

NEOMEDIA TECHNOLOGIES INC  
Form DEF 14A  
November 09, 2005

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**SCHEDULE 14A INFORMATION**  
**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (As Permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

**NEOMEDIA TECHNOLOGIES, INC.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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- (1) Amount Previously Paid: **N/A**
  
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  - (3) Filing Party: **N/A**
  
  - (4) Date Filed: **N/A**
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**NEOMEDIA TECHNOLOGIES, INC.  
2201 Second Street, Suite 600**

**Fort Myers, Florida 33901**

Dear Shareholder:

You are cordially invited to attend the 2005 Annual Meeting of Shareholders of NeoMedia Technologies, Inc. The annual meeting will be held at the office of NeoMedia, 2201 Second Street, Suite 600, Fort Myers, Florida 33901, on December 16, 2005, beginning at 10:00 a.m., Eastern Daylight Savings Time.

Your vote is important and I urge you to vote your shares by proxy, whether or not you plan to attend the meeting. After you read this proxy statement, please indicate on the proxy card the manner in which you want to have your shares voted. Then date, sign and mail the proxy card in the postage-paid envelope that is provided. If you sign and return your proxy card without indicating your choices, it will be understood that you wish to have your shares voted in accordance with the recommendations of NeoMedia's Board of Directors.

We hope to see you at the meeting.

Sincerely,

November 3, 2005

/s/ Charles T. Jensen  
Charles T. Jensen  
President, CEO and Director

**NEOMEDIA TECHNOLOGIES, INC.**  
**2201 Second Street, Suite 600**  
**Fort Myers, Florida 33901**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON DECEMBER 16, 2005**

NOTICE IS HEREBY GIVEN that an Annual Meeting of Stockholders (the Annual Meeting ) of NeoMedia Technologies, Inc. ( NeoMedia or the Company ) will be held at the office of NeoMedia, 2201 Second Street, Suite 600, Fort Myers, Florida 33901, on December 16, 2005, beginning at 10:00 a.m., Eastern Daylight Savings Time, for the following purposes:

1.

To elect five directors to hold office until the next annual meeting of stockholders and the due election and qualification of their successors (Item No. 1 on proxy card);

2.

To ratify the selection of Stonefield Josephson, Inc. as the Company s independent registered public accounting firm for the fiscal year ended December 31, 2005 (Item No. 2 on proxy card);

3.

To approve the 2005 Stock Option Plan (Item No. 3 on proxy card);

4.

To consider such other business as may properly come before the meeting or any postponements or adjournments thereof.

The Board of Directors has fixed the close of business on November 9, 2005, as the record date for determining the shareholders entitled to notice of and to vote at the Annual Meeting or at any adjournment thereof. A complete list of the shareholders entitled to vote at the Annual Meeting will be open for examination by any shareholder during ordinary business hours for a period of ten days prior to the Annual Meeting at the office of NeoMedia, 2201 Second Street, Suite 600, Fort Myers, Florida 33901.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSALS.**

**IMPORTANT**

You are cordially invited to attend the Annual Meeting in person. In order to ensure your representation at the meeting, however, please promptly complete, date, sign and return the enclosed proxy in the accompanying envelope. If you should decide to attend the Annual Meeting and vote your shares in person, you may revoke your proxy at that time.

PLEASE NOTE THAT ATTENDANCE AT THE MEETING WILL BE LIMITED TO STOCKHOLDERS OF NEOMEDIA AS OF THE RECORD DATE (OR THEIR AUTHORIZED REPRESENTATIVES) HOLDING ADMISSION TICKETS OR OTHER EVIDENCE OF OWNERSHIP. THE ADMISSION TICKET IS DETACHABLE FROM YOUR PROXY CARD. IF YOUR SHARES ARE HELD BY A BANK OR BROKER, PLEASE BRING TO THE MEETING YOUR BANK OR BROKER STATEMENT EVIDENCING YOUR

BENEFICIAL OWNERSHIP OF NEOMEDIA STOCK TO GAIN ADMISSION TO THE MEETING.

BY ORDER OF THE BOARD OF DIRECTORS

November 3, 2005  
Fort Myers, Florida

/s/ Charles T. Jensen  
Charles T. Jensen  
President, CEO, and Director

**Proxy Statement for  
Annual Meeting of Stockholders of  
NEOMEDIA TECHNOLOGIES, INC.  
To Be Held on December 16, 2005**

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**NEOMEDIA TECHNOLOGIES, INC.**  
**2201 Second Street, Suite 600**  
**Fort Myers, Florida 33901**

**PROXY STATEMENT**

This proxy statement contains information related to the Annual Meeting of NeoMedia, a Delaware corporation, to be held at NeoMedia's principal executive offices at 2201 Second Street, Suite 600, Fort Myers, Florida 33901 on December 16, 2005, beginning at 10:00 a.m., and at any postponements or adjournments thereof, for the purposes set forth herein. This proxy statement, the enclosed proxy and a copy of NeoMedia's Annual Report to Stockholders for the fiscal year ended December 31, 2004, are first being mailed on or about November 15, 2005, to all stockholders entitled to vote. NeoMedia is making this proxy solicitation.

**ABOUT THE MEETING**

**What is the purpose of the annual meeting?**

At NeoMedia's annual meeting, shareholders will act upon the matters outlined in the notice of meeting on the cover page of this proxy statement, which relates to the election of directors, the ratification of NeoMedia's independent registered public accounting firm for fiscal year 2005, and the approval of the 2005 Stock Option Plan.

**Who is entitled to vote?**

Only shareholders of record on the close of business on the record date, December 16, 2005, are entitled to receive notice of the annual meeting and to vote the shares of common stock that they held on that date at the meeting, or any postponements or adjournments of the meeting. Each outstanding share of capital stock will be entitled to the number of votes set forth in the following table on each matter to be voted upon at the meeting. The holders of common stock vote together as a single class. See Description of Securities.

<b>Description of Capital Stock</b>	<b>Number of Votes</b>	<b>Total Votes</b>
Common Stock	One Vote Per Share	463,382,141

**Who can attend the annual meeting?**

All shareholders as of the record date, or their duly appointed proxies, may attend the annual meeting, and each may be accompanied by one guest. Seating, however, is limited. Admission to the meeting will be on a first-come, first-serve basis. Registration will begin at 9:00 a.m., and seating will begin at 9:30 a.m. Each shareholder may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Please note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the meeting.

**What constitutes a quorum?**



The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum, permitting the meeting to conduct its business. As of the record date, the shareholders held a total of 463,382,141 votes. As such, holders of at least 231,691,071 shares (i.e., a majority) must be present at the meeting, in person or by proxy, to obtain a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

**How do I vote?**

If you complete and properly sign the accompanying proxy card and return it to NeoMedia, then it will be voted as you direct. If you are a registered shareholder and attend the meeting, then you may deliver your completed proxy card in person or vote by ballot at the meeting. Street name shareholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

**What if I do not specify how my shares are to be voted?**

If you submit a proxy but do not indicate any voting instructions, then your shares will be voted in accordance with the Board's recommendations.

**Can I change my vote after I return my proxy card?**

Yes. Even after you have submitted your proxy card, you may change your vote at any time before the proxy is exercised by filing with the Secretary of NeoMedia either a notice of revocation or a duly executed proxy bearing a later date. The powers of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

**What are the Board's recommendations?**

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendation of the Board of Directors. The Board's recommendation is set forth together with the description of such item in this proxy statement. In summary, the Board recommends a vote:

•

**For** the election of the nominated slate of directors (see page 3);

•

**For** the ratification of Stonefield Josephson, Inc. as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2005 (see page 5); and

•

**For** the approval of the 2005 Stock Option Plan (see page 6).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

**What vote is required to approve each item?**

*Election of Directors.* The affirmative vote of a plurality of the votes cast at the meeting (regardless of the class or series of stock held) is required for the election of directors. This means that the five nominees will be elected if they receive more affirmative votes than any other person. A properly executed proxy marked "Withheld" with respect to the election of any director will not be voted with respect to such director indicated, although it will be counted for purposes of determining whether there is a quorum.

*Ratification of Independent Registered Public Accounting Firm.* Stockholder ratification of the selection of Stonefield Josephson, Inc. as the Company's independent accountants is not required by the Company's By-Laws or otherwise. The Board of Directors is submitting the selection of Stonefield Josephson, Inc. to the stockholders for ratification as a matter of good corporate practice.

*Approval of the 2005 Stock Option Plan.* For the approval of the 2003 Stock Option Plan, and any other item that properly comes before the meeting, the affirmative vote of the holders of a majority of the outstanding shares (regardless of the class or series of stock held) will be required for approval. A properly executed proxy marked Abstain with respect to such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes, however, will be counted in determining whether there is a quorum.

## **PROPOSAL ONE ELECTION OF DIRECTORS**

### **Directors Standing for Election**

The Board of Directors of NeoMedia consists of 5 seats. Each director holds office until the first annual meeting of shareholders following their election or appointment and until their successors have been duly elected and qualified.

The Board of Directors has nominated Charles W. Fritz, Charles T. Jensen, William E. Fritz, James J. Keil and A. Hayes Barclay for election as directors. The accompanying proxy will be voted for the election of these nominees, unless authority to vote for one or more nominees is withheld. In the event that any of the nominees is unable or unwilling to serve as a director for any reason, the proxy will be voted for the election of any substitute nominee designated by the Board of Directors. The nominees for directors have previously served as members of the Board of Directors of NeoMedia and have consented to serve such term.

### **Recommendation of the Board of Directors**

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE **FOR** THE ELECTION OF EACH OF THE NOMINEES

### **Information Regarding Directors**

#### **Directors Present Term Expires at the Annual Meeting**

The following is information concerning nominees for election proposed by the Board of Directors. None of the nominees are adverse parties in any legal proceedings involving NeoMedia.

