at an exercise price of \$0.08. As of March 31, 2002, the Company had accrued a \$347,000 liability relating to the suit. As a result, the Company recognized an increase to net income of approximately \$176,000 during the three-month period ended June 30, 2002 to adjust the liability to the settlement amount. As of September 30, the Company had an accrued liability of \$72,000 relating to this matter.

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On August 20, 2001, Ripfire, Inc. filed suit against the Company in the San Francisco County Superior Court seeking payment of \$138,000 under a software license agreement entered into between the Company and Ripfire in May 2001 relating to implementation of the Qode Universal Commerce Solution. On September 6, 2002, the Company settled this suit for \$133,000 of the Company's common stock, to be valued at the average closing price for the five days preceding the date that such shares are registered for resale with the United States Securities and Exchange Commission. The Company has accrued a \$133,000 liability relating to this matter as of September 30, 2002.

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On November 30, 2001, Orsus Solutions USA, Inc., filed a summons seeking payment in full of approximately \$525,000 relating to a software and services contract associated with implementation of the Qode Universal Commerce Solution. The Company is currently attempting to negotiate settlement of this matter. The Company has accrued a liability of \$525,000 in the accompanying financial statements.

On July 22, 2002, 2150 Western Court, L.L.C., the property manager for the Company's Lisle, IL, office, filed a summons seeking payment of approximately \$72,000 for all past due rents on the facility. The summons asked for a judgment for the above amount plus possession of the premises. On August 9, 2002, the Company settled this matter. The settlement calls for past due rents of approximately \$72,000 to be paid over a 15-month period, as well as reduced rents for the period August 2002 through March 2003. As additional consideration in the settlement, the Company issued 900,000 shares of its common stock to 2150 Western Court L.L.C. The Company had a liability of approximately \$61,000 relating to this matter as of September 30, 2002.

On July 27, 2002, the Company's former General Counsel filed suit in U.S. District Court, Ft. Myers division, seeking payment of the 2000 executive incentive, severance and unpaid vacation days in the amount of approximately \$154,000. In June 2001, the Company's compensation committee approved an adjustment to the 2000 executive incentive plan that reduced the executive incentive payout as a result of the write-off of the Digital:Convergence intellectual property license contract in the second quarter of 2001. As a result, the Company reduced the accrual for such payout by an aggregate of approximately \$1.1 million in the second quarter of 2002. The plaintiff is seeking payment of the entire original incentive payout. On November 12, 2002, the Company settled the lawsuit. The settlement calls for cash payments totaling approximately \$90,000 over a period of ten months, plus 250,000 vested options to purchase shares of the Company's common stock at an exercise price of \$0.01 with a term of five years. The Company had a liability of approximately \$100,000 relating to this matter as of September 30, 2002.

On September 12, 2002, R. R. Donnelley & Sons Company filed a summons in the Circuit Court of The Twentieth Judicial Circuit in and for Lee County, Florida, seeking payment of approximately \$92,000 in past due professional services bills. The Company is attempting to negotiate settlement of this issue out of court prior to the court date. The Company has accrued approximately \$92,000 relating to this matter as of September 30, 2002.

On September 13, 2002, Wachovia Bank, N.A., owner of the building in which the Company's Ft. Myers, Florida headquarters is located, filed a complaint in Circuit Court of The Twentieth Judicial Circuit in and for Lee County, Florida, seeking payment of approximately \$225,000 in past due rents. The complaint also seeks payment of all future rent payments under the lease term, which expires in

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January 2004, as well as possession of the premises. On October 28, 2002, the Company and Wachovia reached a settlement on this matter. The settlement calls for cash payments of past due rents of approximately \$250,000 over a period of 16 months. The Company will also vacate approximately 70% of the unused space in its headquarters, and the rent for the remainder of the lease, which expires in January 2004, will be reduced according to square footage used. The Company has accrued a liability of approximately \$250,000 relating to this matter as of September 30, 2002.

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### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In January 2002, the Company issued 452,489 shares of common stock to About.com, Inc. The shares were issued upon conversion of 452,489 shares of Series B Preferred Stock issued to About.com, Inc. as payment for advertising expense incurred during 2001.

In January 2002, the Company issued 55,000 shares of its common stock at a price of \$0.13 per share to an individual unrelated party. Cash proceeds to NeoMedia were \$7,150.

In January 2002, the Company issued 1,646,987 shares of common stock to two unrelated vendors as settlement of past-due accounts payable and future payments under equipment lease agreements. There were no cash proceeds to NeoMedia in these transactions.

