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NEONODE, INC

FORM 10-K
(Annual Report)

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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

or

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

For the transition period from to

Commission File No. **0-8419**

NEONODE INC.

(Exact name of Registrant as specified in its charter)

Delaware	**94-1517641**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

Sweden Warfvingesväg 45, SE-112 51 Stockholm, Sweden
USA 4000 Executive Parkway, San Ramon, CA., 94549
(Address of principal executive offices and Zip Code)

Sweden 46-8-678 18 50
USA (925) 355-2000
(Registrant's Telephone Numbers, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	**The NASDAQ Capital Market**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒

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

The approximate aggregate market value of the common stock held by non-affiliates of the registrant, based on the closing price for the registrant's common stock on June 29, 2007 (the last business day of the second quarter of the registrant's current fiscal year) as reported on the Nasdaq Capital Markets, was $5,699,977.

The number of shares of the registrant's common stock outstanding as of March 26, 2008 was 25,918,162.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2008 Annual Meeting of Stockholders is incorporated by reference in Part III of this Form 10-K to the extent stated herein

NEONODE INC.

2007 ANNUAL REPORT ON FORM 10-K

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SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

Certain statements set forth in or incorporated by reference in this Annual Report on Form 10-K constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, without limitation, our expectations regarding the adequacy of anticipated sources of cash, planned capital expenditures, the effect of interest rate increases, and trends or expectations regarding our operations. Words such as "may," "will," "should," "believes," "anticipates," "expects," "intends," "plans," "estimates" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Readers are cautioned that the forward-looking statements reflect management's estimates only as of the date hereof, and we assume no obligation to update these statements, even if new information becomes available or other events occur in the future. Actual future results, events and trends may differ materially from those expressed in or implied by such statements depending on a variety of factors, including, but not limited to those set forth under "Item 1A Risk Factors" and elsewhere in this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Overview

Our business focus is a combination of licensing our touchscreen technology to other companies and developing and selling our own products using our technology in mobile device markets. The cornerstone of our business is our innovative patent pending touchscreen solutions. We believe that in the future keyboards and keypads with moving parts will become obsolete and that our touchscreen solutions and technologies will be at the forefront of a new wave of input technologies that will be able to run everything from small mobile devices to large industrial applications.

We believe our current product, the Neonode N2, is the world's smallest touchscreen mobile phone handset. The N2 fits in the palm of your hand and is designed to allow the user to navigate the menus and functions with simple finger based taps and sweeps. The N2 incorporates our patent pending touchscreen and other proprietary technologies to deliver a mobile phone with a completely unique user experience that doesn't require keypads, buttons or other moving parts.

The first model of our touchscreen multimedia mobile phone, the N1, was released in November 2004. The N1 was primarily a concept phone that was sold in limited quantities from late 2004 to early 2006. The N2 is our first production-quality product. We began shipping the N2 to customers in mid-July 2007 and have shipped approximately 31,000 units from July 2007 through December 31, 2007.

We believe, the N2 is the smallest touchscreen multimedia mobile phone in the world that works on any GSM based mobile phone network. The N2 features include :

- A touchscreen mobile multimedia phone that is also an MP3 and video player;
- Innovative design, including the N2's small size, a variety of available colors, and an attractive look and feel;
- Fast, flexible and easy software downloads through the internet and SD cards; and
- Large storage capacity for media content, with up to 32 Gigabytes available storage.

According to the Gardner Group there were approximately 1.2 billion cell phones sold globally in 2007 and the growth of cell phone market is expected be more than 10% in both 2008 and 2009. Some of the key growth categories are smart phones and multimedia devices which is where the Neonode N2 competes. Both these categories are expected to grow dramatically in the coming years.

We believe the Neonode N2 and our ongoing product developments will benefit from key market developments and trends, including:

- Production capacity and scalability;

- Increased availability of off the shelf technology;
- Increased focus on enhancing the user experience, demonstrated by the popularity of designer phones such as the iPhone
- Convergence of multiple applications in a single device, including games, videos, music and cameras.
- Increased popularity of Touchscreen based devices such as the iPhone and HTC Touch.

History

Neonode, formerly known as SBE, Inc., was incorporated in the state of Delaware on September 4, 1997.

On January 11, 2007, SBE, Inc. entered into an Agreement for the Purchase and Sale of Assets with One Stop Systems, Inc., a manufacturer of industrial-grade computing systems and components (One Stop), pursuant to which it sold all of the assets associated with its embedded hardware business (excluding cash, accounts receivable and other excluded assets specified in the asset purchase agreement) to One Stop for approximately $2,200,000 in cash plus One Stop's assumption of the lease of SBE, Inc.'s corporate headquarters building and certain equipment leases.

On August 10, 2007, Cold Winter Acquisition Corporation (Cold Winter Acquisition Sub), a Delaware corporation and wholly-owned subsidiary of SBE, Inc., consummated a merger and reorganization where Cold Winter Acquisition Sub was merged with and into Neonode Inc. a Delaware Corporation (Old Neonode) with Old Neonode continuing after the merger as the surviving corporation and a wholly-owned subsidiary of SBE, Inc. (Merger). SBE, Inc.'s name was subsequently changed to "Neonode Inc." in connection with the completion of the Merger.

Old Neonode was incorporated in the State of Delaware in 2006 and is the parent of Neonode AB, a company founded in February 2004 and incorporated in Sweden.

After the Merger with Cold Winter Acquisition Sub, Old Neonode changed its name to Cold Winter, Inc. (Cold Winter). The stockholders of SBE, Inc. approved the transaction in a special meeting of stockholders held on August 10, 2007. Following the closing of the Merger, the business and operations of Cold Winter prior to the Merger became the primary business and operations of the newly-combined company. The newly-combined company's headquarters is located in Stockholm, Sweden.

Unless the context otherwise requires, all references herein to "Neonode" refer to Private Neonode prior to the Merger, and Neonode Inc. (formally known as SBE, Inc.) and its wholly-owned subsidiaries after the Merger.

The Neonode Principle

Our product design goal is to deliver a user experience that is faster, easier, more enjoyable than comparable products. To achieve that goal, we focus on enhancing the user experience between the user and device in four key areas:

- Durable, precise and fast touchscreen technology;
- Fast, fun and easy user interface;
- Innovative design and ergonomics
- Variety of useful accessories and ease of usability

We believe that for both professionals and consumers the mobile device, particularly the mobile phone, is positioned to become the center of an evolving digital lifestyle by integrating with and enhancing the utility of advanced digital devices such as phone, voice and text mail, digital music, digital video and still cameras, television, personal digital assistants, web browsing and other digital devices, into a single mobile handheld computing and communication device. The attributes of the mobile device that enable this functionality include a high-quality user interface, easy access to relatively inexpensive data storage, the ability to run complex applications, and the ability to connect easily to a wide variety of other digital devices and to the Internet. We provide the functionality and ease of integration with a personal computer (PC) or other media devices along with a uniquely differentiated touchscreen user interface that positions us to offer innovative integrated digital lifestyle solutions.

Strategy

Our overall strategy is to develop innovative differentiated touchscreen hardware and software technologies. Our business model combines the licensing of our technology to other companies who develop mobile devices along with developing and selling our own Neonode branded touchscreen mobile media products. Our Neonode brand of products is currently targeting consumers in the middle to high middle segment of the mobile multimedia phone market who value style combined with innovative technology. Our mobile phone handset is not locked into any individual mobile telephone operator's network and can be used on any Global System for Mobile (GSM) phone network in the world, thereby allowing the end users to select the network and calling plans. We may develop future mobile phone handsets that are tailored for specific

mobile network operator’s needs.

Together with a network of third party partners such as Sykes and TRS who provide our first line product support and product delivery logistics, we are focused on building a large-scale product development and customer support infrastructure.

We are building a sales channel with an initial focus on European distributors and now plan to expand our marketing distribution to Asia, Latin America and the United States. We also sell our products through our web site to areas where we do not have a distributor or reseller presence. We have an agreement with a provider of call center, customer technical support and credit card payment processing for our web sales.