*Charles W. Fritz*, 49, is a founder of NeoMedia and has served as an officer and as a Director of NeoMedia since our inception. On August 6, 1996, Mr. Fritz was appointed Chief Executive Officer and Chairman of the Board of Directors. On April 2, 2001, Mr. Fritz was appointed as President where he served until June 2002. Mr. Fritz is currently a member of NeoMedia's Compensation Committee. Prior to founding NeoMedia, Mr. Fritz was an account executive with IBM Corporation from January 1986 to January 1988, and Director of Marketing and Strategic Alliances for the information consulting group from February 1988 to January 1989. Mr. Fritz holds an M.B.A. from Rollins College and a B.A. in finance from the University of Florida. Mr. Fritz is the son of William E. Fritz, a Director of NeoMedia.

*Charles T. Jensen*, 62, is President and Chief Executive Officer of NeoMedia, has been a Director since 1996, and currently is a member of NeoMedia's Compensation Committee. Mr. Jensen served as Chief Financial Officer, Treasurer and Vice-President of NeoMedia from 1996 through 2002. Prior to joining NeoMedia in November 1995, Mr. Jensen was Chief Financial Officer of Jack M. Berry, Inc., a Florida corporation which grows and processes citrus products, from December 1994 to October 1995, and at Viking Range Corporation, a Mississippi corporation which manufactures gas ranges, from November 1993 to December 1994. From December 1992 to February 1994, Mr. Jensen was Treasurer of Lin Jensen, Inc., a Virginia corporation specializing in ladies clothing and accessories. Prior to that, from January 1982 to March 1993, Mr. Jensen was Controller and Vice-President of Finance of The Pinkerton Tobacco Co., a tobacco manufacturer. Mr. Jensen holds a B.B.A. in accounting from Western Michigan University and is a Certified Public Accountant.

*William E. Fritz*, 75, is a founder of NeoMedia and has served as a Director of NeoMedia since the Company's inception. Mr. Fritz also served as Treasurer of NeoMedia from its inception until May 1, 1996. Since February 1981, Mr. Fritz has been an officer and either the sole stockholder or a majority stockholder of G.T. Enterprises, Inc. (formerly Gen-Tech, Inc.), D.M., Inc. (formerly Dev-Mark, Inc.) and EDSCO, three railroad freight car equipment

manufacturing companies. Mr. Fritz holds a B.S.M.E. and a Bachelor of Naval Science degree from the University of Wisconsin. Mr. Fritz is the father of Charles W. Fritz, NeoMedia's Chairman of the Board of Directors.

*James J. Keil*, 78, has been a Director of NeoMedia since August 6, 1996. Mr. Keil currently is a member of NeoMedia's Compensation Committee, Stock Option Committee and Audit Committee. He is founder and President of Keil & Keil Associates, a business and marketing consulting firm located in Washington, D.C., specializing in marketing, sales, document application strategies, recruiting and electronic commerce projects. Prior to forming Keil & Keil Associates in 1990, Mr. Keil worked for 38 years at IBM Corporation and Xerox Corporation in various marketing, sales and senior executive positions. From 1989-1995, Mr. Keil was on the Board of Directors of Elixir Technologies Corporation (a non-public corporation), and from 1990-1992 was the Chairman of its Board of Directors. From 1992-1996, Mr. Keil served on the Board of Directors of Document Sciences Corporation. Mr. Keil holds a B.S. degree from the University of Dayton and did Masters level studies at the Harvard Business School and the University of Chicago in 1961-62.

A. Hayes Barclay, 74, has been a Director of NeoMedia since August 6, 1996, and currently is a member of NeoMedia's Stock Option Committee and Audit Committee. Mr. Barclay practiced law for approximately 40 years and, since 1967, was an officer, owner and employee of the law firm of Barclay & Damisch, Ltd. and its predecessor, with offices in Chicago, Wheaton and Arlington Heights, Illinois. Mr. Barclay holds a B.A. degree from Wheaton College, a B.S. from the University of Illinois and a J.D. from the Illinois Institute of Technology, Chicago-Kent College of Law.

### **Election of Directors and Officers**

Directors are elected at each annual meeting of stockholders and hold office until the next succeeding annual meeting and the election and qualification of their respective successors. Officers are elected annually by the Board of Directors and hold office at the discretion of the Board of Directors. NeoMedia's bylaws permit the Board of Directors to fill any vacancy and such director may serve until the next annual meeting of shareholders and the due election and qualification of his/her successor.

### **Meetings of the Board of Directors**

During the year ended December 31, 2004, NeoMedia held five directors' meetings and each incumbent director attended more than 75% of the total of meetings of the Board of Directors and the committees of which he is a member. The Board of Directors also acted 20 times by unanimous written consent.

### **Committees of the Board of Directors**

NeoMedia's Board of Directors has an Audit Committee, Compensation Committee and a Stock Option Committee. The Board of Directors does not have a standing Nominating Committee.

**Audit Committee.** The Audit Committee is responsible for nominating NeoMedia's independent Registered Public Accounting Firm for approval by the Board of Directors, reviewing the scope, results and costs of the audit with NeoMedia's independent accountants, and reviewing the financial statements, audit practices and internal controls of NeoMedia. During 2004, members of the Audit Committee were non-employee directors James J. Keil and A. Hayes Barclay. During 2004, the Audit Committee held four meetings. Due to financial constraints, NeoMedia does not currently have an audit committee financial expert serving on its audit committee.

**Compensation Committee.** The Compensation Committee is responsible for recommending compensation and benefits for the executive officers of NeoMedia to the Board of Directors and for administering NeoMedia's Incentive Plan for Management. Charles W. Fritz, Charles T. Jensen, A. Hayes Barclay and James J. Keil, were members of NeoMedia's Compensation Committee during 2004. The Compensation Committee acted by unanimous written consent twice during 2004.

**Stock Option Committee.** The Stock Option Committee, which is comprised of non-employee directors, is responsible for administering NeoMedia's Stock Option Plans. A. Hayes Barclay and James J. Keil are the current members of NeoMedia's Stock Option Committee. During 2004, the Stock Option Committee met once and acted by unanimous written consent six times.

### **Director Compensation**

Outside directors are currently compensated through the issuance of stock options from NeoMedia's 2003 Stock Option Plan. During 2004, each outside director received 750,000 options with an exercise price of \$0.075 per share, and an additional 750,000 options with an exercise price of \$0.075 per share for chairing a committee. During 2005, each outside director received 1,000,000 options with an exercise price of \$0.239 per share, and an additional 1,000,000 options with an exercise price of \$0.239 per share for chairing a board committee. NeoMedia does not have

a written compensation policy for its outside directors at this time.

**Vote Required for Election of Nominees for Directors**

Election of the nominees for director will require that the holders of at least a plurality of the shares of Common Stock present or represented at the meeting and entitled to vote thereon vote **FOR** .

**PROPOSAL TWO RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Subject to ratification by the stockholders, the Board of Directors has appointed Stonefield Josephson, Inc. as the Company's independent registered public accounting firm to audit the financial statements of the Company for the current fiscal year. Stonefield Josephson, Inc. has audited the Company's financial statements for the fiscal years ended December 31, 2001 through 2004.

Stockholder ratification of the selection of Stonefield Josephson, Inc. as the Company's independent accountants is not required by the Company's By-Laws or otherwise. The Board of Directors is submitting the selection of Stonefield Josephson, Inc. to the stockholders for ratification as a matter of good corporate practice. In the event the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change could be in the best interests of the Company and its stockholders.

The Board of Directors recommends a vote FOR the above proposal.

**Required Vote for Approval of Proposal**

Approval of the above proposal related to the ratification of independent the Company's registered public accounting firm will require the affirmative vote of the holders of a majority of the shares of the Company's common stock present in person or represented by proxy at the meeting voting on the proposal.

Stockholders may (1) vote FOR, (2) vote AGAINST, or (3) ABSTAIN from voting on Proposal 2. Broker non-votes are not considered to be votes cast and therefore will have no effect on the outcome of this proposal.

**Recommendation of the Board of Directors**

THE BOARD OF DIRECTORS OF NEOMEDIA RECOMMENDS A VOTE **FOR** THE RATIFICATION OF STONEFIELD JOSEPHSON, INC. AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005.



## **PROPOSAL THREE APPROVAL OF THE 2005 STOCK OPTION PLAN**

### **General Information**

NeoMedia currently has in effect its 1996 Stock Option Plan (the 1996 Plan ), 1998 Stock Option Plan (the 1998 Plan ), 2002 Stock Option Plan (the 2002 Plan ), and 2003 Stock Option Plan (the 2003 Plan and collectively, the Stock Option Plans ) the purpose of which is to retain the services of selected employees and to attract new employees, consultants, advisors and directors by providing them with the opportunity to acquire a proprietary interest in NeoMedia and thus share in its growth and success. The 1996 Plan provides for the granting of a maximum of 1,500,000 incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended ( Code ), and non-qualified (or nonstatutory) stock options. As of November 1, 2005, 996 options, all non-qualified, to purchase shares of Common Stock were outstanding under the 1996 Plan. The 1998 Plan provides for the granting of a maximum of 8,000,000 incentive stock options, and non-qualified (or nonstatutory) stock options. As of November 1, 2005, 20,000 options, all non-qualified, to purchase shares of Common Stock were outstanding under the 1998 Plan. The 2002 Plan provides for the granting of a maximum of 10,000,000 incentive stock options, and non-qualified (or nonstatutory) stock options. As of November 1, 2005, no options to purchase shares of Common Stock were outstanding under the 2002 Plan. The 2003 Plan provides for the granting of a maximum of 150,000,000 incentive stock options, and non-qualified (or nonstatutory) stock options. As of November 1, 2005, 78,483,225 options, all non-qualified, to purchase shares of Common Stock were outstanding under the 2003 Plan.