In February 2002, the Company issued 19,000,000 shares of common stock at a price of \$0.17 per share to five individuals and two institutional unrelated parties. The shares were issued in exchange for limited recourse promissory notes maturing at the earlier of i.) August 12, 2002, or ii.) 30 days from the date of registration of the shares. The gross proceeds of such transaction were expected to be approximately \$3,040,000 upon maturity of the notes, as a purchase price of \$0.01 per share, or \$190,000 in aggregate, was paid in cash. During August 2002, the notes matured without payment, and the Company subsequently cancelled the 19 million shares issued in connection with such notes. The Company has accrued a liability in the third quarter of \$190,000 relating to the par value paid in connection with the issuance of the shares.

In March 2002, NeoMedia issued an aggregate of 228,675 shares of NeoMedia common stock upon the exercise of outstanding warrants by an unrelated party at a price of \$0.12 per share. The gross proceeds of such transaction were approximately \$27,000.

In April 2002, NeoMedia issued an aggregate of 140,775 shares of NeoMedia common stock upon the exercise of outstanding warrants by Charles W. Fritz, its Chairman and Chief Executive Officer, at a price of \$0.12 per share. Mr. Fritz subsequently sold the shares into the market. The gross proceeds of such transaction were approximately \$17,000. In accordance with Section 16(b), all proceeds from the sales were retained by the Company.

In April 2002, NeoMedia issued an aggregate of 1,962,255 shares of NeoMedia common stock upon the exercise of outstanding options by two unrelated parties at a price of \$0.12 per share. The gross proceeds of such transaction were approximately \$235,000.

In April 2002, NeoMedia issued an aggregate of 40,000 shares of NeoMedia common stock upon the exercise of outstanding options by James J. Keil, an outside director. Mr. Keil purchased 25,000 shares at an exercise price of



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\$0.135 and 15,000 shares at \$0.20. The gross proceeds of such transaction were approximately \$6,000.

In May 2002, NeoMedia issued an aggregate of 200 shares of NeoMedia common stock upon the exercise of outstanding options by an employee at a price of \$0.12 per share. The gross proceeds of such transaction were \$24.

In June 2002, the Company issued 900,000 shares of common stock to two unrelated consultants as payment for consulting services to be performed from June 2002 through June 2003. There were no cash proceeds to NeoMedia in these transactions.

In June 2002, the Company issued 10,000 shares of common stock to an unrelated vendor as an interest payment on past-due accounts payable. There were no cash proceeds to NeoMedia in these transactions.

In July 2002, the Company issued 575,980 shares of common stock upon the exercise of outstanding options by an unrelated consultant at a price of \$0.01 per share. The gross proceeds of such transaction were approximately \$6,000.

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In August 2002, the Company issued 1,262,218 shares of common stock upon the exercise of outstanding options by an unrelated consultant at a price of \$0.01 per share. The gross proceeds of such transaction were approximately \$13,000.

In August 2002, the Company cancelled 19,000,000 shares issued during February 2002 in exchange for promissory notes maturing at the earlier of i) August 12, 2002, or ii) 30 days from registration of the shares. During August 2002, the notes matured without payment, and the Company subsequently cancelled the 19,000,000 shares issued in connection with such notes.

In August 2002, the Company issued 900,000 shares of common stock to 2150 Western Court L.L.C, the landlord of its Lisle, Illinois sales office, as settlement of a lawsuit relating to past-due and future building rents (see "Legal Proceedings"). The shares were valued at \$0.03 per share, the market price at the date of issuance. There were no cash proceeds to NeoMedia in this transaction.

In September 2002, the Company issued 1,161,402 shares of common stock upon the exercise of outstanding options by an unrelated consultant at a price of \$0.01 per share. The gross proceeds of such transaction were approximately \$12,000.

The Company relied upon the exemption provided in Section 4(2) of the Securities Act and/or Rule 506 thereunder, which cover "transactions by an issuer not involving any public offering," to issue securities discussed above without registration under the Securities Act of 1933. The Company made a determination in each case that the person to whom the securities were issued did not need the protection that registration would afford. 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 the Company, after approval by our legal counsel. The Company believes 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. The Company also believes that the investors had access to the same type of information as would be contained in a registration

statement.