Neonode USA

Neonode USA is our affiliated company formed in early 2008 together with Distribution Management Consolidators LLC (DMC), a sales channel development and supply chain management company. Neonode USA, exclusively markets and sells our innovative products within North America, Latin America and China ("Neonode USA Territory") and is the exclusive worldwide licensor of our intellectual property to third parties. The Neonode USA's main office is located in New York, USA.

As Neonode USA is a venture between us and another company, DMC, there is a risk that in the event that DMC was to terminate its participation in Neonode USA, or Neonode USA was to reach an impass as to as to a key strategic decision, the marketing and sales efforts in the Neonode USA Territory would materially suffer.

Products

We developed a series of touchscreen multimedia mobile phones that convert the functionality of a desktop computer to a mobile phone interface. We began shipping our latest mobile phone, the N2, to customers in July 2007. In addition to connecting to any GSM supported cellular telephone network in the world, our N2 multimedia mobile phone is based on an open platform Windows CE technology that provides simplicity in connecting to any personal computer for updating contact information, calendars and downloading of media files via Bluetooth or USB connections. It also allows users to watch movies or music videos in full screen, play music, take pictures with a two mega-pixel camera and play video games, all with internet pod casting capabilities. The Windows CE environment allows third party software developers and individual users to develop customized software applications and video games for use on our N2 phone.

Our N2 mobile phone is based on a patent pending user interface that incorporates one-hand on screen navigation with a simple user interface that recognizes gestures rather than defined keys. As a result, our interface features a large display without physical buttons using what we believe is the smallest touchscreen handset in the mobile phone industry. Our standard N2 phone incorporates a standard one gigabyte SD memory card which is currently expandable to eight gigabytes with what we expect to be future expandability to 32 gigabytes. The SD memory card has the storage capacity for thousands of songs and pictures and several movies. Our multimedia mobile phone has battery life of approximately six hours of music and video playback time. In addition, standby time is estimated to be 200 hours with a talk-time of approximately four hours.

We also license our patent pending touchscreen hardware and software designs to third party companies for incorporation into diverse products that incorporate touchscreen technology such as MP3 and video players, digital cameras, Global Positioning Systems (GPS) and alarm system touch pads. In 2005, we entered into a license agreement with a major Asian mobile telephone manufacturer where we licensed our touch screen technology for use in a mobile phone to be included in their product assortment. The original license agreement was for a two-year period and was exclusive. Upon expiration of the exclusive period in July 2007, we extended the license agreement on a non-exclusive basis for an additional year. We may also provide consulting services related to the implementation of our software. The fees for these consultancy services may vary from hourly rates to monthly rates and will be based on reasonable market rates for such services.

Our technology and product designs are based on our patent pending zForce ™ and Neno™ hardware and software technology. zForce™ is our optical touchscreen technology that supports one-handed navigation allowing the user to operate the functionality with finger gestures passing over the screen and Neno™ is our software based user interface.

zForce™ was patented in several countries by Neonode in 2002 and has a patent pending in the US. It uses infrared light that is projected as a grid over the screen. The infrared light pulses 120 times a second so the grid is constantly being refreshed. Coordinates are being produced on the screen and are then converted into mathematical algorithms when your fingers move across the screen. This input method is unique for Neonode and is enabled by the zForce™ Technology.

Currently there are two core touchscreen technologies available in the market today - capacitive and resistive. Capacitive technology is the technology that the Apple iPhone uses and resistive technology is what you find on most stylus based PDAs. Resistive technology is pressure sensitive technology and requires a stylus to activate. Best used for detailed work and selection of a particular spot on a screen but not for sweeping or motion, such as zooming in and out. Capacitive technology is what is used on a laptop computer mouse pad. It is very good for sweeping gestures and motion. The screen actually reacts to the tiny electric impulses of your finger. Capacitive touchscreens work if you have unimpeded contact between your finger and the screen.

Our zForce™ has a number of key advantages over each of these technologies including:

- There are no additional layers added to the screen that dilutes the screen resolution and clarity. Layering technology is required to activate the capacitive and resistive technologies and can be very costly;
- The zForce™ grid technology is more responsive than the capacitive screens and as result is quicker and less prone to misreads. It allows movement and sweeping motions as compared to the point sensitive stylus based resistive screens;
- zForce™, an abbreviation for zero force necessary, means that you do not have to use any force to select or move items on the screen like you would with a stylus;
- zForce™ is cost efficient due to the lower cost of materials and extremely simple manufacturing process when compared to the expensive layered capacitive and resistive screens; and
- zForce™ allows multiple methods of input such as simple finger taps to hit keys, sweeps to zoom in our out and gestures to write text or symbols directly on the screen.

zForce™ incorporates some of the best functionalities of both the capacitive and resistive touch screen technologies but at a much lower cost. It works in all climates and, unlike the competing technologies, can be used with gloves. In addition, zForce™ allows for waterproofing.

Because of its uniqueness and flexibility, we believe that our zForce™ technology presents a tremendous licensing opportunity for Neonode. The market is vast given the current rapid increase in touchscreen based devices such as cell phones, PCs, media players and GPS navigation devices.

Our software user interface Neno™ runs on Windows CE and is completely unique. Neno™ is designed to operate complex and full feature applications on a small screen. It allows for a number of input methods and is designed to deliver high precision, fast response and ease of use on a complex device.

Neno™ includes the following features:

- Media players for streaming video, movies and music that supports all the standard applications, including WMA,WMV, MP3,WAV,DivX and AVI MPEG¼;
- Internet explorer 6.0 browser;
- Image viewer with camera preview and capture;
- Organizer with calendar and task with Microsoft Outlook synchronization;
- Calendar, alarm, calculator and call list;
- Telephony manager for voice calls;
- Messaging manager for SMS, MMS, IM and T9;
- File manager;
- Task manager for switching between applications;
- Notebook; and
- Games.

Intellectual Property

We believe that innovation in product engineering, sales, marketing, support, and customer relations, and protection of this proprietary technology and knowledge will impact our future success. In addition to certain patents that are pending, we rely on a combination of copyright, trademark, trade secret laws and contractual provisions to establish and protect the proprietary rights in our products.

We have applied for patent protection of our invention named "On a substrate formed or resting display arrangement" in six countries through a patent cooperation treaty (PCT) application and in 24 designated countries through an application to the European Patent Office (EPO). We applied for a patent in Sweden relating to a mobile phone and have also applied for a patent in the United States regarding software named "User Interface."

We have been granted design protection in Sweden for the design of a mobile phone, and have applied for design protection in Sweden for a new a design of our mobile phone.

We have been granted trademark protection for the word NEONODE in the European Union (EU), Sweden, Norway, and Australia. In addition, we have been granted protection for the figurative mark NEONODE in Sweden. Additional applications for the figurative trademark are still pending in Switzerland, China, Russia and the United States.

Our "User Interface" may also be protected by copyright laws in most countries, especially Sweden and the EU (which do not grant patent protection for the software itself), if the software is new and original. Protection can be claimed from the date of creation.

We also license technologies from third parties for integration into our products. We believe that the licensing of complementary technologies from third parties with specific expertise is an effective means of expanding the features and functionality of our products, allowing us to focus on our core competencies.

Consistent with our efforts to maintain the confidentiality and ownership of our trade secrets and other confidential information and to protect and build our intellectual property rights, we require our employees and consultants and certain customers, manufacturers, suppliers and other persons with whom we do business or may potentially do business to execute confidentiality and invention assignment agreements upon commencement of a relationship with us and typically extending for a period of time beyond termination of the relationship.

Distribution, Sales and Marketing

We are building a network of distributors covering Europe, India and Asia and planning to expand our network to the remaining countries in Europe, the United States, Asia and Latin America in 2008. We currently have seven distributors selling our products in 13 European countries.