In the opinion of the Board of Directors, NeoMedia and its stockholders have benefited substantially from being able to grant options under the its Stock Option Plans in addition to its authority to grant warrants. Such options, in the opinion of the Board of Directors, have been a highly effective incentive to the employees, consultants and directors receiving them and have created a commonality of purpose between NeoMedia s officers and other employees, consultants, directors and its stockholders with respect to NeoMedia s strategies for profitable growth and share-value appreciation. In the opinion of the Board of Directors, NeoMedia s ability to provide additional stock options to its officers, employees, consultants and directors in the future will benefit NeoMedia s long-term performance. Accordingly, the Board of Directors has adopted the 2005 Stock Option Plan (the 2005 Plan ) and believes it is in NeoMedia s best interest for the shareholders to approve the 2005 Plan which will authorize the Board of Directors to award stock options to its officers, other employees, consultants and directors without further stockholder actions.

### **The 2005 Plan and Participants**

The 2005 Plan authorizes the grant of non-qualified options to purchase up to an aggregate of 60,000,000 shares of NeoMedia s Common Stock, to (i) officers and other full-time salaried employees of NeoMedia with managerial, professional or supervisory responsibilities, (ii) consultants and advisors who render bona fide services to NeoMedia, in each case, where the Committee of the Board of Directors which will administer the Plan, determines that such officer, employee, consultant or advisor has the capacity to make a substantial contribution to the success of NeoMedia, and (iii) to NeoMedia s directors. As used herein with respect to the 2005 Plan, references to NeoMedia include current and future subsidiaries of NeoMedia.

The purposes of the 2005 Plan are to enable NeoMedia to attract and retain persons of ability as officers and other employees, to attract and retain able directors and consultants, and to motivate such persons to use their best efforts on behalf of NeoMedia by providing them with an equity participation in NeoMedia. The full text of the 2005 Plan is set forth in Appendix A hereto, and the following description is qualified in its entirety by reference to Appendix A.

The Plan will be administered by the Stock Option Committee, which will be appointed by NeoMedia s Board of Directors and must consist of two or more members of the Board of Directors, each of whom must be a disinterested person within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934. The appointed Committee will be the Stock Option Committee, which is currently comprised of A. Hayes Barclay and James J. Keil. Under the terms of the 2005 Plan, the Committee will have the authority to determine, subject to the terms and conditions of the Plan,

the persons to whom options are granted, the number of options granted to each optionee and the terms and conditions of each option, including its duration.

The 2005 Plan can be amended, suspended, reinstated or terminated, in whole or in part, by the Board of Directors; provided, however, that without approval of NeoMedia's stockholders, no amendment shall be made which (i) increases the maximum number of shares of Common Stock which may be subject to stock options granted under the 2005 Plan, except for specified adjustment provisions, (ii) extends the term of the Plan, (iii) increases the period during which a stock option may be exercised beyond ten years from the date of the grant, (iv) materially increases the benefits accruing to participants under the Plan, (v) materially modifies the requirements as to eligibility for participation in the 2005 Plan, or (vi) will cause stock

options granted under the 2005 Plan to fail to meet the requirements of Rule 16b-3. Unless previously terminated by the Board of Directors, the 2005 Plan will terminate exactly ten (10) years from the date of its approval by the Board of Directors, and no additional options may be granted under the 2005 Plan after that date.

### **Option Terms and Grants**

Stock options may be granted under the 2005 Plan to purchase Common Stock at an exercise price determined by the Committee which may be less than the fair market value of the shares on the date of grant but not less than the par value of \$0.01 per share. There is no limitation on the number of stock options that may be granted to any optionee under the 2005 Plan.

Exercise of the options will be contingent on (a) the optionee's employment or relationship with NeoMedia at the time of exercise and (b) determination by the Committee no later than 30 days prior to exercise that performance of an optionee merits such exercise.

The 2005 Plan provides that, if a stock option or portion thereof expires or is terminated, canceled or surrendered for any reason without being exercised in full, the unpurchased shares of Common Stock which were subject to such stock option or portion thereof shall be available for future grants of stock options under the 2005 Plan.

Under the terms of the 2005 Plan, the option price for all options must be paid in cash, by check, bank draft or money order, or with Common Stock of NeoMedia owned by the optionee and having a fair market value on the date of exercise equal to the aggregate exercise price of the shares to be so purchased (subject to limitations or conditions determined by the Committee in its discretion), or a combination thereof.

Under its terms, the 2005 Plan becomes effective upon adoption by the Board of Directors subject, however, to approval of the 2005 Plan by the stockholders. Options may be granted from time to time following adoption of the 2005 Plan by the Board of Directors and prior to approval by the stockholders; however, if the 2005 Plan is not approved by the stockholders, then the 2005 Plan, and all options previously granted under it, become null and void and of no effect.

Options granted under the 2005 Plan will not be assignable or transferable except by will or the laws of intestate succession or pursuant to a qualified domestic relations order. Options granted under the 2005 Plan may be exercised by the optionee (or the optionee's legal representative) only while the optionee is employed by NeoMedia, or within one year after termination of employment due to a permanent disability, or within three months after termination of employment due to retirement. The executor or administrator of a deceased optionee's estate or the person or persons to whom the deceased optionee's rights thereunder have passed by will or by the laws of descent or distribution shall be entitled to exercise the option within one year after the death of the optionee.

Options expire immediately in the event that the employment or other relationship of the relevant optionee with NeoMedia is terminated with or without cause or expires; provided, however, in the event NeoMedia terminates the employment of an optionee who at the time of such termination had been continuously employed by NeoMedia during the one-year period immediately preceding such termination, for any reason except good cause (as defined in the 2005 Plan), each stock option held by such optionee (which had not then previously lapsed or terminated and which had been held by such optionee for more than six months prior to such termination) shall be exercisable for a period of three months after such termination to the extent otherwise exercisable at the time of termination. Options granted to a non-employee director who ceases to be a director are exercisable within one year after termination of service. All of the aforementioned exercise periods set forth in this paragraph are subject to the further limitation that an option shall not, in any case, be exercisable beyond its stated expiration date.

The purchase price and the number and kind of shares that may be purchased upon exercise of options granted under the 2005 Plan, and the number of shares which may be granted under the 2005 Plan, are subject to adjustment in

certain events, including stock splits, recapitalizations and reorganizations. If any portion of an option terminates or lapses without being exercised, the shares which were subject to the unexercised portion will continue to be subject to the Plan, and new options may be granted in respect of such shares in accordance with the terms and conditions of the 2005 Plan.

### **Federal Tax Aspects of the 2005 Plan**

Non-qualified options granted under the 2005 Plan are not intended to qualify for the favorable income tax treatment accorded under the Code to incentive stock options. Each such optionee should not recognize any income for Federal income tax purposes at the time of the grant of options under the 2005 Plan. Upon exercise, (a) ordinary income is realized by such optionee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise (NeoMedia may be required to withhold income tax on this amount) and (b) generally NeoMedia will be entitled to a tax deduction for the same amount. Upon disposition of the shares, appreciation or depreciation after the date of exercise is

treated as short-term or long-term capital gain or loss and will not result in any additional deduction by NeoMedia. If such optionee exercises a nonqualified option by delivering shares of Common Stock to NeoMedia in payment of the exercise price, special rules will apply.

**Vote Required for Approval of the Plan**

Approval of the Plan will require that the holders of at least a majority of the shares of Common Stock present or represented at the meeting and entitled to vote thereon vote **FOR** .

**Recommendation of the Board of Directors**

THE BOARD OF DIRECTORS OF NEOMEDIA RECOMMENDS A VOTE **FOR** THE APPROVAL OF THE 2005 PLAN.

**EXECUTIVE COMPENSATION**

As of November 1, 2005, 2005, NeoMedia's directors and executive officers were:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Charles W. Fritz	49	Chairman of the Board of Directors
Charles T. Jensen	61	President, Chief Executive Officer and Director
David A. Dodge	30	Vice-President and Chief Financial Officer
William E. Fritz	75	Director
James J. Keil	77	Director
A. Hayes Barclay	74	Director

Below are biographies of our executive officers (who were not also directors) as of November 1, 2005:

*David A. Dodge*, 30, joined NeoMedia in 1999 as the Financial Reporting Manager. Since then, Mr. Dodge has acted as NeoMedia's Director of Financial Planning and Controller, and currently holds the title of Vice President and Chief Financial Officer. Prior to joining NeoMedia in 1999, Mr. Dodge was an auditor with Ernst & Young LLP for 2 years. Mr. Dodge holds a B.A. in economics from Yale University and an M.S. in accounting from the University of Hartford, and is also a Certified Public Accountant.

**Executive Compensation**

The following table sets forth certain information with respect to the compensation paid to (i) NeoMedia's Chief Executive Officer, and (ii) each of NeoMedia's other executive officers who received aggregate cash compensation in excess of \$100,000 for services rendered to NeoMedia (collectively, the Named Executive Officers) during the years ended December 31, 2004 and 2003:

<b>Name and Principal Position</b>	<b>Year</b>	<b>Annual Compensation</b>			<b>Long-term Compensation</b>		
		<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Other Annual Compensation (\$)</b>	<b>Restricted Stock Award(s) (\$)</b>	<b>Securities Underlying Options/SARs(1) (#)</b>	<b>LTIP Payouts (\$)</b>
Charles T. Jensen President and Chief Executive Officer	2004	\$ 175,000				4,000,000	
	2003	162,000	92,000 (2)			10,000,000	
Charles W. Fritz Chairman of the Board	2004	175,000				4,000,000	
	2003	145,000	110,000 (2)	\$ 60,000 (3)		10,000,000	
	2004	122,000				2,000,000	

David A. Dodge				
Vice President and  Chief Financial Officer	2003	90,000	7,000 (2)	2,300,000

(1)

Represents options granted under NeoMedia's 2003, 2002 and 1998 Stock Option Plans and warrants granted at the discretion of the Stock Option Committee of NeoMedia's Board of Directors.