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RISK FACTORS

RISKS SPECIFIC TO NEOMEDIA

CURRENTLY PENDING LEGAL ACTIONS THREATEN TO DIVEST THE COMPANY OF CRITICAL INTELLECTUAL PROPERTY

On September 6, 2001, AirClic filed suit against the Company in the Court of Common Pleas, Montgomery County, Pennsylvania, seeking, among other things, the accelerated repayment of a \$500,000 loan it advanced to the Company under the terms of a letter of intent entered into between AirClic and the Company. The letter of intent was subsequently abandoned on the basis of the Company's alleged breach of certain representations made by the Company in the promissory note issued to AirClic in respect of such advance. The note issued by the Company in respect of AirClic's \$500,000 advance is secured by substantially all of the Company's property, including its core physical world-to-Internet technologies. If the Company is deemed to have defaulted under such note, and does not pay the judgment, AirClic, which is one of the Company's key competitors, could acquire the Company's core intellectual property and other assets, which would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. The Company is vigorously defending this claim and has interposed counterclaims against AirClic. As of the date of this filing, pleadings were closed and the parties have engaged in written discovery. Whether or not AirClic is successful in asserting its claims that the Company breached certain representations made by it in the note, the note became due and payable in accordance with its terms on January 11, 2002. Based on the cash currently available to the Company, payment of the note and related interest would have a material adverse effect on the Company's financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations". If the Company fails to pay such note, AirClic could proceed against the Company's intellectual property and other assets securing the note which would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. The Company is aggressively seeking bridge financing to enable it to pay such principal and interest that remains under the note following the resolution of the Company's counterclaims against AirClic. See "Risk Factors - Risks Specific to NeoMedia - The Company Cannot Predict Its Capital Needs And May Not Be Able To Secure Additional Financing".

THE COMPANY'S SHARES HAVE BEEN DE-LISTED FROM TRADING ON THE NASDAQ SMALLCAP MARKET, WHICH MAY HAVE A MATERIAL ADVERSE EFFECT ON AN INVESTOR'S ABILITY TO RESELL SHARES OR OBTAIN ACCURATE PRICE QUOTATIONS

On March 11, 2002, the Company received a Nasdaq Staff Determination stating that, as of December 31, 2001, it did not meet either the minimum net tangible assets (\$2,000,000) or minimum stockholders' equity (\$2,500,000) criteria for continued listing on the Nasdaq SmallCap Market and advising that, accordingly, the Company's shares were subject to de-listing from such market. On May 16, 2002, The Company received notification from the Nasdaq Listing Qualifications Panel that the Company's shares were delisted effective May 17, 2002. The Company's shares are now trading on the OTC Bulletin Board.

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THE COMPANY HAS AN ACCUMULATED DEFICIT; THE COMPANY ANTICIPATES FUTURE LOSSES.

The Company has incurred substantial losses since its inception, and anticipates continuing to incur substantial losses for the foreseeable future. The Company incurred a loss of \$6,502,000 in the nine months ended September 30, 2002, \$25,469,000 in the year ended December 31, 2001. The Company's accumulated losses were approximately \$69,845,000 as of September 30, 2002, and \$63,344,000 as of December 31, 2001. As of September 30, 2002 and December 31, 2001 and 2000, the Company had a working capital (deficit) of approximately \$(8,208,000), \$(5,163,000) and \$8,426,000, respectively. The Company had stockholders' equity of \$(5,183,000),

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\$(263,000) and \$19,110,000 at September 30, 2002, December 31, 2001 and 2000, respectively. The Company generated revenues of \$8,452,000 for the nine months ended September 30, 2002 and \$8,142,000 and \$27,565,000 for the years ended December 31, 2001 and 2000. In addition, during the nine months ended September 30, 2002, and years ended December 31, 2001 and 2000, the Company recorded negative cash flows from operations of \$669,000, \$5,202,000 and \$6,775,000, respectively. To succeed, the Company must develop new client and customer relationships and substantially increase its revenue derived from improved products and additional value-added services. The Company has expended and intends to continue to expend substantial resources to develop and improve its products, increase its value-added services and to market its products and services. These development and marketing expenses must be incurred well in advance of the recognition of revenue. As a result, the Company may not be able to achieve or sustain profitability.

THE COMPANY'S AUDITORS HAVE QUALIFIED THEIR REPORT ON THE COMPANY FINANCIAL STATEMENTS WITH RESPECT TO THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN.

The report of Stonefield Josephson, Inc., the Company's current independent auditors, with respect to the Company's financial statements and the related notes for the year ended December 31, 2001, indicate that, at the date of their report, the Company had suffered recurring losses from operations and the Company's current cash position raised substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements do not include any adjustments that might result from this uncertainty. The report of Arthur Andersen LLP, the Company's former independent auditors, with respect to the Company's financial statements and the related notes for the years ended December 31, 2000 and 1999, indicate that, at the date of their report, the Company had suffered recurring losses from operations and the Company's current cash position raised substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements do not include any adjustments that might result from this uncertainty.

BECAUSE THE PHYSICAL WORLD - TO - INTERNET MARKET IN WHICH THE COMPANY OPERATES HAS EXISTED FOR A SHORT PERIOD OF TIME, THERE IS LIMITED INFORMATION UPON WHICH INVESTORS CAN EVALUATE THE BUSINESS.