Our products are customizable for each country or region using the GSM standard. Our phone supports all local languages and a number of well known carriers such as Vodafone, Tim, Telia and Telenor have included our phone in their core product assortment and are selling it with carrier subsidies where the carrier provides incentives to the customer if they sign up for calling plans. In addition to the distributor sales channel, we are using the Neonode.com web store as a direct sales channel to sell our products and third-party products in countries where we do not have a sales presence.

Our internal sales and marketing organization supports our channel marketing partners by providing sales collateral, such as product data sheets, presentations, and other sales/marketing resource tools. Our sales staff solicits prospective customers, provides technical advice with respect to our products and works closely with marketing partners to train and educate their staff on how to sell, install, and support our product lines.

Our sales are normally negotiated and executed in U.S. Dollars or Euros.

Our direct sales force and marketing operations are based out of our corporate headquarters in Stockholm, Sweden.

Research and Development

We continue to invest in research and development of current and emerging technologies that we deem critical to maintaining our competitive position in the mobile multimedia telecommunications markets. Many factors are involved in determining the strategic direction of our product development focus, including trends and developments in the marketplace, competitive analyses, market demands, business conditions, and feedback from our customers and strategic partners. In fiscal years 2007 and 2006 we spent $4.5 million and $2.2 million, respectively, on research and development activities.

A critical part of our research and development is focused on touch screen technology. We believe there is strong potential for zForce™ but understand the need for constant development and enhancement of the technology to keep our leading position in the market in relation to finger based touch screens.

We carefully monitor innovations in other technologies and are constantly seeking new areas for application of zForce™. We have developed a technology roadmap that we believe will ensure a steady stream of new innovations and areas of use.

Our research and development is predominantly in-house but also done in close collaboration with external partners and specialists. Our development areas can be divided into the following areas:

- Software
- Optical
- Mechanical
- Electrical

Our product development efforts are focused principally on our strategic product lines, including a new touch screen phone with additional functionality.

Manufacturing

We do not engage in any manufacturing operations. We have a strong relationship with our manufacturing partner Balda AG and their manufacturing plant in Malaysia. Together, we believe we have the ability to increase production volumes to meet the demands from the markets and our expansion plans.

Competition

Competition in the mobile computing device market is intense and characterized by rapid change and complex technology. The principal competitive factors affecting the market for our mobile computing devices are access to sales and distribution channels, price, styling, usability, functionality, features, operating system, brand, marketing, availability of third-party software applications and customer and developer support. Our devices compete with a variety of mobile devices, including pen-and keyboard-based devices, mobile phones and converged voice/data devices.

Our principal competitors include: mobile handset and Smartphone manufacturers such as Apple, High Tech Computer (HTC), Palm, Motorola, Nokia, Research in Motion, Samsung, Sony-Ericsson and Hewlett-Packard; hand held devices made by consumer electronics companies such as Garmin, NEC, Sharp Electronics and Yakumo; and a variety of early-stage technology companies.

Some of these competitors, such as HTC, produce multimedia phones as carrier-branded devices in addition to their own branded devices.

In addition, our devices compete for a share of disposable income and enterprise spending on consumer electronics, telecommunications and computing products such as MP3 players, Apple's iPods, media/photo views, digital cameras, personal media players, digital storage devices, handheld gaming devices, GPS devices and other such devices.

Many of our competitors have greater financial resources and are well established. Competition within the communications market varies principally by application segment.

Backlog

On December 31, 2007, we did not have any firm order backlog of product orders from our customers.

Employees

On December 31, 2007, we had 42 full-time employees and augment our staffing needs with consultants as needed. Our employees are located in our corporate headquarters in Stockholm, Sweden and branch offices located in Portugal, Hong Kong, Shanghai, China and the United States. None of our employees is represented by a labor union. We have experienced no work stoppages. We believe our employee relations are positive.

ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors:

Risks Related To Our Business

Our independent registered public accounting firm issued a going concern opinion on our financial statements, questioning our ability to continue as a going concern.

Due to our need to raise additional financing to fund our operations and satisfy obligations as they become due, our independent registered public accounting firm has included an explanatory paragraph in their report on our December 31, 2007 consolidated financial statements regarding their substantial doubt as to our ability to continue as a going concern. This may have a negative impact on the trading price of our common stock and adversely impact our ability to obtain necessary financing.

We will require additional capital in the future to fund our operations, which capital may not be available on commercially attractive terms or at all.

We will require sources of capital in addition to cash on hand to continue operations and to implement our strategy. In March 2008 we closed an aggregate of $4.5 million of private equity financing. If our operations do not become cash flow positive as projected we will be forced to seek credit line facilities from financial institutions, additional private equity investment or debt arrangements. No assurances can be given that we will be successful in obtaining such additional financing on reasonable terms, or at all. If adequate funds are not available on acceptable terms, or at all, we may be unable to adequately fund our business plans and it could have a negative effect on our business, results of operations and financial condition. In addition, if funds are available, the issuance of equity securities or securities convertible into equity could dilute the value of shares of our common stock and cause the market price to fall, and the issuance of debt securities could impose restrictive covenants that could impair our ability to engage in certain business transactions.

We have never been profitable and we anticipate significant additional losses in the future .

Neonode was formed in 2006 as a holding company owning and operating Neonode AB, which was formed in 2004 and has been primarily engaged in the business of developing and selling mobile phones. We have a limited operating history on which to base an evaluation of our business and prospects. Our prospects must be considered in light of the risks and uncertainties encountered by companies in the early stages of development, particularly companies in new and rapidly evolving markets. Our success will depend on many factors, including, but not limited to:

- the growth of mobile telephone usage;
- the efforts of our marketing partners;
- the level of competition faced by us; and
- our ability to meet customer demand for products and ongoing service.

In addition, we have experienced substantial net losses in each fiscal period since our inception. These net losses resulted from a lack of substantial revenues and the significant costs incurred in the development of our products and infrastructure. Our ability to continue as a going concern is dependent on our ability to raise additional funds and implement our business plan.

Our limited operating history and the emerging nature of our market, together with the other risk factors set forth in this report, make prediction of our future operating results difficult. There can also be no assurance that we will ever achieve significant revenues or profitability or, if significant revenues and profitability are achieved, that they could be sustained.

If we fail to develop and introduce new products and services successfully and in a cost effective and timely manner, we will not be able to compete effectively and our ability to generate revenues will suffer .

We operate in a highly competitive, rapidly evolving environment, and our success depends on our ability to develop and introduce new products and services that our customers and end users choose to buy. If we are unsuccessful at developing and introducing new products and services that are appealing to our customers and end users with acceptable quality, prices and terms, we will not be able to compete effectively and our ability to generate revenues will suffer.

The development of new products and services is very difficult and requires high levels of innovation. The development process is also lengthy and costly. If we fail to anticipate our end users' needs or technological trends accurately or we are unable to complete the development of products and services in a cost effective and timely fashion, we will be unable to introduce new products and services into the market or successfully compete with other providers.

As we introduce new or enhanced products or integrate new technology into new or existing products, we face risks including, among other things, disruption in customers' ordering patterns, excessive levels of older product inventories, inability to deliver sufficient supplies of new products to meet customers' demand, possible product and technology defects, and a potentially different sales and support environment. Premature announcements or leaks of new products, features or technologies may exacerbate some of these risks. Our failure to manage the transition to newer products or the integration of newer technology into new or existing products could adversely affect our business, results of operations and financial condition.

We are dependent on third parties to manufacture and supply our products and components of our products.

Our products are built by a limited number of independent manufacturers. Although we provide manufacturers with key performance specifications for the phones, these manufacturers could:

- manufacture phones with defects that fail to perform to our specifications;
- fail to meet delivery schedules; or
- fail to properly service phones or honor warranties.

Any of the foregoing could adversely affect our ability to sell our products and services, which, in turn, could adversely affect our revenues, profitability and liquidity, as well as our brand image.

We may become highly dependent on wireless carriers for the success of our products.