(2)

During 2003, NeoMedia paid past due Year 2000 executive incentive liability through the issuance of shares of its common stock. The amounts reported in this table represent the market value of the shares on the date of issuance.

(3)

During 2003, NeoMedia paid Charles W. Fritz unpaid salary from 2002 through the issuance of shares of its common stock. The amounts reported in this table represent the market value of the shares on the date of issuance.

(4)

Includes automobile expenses attributable to personal use and the corresponding income tax effects.

**Employment Agreements**

No employment agreements are currently in place for any of NeoMedia's employees.

## **Incentive Plan for Management**

Effective as of January 1, 1996, NeoMedia adopted an Annual Incentive Plan for Management (the Incentive Plan ), which provides for annual bonuses to eligible employees based upon the attainment of certain corporate and/or individual performance goals during the year. The Incentive Plan is designed to provide additional incentive to NeoMedia's management to achieve these growth and profitability goals. Participation in the Incentive Plan is limited to those employees holding positions assigned to incentive eligible salary grades and whose participation is authorized by NeoMedia's Compensation Committee which administers the Incentive Plan, including determination of employees eligible for participation or exclusion. The Board of Directors can amend, modify or terminate the Incentive Plan for the next plan year at any time prior to the commencement of such next plan year.

To be eligible for consideration for inclusion in the Incentive Plan, an employee must be on NeoMedia's payroll for the last three months of the year involved. Death, total and permanent disability or retirement are exceptions to such minimum employment, and awards in such cases are granted on a pro rata basis. In addition, where employment is terminated due to job elimination, a pro rata award may be considered. Employees who voluntarily terminate their employment, or who are terminated by NeoMedia for unacceptable performance, prior to the end of the year are not eligible to participate in the Incentive Plan. All awards are subject to any governmental regulations in effect at the time of payment.

Performance goals are determined for both NeoMedia's and/or the employee's performance during the year, and if performance goals are attained, eligible employees are entitled to an award based upon a specified percentage of their base salary.

NeoMedia did not have a formal incentive plan for management in place for the year ended December 31, 2004.

During the years ended December 31, 2004 and 2003, NeoMedia paid \$159,000 and \$593,000, respectively, in past due incentive awards relating to its executive incentive plan for fiscal 2000, through the issuance of common stock.

## **Stock Option Plans**

Effective February 1, 1996 (and amended and restated effective July 18, 1996 and further amended through November 18, 1996), NeoMedia adopted its 1996 Stock Option Plan (the 1996 Stock Option Plan ). The 1996 Stock Option Plan provides for the granting of non-qualified stock options and incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and provides for the issuance of a maximum of 1.5 million shares of common stock. All 1.5 million options were granted under NeoMedia's 1996 Stock Option Plan.

Effective March 27, 1998, NeoMedia adopted its 1998 Stock Option Plan (the 1998 Stock Option Plan ). The 1998 Stock Option Plan provides for the granting of non-qualified stock options and provides for the issuance of a maximum of 8 million shares of common stock. All 8 million options were granted under NeoMedia's 1998 Stock Option Plan.

Effective June 6, 2002, NeoMedia adopted its 2002 Stock Option Plan (the 2002 Stock Option Plan ). The 2002 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 10 million shares of common stock. All 10 million options were granted under NeoMedia's 2002 Stock Option Plan.

Effective September 24, 2003, NeoMedia adopted its 2003 Stock Option Plan (the 2003 Stock Option Plan ). The 2003 Stock Option Plan provides for authority for the Board of Directors to the grant non-qualified stock options with respect to a maximum of 150 million shares of common stock. On October 17, 2003, NeoMedia filed a registration statement on Form S-8 to register all 150 million shares underlying the options in the 2003 Stock Option Plan. As of December 31, 2004, NeoMedia had issued approximately 69 million shares under the 2003 Stock Option Plan.



**Stock Incentive Plan**

Effective October 31, 2003, NeoMedia adopted the 2003 Stock Incentive Plan (the "2003 Stock Plan"). Under the terms of the 2003 Stock Plan, NeoMedia has set aside up to 30 million shares of common stock to be issued to pay compensation and other expenses related to employees, former employees, consultants, and non-employee directors. On November 3, 2003, NeoMedia filed a registration statement on Form S-8 to register all 30 million shares in the 2003 Stock Plan. As of December 31, 2004, NeoMedia had issued approximately 9.3 million shares under the 2003 Stock Plan.

**401(k) Plan**

NeoMedia maintains a 401(k) Profit Sharing Plan and Trust (the "401(k) Plan"). All employees of NeoMedia who are 21 years of age or older and who have completed three months of service are eligible to participate in the 401(k) Plan. The

401(k) Plan provides that each participant may make elective contributions of up to 20% of such participant's pre-tax salary (up to a statutorily prescribed annual limit, which is \$13,000 for 2004) to the 401(k) Plan, although the percentage elected by certain highly compensated participants may be required to be lower. All amounts contributed to the 401(k) Plan by employee participants and earnings on these contributions are fully vested at all times. The 401(k) Plan also provides for matching and discretionary contributions by NeoMedia. To date, NeoMedia has not made any such contributions.

### Options and Warrants Granted in the Last Fiscal Year

The following presents certain information on stock options for the Named Executive Officers for the year ended December 31, 2004:

Named Executive Officer	Number of Securities Underlying Options Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5% (\$)	10% (\$)
Charles T. Jensen	4,000,000	5.2 %	\$ 0.11	March 8, 2014	\$ 277,000	\$ 701,000
Charles W. Fritz	4,000,000	5.2 %	\$ 0.11	March 8, 2014	\$ 277,000	\$ 701,000
David A. Dodge	2,000,000	2.6 %	\$ 0.11	March 8, 2014	\$ 138,000	\$ 351,000

### Option and Warrant Exercises in Last Fiscal Year and Fiscal Year-end Values

The following table sets forth options exercised by NeoMedia Named Executive Officers during the year ended December 31, 2004, and the number and value of all unexercised options at fiscal year end.

Named Executive Officer	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Securities Underlying Options/SARs at December 31, 2004		Value of Unexercised In-the-Money Options/SARs at December 31, 2004(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Charles T. Jensen	1,505,386	\$ 347,000	11,000,000	3,000,000	\$ 2,705,000	\$ 465,000
Charles W. Fritz	1,549,000	\$ 156,000	12,510,000	3,000,000	\$ 3,030,000	\$ 465,000
David A. Dodge	100,000	\$ 25,000	2,700,000	1,500,000	\$ 639,000	\$ 233,000

Dodge

(1)

Based on the difference between the closing price of \$0.265 of NeoMedia's common stock as quoted on the Over-the-Counter Bulletin Board on December 31, 2004 and the exercise price of the option/SAR.

### **Certain Relationships and Related Transactions**

During February 2002, NeoMedia borrowed \$10,000 from William E. Fritz under a note payable bearing interest at 8% per annum with a term of 30 days. The note was repaid during April 2003.

During March 2002, NeoMedia borrowed \$190,000 from William E. Fritz under a note payable bearing interest at 8% per annum with a term of 16 days. The note was repaid during March 2002.

During April 2002, NeoMedia borrowed \$11,000 from William E. Fritz under a note payable bearing interest at 8% per annum with a term of 60 days. The note was repaid during April 2003.

During November 2002, NeoMedia issued Convertible Secured Promissory Notes with an aggregate face value of \$60,000 to three separate parties, including Charles W. Fritz, Chairman of the Board of Directors of NeoMedia; William E. Fritz, an outside director; and James J. Keil, an outside director. The notes bear interest at a rate of 15% per annum, and matured at the earlier of (i) four months, or (ii) the date the shares underlying the Cornell Capital Partners, LP Equity Line of Credit were registered with the United States Securities and Exchange Commission. The notes were convertible, at the option of the holder, into either cash or shares of NeoMedia common stock at a 30% discount to either market price upon closing, or upon conversion, whichever is lower. NeoMedia also granted to the holders an additional 1,355,670 shares of its common stock and 60,000 warrants to purchase shares of its common stock at \$0.03 per share, with a term of three years. The warrants and shares were issued in January 2003. In addition, since this debt is convertible into equity at the option of the note holder at beneficial conversion rates, an embedded beneficial conversion feature was recorded as a debt discount and amortized using the effective interest rate over the life of the debt in accordance with EITF 00-27. Total cost of beneficial conversion feature, fair value of the stock and cost of warrants issued exceed the face value of the notes payable, therefore, only \$60,000, the face amount of the note, was recognizable as debt discount, and amortized over the life of the notes payable. NeoMedia repaid Charles Fritz's note in full during March 2003, and repaid James J. Keil's note in full during April 2003. NeoMedia paid \$30,000 of the principal on William Fritz's note during April 2003, and entered into a new note with Mr. Fritz for the remaining \$10,000. The new note also includes a provision under which, as consideration for the loan, Mr. Fritz will receive a 3% royalty on all future revenue generated from NeoMedia's intellectual property. The new note was paid in full during April 2004.

During April 2003, NeoMedia's Board of Directors approved the payment in full of approximately \$154,000 of liabilities owed by NeoMedia to Charles W. Fritz, NeoMedia's Founder and Chairman of the Board of Directors, through the issuance of 15,445,967 shares of common stock. NeoMedia recognized a discount expense in general and administrative expenses of approximately \$15,000 relating to this transaction with Mr. Fritz.

During April 2003, NeoMedia sold 25,000,000 shares of its common stock, par value \$0.01, in a private placement at a price of \$0.01 per share. In connection with the sale, NeoMedia also granted the purchaser 25,000,000 warrants to purchase shares of NeoMedia's common stock at an exercise price of \$0.01 per share. The warrants had a fair value of \$298,000 and have been recorded as a cost of issuance. The purchaser was William E. Fritz, a member of NeoMedia's Board of Directors. Proceeds to NeoMedia from sale of the shares were \$250,000. NeoMedia recognized a discount expense in general and administrative expenses of approximately \$50,000 relating to this transaction with Mr. Fritz. On August 6, 2003, Mr. Fritz exercised his/her warrants and purchased 25,000,000 additional shares of common stock at a price of \$0.01 per share.