The physical world-to-Internet market in which the Company operates is a recently developed market. Further, the Company has conducted operations in this market only since March 1996. Consequently, the Company may be deemed to have a relatively limited operating history upon which investors may base an evaluation of the Company's primary business and determine its prospects for achieving intended business objectives. To date, the Company has sold its physical world-to-Internet products to only 13 companies. Further, on March 22, 2002,

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Digital:Convergence Corporation, the Company's primary customer for the Company's physical world-to-Internet products, filed for bankruptcy under Chapter 7 of the United States Bankruptcy Code. The Company is prone to all of the risks inherent to the establishment of any new business venture, including unforeseen changes in its business plan. Investors should consider the likelihood of the company's future success to be highly speculative in light of the Company's limited operating history in its primary market, as well as the limited resources, problems, expenses, risks, and complications frequently encountered by similarly situated companies in the early stages of development, particularly companies in new and rapidly evolving markets, such as the physical world-to-Internet space. To address these risks, the Company must, among other things,

- o Maintain and increase the Company's client base;
- o Implement and successfully execute the Company's business and marketing strategy;
- o Continue to develop and upgrade the Company's products;
- o Continually update and improve the Company's service offerings and features;
- o Respond to industry and competitive developments; and
- o Attract, retain, and motivate qualified personnel.

The Company may not be successful in addressing these risks. If the Company is unable to do so, the Company's business, prospects, financial condition, and results of operations would be materially and adversely affected.

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### FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS MAY AFFECT THE COMPANY'S STOCK PRICE.

As a result of the emerging and evolving nature of the markets in which the Company competes, as well as the current nature of the public markets and the Company's current financial condition, the Company believes its operating results may fluctuate materially, as a result of which quarter-to-quarter comparisons of the Company's results of operations may not be meaningful. If in some future quarter, whether as a result of such a fluctuation or otherwise, the Company's results of operations fall below the expectations of securities analysts and investors, the trading price of the Company's common stock would likely be materially and adversely affected. Investors should not rely on the Company's results of any interim period as an indication of the Company's future performance. Additionally, the Company's quarterly results of operations may fluctuate significantly in the future as a result of a variety of factors, many of which are outside the Company's control. Factors that may cause the Company's quarterly results to fluctuate include, among others:

- o The Company's ability to retain existing clients and customers;
- o The Company's ability to attract new clients and customers at a steady rate;
- o The Company's ability to maintain client satisfaction;
- o The Company's ability to motivate potential clients and customers to acquire and implement new technologies;
- o The extent to which the Company's products gain market acceptance;
- o The timing and size of client and customer purchases;
- o Introductions of products and services by competitors;
- o Price competition in the markets in which the Company competes;
- o The pricing of hardware and software which the Company resells or integrates into its products;
- o The level of use of the Internet and online services and the rate of

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- market acceptance of physical world-to-Internet marketing;
- o The Company's ability to upgrade and develop its systems and infrastructure in a timely and effective manner;
- o The Company's ability to attract, train, and retain skilled management, strategic, technical, and creative professionals;
- o The amount and timing of operating costs and capital expenditures relating to the expansion of the Company's business, operations, and infrastructure;
- o Unanticipated technical, legal, and regulatory difficulties with respect to use of the Internet; and
- o General economic conditions and economic conditions specific to Internet technology usage and electronic commerce.

THE COMPANY IS UNCERTAIN OF THE SUCCESS OF ITS INTERNET SWITCHING SERVICES BUSINESS UNIT AND THE FAILURE OF THIS UNIT WOULD NEGATIVELY AFFECT THE PRICE OF THE COMPANY'S STOCK.

The Company provides products and services that provide a seamless link from physical objects, including printed material, to the Internet. The Company can provide no assurance that:

- o This application services business unit will ever achieve profitability;
- o The Company's current product offerings will not be adversely affected by the focusing of the Company resources on the physical world-to-Internet space; or
- o The products the Company develops will obtain market acceptance.

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

THE COMPANY DEPENDS ON THE RESALE OF SOFTWARE AND EQUIPMENT FOR REVENUE AND A REDUCTION IN THESE SALES WOULD MATERIALLY ADVERSELY AFFECT THE COMPANY'S OPERATIONS AND THE VALUE OF THE COMPANY'S STOCK.

During the nine months ended September 30, 2002 and the years ended December 31, 2001, 2000, 1999, 1998, and 1997, the Company derived 96%, 73% and 66%, respectively, of its revenues from the resale of computer software and technology equipment. A loss or a reduction of this revenue would have a material adverse effect on the Company's business,

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prospects, financial condition, and results of operations, as well as the Company's stock price. The Company can provide no assurance that:

- o The market for the Company's products and services will continue;
- o The Company will be successful in marketing these products due to competition and other factors;
- o The Company will continue to be able to obtain short-term financing for the purchase of the products that the Company resells; or
- o The Company's relationship with companies whose products and services it sells, such as Sun Microsystems Computer Company, will continue.