Our business strategy includes significant efforts to establish relationships with international wireless carriers. We cannot assure you that we will be successful in establishing new relationships, or maintaining such relationships, with wireless carriers or that these wireless carriers will act in a manner that will promote the success of our multimedia phone products. Factors that are largely within the control of wireless carriers, but which are important to the success of our multimedia phone products, include:

- testing of our products on wireless carriers' networks;
- quality and coverage area of wireless voice and data services offered by the wireless carriers;
- the degree to which wireless carriers facilitate the introduction of and actively market, advertise, promote, distribute and resell our multimedia phone products;
- the extent to which wireless carriers require specific hardware and software features on our multimedia phone to be used on their networks;
- timely build out of advanced wireless carrier networks that enhance the user experience for data centric services through higher speed and other functionality;
- contractual terms and conditions imposed on them by wireless carriers that, in some circumstances, could limit our ability to make similar products available through competitive carriers in some market segments;
- wireless carriers' pricing requirements and subsidy programs; and
- pricing and other terms and conditions of voice and data rate plans that the wireless carriers offer for use with our multimedia phone products.

For example, flat data rate pricing plans offered by some wireless carriers may represent some risk to our relationship with such carriers. While flat data pricing helps customer adoption of the data services offered by carriers and therefore highlights the advantages of the data applications of its products, such plans may not allow its multimedia phones to contribute as much average revenue per user to wireless carriers as when they are priced by usage, and therefore reduces our differentiation from other, non-data devices in the view of the carriers. In addition, if wireless carriers charge higher rates than consumers are willing to pay, the acceptance of our wireless solutions could be less than anticipated and our revenues and results of operations could be adversely affected.

Wireless carriers have substantial bargaining power as we enter into agreements with them. They may require contract terms that are difficult for us to satisfy, which could result in higher costs to complete certification requirements and negatively impact our results of operations and financial condition. Moreover, we may not have agreements with some of the wireless carriers with whom they will do business and, in some cases, the agreements may be with third-party distributors and may not pass through rights to us or provide us with recourse or contact with the carrier. The absence of agreements means that, with little or no notice, these wireless carriers could refuse to continue to purchase all or some of our products or change the terms under which they purchase our products. If these wireless carriers were to stop purchasing our products, we may be unable to replace the lost sales channel on a timely basis and our results of operations could be harmed.

Wireless carriers could also significantly affect our ability to develop and launch products for use on their wireless networks. If we fail to address the needs of wireless carriers, identify new product and service opportunities or modify or improve our multimedia phone products in response to changes in technology, industry standards or wireless carrier requirements, our products could rapidly become less competitive or obsolete. If we fail to timely develop products that meet carrier product planning cycles or fail to deliver sufficient quantities of products in a timely manner to wireless carriers, those carriers may choose to emphasize similar products from our competitors and thereby reduce their focus on its products which would have a negative impact on our business, results of operations and financial condition.

Carriers, who control most of the distribution and sale of, and virtually all of the access for, multimedia phone products could commoditize multimedia phones, thereby reducing the average selling prices and margins for our products which would have a negative impact on our business, results of operations and financial condition. In addition, if carriers move away from subsidizing the purchase of mobile phone products, this could significantly reduce the sales or growth rate of sales of mobile phone products. This could have an adverse impact on our business, revenues and results of operations.

As we build strategic relationships with wireless carriers, we may be exposed to significant fluctuations in revenue for our multimedia phone products .

Because of their large sales channels, wireless carriers may purchase large quantities of our products prior to launch so that the products are widely available. Reorders of products may fluctuate quarter to quarter, depending on end-customer demand and inventory levels required by the carriers. As we develop new strategic relationships and launch new products with wireless carriers, our revenue could be subject to significant fluctuation based on the timing of carrier product launches, carrier inventory requirements, marketing efforts and our ability to forecast and satisfy carrier and end-customer demand. We do not have a history of selling to wireless carriers and as a result do not have do not have a basis for estimating what the potential fluctuations in our revenue will be from the sale of our multimedia phones.

The mobile communications industry is highly competitive and many of our competitors have significantly greater resources to engage in product development, manufacturing, distribution and marketing.

The mobile communications industry, in which we are engaged, is a highly competitive business with companies of all sizes engaged in business in all areas of the world, including companies with far greater resources than we have. There can be no assurance that other competitors, with greater resources and business connections, will not compete successfully against us in the future. Our competitors may adopt new technologies that reduce the demand for our products or render our technologies obsolete, which may have a material adverse effect on the cost structure and competitiveness of our products, possibly resulting in a negative effect on our revenues, profitability or liquidity.

Our future results could be harmed by economic, political, regulatory and other risks associated with international sales and operations.

Because we sell our products worldwide and most of the facilities where our devices are manufactured, distributed and supported are located outside the United States, our business is subject to risks associated with doing business internationally, such as:

- changes in foreign currency exchange rates;
- the impact of recessions in the global economy or in specific sub economies;
- changes in a specific country's or region's political or economic conditions, particularly in emerging markets;
- changes in international relations;
- trade protection measures and import or export licensing requirements;
- changes in tax laws;
- compliance with a wide variety of laws and regulations which may have civil and/or criminal consequences for them and our officers and directors who they indemnify;
- difficulty in managing widespread sales operations; and
- difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs.

In addition, we are subject to changes in demand for our products resulting from exchange rate fluctuations that make our products relatively more or less expensive in international markets. If exchange rate fluctuations occur, our business and results of operations could be harmed by decreases in demand for our products or reductions in margins.

While we sell our products worldwide, one component of our strategy is to expand our sales efforts in countries with large populations and propensities for adopting new technologies. We have limited experience with sales and marketing in some of these countries. There can be no assurance that we will be able to market and sell our products in all of our targeted international markets. If our international efforts are not successful, our business growth and results of operations could be harmed.

We must significantly enhance our sales and product development organizations.

We will need to improve the effectiveness and breadth of our sales operations in order to increase market awareness and sales of our products, especially as we expand into new markets. Competition for qualified sales personnel is intense, and we may not be able to hire the kind and number of sales personnel we are targeting. Likewise, our efforts to improve and refine our products require skilled engineers and programmers. Competition for professionals capable of expanding our research and development organization is intense due to the limited number of people available with the necessary technical skills. If we are unable to identify, hire or retain qualified sales, marketing and technical personnel, our ability to achieve future revenue may be adversely affected.

We are dependent on the services of our key personnel.

We are dependent on our current management for the foreseeable future. The loss of the services of any member of management could have a materially adverse effect on our operations and prospects.

If third parties infringe our intellectual property or if we are unable to secure and protect our intellectual property, we may expend significant resources enforcing our rights or suffer competitive injury.

Our success depends in large part on our proprietary technology and other intellectual property rights. We rely on a combination of patents, copyrights, trademarks and trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. Our intellectual property, particularly our patents, may not provide us a significant competitive advantage. If we fail to protect or to enforce our intellectual property rights successfully, our competitive position could suffer, which could harm our results of operations.

Our pending patent and trademark applications for registration may not be allowed, or others may challenge the validity or scope of our patents or trademarks, including patent or trademark applications or registrations. Even if our patents or trademark registrations are issued and maintained, these patents or trademarks may not be of adequate scope or benefit to them or may be held invalid and unenforceable against third parties.

We may be required to spend significant resources to monitor and police our intellectual property rights. Effective policing of the unauthorized use of our products or intellectual property is difficult and litigation may be necessary in the future to enforce our intellectual property rights. Intellectual property litigation is not only expensive, but time-consuming, regardless of the merits of any claim, and could divert attention of our management from operating the business. Despite our efforts, we may not be able to detect infringement and may lose competitive position in the market before they do so. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture market share.

Despite our efforts to protect our proprietary rights, existing laws, contractual provisions and remedies afford only limited protection. Intellectual property lawsuits are subject to inherent uncertainties due to, among other things, the complexity of the technical issues involved, and we cannot assure you that we will be successful in asserting intellectual property claims. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we cannot assure you that we will be able to protect our proprietary rights against unauthorized third party copying or use. The unauthorized use of our technology or of our proprietary information by competitors could have an adverse effect on our ability to sell our products.