During April 2003, NeoMedia entered into a consulting agreement with William Fritz, an outside director, for consulting and advisement services relating to the merger with Loch Energy, Inc., and to the subsequent implementation of various management programs surrounding the business. The agreement called for total payments of \$250,000 over a period of one year. During August 2003, NeoMedia paid the consulting contract in full. During September 2003, the consulting contract was rescinded and the full \$250,000 was returned to NeoMedia.

During July 2003, NeoMedia borrowed \$25,000 from William E. Fritz, one of its outside directors. This amount was added to the principal of a \$10,000 note payable to Mr. Fritz that matured in April 2004, with all other terms of the note remaining the same. As consideration for the loan, NeoMedia granted Mr. Fritz 2,500,000 warrants to purchase shares of NeoMedia's common stock at an exercise price of \$0.01 per share. The warrants had a fair value of approximately \$74,000. In accordance with EITF 00-27, NeoMedia recorded the relative fair value of the warrants as a discount against the note, and amortized the discount over the life of the note.

On August 29, 2003, NeoMedia borrowed \$50,000 from William E. Fritz, one of its outside directors, under an unsecured note payable. The note was paid in full during September 2003.

On November 1, 2005, NeoMedia acquired a used automobile for \$17,000 from Charles T. Jensen, its president, chief executive officer and a member of its board of directors.

NeoMedia believes all of the above transactions were conducted at arm's length.

**Section 16(1) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires NeoMedia's officers and directors, and persons who own more than 10% of a registered class of NeoMedia's equity securities, to file reports of ownership and changes in ownership with the United States Securities and Exchange Commission (the SEC). Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish NeoMedia with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to NeoMedia, NeoMedia believes that during 2003 all Section 16(a) filing requirements applicable to NeoMedia's officers, directors and 10% beneficial owners were complied with.

## COMPENSATION COMMITTEE REPORT TO STOCKHOLDERS

The Compensation Committee, which meets on a periodic basis, is comprised of Messrs. Charles W. Fritz and Charles T. Jensen, officers of NeoMedia and James J. Keil, a non-employee member of the Board of Directors. The Compensation Committee formulates and administers compensation policies for the President and Chief Executive Officer and all vice presidents of NeoMedia. (A Stock Option Committee consisting of two non-employee Directors is responsible for determining to whom and under what terms stock options should be granted, other than options which are automatically granted to members of the Board of Directors, under the Plan.)

### REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION(1)

The following is a report of the Compensation Committee of the Board of Directors (the Committee) describing the compensation policies applicable to NeoMedia's executive officers during the fiscal year ended December 31, 2004.

The Committee is responsible for establishing and monitoring the general compensation policies and compensation plans of NeoMedia, as well as the specific compensation levels for executive officers.

#### General Compensation Philosophy

Under the supervision of the Committee, NeoMedia's compensation policy is designed to attract, motivate and retain qualified key executives critical to NeoMedia's success. It is the objective of NeoMedia to have a portion of each executive's compensation dependent upon NeoMedia's performance as well as upon the executive's individual performance. Accordingly, each executive officer's compensation package is comprised of three elements: (i) base salary which reflects individual performance and expertise, (ii) variable bonus payable in cash and tied to the achievement of certain annual performance goals and (iii) stock options which are designed to align the long-term interests of the executive officer with those of NeoMedia's stockholders. NeoMedia did not pay any bonuses related to fiscal years 2004 or 2003.

The Committee considers the total compensation of each executive officer in establishing each element of compensation, other than stock options which are the responsibility of the Stock Option Committee. All incentive compensation plans are reviewed at least annually to assure they meet the current strategies and needs of NeoMedia.

The summary below describes in more detail the factors that the Committee considers in establishing each of the three primary components of the compensation package provided to the executive officers.

#### Base Salary

Base salary ranges are established based on benchmark data from nationally recognized surveys of similar high-technology companies that compete with NeoMedia for executive officers and NeoMedia's research of peer companies. Each executive officer's base salary is established on the basis of the individual's qualifications and relevant experience.

#### Variable Bonus

The Committee believes that a substantial portion of the annual compensation of each executive should be in the form of variable incentive pay to reinforce the attainment of NeoMedia's goals. The Incentive Plan rewards achievement of specified levels of corporate profitability. A pre-determined formula, which takes into account profitability against the annual plan approved by the Board of Directors, is used to determine the bonus award. The individual executive officer's bonus award is based upon discretionary assessment of each officer's performance during the prior fiscal year.

NeoMedia did not pay any bonuses related to fiscal years 2004 or 2003.

**Compensation for the Chief Executive Officer**

During June 2002, Charles T. Jensen, NeoMedia's former Chief Financial Officer, was elected president and Chief Operating Officer, and also named acting Chief Executive Officer. During August 2004, Mr. Jensen was named permanent CEO.

*Base Salary:* The Committee reviews the Chief Executive Officer's major accomplishments and reported base salary information for the chief executive officers of other companies in NeoMedia's peer group. During the period from July 16, 2003 to March 31, 2005, Mr. Jensen's salary was \$175,000 per year. On April 1, 2005, Mr. Jensen's salary was increased to \$205,000 per year. Mr. Jensen is not under contract with NeoMedia.



*Cash Incentive:* The Chief Executive Officer's incentive target is at the discretion of the Committee. Achievement of the target is based on overall company income versus annual Plan income. Mr. Jensen did not earn a bonus relating to fiscal 2004 or 2003. During April 2003, Mr. Jensen's award under the 2000 Executive Incentive Plan was paid with shares of NeoMedia's common stock. The Company also paid all other employees, except one who declined, who had earned awards under the 2000 Executive Incentive Plan with shares of common stock.

### **Compensation Committee**

Charles W. Fritz  
Charles T. Jensen  
A. Hayes Barclay  
James J. Keil

(1)

This Section is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of NeoMedia under the 1933 Act or the 1934 Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee of the Board of Directors currently consists of Messrs. Fritz, Jensen, Barclay and Keil. During the last fiscal year, no interlocking relationship existed between NeoMedia's Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company.

## **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee for the last fiscal year consisted of two nonemployee Directors. The Board of Directors has determined that none of the members of the Audit Committee has a relationship to NeoMedia that may interfere with his independence from NeoMedia and its management. The Audit Committee has a written charter, a copy of which was filed as Appendix A to NeoMedia's proxy statement filed on May 23, 2001.

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing financial reports and other financial information provided by NeoMedia to any governmental body or the public, NeoMedia's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board of Directors have established, and NeoMedia's auditing, accounting and financial processes generally. The Audit Committee annually recommends to the Board of Directors the appointment of a firm of independent auditors to audit the financial statements of NeoMedia and meets with such personnel of NeoMedia to review the scope and the results of the annual audit, the amount of audit fees, NeoMedia's internal accounting controls, NeoMedia's financial statements contained in NeoMedia's Annual Report to Stockholders and other related matters.

The Audit Committee has reviewed and discussed with management the financial statements for fiscal year 2004 audited by Stonefield Josephson, Inc., NeoMedia's independent auditors. The Audit Committee has discussed with Stonefield Josephson, Inc. various matters related to the financial statements, including those matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU § 380). The Audit Committee has also received the written disclosures and the letter from Stonefield Josephson, Inc. required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), and has discussed with the firm its independence. Based upon such review and discussions the Audit Committee recommended to the Board of Directors that the audited financial statements be included in NeoMedia's Annual Report on Form 10-KSB for the fiscal year ending December, 2004 for filing with the Securities and Exchange Commission.

### **Audit Committee**

James J. Keil

A. Hayes Barclay

The report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that the filing specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

**PRINCIPAL HOLDERS OF VOTING SECURITIES**

The following table sets forth certain information regarding beneficial ownership of NeoMedia's common stock as of November 1, 2005, (i) by each person or entity known by NeoMedia to own beneficially more than 5% of NeoMedia's Common Stock, (ii) by each of NeoMedia's directors and nominees, (iii) by each executive officer of NeoMedia named in the Summary Compensation Table, and (iv) by all executive officers and directors of NeoMedia as a group.

<b>Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership(1)</b>	<b>Percent of Class(1)</b>
Common Stock	Charles W. Fritz(2)(3)	28,610,555	6.0 %
Common Stock	William Fritz(2)(4)	52,890,944	11.3 %
Common Stock	Charles T. Jensen(2)(5)	13,001,500	2.7 %
Common Stock	David A. Dodge(2)(6)	3,225,000	*
Common Stock	A. Hayes Barclay(2)(7)	2,405,000	*
Common Stock	James J. Keil(2)(8)	4,388,619	*
Common Stock	Martin N. Copus(9)	1,682,186	*
Common Stock	Officers and Directors as a Group (9 Persons)(10)	106,203,804	21.0 %

\*

denotes ownership of less than one percent of issued and outstanding shares of NeoMedia's common stock.

(1)

Applicable percentage of ownership is based on 462,818,231 shares of common stock outstanding as of November 1, 2005, together with securities exercisable or convertible into shares of common stock within 60 days of November 1, 2005, for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of November 1, 2005, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The common stock is the only outstanding class of equity securities of NeoMedia.

(2)

Address of the referenced individual is c/o NeoMedia Technologies, Inc., 2201 Second Street, Suite 402, Fort Myers, FL, 33901.

(3)

Charles W. Fritz is the Company's founder and the Chairman of the Board of Directors. Shares beneficially owned include 100 shares owned by each of Mr. Fritz's four children for an aggregate of 400 shares, 13,000,000 shares of common stock issuable upon exercise of options granted under the Company's 2003, 2002 and 1998 stock option

plans, 1,510,000 shares issuable upon exercise of stock warrants, 12,557,186 shares of common stock owned by Mr. Charles W. Fritz directly, and 1,542,969 shares of common stock held by the CW/LA II Family Limited Partnership, a family limited partnership for the benefit of Mr. Fritz's family.