Further, the technology and equipment resale business is becoming a commodity industry for products undifferentiated by value-added proprietary elements and services. A large number of companies act as re-marketers of

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another party's products, and therefore, the competition in this area is intense. Resale operations are also being compressed as equipment manufacturers consolidate their distribution channels. In some instances, the Company, in acting as a re-marketer, may compete with the original manufacturer. An inability to effectively compete and generate revenues in this industry would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations.

A LARGE PERCENTAGE OF THE COMPANY'S ASSETS ARE INTANGIBLE ASSETS, WHICH WILL HAVE LITTLE OR NO VALUE IF THE COMPANY'S OPERATIONS ARE UNSUCCESSFUL.

At September 30, 2002, approximately 33% of the Company's total assets were intangible assets, consisting primarily of rights related to the Company's patents and other intellectual property. If the Company operations are unsuccessful, these assets will have little or no value, which will materially adversely affect the value of the Company's stock and the ability of the Company's stockholders to recoup their investments in the Company's capital stock.

THE COMPANY'S MARKETING STRATEGY HAS NOT BEEN TESTED AND MAY NOT RESULT IN SUCCESS.

To date, the Company has conducted limited-marketing efforts directly. All of the Company's marketing efforts have been largely untested in the marketplace, and may not result in sales of the Company's products and services. To penetrate the markets in which the Company competes, the Company will have to exert significant efforts to create awareness of, and demand for, the Company's products and services. With respect to the Company's marketing efforts conducted directly, the Company intends to expand the Company's sales staff upon receipt of adequate financing. The Company's failure to further develop its marketing capabilities and successfully market its products and services would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations.

THE COMPANY RELIES ON INTERNALLY DEVELOPED SYSTEMS, WHICH MAY PUT THE COMPANY AT A COMPETITIVE DISADVANTAGE.

The Company uses internally developed technologies for a portion of its systems integration services, as well as the technologies required to interconnect its clients' and customers' physical world-to-Internet systems and hardware with the Company's own. As the Company has developed these systems in order to integrate disparate systems and hardware on a case-by-case basis, these systems are inefficient and require a significant amount of customization. Such client and customer specific customization is time-consuming and costly and may place the Company at a competitive disadvantage when compared to competitors with more efficient systems. The Company intends to upgrade and expand its systems and technologies and to integrate newly-developed and purchased technologies with its own in order to improve the efficiency of the Company's systems and technologies, although the Company is unable to predict whether these upgrades will improve the Company's competitive position when compared to its competitors.

THE COMPANY HAS LIMITED HUMAN RESOURCES; THE COMPANY NEEDS TO ATTRACT AND RETAIN HIGHLY SKILLED PERSONNEL; AND THE COMPANY MAY BE UNABLE TO EFFECTIVELY MANAGE COMPANY GROWTH WITH THE COMPANY'S LIMITED RESOURCES.

The Company's future success will depend in large part on the Company's 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 the Company has currently.

The Company may not be successful in attracting and retaining qualified personnel on a timely basis, on competitive terms, or at all. If the Company is not successful in attracting and retaining qualified personnel, its business, prospects, financial condition, and results of operations would be materially adversely affected.

THE COMPANY DEPENDS UPON ITS SENIOR MANAGEMENT AND THEIR LOSS OR UNAVAILABILITY COULD PUT THE COMPANY AT A COMPETITIVE DISADVANTAGE.

The Company's success depends largely on the skills of certain key management and technical personnel. The loss or unavailability of any of these individuals for any significant period of time could have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. None of the Company's key management or technical personnel is presently subject to employment agreements. The Company has recently awarded stock options to key members of management. All key management personnel are required to sign non-solicitation and confidentiality agreements. However, there is no guarantee that these option incentives or contractual restrictions will discourage the Company's key management and technical personnel from leaving. If the Company were not successful in retaining its key personnel, the Company's business, prospects, financial condition, and results of operations would be materially adversely affected.

THE COMPANY MAY BE UNABLE TO PROTECT THE COMPANY'S INTELLECTUAL PROPERTY RIGHTS AND THE COMPANY MAY BE LIABLE FOR INFRINGING THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

The Company's success in the physical world-to-Internet and the value-added systems integration markets is dependent upon the Company's proprietary technology, including the Company's patents and other intellectual property, and on the Company's ability to protect the Company's proprietary technology and other intellectual property rights. In addition, the Company must conduct the Company's operations without infringing on the proprietary rights of third parties. The Company also intends to rely upon unpatented trade secrets and the know-how and expertise of the Company's employees, as well as the Company's patents. To protect the Company's proprietary technology and other intellectual property, the Company relies 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. The Company has four issued patents for its physical world-to-Internet technology. On July 25, 2002, the Company received an Issue Notification from the U.S. Patent and Trademark Office that a fifth patent surrounding the Company's technology would be issued on August 13, 2002. The Company also has several trademarks relating to the Company's proprietary products. Although the Company believes that the Company has taken appropriate steps to protect the Company's unpatented proprietary rights, including requiring that the Company's employees and third parties who are granted access to the Company's proprietary technology enter into confidentiality agreements with the Company, the Company can provide no assurance that these measures will be sufficient to protect the Company's rights against third parties. Others may independently develop or otherwise acquire patented or unpatented technologies or products similar or superior to the Company.