We have an international presence in countries whose laws may not provide protection of our intellectual property rights to the same extent as the laws of the United States, which may make it more difficult for us to protect our intellectual property.

As part of our business strategy, we target customers and relationships with suppliers and original distribution manufacturers in countries with large populations and propensities for adopting new technologies. However, many of these countries do not address misappropriation of intellectual property or deter others from developing similar, competing technologies or intellectual property. Effective protection of patents, copyrights, trademarks, trade secrets and other intellectual property may be unavailable or limited in some foreign countries. In particular, the laws of some foreign countries in which we do business may not protect our intellectual property rights to the same extent as the laws of the United States. As a result, we may not be able to effectively prevent competitors in these regions from infringing our intellectual property rights, which would reduce our competitive advantage and ability to compete in those regions and negatively impact our business.

If we do not correctly forecast demand for our products, we could have costly excess production or inventories or we may not be able to secure sufficient or cost effective quantities of our products or production materials, and our revenues, cost of revenues and financial condition could be adversely impacted.

The demand for our products depends on many factors, including pricing and channel inventory levels, and is difficult to forecast due in part to variations in economic conditions, changes in consumer and enterprise preferences, relatively short product life cycles, changes in competition, seasonality and reliance on key sales channel partners. It is particularly difficult to forecast demand by individual variations of the product, such as the color of the casing or size of memory. Significant unanticipated fluctuations in demand, the timing and disclosure of new product releases or the timing of key sales orders could result in costly excess production or inventories or the inability to secure sufficient, cost-effective quantities of our products or production materials. This could adversely impact our revenues, cost of revenues and financial condition.

We rely on third parties to sell and distribute our products and we rely on their information to manage our business. Disruption of our relationship with these channel partners, changes in their business practices, their failure to provide timely and accurate information or conflicts among its channels of distribution could adversely affect our business, results of operations and financial condition.

The distributors, wireless carriers, retailers and resellers who sell or distribute our products also sell products offered by our competitors. If our competitors offer our sales channel partners more favorable terms or have more products available to meet their needs or utilize the leverage of broader product lines sold through the channel, those wireless carriers, distributors, retailers and resellers may de-emphasize or decline to carry our products. In addition, certain of our sales channel partners could decide to de-emphasize the product categories that we offer in exchange for other product categories that they believe provide higher returns. If we are unable to maintain successful relationships with these sales channel partners or to expand our distribution channels, our business will suffer.

Because we intend to sell our products primarily to distributors, wireless carriers, retailers and resellers, we are subject to many risks, including risks related to product returns, either through the exercise of contractual return rights or as a result of its strategic interest in assisting them in balancing inventories. In addition, these sales channel partners could modify their business practices, such as inventory levels, or seek to modify their contractual terms, such as return rights or payment terms. Unexpected changes in product return requests, inventory levels, payment terms or other practices by these sales channel partners could negatively impact our business, results of operations and financial condition.

We will rely on distributors, wireless carriers, retailers and resellers to provide us with timely and accurate information about their inventory levels as well as sell-through of products purchased from us. We will use this information as one of the factors in our forecasting process to plan future production and sales levels, which in turn will influence our public financial forecasts. We will also use this information as a factor in determining the levels of some of our financial reserves. If we do not receive this information on a timely and accurate basis, our results of operations and financial condition may be adversely impacted.

Distributors, retailers and traditional resellers experience competition from Internet-based resellers that distribute directly to end-customers, and there is also competition among Internet-based resellers. We also sell our products directly to end-customers from our Neonode.com web site. These varied sales channels could cause conflict among our channels of distribution, which could harm our business, revenues and results of operations.

If our multimedia phone products do not meet wireless carrier and governmental or regulatory certification requirements, we will not be able to compete effectively and our ability to generate revenues will suffer.

We are required to certify our multimedia phone products with governmental and regulatory agencies and with the wireless carriers for use on their networks. The certification process can be time consuming, could delay the offering of our products on carrier networks and affect our ability to timely deliver products to customers. As a result, carriers may choose to offer, or consumers may choose to buy, similar products from our competitors and thereby reduce their purchases of our products, which would have a negative impact on our products sales volumes, our revenues and our cost of revenues.

We depend on our suppliers, some of which are the sole source and some of which are our competitors, for certain components, software applications and elements of our technology, and our production or reputation could be harmed if these suppliers were unable or unwilling to meet our demand or technical requirements on a timely and/or a cost-effective basis.

Our multimedia products contain software applications and components, including liquid crystal displays, touch panels, memory chips, microprocessors, cameras, radios and batteries, which are procured from a variety of suppliers, including some who are our competitors. The cost, quality and availability of software applications and components are essential to the successful production and sale of our device products. For example, media player applications are critical to the functionality of our multimedia phone devices.

Some components, such as screens and related integrated circuits, digital signal processors, microprocessors, radio frequency components and other discrete components, come from sole source suppliers. Alternative sources are not always available or may be prohibitively expensive. In addition, even when we have multiple qualified suppliers, we may compete with other purchasers for allocation of scarce components. Some components come from companies with whom we competes in the multimedia phone device market. If suppliers are unable or unwilling to meet our demand for components and if we are unable to obtain alternative sources or if the price for alternative sources is prohibitive, our ability to maintain timely and cost-effective production of our multimedia phone will be harmed. Shortages affect the timing and volume of production for some of our products as well as increasing our costs due to premium prices paid for those components. Some of our suppliers may be capacity-constrained due to high industry demand for some components and relatively long lead times to expand capacity.

If we are unable to obtain key technologies from third parties on a timely basis and free from errors or defects, we may have to delay or cancel the release of certain products or features in our products or incur increased costs.

We license third-party software for use in our products, including the operating systems. Our ability to release and sell our products, as well as our reputation, could be harmed if the third-party technologies are not delivered to customers in a timely manner, on acceptable business terms or contain errors or defects that are not discovered and fixed prior to release of our products and we are unable to obtain alternative technologies on a timely and cost effective basis to use in our products. As a result, our product shipments could be delayed, our offering of features could be reduced or we may need to divert our development resources from other business objectives, any of which could adversely affect our reputation, business and results of operations.

Our product strategy is to base our products on software operating systems that are commercially available to competitors.

Our multimedia phone is based on a commercially available version of Microsoft's Windows CE. We cannot assure you that we will be able to maintain this licensing agreement with Microsoft and that Microsoft will not grant similar rights to our competitors or that we will be able to sufficiently differentiate our multimedia phone from the multitude of other devices based on Windows CE.

In addition, there is significant competition in the operating system software and services market, including proprietary operating systems such as Symbian and Palm OS, open source operating systems, such as Linux, other proprietary operating systems and other software technologies, such as Java and RIM's licensed technology. This competition is being developed and promoted by competitors and potential competitors, some of which have significantly greater financial, technical and marketing resources than we have, such as Access, Motorola, Nokia, Sony-Ericsson and RIM. These competitors could provide additional or better functionality than we do or may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. Competitors in this market could devote greater resources to the development, promotion and sale of their products and services and the third-party developer community, which could attract the attention of influential user segments.

If we are unable to continue to differentiate the operating systems that we include in our mobile computing devices, our revenues and results of operations could be adversely affected.

The market for multimedia phone products is volatile, and changing market conditions, or failure to adjust to changing market conditions, may adversely affect our revenues, results of operations and financial condition, particularly given our size, limited resources and lack of diversification.

We operate in the multimedia phone market which has seen significant growth during the past years. We cannot assure you that this significant growth in the sales of multimedia devices will continue. If we are unable to adequately respond to changes in demand for our products, our revenues and results of operations could be adversely affected. In addition, as our products mature and face greater competition, we may experience pressure on our product pricing to preserve demand for our products, which would adversely affect our margins, results of operations and financial condition.