(4)

William E. Fritz, the Company's corporate secretary and a director, and his wife, Edna Fritz, are the general partners of the Fritz Family Limited Partnership and therefore each are deemed to be the beneficial owners of the 1,511,742 shares held in the Fritz Family Partnership. As trustee of each of the Chandler R. Fritz 1994 Trust, Charles W. Fritz 1994 Trust and Debra F. Schiafone 1994 Trust, William E. Fritz is deemed to be the beneficial owner of the 165,467 shares of NeoMedia held in these trusts. Additionally, Mr. Fritz is deemed to own: 45,923,735 shares held directly by Mr. Fritz or his spouse, 2,540,000 shares to be issued upon the exercise of warrants held by Mr. Fritz or his spouse, and 2,750,000 shares to be issued upon the exercise of options held by Mr. Fritz or his spouse. Mr. William E. Fritz may be deemed to be a parent and promoter of NeoMedia, as those terms are defined in the Securities Act.

(5)

Charles T. Jensen is President, Chief Operating Officer, Acting Chief Executive Officer, and a member of the Board of Directors. Beneficial ownership includes 13,000,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans, and 1,500 shares owned by Mr. Jensen's sons.

(6)

David A. Dodge is Vice President, Chief Financial Officer, and Controller. Beneficial ownership includes 3,225,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans.

(7)

A. Hayes Barclay is a member of the Board of Directors. Ownership includes 2,400,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans, and 5,000 shares owned by Mr. Barclay directly.

(8)

James J. Keil is a member of the Board of Directors. Shares beneficially owned includes 2,500,000 shares issuable upon exercise of options and 1,888,619 shares owned by Mr. Keil directly.

(9)

Martin N. Copus is Chief Operating Office. Beneficial ownership includes 1,500,000 shares of common stock issuable upon exercise of options granted under NeoMedia's stock option plans, and 182,186 shares held by Mr. Copus directly.

(10)

Includes an aggregate of 38,375,000 currently exercisable options to purchase shares of common stock granted under NeoMedia's stock option plans, 4,050,000 currently exercisable warrants to purchase shares of common stock, and 63,778,804 shares owned directly by NeoMedia's officers and directors.

## AUDITORS

### **Audit Fees**

The aggregate fees billed by Stonefield Josephson, Inc., NeoMedia's independent auditors, for the audit of NeoMedia's annual consolidated financial statements and reviews of quarterly financial statements for the years ended December 31, 2004 and 2003 were \$137,000 and \$119,000, respectively.

### **Audit-related Fees**

The aggregate fees billed by Stonefield Josephson, Inc., NeoMedia's independent auditors, for assurance and related services for the years ended December 31, 2004 and 2003 were \$0 and \$0, respectively.

### **Tax Fees**

The aggregate fees billed by Wiltshire, Whitley, Richardson & English, NeoMedia's principal accountants for tax compliance, advice, and planning, were \$9,000 for each of the years ended December 31, 2004 and 2003.

### **All Other Fees**

The aggregate fees billed by Stonefield Josephson, Inc., for other products and services during the years ended December 31, 2004 and 2003 were \$0 and \$0, respectively.

### **Audit Committee Pre-approval**

The audit committee of NeoMedia's board of directors approves all non-audit services provided by NeoMedia's primary accountants.

**OTHER MATTERS TO BE ACTED UPON  
AT THE ANNUAL MEETING OF STOCKHOLDERS**

The management of NeoMedia knows of no other matters to be presented at the Annual Meeting. Should any matter requiring a vote of the stockholders other than those listed in this Proxy Statement arise at the meeting, the persons named in the proxy will vote the proxies in accordance with their best judgment.

**ADDITIONAL INFORMATION**

*Proposals of Shareholders for the Next Annual Meeting.* Proposals of shareholders intended for presentation at the 2006 annual meeting must be received by NeoMedia on or before December 16, 2005, in order to be included in the proxy statement and form of proxy for that meeting. Additionally, NeoMedia must have notice of any shareholder proposal to be submitted at the 2006 Annual Meeting (but not required to be included in the Proxy Statement) by March 18, 2006, or such proposal will be considered untimely pursuant to Rule 14a-4 and Rule 14a-5(e) under the Exchange Act and persons named in the proxies solicited by management may exercise discretionary voting authority with respect to such proposal.

*Proxy Solicitation Costs.* NeoMedia is soliciting the enclosed proxies. The cost of soliciting proxies in the enclosed form will be borne by NeoMedia. Officers and regular employees of NeoMedia may, but without compensation other than their regular compensation, solicit proxies by further mailing or personal conversations, or by telephone, telex, facsimile or electronic means. NeoMedia will, upon request, reimburse brokerage firms for their reasonable expenses in forwarding solicitation materials to the beneficial owners of stock.

*Incorporation by Reference.* Certain financial and other information required pursuant to Item 13 of the Proxy Rules is incorporated by reference to NeoMedia's Annual Report on Form 10-KSB for the year ended December 31, 2004, which are being delivered to the shareholders with this proxy statement. In order to facilitate compliance with Rule 2-02(a) of Regulation S-X, one copy of the definitive proxy statement will include a manually signed copy of the accountant's report.

November 3, 2005  
Fort Myers, Florida

/s/ Charles T. Jensen  
Charles T. Jensen  
President, CEO and Director

**APPENDIX A**

**NEOMEDIA TECHNOLOGIES, INC.  
2005 STOCK OPTION PLAN**

**1. Purpose of the Plan**

This Stock Option Plan (the **Plan** ) is intended as an incentive to key employees, consultants and directors of NeoMedia Technologies, Inc. (the **Company** ) and its subsidiaries. The purpose of the Plan is to assist the Company in retaining its employees with a high degree of training, experience and ability, to attract new employees and consultants whose services are considered unusually valuable and to provide stock ownership opportunities to the members of the Board of Directors of the Company who are not employees of the Company or a subsidiary ( **Nonemployee Directors** ).

**2. General Provisions**

**2.1 Definitions as Used in the Plan:**

(a)

**Board of Directors** means the Board of Directors of the Company.

(b)

**Code** means the Internal Revenue Code of 1986, including any and all amendments thereto.

(c)

**Committee** means the options committee appointed by the Board of Directors from time to time to administer the Plan pursuant to Section 2.2.

(d)

**Common Stock** means the Company's Common Stock, \$0.01 par value.

(e)

**Participant** means a person to whom a Stock Option has been granted under the Plan.

(f)

**Rule 16b-3** means Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended from time to time, or any successor rule.

(g)

**Stock Option** means an option granted under the Plan.

(h)



Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Stock Option, each of the corporations other than the last corporation in the unbroken chain owns 50% or more of the total voting power of all classes of stock in one of the other corporations in such chain.

## **2.2 Administration of the Plan**

(a)

The Plan shall be administered by the Committee which shall at all times consist of two (2) or more persons, each of whom shall be a member of the Board of Directors. Each member of the Committee shall be a disinterested person (as such term is defined in Rule 16b-3). The Board of Directors may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. The Committee shall select one of its members as Chairman, and shall hold meetings at such times and places as it may determine.

(b)

The Committee shall have the full power, subject to and within the limits of the Plan, to: (i) interpret and administer the Plan, and Stock Options granted under it; (ii) make and interpret rules and regulations for the administration of the Plan and to make changes in and revoke such rules and regulations (and in the exercise of this power, shall generally determine all questions of policy and expediency that may arise and may correct any defect, omission, or inconsistency in the Plan or any agreement evidencing the grant of any Stock Option in a manner and to the extent it shall deem necessary to make the Plan fully effective); (iii) determine those persons to whom Stock Options shall be granted and the number of Stock Options to be granted to any person; (iv) determine the terms of Stock Options granted under the Plan, consistent with the provisions of the Plan; and (v) generally, exercise such powers and perform such acts in connection with the Plan as are deemed necessary or expedient to promote the best interests of the Company. The interpretation and construction by the Committee of any provision of the Plan or of any Stock Option shall be final, binding and conclusive. Members of the Committee shall be subject to any additional restrictions necessary to satisfy the disinterested administration of the Plan as required in Rule 16b-3.

(c)

The Committee may act only by a majority of its members then in office; however, the Committee may authorize any one (1) or more of its members or any officer of the Company to execute and deliver documents on behalf of the Committee.

(d)

No member of the Committee shall be liable for any action taken or omitted to be taken or for any determination made by him or her in good faith with respect to the Plan, and the Company shall indemnify and hold harmless each member of the Committee against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Committee) arising out of any act or omission in connection with the administration or interpretation of the Plan, unless arising out of such person's own fraud or bad faith.

### **2.3 Effective Date**

The Plan shall become effective upon its adoption by the Board of Directors, and Stock Options may be granted upon such adoption and from time to time thereafter, subject, however, to approval of the Plan by affirmative vote of the holders of a majority of the shares of the Common Stock present in person or by proxy and entitled to vote at an annual meeting of the shareholders of the Company or at a special meeting of the shareholders of the Company expressly called for such purposes, or any adjournments thereof, within 12 months after the adoption of the Plan by the Board of Directors. If the Plan is not approved at such annual or special meeting or at any adjournments thereof, this Plan and all Stock Options previously granted thereunder shall become null and void.

### **2.4 Duration**

If approved by the shareholders of the Company, as provided in Section 2.3, unless sooner terminated by the Board of Directors, this Plan shall remain in effect for a period of ten (10) years following its adoption by the Board of Directors.

### **2.5 Shares Subject to the Plan**

The maximum number of shares of Common Stock which may be subject to Stock Options granted under the Plan shall be 60,000,000. The Stock Options shall be subject to adjustment in accordance with Section 5, as appropriate, and shares to be issued upon exercise of Stock Options may be either authorized and unissued shares of Common Stock or authorized and issued shares of Common Stock purchased or acquired by the Company for any purpose. If a Stock Option or portion thereof shall expire or is terminated, canceled or surrendered for any reason without being exercised in full, the unpurchased shares of Common Stock which were subject to such Stock Option or portion thereof shall be available for future grants of Stock Options under the Plan.