The Company licenses from third parties certain software tools that it includes in its services and products. If any of these licenses were terminated,

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the Company could be required to seek licenses for similar software from other third parties or develop these tools internally. The Company 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. The Company may in the future be required to defend its 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

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costs to, and a diversion of effort by, the Company. An adverse determination could subject the Company to significant liabilities to third parties, require the Company to seek licenses from, or pay royalties to, third parties, or require the Company to develop appropriate alternative technology. Some or all of these licenses may not be available to the Company on acceptable terms or at all, and the Company 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 the Company's business, prospects, financial condition, and results of operations. See "Risks Specific To NeoMedia - Currently Pending Legal Actions Threaten To Divest The Company Of Critical Intellectual Property."

THE COMPANY IS EXPOSED TO PRODUCT LIABILITY CLAIMS FOR WHICH INSURANCE COVERAGE IS LIMITED, POTENTIALLY INADEQUATE AND IN SOME CASES UNAVAILABLE, AND AN UNINSURED CLAIM COULD HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY'S BUSINESS, PROSPECTS, FINANCIAL CONDITION, AND RESULTS OF OPERATIONS, AS WELL AS THE VALUE OF THE COMPANY STOCK.

Many of the Company's projects are critical to the operations of the Company's clients' businesses. Any failure in a client's information system could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. The Company could, therefore, be subject to claims in connection with the products and services that it sells. The Company currently maintains product liability insurance:

- o The Company has contractually limited its liability for such claims adequately or at all;
- o The Company would have sufficient resources to satisfy any liability resulting from any such claim;
- o The Company coverage, if available, will be adequate in term and scope to protect it against material adverse effects in the event of a successful claim; or
- o The Company insurer will not disclaim coverage as to any future claim.

The successful assertion of one or more large claims against the Company that exceed available insurance coverage could materially adversely affect the Company's business, prospects, financial condition, and results of operations.

THE COMPANY CANNOT PREDICT ITS FUTURE CAPITAL NEEDS AND THE COMPANY MAY NOT BE ABLE TO SECURE ADDITIONAL FINANCING.

During May 2002, the Company entered into an Equity Line of Credit Agreement with Cornell Capital Partners LP ("Cornell"). The agreement was terminated and a new agreement was entered into in November 2002. Under the terms of the revised agreement, Cornell has agreed to purchase up to \$10.0 million of NeoMedia common stock over the next two years at the Company's



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discretion. The maximum amount of each purchase is \$150,000, with a minimum seven days between purchases. The shares will be valued at 98% of the lowest closing bid price during the five-day period following the delivery of a notice of purchase by NeoMedia. The Company will pay 5% of the gross proceeds of each purchase to Cornell as a commission. According to the terms of the agreement, the Company cannot draw on the line of credit until the shares underlying the agreement are registered for with Securities and Exchange Commission. The Company has not secured any other financing as of the date of this filing to fund operations until such shares are registered.

The Company's cash balance as of September 30, 2002, was approximately \$9,000. Based on current cash balances and operating budgets, the Company believes it will need to raise operating capital in the next 30 days. If the Company's financial resources are insufficient, the Company may be forced to seek protection from its creditors under the United States Bankruptcy Code or analogous state statutes unless it is able to engage in a merger or other corporate finance transaction with a better capitalized entity. The Company cannot predict whether additional financing will be available, its form, whether equity or debt, or be in another form, or if the Company will be successful in identifying entities with which it may consummate a merger or other corporate finance transactions.

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THE COMPANY'S COMMON STOCK TRADES SPORADICALLY, THE OFFERING PRICE OF THE COMMON STOCK IS ARBITRARY, AND THE MARKET PRICE OF THE SECURITIES MAY BE VOLATILE

The Company's common stock currently trades sporadically on the OTCBB. The market for the Company's common stock may continue to be an inactive market. Accordingly, unless and until an active public market develops, investors may have difficulty selling their shares of common stock into which the preferred stock offered is automatically convertible at a price that is attractive to the investor.