This reliance on the success of and trends in our industry is compounded by the size of our organization and our focus on multimedia phones. These factors also make us more dependent on investments of our limited resources. For example, Neonode faces many resource allocation decisions, such as: where to focus our research and development, geographic sales and marketing and partnering efforts; which aspects of our business to outsource; and which operating systems and email solutions to support. Given the size and undiversified nature of our organization, any error in investment strategy could harm our business, results of operations and financial condition.

Our products are subject to increasingly stringent laws, standards and other regulatory requirements, and the costs of compliance or failure to comply may adversely impact our business, results of operations and financial condition.

Our products must comply with a variety of laws, standards and other requirements governing, among other things, safety, materials usage, packaging and environmental impacts and must obtain regulatory approvals and satisfy other regulatory concerns in the various jurisdictions where our products are sold. Many of our products must meet standards governing, among other things, interference with other electronic equipment and human exposure to electromagnetic radiation. Failure to comply with such requirements can subject us to liability, additional costs and reputational harm and in severe cases prevent us from selling our products in certain jurisdictions.

For example, many of our products are subject to laws and regulations that restrict the use of lead and other substances and require producers of electrical and electronic equipment to assume responsibility for collecting, treating, recycling and disposing of our products when they have reached the end of their useful life. In Europe, substance restrictions began to apply to the products sold after July 1, 2006, when new recycling, labeling, financing and related requirements came into effect. Failure to comply with applicable environmental requirements can result in fines, civil or criminal sanctions and third-party claims. If products we sell in Europe are found to contain more than the permitted percentage of lead or another listed substance, it is possible that we could be forced to recall the products, which could lead to substantial replacement costs, contract damage claims from customers, and reputational harm. We expect similar requirements in the United States, China and other parts of the world.

As a result of these new European requirements and anticipated developments elsewhere, we are facing increasingly complex procurement and design challenges, which, among other things, require us to incur additional costs identifying suppliers and contract manufacturers who can provide, and otherwise obtain, compliant materials, parts and end products and re-designing products so that they comply with these and the many other requirements applicable to them.

Allegations of health risks associated with electromagnetic fields and wireless communications devices, and the lawsuits and publicity relating to them, regardless of merit, could adversely impact our business, results of operations and financial condition.

There has been public speculation about possible health risks to individuals from exposure to electromagnetic fields, or radio signals, from base stations and from the use of mobile devices. While a substantial amount of scientific research by various independent research bodies has indicated that these radio signals, at levels within the limits prescribed by public health authority standards and recommendations, present no evidence of adverse effect to human health, we cannot assure you that future studies, regardless of their scientific basis, will not suggest a link between electromagnetic fields and adverse health effects. Government agencies, international health organizations and other scientific bodies are currently conducting research into these issues. In addition, other mobile device companies have been named in individual plaintiff and class action lawsuits alleging that radio emissions from mobile phones have caused or contributed to brain tumors and the use of mobile phones pose a health risk. Although our products are certified as meeting applicable public health authority safety standards and recommendations, even a perceived risk of adverse health effects from wireless communications devices could adversely impact use of wireless communications devices or subject them to costly litigation and could harm our reputation, business, results of operations and financial condition.

Changes in financial accounting standards or practices may cause unexpected fluctuations in and adversely affect our reported results of operations.

Any change in financial accounting standards or practices that cause a change in the methodology or procedures by which we track, calculate, record and report our results of operations or financial condition or both could cause fluctuations in and adversely affect our reported results of operations and cause our historical financial information to not be reliable as an indicator of future results.

Wars, terrorist attacks or other threats beyond its control could negatively impact consumer confidence, which could harm our operating results.

Wars, terrorist attacks or other threats beyond our control could have an adverse impact on the United States, Europe and world economy in general, and consumer confidence and spending in particular, which could harm our business, results of operations and financial condition.

Risks Related to Owning Our Stock

If we continue to experience losses, we could experience difficulty meeting our business plan and our stock price could be negatively affected.

If we are unable to gain market acceptance of our mobile phone handsets, we will experience continuing operating losses and negative cash flow from our operations. Any failure to achieve or maintain profitability could negatively impact the market price of our common stock. We anticipate that we will continue to incur product development, sales and marketing and administrative expenses. As a result, we will need to generate significant quarterly revenues if we are to achieve and maintain profitability. A substantial failure to achieve profitability could make it difficult or impossible for us to grow our business. Our business strategy may not be successful, and we may not generate significant revenues or achieve profitability. Any failure to significantly increase revenues would also harm our ability to achieve and maintain profitability. If we do achieve profitability in the future, we may not be able to sustain or increase profitability on a quarterly or annual basis.

Our common stock is at risk for delisting from the Nasdaq Capital Market if we fail to maintain minimum listing maintenance standards. If it is delisted, our stock price and your liquidity may be impacted.

Our common stock is listed on the Nasdaq Capital Market under the symbol NEON. In order for our common stock to continue to be listed on the Nasdaq Capital Market, we must satisfy various listing maintenance standards established by Nasdaq. Among other things, as such requirements pertain to us, we are required to have stockholders' equity of at least $2.5 million or market capitalization of $35 million and public float value of at least $1.0 million and our common stock must have a minimum closing bid price of $1.00 per share .

Our certificate of incorporation and bylaws and the Delaware General Corporation Law contain provisions that could delay or prevent a change in control.

Our board of directors has the authority to issue up to 2,000,000 shares of preferred stock and to determine the price, rights, preferences and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock will be subject to, and may be materially adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. Furthermore, certain other provisions of our certificate of incorporation and bylaws may have the effect of delaying or preventing changes in control or management, which could adversely affect the market price of our common stock. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law.

Our stock price has been volatile, and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. You may not be able to resell your shares at or above the price you pay for those shares due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects and other factors.

Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results or future prospects;
- our announcements or our competitors' announcements of new products;

- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in our growth rates or our competitors' growth rates;
- developments regarding our patents or proprietary rights or those of our competitors;
- our inability to raise additional capital as needed;
- concern as to the efficacy of our products;
- changes in financial markets or general economic conditions;
- sales of common stock by us or members of our management team; and
- changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or our industry generally.

Future sales of our common stock could adversely affect its price and our future capital-raising activities could involve the issuance of equity securities, which would dilute your investment and could result in a decline in the trading price of our common stock.

We may sell securities in the public or private equity markets if and when conditions are favorable, even if we do not have an immediate need for additional capital at that time. Sales of substantial amounts of common stock, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock and our ability to raise capital. We may issue additional common stock in future financing transactions or as incentive compensation for our executive management and other key personnel, consultants and advisors. Issuing any equity securities would be dilutive to the equity interests represented by our then-outstanding shares of common stock. The market price for our common stock could decrease as the market takes into account the dilutive effect of any of these issuances. Furthermore, we may enter into financing transactions at prices that represent a substantial discount to the market price of our common stock. A negative reaction by investors and securities analysts to any discounted sale of our equity securities could result in a decline in the trading price of our common stock.

If registration rights that we have previously granted are exercised, then the price of our common stock may be adversely affected.

We have agreed to register with the SEC the shares of common issued to former Neonode stockholders in connection with the merger and to participants in a private placement funding we completed on March 4, 2008. In addition, we have granted piggyback registration rights to the investors who participated in our March private placement. In the event these securities are registered with the SEC, they may be freely sold in the open market, subject to trading restrictions to which our insiders holding the shares may be subject from time to time. In the event that we fail to register such shares in a timely basis, we may have liabilities to such stockholders. We expect that we also will be required to register any securities sold in future private financings. The sale of a significant amount of shares in the open market, or the perception that these sales may occur, could cause the trading price of our common stock to decline or become highly volatile.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

On October 22, 2007, our subsidiary Neonode AB entered into a lease agreement with NCC Property G AB for 9,500 square feet office space at Warfvingsesvag 41, Stockholm, to be used as the corporate headquarters. The lease period began on April 1, 2008 and expires on March 31, 2013. The annual payment for these premise equates to approximately $288,000 per year and is indexed to the consumer price index in Sweden. As an incentive to enter into the agreement as one of the firs tenants to occupy the building, the NCC Property G AB has given Neonode AB discounts amounting to approximately $120,000 allocated over the first eight months of the leasing period. Prior to taking occupancy of this new facility, during fiscal year 2007 through March 31, 2008, we occupied 6,000 square feet of office space in Stockholm under a lease which has now expired.