### **2.6 Amendments**

The Plan may be suspended, terminated or reinstated, in whole or in part, at any time by the Board of Directors, provided however, that without the approval of NeoMedia's stockholders, no amendment shall be made which (i) increases the maximum number of shares of Common Stock which may be subject to stock options granted under the Plan, except for specified adjustment provisions, (ii) extends the term of the Plan, (iii) increases the period during which a stock option may be exercised beyond ten years from the date of the grant, (iv) materially increase the benefits accruing to participants under the Plan, (v) materially modifies the requirements as to eligibility for participation in the Plan, or (vi) will cause stock options granted under the Plan to fail to meet the requirements of Rule 16b-3. The Board of Directors may from time to time make such amendments to the Plan as it may deem advisable. Except as otherwise provided herein, termination or amendment of the Plan shall not, without the consent

of a Participant, affect such Participant's rights under any Stock Options previously granted to such Participant.

## **2.7 Participants and Grants**

Stock Options may be granted by the Committee to (i) directors, officers and other full-time salaried employees of the Company and its Subsidiaries with managerial, professional or supervisory responsibilities and (ii) consultants and advisors who render bona fide services to the Company and its Subsidiaries, in each case, where the Committee determines that such officer, employee, consultant or advisor has the capacity to make a substantial contribution to the success of the Company. The Committee may grant Stock Options to purchase such number of shares of Common Stock (subject to the limitations of Sections 2.5) as the Committee may, in its sole discretion, determine. In granting Stock Options under the Plan, the Committee, on an individual basis, may vary the number of Stock Options as between Participants and may grant Stock Options to a Participant in such amounts as the Committee may determine in its sole discretion.

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### **3. Stock Options**

#### **3.1 General**

All Stock Options granted under the Plan shall be evidenced by written agreements executed by the Company and the Participant to whom granted, which agreement shall state the number of shares of Common Stock which may be purchased upon the exercise thereof and shall contain such investment representations and other terms and conditions as the Committee may from time to time determine.

#### **3.2 Price**

The purchase price per share of Common Stock subject to a Stock Option shall be determined by the Committee which may be less than the fair market value on the date of grant, provided, however, that the purchase price shall not be less than the par value of \$0.01 per share of the Common Stock.

#### **3.3 Period**

The duration or term of each Stock Option granted under the Plan shall be for such period as the Committee shall determine but in no event more than ten (10) years from the date of grant thereof.

#### **3.4 Exercise**

Stock Options may be exercisable at such time or times as the Committee shall specify when granting the Stock Option subject to satisfaction of all conditions for exercise recited herein and in the Option Agreement. Without limiting the foregoing, the Stock Option may not be exercised unless the Participant at the time of such exercise shall have been in continuous employ of, or relationship with, the Company up to the date of exercise and unless the Committee has provided to the Participant a written determination no more than 30 days prior to the exercise date that the individual job performance of the Participant merits the Participant's right to exercise such Stock Option. The Committee shall be entitled to act in its sole discretion and the decision of the Committee as to the Participant's right to exercise the Participant's Stock Option shall be final, binding and conclusive on the Participant. Failure of the Committee to deliver the Participant such a written determination shall be deemed a determination that the Participant is not entitled to exercise such Stock Option.

Once exercisable, a Stock Option shall be exercisable, in whole or in part, by delivery of a written notice of exercise to the Secretary of the Company at the principal office of the Company specifying the number of shares of Common Stock as to which the Stock Option is then being exercised together with payment of the full purchase price for the shares being purchased upon such exercise. Until the shares of Common Stock as to which a Stock Option is exercised are issued, the Participant shall have none of the rights of a shareholder of the Company with respect to such shares.

#### **3.5 Payment**

The purchase price for shares of Common Stock as to which a Stock Option has been exercised and any amount required to be withheld, as contemplated by Section 6.1, may be paid:

(a)

In United States dollars in cash, or by check, bank draft or money order payable in United States dollars to the order of the Company; or

(b)

By the delivery by the Participant to the Company of whole shares of Common Stock having an aggregate fair market value on the date of payment equal to the aggregate of the purchase price of Common Stock as to which the Stock Option is then being exercised or by the withholding of whole shares of Common Stock having such fair market value upon the exercise of such Stock Option; or

(c)

By a combination of both (a) and (b) above.

The Committee may, in its discretion, impose limitations, conditions and prohibitions on the use by a Participant of shares of Common Stock to pay the purchase price payable by such Participant upon the exercise of a Stock Option.

### **3.6 Termination of Employment or Other Relationship**

(a)

In the event a Participant's employment by, or relationship with, the Company shall terminate for any reason other than those reasons specified in Sections 3.6(b), (c), (d), (e) or (g) hereof while such Participant holds Stock Options granted under the Plan, then all rights of any kind under any outstanding Option held by such Participant which shall not have previously lapsed or terminated shall expire immediately.

(b)

If a Participant's employment by, or relationship with, the Company or its Subsidiaries shall terminate as a result of such Participant's total disability, each Stock Option held by such Participant (which has not previously lapsed or terminated) shall be exercisable by such Participant for a period of one year after termination but only to the extent the Option is otherwise exercisable during that period. For purposes of the foregoing sentence, total disability shall mean permanent mental or physical disability as determined by the Committee.

(c)

In the event of the death of a Participant, each Stock Option held by such Participant (which has not previously lapsed or terminated) shall be exercisable by the executor or administrator of the Participant's estate or by the person or persons to whom the deceased Participant's rights thereunder shall have passed by will or by the laws of descent or distribution, for a period of one year after such Participant's death but only to the extent the Option is otherwise exercisable during that period.

(d)

In the case of a Participant who is an employee of the Company, if a Participant's employment by the Company shall terminate by reason of such Participant's retirement in accordance with Company policies, each Stock Option held by such Participant at the date of termination (which has not previously lapsed or terminated) shall be exercisable for a period of three (3) months after termination, but only to the extent the Option is otherwise exercisable during that period.

(e)

In the event the Company terminates the employment of a Participant who had been continuously employed by the Company during the one (1) year period immediately preceding such termination, for any reason except good cause (hereafter defined) and except upon such Participant's death, total disability or retirement in accordance with Company policies, each Stock Option held by such Participant (which has not previously lapsed or terminated and which has been held by such Participant for more than six (6) months prior to such termination) shall be exercisable for a period of three (3) months after such termination, but only to the extent the Option is otherwise exercisable during that period. A termination for good cause shall be deemed to have occurred only if the Participant in question (i) is terminated by written notice for dishonesty, because of his conviction of a felony, or because of his violation of any material provision of any employment or other agreement, written or oral, with the Company or any of its Subsidiaries, or (ii) shall voluntarily resign or terminate his employment with the Company or any of its Subsidiaries under or followed by such circumstances as would constitute a breach of any material provision of any employment or other agreement between him and the Company or any of its Subsidiaries, or (iii) shall have committed an act of dishonesty not discovered by the Company or any of its Subsidiaries prior to the cessation of his employment with the Company or any of its Subsidiaries, but which would have resulted in his discharge if discovered prior to such date, or (iv) shall, either before or after cessation of his employment with the Company or any of its Subsidiaries, without the written consent of the Company or any of its Subsidiaries, use (except for the benefit of the Company or any of its Subsidiaries) or disclose to any other person any confidential information relating to the continuation or proposed continuation of the business or any trade secrets of the Company or any of its Subsidiaries obtained as a result of or in connection with such employment.

(f)

Notwithstanding the foregoing, if at any time after termination a Participant engages in detrimental activity (as hereinafter defined), the Committee in its discretion may cause the Participant's right to exercise such option to be forfeited. If an allegation of detrimental activity by a Participant is made to the Committee, the exercisability of the

Participant's options will be suspended for up to two months to permit the investigation of such allegation. For purposes of this section, detrimental activity means activity that is determined by the Committee in its sole and absolute discretion to be detrimental to the interests of the Company or any of its Subsidiaries, including but not limited to situations where such Participant: (1) divulges trade secrets of the Company, proprietary data or other confidential information relating to the Company or to the business of the Company and any Subsidiaries, (2) enters into employment with a competitor under circumstances suggesting that such Participant will be using unique or special knowledge gained as a Company employee to compete with the Company, (3) is convicted by a court of competent jurisdiction of any felony or a crime involving moral turpitude, (4) uses information obtained during the course of his or her employment for his or her own purposes, such as for the solicitation of business, (5) is determined to have engaged (whether or not prior to termination due to retirement) in either gross misconduct or criminal activity harmful to the Company, or (6) takes any action that harms the business interests, reputation, or goodwill of the Company and/or its subsidiaries.

(g)

In the case of Stock Options granted to a nonemployee director who ceases to be a member of the Board of Directors, such Stock Options then held by such individual shall be exercisable within one year after such termination of service.

### **3.7 Effect of Leaves of Absence**

It shall not be considered a termination of employment when a Participant is on military or sick leave or such other type leave of absence which is considered as continuing intact the employment relationship of the Participant with the Company or any of its Subsidiaries. In case of such leave of absence, the employment relationship shall be deemed to have continued until the later of (i) the date when such leave shall have lasted ninety (90) days in duration, or (ii) the date as of which the Participant's right to employment shall have no longer been guaranteed either by statute or contract.

### **4. Assignability of Stock Options**

Stock Options granted under the Plan shall not be assignable or otherwise transferable by the recipient except by will or the laws of intestate succession, or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. Otherwise, Stock Options granted under this Plan shall be exercisable during the lifetime of the Participant only by the Participant for his or her individual account, and no purported assignment or transfer of such Stock Options thereunder, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the purported assignee or transferee any interest or right therein whatsoever but immediately upon any such purported assignment or transfer, or any attempt to make the same, such Stock Options thereunder shall terminate and become of no further effect.