The Company's common stock has traded as low as \$0.02 and as high as \$6.75 between September 30, 2000 and October 29, 2002. From time to time after this filing, the market price of the common stock may experience significant volatility. The Company's quarterly results, failure to meet analysts expectations, announcements by the Company or the Company's competitors regarding acquisitions or dispositions, loss of existing clients, new procedures or technology, changes in general conditions in the economy, and general market conditions could cause the market price of the common stock to fluctuate substantially. In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many technology companies. These price and volume fluctuations often have been unrelated to the operating performance of the affected companies.

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INVESTORS MAY SUFFER SIGNIFICANT ADDITIONAL DILUTION IF OUTSTANDING OPTIONS AND WARRANTS ARE EXERCISED.

As of September 30, 2002, the Company had outstanding stock options to purchase approximately 8.8 million shares of common stock and warrants to purchase approximately 7.7 million shares of common stock, some of which may in

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the future, but do not currently, have exercise prices at or below the price of the Company's common shares on the public market. To the extent such options or warrants are exercised, there will be further dilution. In addition, in the event that any future financing should be in the form of, be convertible into, or exchangeable for, equity securities, and upon the exercise of options and warrants, investors may experience additional dilution.

FUTURE SALES OF COMMON STOCK BY THE COMPANY'S EXISTING STOCKHOLDERS COULD ADVERSELY AFFECT THE COMPANY'S STOCK PRICE.

The market price of the Company's common stock could decline as a result of sales of a large number of shares of the Company's common stock in the market as a result of offerings of common stock or securities convertible, exercisable or exchangeable for common stock, or the perception that these sales could occur. These sales also might make it more difficult for the Company to sell equity securities in the future at a time and at a price that the Company deems appropriate. The Company's officers and directors are currently subject to lock-up agreements preventing them from selling their shares. Additionally, shares issued upon the exercise of stock options granted under the Company's stock option plans will be eligible for resale in the public market from time to time subject to vesting. As of September 30, 2002, the Company had outstanding options to purchase up to 8.8 million shares of its common stock, with exercise prices ranging from \$0.01 to \$10.88. Of the 8.8 million options outstanding, 8.2 million were vested as of September 30, 2002. As of September 30, 2002 the Company also had outstanding 7.7 million warrants to purchase shares of common stock, with exercise prices ranging from \$0.00 to \$15.00.

In addition, the Company may offer for sale additional shares of common stock, as necessary to raise capital to sustain Company operations. While applicable law provides that unregistered securities may not generally be resold within one year of their purchase, market conditions may require the Company to register such shares for public sale earlier than such shares would otherwise become freely tradable, thereby creating the possibility of further dilution to purchasers of the Company's shares.

### RISKS RELATING TO THE COMPANY'S INDUSTRY

INTERNET SECURITY POSES RISKS TO THE COMPANY'S ENTIRE BUSINESS.

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

THE COMPANY WILL ONLY BE ABLE TO EXECUTE ITS PHYSICAL WORLD-TO-INTERNET BUSINESS PLAN IF INTERNET USAGE AND ELECTRONIC COMMERCE CONTINUE TO GROW.

The Company's future revenues and any future profits are substantially dependent upon the widespread acceptance and use of the Internet and other online services as an effective medium of information and commerce. If use of the Internet and other online services does not continue to grow or grows more slowly than the Company expects, if the infrastructure for the Internet and other online services does not effectively support the growth that may occur, or if the Internet and other online services do not become a viable commercial marketplace, the Company's physical world-to-Internet business, and therefore the Company's business, prospects, financial condition, and results of operations, could be materially adversely affected. Rapid growth in the use of, and interest in, the Internet, the Web, and online services is a recent phenomenon, and may not continue on a lasting basis. In addition, customers may not adopt, and continue to use, the Internet and other online services as a medium of information retrieval or commerce. Demand and market acceptance for

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recently introduced services and products over the Internet are subject to a high level of uncertainty, and few services and products have generated profits.

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For the Company to be successful, consumers and businesses must be willing to accept and use novel and cost efficient ways of conducting business and exchanging information.

THE COMPANY MAY NOT BE ABLE TO ADAPT AS THE INTERNET, PHYSICAL WORLD-TO-INTERNET, EQUIPMENT RESALES, AND SYSTEMS INTEGRATIONS MARKETS, AND CUSTOMER DEMANDS, CONTINUE TO EVOLVE.

The Company may not be able to adapt as the Internet, physical world-to-Internet, equipment resales and systems integration markets, and consumer demands, continue to evolve. The Company's failure to respond in a timely manner to changing market conditions or client requirements would have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. The Internet, physical world-to-Internet, equipment resales, and systems integration markets are characterized by:

- o Rapid technological change;
- o Changes in user and customer requirements and preferences;
- o Frequent new product and service introductions embodying new technologies; and
- o The emergence of new industry standards and practices that could render proprietary technology and hardware and software infrastructure obsolete.