On October 21, 2007, Neonode AB also entered into a lease agreement with NCC Property G AB for 10 parking spaces located at Warfvingsesvag 41, Stockholm. The lease period begins on April 1, 2008 and expires on March 31, 2013. The annual payment for these premise amounts to $28,000 per year and is indexed to the consumer price index in Sweden. Neonode AB has the right to terminate the lease on March 31, 2011 if notice of termination is given by Neonode AB at least 9 months prior to March 31, 2011.

In addition, we lease 2,000 square feet of office space in San Ramon, California on a month-to-month basis at cost of $5,000 per month. We have occupied this space since March 2007 under a lease with One Stop Systems, Inc. In connection with the sale of the SBE, Inc hardware business, on March 29, 2007, SBE signed a definitive agreement providing for the assumption of the lease of the prior SBE San Ramon headquarters office space for 22,000 square feet that was effective with the closing of the sale of the hardware business transaction. As the result of the merger with SBE, we will continue to be secondary guarantor on the lease for the term of the San Ramon lease which terminates in March 2010.

ITEM 3. LEGAL PROCEEDINGS

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. As of December 31, 2007, we had no known material current, pending, or threatened litigation.

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

A special meeting of stockholders was held on Tuesday, December 18, 2007, at the offices of DavenportMajor Executive Search, located at 12770 High Bluff Drive, Suite 320, San Diego, California 92130.

The stockholders approved the following six items:

(i) The election of Mikael Hagman to the Board of Directors

For	Withhold
13,495,640	6,550

(ii) The election of John Reardon to the Board of Directors

For	Withhold
13,496,144	6,370

(iii) The approval of an amendment to the Neonode's Certificate of Incorporation to effect an increase in the number of authorized shares of common stock from 40,000,000 to 75,000,000.

For	Against	Abstain
13,453,474	48,378	662

(iv) The ratification of the terms of the financing transaction in September 2007 pursuant to which Neonode issued units consisting of common stock, convertible notes and warrants.

For	Against	Abstain
13,493,084	8,762	668

(v) The approval of the convertibility into units of the September 2007 offering of outstanding 8% Senior Secured Notes.

For	Against	Abstain
13,492,567	8,598	1,389

(vi) The ratification of the selection of BDO Feinstein International AB as the company's independent auditors for 2007.

For	Against	Abstain
13,495,923	5,929	662

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers and their respective ages and positions as of December 31, 2007 are set forth in the following table. There are no familial relationships between our directors or our executive officers and any other director or executive officer.

Name	Age	Position
Mikael Hagman	40	President and Chief Executive Officer
David W. Brunton	57	Vice President, Finance, Chief Financial Officer, Treasurer and Secretary
Thomas Ericsson	37	Chief Technical Officer

Mikael Hagman - Mr. Hagman joined Neonode as Chief Executive Officer in March 2007 from Sony where he served as Chief Executive Officer for Sony Corp. in Sweden and Finland. During his eight years with Sony, Mr. Hagman held a number of positions and served on the board of Sony Nordic AS. While at Sony Mr. Hagman was nominated for several Pan European committees and participated in forums that developed Sony's commercial strategies. Prior to Sony Mr. Hagman worked for United Biscuits Ltd in various leading sales and marketing roles across Nordic. He currently serves on the board of directors of AIK Fotboll AB, a publicly traded company listed on NGM (Nordic Growth Markets). AIK Fotboll AB is one of Sweden's leading soccer clubs. He has served on the board of various industry associations (Consumer Electronics Association, Elektronik branchen, SRL).

David W Brunton - Mr. Brunton joined SBE in November 2001 as Vice President, Finance, Chief Financial Officer, Secretary and Treasurer. From 2000 to 2001 he was the Chief Financial Officer for NetStream, Inc., a telephony broadband network service provider. Mr. Brunton is a certified public accountant.

Thomas Eriksson - Mr. Eriksson co-founded Neonode in 2001 as Vice President and Chief Technology Officer. Prior to founding Neonode AB, he founded several companies with products ranging from car electronics test systems and tools to GSM/GPRS/GPS based fleet management systems including M2M applications and wireless modems. Mr. Eriksson has over 15 years of experience in product design and electronics engineering.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY RELATED, STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the Nasdaq Capital Market under the symbol NEON. The following table presents quarterly information on the price range of our common stock, indicating the high and low bid prices reported by the Nasdaq Capital Market. These prices do not include retail markups, markdowns or commissions. As of December 31, 2007, there were approximately 1,611 holders of record of our common stock.

	Fiscal Quarter Ended			
Fiscal 2007	March 31 (1)	June 30 (1)	September 30 (1)	December 31
High	$3.95	$4.00	$7.94	$4.82
Low	1.70	1.62	2.85	2.89
Fiscal 2006 (1)				
High	$8.65	$5.75	$2.45	$2.20
Low	0.99	2.45	1.60	1.65

(1) Prior to our reverse merger with SBE, Inc. on August 10, 2007, our common stock traded under the symbol SBEI. The stock prices presented for SBEI for the period prior to August 10, 2007 are adjusted for a 1 for 5 reverse stock split effective March 29, 2007.

There are no restrictions on our ability to pay dividends; however, it is currently the intention of our Board of Directors to retain all earnings, if any, for use in our business and we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of dividends will depend, among other factors, upon our earnings, capital requirements, operating results and financial condition.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are cautioned that the forward-looking statements reflect our analysis only as of the date hereof, and we do not assume any obligation to update these statements. Actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. The following discussion should be read in conjunction with the company's financial statements for the years ended December 31, 2007 and 2006 and the related notes included therein.

Overview

We believe our current product, the Neonode N2, is the world's smallest touchscreen mobile phone handset. The N2 fits in the palm of your hand and is designed to allow the user to navigate the menus and functions with simple finger based taps and sweeps. The N2 incorporates our patent pending touchscreen and other proprietary technologies to deliver a mobile phone with a completely unique user experience that doesn't require any keypads, buttons or other moving parts.

The first model of our touchscreen multimedia mobile phone, the N1, was released in November 2004. The N1 was primarily a concept phone that was sold in limited quantities from late 2004 to early 2006. The N2 is our first production-quality product. We began shipping the N2 to customers in mid-July 2007 and have shipped approximately 31,000 units from July 2007 through December 31, 2007.

Our business focus is a combination of licensing our touchscreen technology to other companies and developing and selling our own products using our technology in mobile device markets. The cornerstone of our business is our innovative patent pending touchscreen solutions. We believe that in the future keyboards and keypads with moving parts will become obsolete and that our touchscreen solutions and technologies will be at the forefront of a new wave of input technologies that will be able to run everything from small mobile devices to large industrial applications.

Neonode was incorporated in the State of Delaware in 2006 to be the parent of Neonode AB, a company founded in February 2004 and incorporated in Sweden. In a February 2006 corporate reorganization, Neonode issued shares and warrants to the stockholders of Neonode AB in exchange for all of the outstanding stock and warrants of Neonode AB. Following the reorganization, Neonode AB became a wholly-owned subsidiary of Neonode. Since there was no change in control of the group, the reorganization was accounted for with no change in accounting basis for Neonode AB and the assets and liabilities were accounted for at historical cost in the new group. The consolidated accounts comprise the accounts of the combined companies as if they had been owned by Neonode throughout the entire reporting period.