### **5. Reorganization and Recapitalization of the Company**

(a)

The existence of this Plan and Stock Options granted hereunder shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalization, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stocks ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b)

Except as hereinafter provided, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon exercise of rights or warrants to subscribe therefore, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Stock Options granted hereunder.

(c)

If, and whenever, prior to the delivery by the Company or a Subsidiary of all of the shares of Common Stock which are subject to the Stock Options or rights granted hereunder, the Company shall effect a subdivision or consolidation of shares or other capital readjustments, the payment of a stock dividend or other increase or reduction of the number of shares of the Common Stock outstanding without receiving compensation therefore in money, services or property, the number of shares subject to the Plan shall be proportionately adjusted and the number of shares with respect to which Stock Options granted hereunder may thereafter be exercised shall: (i) in the event of an increase in the number of outstanding shares, be proportionately increased, and the cash consideration (if any) payable per share shall be proportionately reduced; and (ii) in the event of a reduction in the number of outstanding shares, be proportionately reduced, and the cash consideration (if any) payable per share shall be proportionately increased.



(d)

If the Company merges with one or more corporations, or consolidates with one or more corporations and the Company shall be the surviving corporation, thereafter, upon any exercise of Stock Options granted hereunder, the Participant shall, at no additional cost (other than the option price, if any) be entitled to receive (subject to any required action by stockholders) in lieu of the number of shares as to which such Stock Options shall then be exercisable the number and class of shares of stock or other securities to which the Participant would have been entitled pursuant to the terms of the agreement of merger or consolidation, if immediately prior to such merger or consolidation the Participant had been the holder of record of the number of shares of Common Stock of the Company equal to the number of shares as to which such Stock Options shall be exercisable. Upon any reorganization, merger or consolidation where the Company is not the surviving corporation, the Committee shall have the right to make all outstanding options vest and be exercisable immediately, by giving notice to each holder thereof or his or her personal representative and by permitting the exercise for a period not to exceed ninety (90) days from the date of such determination by the Committee. Upon liquidation or dissolution of the Company, all outstanding options shall be cancelled.

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## **6. Miscellaneous Provisions**

### **6.1 Withholding**

The Company's obligations under this Plan shall be subject to applicable federal, state and local tax withholding requirements. Federal, state and local withholding tax due at the time of a grant or upon the exercise of any Stock Option may, in the discretion of the Committee, be paid in shares of Common Stock already owned by the Participant or through the withholding of shares otherwise issuable to such Participant, upon such terms and conditions as the Committee shall determine. If the Participant shall fail to pay, or make arrangements satisfactory to the Committee for the payment, to the Company of all such federal, state and local taxes required to be withheld by the Company, then the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to such Participant an amount equal to any federal, state or local taxes of any kind required to be withheld by the Company.

### **6.2 Compliance with Law and Approval of Regulatory Bodies**

No Stock Option shall be exercisable and no shares will be delivered under the Plan except in compliance with all applicable federal and state laws and regulations including, without limitation, compliance with all federal and state securities laws and withholding tax requirements and with the rules of the Over-the-Counter Bulletin Board and of all other domestic stock exchanges on which the Common Stock may be listed. Any share certificate issued to evidence shares for which a Stock Option is exercised may bear legends and statements the Committee shall deem advisable to assure compliance with federal and state laws and regulations. No Stock Option shall be exercisable and no shares will be delivered under the Plan, until the Company has obtained consent or approval from regulatory bodies, federal or state, having jurisdiction over such matters as the Committee may deem advisable. In the case of the exercise of a Stock Option by a person or estate acquiring the right to exercise the Stock Option as a result of the death of the Participant, the Committee may require reasonable evidence as to the ownership of the Stock Option and may require consents and releases of taxing authorities that it may deem advisable.

### **6.3 No Right to Employment**

Neither the adoption of the Plan nor its operation, nor any document describing or referring to the Plan, or any part thereof, nor the granting of any Stock Options hereunder, shall confer upon any Participant under the Plan any right to continue in the employ of the Company or any Subsidiary, or shall in any way affect the right and power of the Company or any Subsidiary to terminate the employment of any Participant at any time with or without assigning a reason therefore, to the same extent as might have been done if the Plan had not been adopted.

### **6.4 Exclusion from Pension Computations**

By acceptance of a grant of a Stock Option under the Plan, the Participant shall be deemed to agree that any income realized upon the receipt or exercise thereof or upon the disposition of the shares received upon exercise will not be taken into account as base remuneration, wages, salary or compensation in determining the amount of any contribution to or payment or any other benefit under any pension, retirement, incentive, profit-sharing or deferred compensation plan of the Company or any Subsidiary.

### **6.5 Abandonment of Options**

A Participant may at any time abandon a Stock Option prior to its expiration date. The abandonment shall be evidenced in writing, in such form as the Committee may from time to time prescribe. A Participant shall have no further rights with respect to any Stock Option so abandoned.

### **6.6 Severability as to Rule 16b-3**

If any of the terms or provisions of the Plan conflict with the requirements of Rule 16b-3, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Rule 16b-3.

### **6.7 Interpretation of the Plan**

Headings are given to the Sections of the Plan solely as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of the Plan or any provision hereof. The use of the masculine gender shall also include within its meaning the feminine. The use of the singular shall also include within its meaning the plural and vice versa.

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**6.8 Use of Proceeds**

Funds received by the Company upon the exercise of Stock Options shall be used for the general corporate purposes of the Company.

**6.9 Construction of Plan**

The place of administration of the Plan shall be in the State of Florida, and the validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the State of Florida.

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**APPENDIX B**

**REVOCABLE PROXY**

**NEOMEDIA TECHNOLOGIES, INC.**

The undersigned hereby appoints CHARLES W. FRITZ and CHARLES T. JENSEN and WILLIAM E. FRITZ, or any of them individually, with full power of substitution, to act as proxy and to represent the undersigned at the 2005 Annual Meeting of shareholders and to vote all shares of common stock of NeoMedia Technologies, Inc. which the undersigned is entitled to vote if personally present at said meeting to be held at the Company's Headquarters, 2201 Second Street, Suite 600, Fort Myers, Florida on December 16, 2005 at 10:00 a.m., and at all postponements or adjournments thereof upon all business as may properly come before the meeting with all the powers the undersigned would possess if then and there personally present.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS. THIS PROXY, WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ALL OF THE NOMINEES FOR DIRECTOR LISTED IN PROPOSAL 1. PROXIES ARE GRANTED THE DISCRETION TO VOTE UPON ALL OTHER MATTERS THAT MAY PROPERLY BE BROUGHT BEFORE THE MEETING OR ANY POSTPONEMENT OR ADJOURNMENT THEREOF.

THIS PROXY, WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERDSIGNED. IF NO DIRECTION IS MADE, THE SHARES WILL BE VOTED FOR PROPOSAL ONE. SUCH PROXY ALSO DELEGATES DISCRETIONARY AUTHORITY TO VOTE WITH REPSECT TO ANY OTHER BUSINESS THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENTS OR POSTPONEMENTS THEREOF.

(CONTINUED, AND TO BE SIGNED ON REVERSE SIDE)

**PLEASE RETAIN THIS ADMISSION TICKET  
FOR THE  
ANNUAL MEETING OF STOCKHOLDERS OF  
NEOMEDIA TECHNOLOGIES, INC.  
COMPANY HEADQUARTERS  
2201 SECOND STREET, SUITE 600  
FT. MYERS, FLORIDA 33901  
DECEMBER 16, 2005  
10:00 A.M., EASTERN DAYLIGHT SAVINGS TIME**

**PRESENT THIS TICKET TO A NEOMEDIA TECHNOLOGIES, INC. REPRESENTATIVE AT THE  
ENTRANCE TO THE MEETING ROOM.**

**VOTE BY MAIL**

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to NeoMedia Technologies, Inc., c/o \_\_\_\_\_.

IT IS IMPORTANT THAT YOUR SHARES ARE REPRESENTED AT THIS MEETING, WHETHER OR NOT YOU ATTEND THE MEETING IN PERSON. TO MAKE SURE YOUR SHARES ARE REPRESENTED, WE

URGE YOU TO COMPLETE AND MAIL THE PROXY CARD BELOW.

**IF YOU PLAN TO ATTEND THE 2005 ANNUAL MEETING OF STOCKHOLDERS, PLEASE MARK THE APPROPRIATE BOX ON THE PROXY CARD BELOW.**

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**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED**

**NEOMEDIA TECHNOLOGIES, INC.**

**Vote on Directors**

1.

Election of directors The election of the following nominees to the Board of Directors unless otherwise indicated:

01) A. Hayes Barclay

04) Charles T. Jensen

02) Charles W. Fritz

05) James J. Keil

03) William E. Fritz

“ For All

“ Withhold All

“ For All Except

To withhold authority to vote for any particular nominee, mark For All Except and write the nominee’s number on the line below \_\_\_\_\_

**Vote on Proposals**

2.

To ratify the selection of Stonefield Josephson, Inc. as the Company’s independent registered public accounting firm for the fiscal year ended December 31, 2005.

“ FOR

“ AGAINST

“ ABSTAIN

3.

To approve the 2005 Stock Option Plan.

“ FOR

“ AGAINST

“ ABSTAIN

4.

To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

**THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF THE NOTICE OF ANNUAL MEETING AND PROXY STATEMENT OF THE COMPANY.**

Please sign your name exactly as it appears on your stock certificate. When signing as attorney-in-fact, executor, administrator, trustee or guardian, please add your title as such. When signing as joint tenants, all parties in the joint tenancy must sign. If signer is a corporation, please sign in full corporate name by duly authorized officer or officers

and affix the corporate seal.

Please indicate if you plan to attend this meeting: " Yes " No

Signature

Date

Signature (Joint Owners)

Date

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