The Company's success will depend, in part, on its ability to:

- o Enhance and improve the responsiveness and functionality of the Company's products and services;
- o License or develop technologies useful in the Company's business on a timely basis;
- o Enhance the Company's existing services, and develop new services and technologies that address the increasingly sophisticated and varied needs of the Company's prospective or current customers; and
- o Respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

THE COMPANY MAY NOT BE ABLE TO COMPETE EFFECTIVELY IN THE MARKETS IN WHICH IT COMPETES.

While the market for physical world-to-Internet technology is relatively new, it is already highly competitive and characterized by an increasing number of entrants that have introduced or developed products and services similar to those offered by the Company. NeoMedia believes that competition will intensify and increase in the future. The Company's target market is rapidly evolving and is subject to continuous technological change. As a result, the Company's 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 the Company's business, prospects, financial condition, and results of operations.

In addition, the equipment resales and systems integration markets are increasingly competitive. The Company competes in these industries on the basis of a number of factors, including the attractiveness of the services offered, the breadth and quality of these services, creative design and systems

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engineering expertise, pricing, technological innovation, and understanding clients' needs. A number of these factors are beyond the Company's control. Existing or future competitors may develop or offer products or services that provide significant technological, creative, performance, price, or other advantages over the products and services offered by NeoMedia.

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Many of the Company's competitors have longer operating histories, larger customer bases, and longer relationships with clients, and significantly greater financial, technical, marketing, and public relations resources than the Company does. Based on total assets and annual revenues, the Company is significantly smaller than its two largest competitors in the physical world-to-Internet industry, the primary focus of the Company's business. Similarly, the Company competes against significantly larger and better-financed companies in the Company's systems integration and resales businesses, including the manufacturers of the equipment and technologies that the Company integrates and resells. If NeoMedia competes with its primary competitors for the same geographical or institutional markets, their financial strength could prevent the Company from capturing those markets. The Company may not successfully compete in any market in which it conducts or may conduct operations. In addition, based on the increasing consolidation, price competition, and participation of equipment manufacturers in the systems integration and equipment resales markets, the Company believes that it will not be able to compete effectively in these markets in the future. It is for this reason, that the Company has increasingly focused its business plan on competing in the emerging market for physical world-to-Internet products.

### REGULATORY AND LEGAL UNCERTAINTIES COULD HARM THE COMPANY'S BUSINESS.

The Company is not currently subject to direct regulation by any government agency other than laws or regulations applicable generally to electronic commerce. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to the Company's business, or the application of existing laws and regulations to the Internet and other online services, could have a material adverse effect on the Company's business, prospects, financial condition, and results of operations. Due to the increasing popularity and use of the Internet and other online services, federal, state, and local governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet or other online services covering issues such as taxation, user privacy, pricing, content, copyrights, distribution, and characteristics and quality of products and services. The growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws to impose additional burdens on companies conducting business online. The adoption of any additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for the Company's services and increase the Company's cost of doing business, or otherwise have a material adverse effect on its business, prospects, financial condition, and results of operations. Moreover, the relevant governmental authorities have not resolved the applicability to the Internet 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 the Company's proprietary technology allow for the storage of demographic data from its 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 the Company's ability to collect and use information collected by the Company's technology in

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certain European countries. In addition, the Federal Trade Commission and several state governments have investigated the use by certain Internet companies of personal information. The Company could incur significant additional expenses if new regulations regarding the use of personal information are introduced or if the Company's privacy practices are investigated.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.20	Mutual settlement agreement by and between the Company and 2150 Western Court Company, LLC	Provided herewith
10.21	Mutual settlement agreement by and between the Company and Ripfire, Inc.	Provided herewith
10.22	Mutual settlement agreement by and between the Company and Wachovia Bank, N.A.	Provided herewith
10.23	Mutual settlement agreement by and between the Company and Marianne LePera, the Company's former General Counsel	Provided herewith
10.24	Revised Equity Line of Credit Agreement with Cornell Capital Partners LP	Provided herewith

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended September 30, 2002.

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SIGNATURES

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

NEOMEDIA TECHNOLOGIES, INC.  
Registrant

Date November 13, 2002

By: /s/ Charles T. Jensen  
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Charles T. Jensen, President and Chief  
Operating Officer

Date November 13, 2002

By: /s/ David A. Dodge

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

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of NeoMedia Technologies, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

By: /s/ Charles T. Jensen

Date November 13, 2002

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Charles T. Jensen, President and Chief Operating Officer

By: /s/ David A. Dodge

Date November 13, 2002

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

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CERTIFICATION  
PURSUANT TO SECTION 302

I, Charles T. Jensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NeoMedia Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly

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report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ Charles T. Jensen

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

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I, David A. Dodge, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NeoMedia Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ David A. Dodge

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



Officer

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