We have incurred net operating losses and negative operating cash flows since inception. As of December 31, 2007, we had an accumulated deficit of $58.7 million. We expect to incur additional losses and may have negative operating cash flows through the end of 2008. The report of our independent registered public accounting firm in respect of the 2007 fiscal year, included elsewhere in this annual report includes an explanatory going concern paragraph which raises substantial doubt to continue as a going concern, which indicates an absence of obvious or reasonably assured sources of future funding that will be required by us to maintain ongoing operations. Although we have been able to fund our operations to date, there is no assurance that our capital raising efforts will be able to attract the additional capital or other funds needed to sustain our operations.

Our long-term success is dependent on obtaining sufficient capital or operating cash flows to fund our operations and development of our products, bringing such products to the worldwide market. To achieve these objectives, we may be required to raise additional capital through public or private financings or other arrangements. It cannot be assured that such financings will be available on terms attractive to us, if at all. Such financings may be dilutive to stockholders and may contain restrictive covenants.

We are subject to certain risks common to technology-based companies in similar stages of development. See "Risk Factors" above. Principal risks include uncertainty of growth in market acceptance for our products, history of losses since inception, ability to remain competitive in response to new technologies, costs to defend, as well as risks of losing patent and intellectual property rights, reliance on limited number of suppliers, reliance on outsourced manufacture of our products for quality control and product availability, ability to increase production capacity to meet demand for our products, concentration of our operations in a limited number of facilities, uncertainty of demand for our products in certain markets, ability to manage growth effectively, dependence on key members of our management and development team, limited experience in conducting operations internationally, and ability to obtain adequate capital to fund future operations.

Background

The merger (Merger) of Old Neonode with our wholly-owned acquisition subsidiary closed on August 10, 2007. For accounting purposes, the Merger was accounted for as a reverse merger with Old Neonode as the accounting acquirer. Thus, the historical financial statements of Old Neonode have become our historical financial statements and the results of operations of our company (formally known as SBE, Inc.) are included in the results of operations presented elsewhere and discussed herein only from August 10, 2007. Thus the audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and discussion of our financial condition and results of operations for the year ended December 31, 2006 below reflect Old Neonode's stand-alone consolidated operations. The audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and the discussion of our financial condition and results of operations for the year ended December 31, 2007 appearing below include the results of operations of formerly SBE, Inc only from August 10, 2007. Our consolidated financial statements include Old Neonode's accounts, those of its wholly-owned subsidiary, Neonode AB, and, from August 10, 2007, SBE, Inc's accounts and the accounts of SBE, Inc's wholly-owned subsidiary Cold Winter, Inc.

Critical Accounting Policies and Estimates

The preparation of our financial statements are in conformity with generally accepted accounting principles in the United States of America (GAAP) and include the accounts of Neonode Inc. and its subsidiary based in Sweden, Neonode AB. All inter-company accounts and transactions have been eliminated in consolidation. Our accounting policies affecting our financial condition and results of operations are more fully described in Note 2 to our consolidated financial statements. Certain of our accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenue and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following are some of the more critical accounting policies and related judgments and estimates used in the preparation of consolidated financial statements.

Revenue Recognition

Our policy is to recognize revenue for product sales when title transfers and risk of loss has passed to the customer, which is generally upon shipment of products to our customers. We estimate expected sales returns and record the amount as a reduction of revenues and cost of sales at the time of shipment. Our policy complies with the guidance provided by the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements,* issued by the Securities and Exchange Commission. We recognize revenue from the sale of our mobile phones when all of the following conditions have been met: (1) evidence exists of an arrangement with the customer, typically consisting of a purchase order or contract; (2) our products have been delivered and risk of loss has passed to the customer; (3) we have completed all of the necessary terms of the contract; (4) the amount of revenue to which we are entitled is fixed or determinable; and (5) we believe it is probable that we will be able to collect the amount due from the customer. To the extent that one or more of these conditions has not been satisfied, we defer recognition of revenue. Judgments are required in evaluating the credit worthiness of our customers. Credit is not extended to customers and revenue is not recognized until we have determined that collectibility is reasonably assured.

To date, our revenues have consisted primarily to distributors located in various 13 regions. We may allow, from time to time, certain distributors price protection subsequent to the initial product shipment. P rice protection may allow the distributor a credit (either in cash or as a discount on future purchases) if there is a price decrease during a specified period of time or until the distributor resells the goods. Future price adjustments are difficult to estimate since we do not have sufficient history of making price adjustments. We, therefore, defer recognition of revenue (in the balance sheet line item "deferred revenue") derived from sales to these customers until they have resold our products to their customers. Although revenue recognition and related cost of sales are deferred, we record an accounts receivable at the time of initial product shipment. As standard terms are generally FOB shipping point, payment terms are enforced from shipment date and legal title and risk of inventory loss passes to the distributor upon shipment.

For products sold to distributors with agreements allowing for price protection and product returns, we recognize revenue based on our best estimate of when the distributor sold the product to its end customer. Our estimate of such distributor sell-through is based on information received from our distributors. Revenue is not recognized upon shipment since, due to various forms of price concessions, the sales price is not substantially fixed or determinable at that time.

Revenue from products sold directly to end-users though our web sales channels is generally recognized when title and risk of loss has passed to the buyer, which typically occurs upon shipment. Reserves for sales returns are estimated based primarily on historical experience and are provided at the time of shipment.

We derive revenue from license of our internally developed intellectual property (IP). We enter into IP licensing agreements that generally provide licensees the right to incorporate our IP components in their products with terms and conditions that vary by licensee. The IP licensing agreements will generally include a nonexclusive license for the underlying IP. Fees under these agreements may include license fees relating to our IP and royalties payable following the sale by our licensees of products incorporating the licensed technology. The license for our IP has standalone value and can be used by the licensee without maintenance and support.

Revenue for the twelve months ended December 31, 2007 and 2006 includes revenue from the sales of our first mobile phone, the N1 and current product, the N2 multimedia mobile phones and revenue from a licensing agreement with a major Asian manufacturer. In July 2005, we entered into a licensing agreement with a major Asian manufacturer whereby we licensed our touchscreen technology for use in a mobile phone to be included in their product assortment. In this agreement, we received approximately $2.0 million in return for granting an exclusive right to use our touchscreen technology over a two year period. The exclusive rights do not limit our right to use our licensed technology for our own use, nor to grant to third parties rights to use our licensed technology in devices other than mobile phones. Another component of the agreement provides for a fee of approximately $2.65 per telephone if the Asian manufacturer sells mobile phones based on our technology. In July 2007, we extended this license agreement on a non-exclusive basis for an additional term of one year. As of March 31, 2008, the Asian manufacturer had not sold any mobile telephones using our technology.

The net revenue related to this agreement has been allocated over the term of the agreement, amounting to $463,000 in 2007 and $851,000 in 2006, respectively. The contract also includes consulting services to be provided by Neonode on an "as needed basis." The fees for these consultancy services vary from hourly rates to monthly rates and are based on reasonable market rates for such services. To date, we have not provided any consulting service related to this agreement. Generally, our customers are responsible for the payment of all shipping and handling charges directly with the freight carriers.

Allowance for Doubtful Accounts

Our policy is to maintain allowances for estimated losses resulting from the inability of our customers to make required payments. Credit limits are established through a process of reviewing the financial history and stability of each customer. Where appropriate, we obtain credit rating reports and financial statements of the customer when determining or modifying their credit limits. We regularly evaluate the collectibility of our trade receivable balances based on a combination of factors. When a customer's account balance becomes past due, we initiates dialogue with the customer to determine the cause. If it is determined that the customer will be unable to meet its financial obligation, such as in the case of a bankruptcy filing, deterioration in the customer's operating results or financial position or other material events impacting their business, we record a specific allowance to reduce the related receivable to the amount we expect to recover. Should all efforts fail to recover the related receivable, we will write-off the account. We also record an allowance for all customers based on certain other factors including the length of time the receivables are past due and historical collection experience with customers.

Warranty Reserves

Our products are generally warranted against defects for 12 months following the sale. We have a 12 month warranty from the manufacturer of the mobile phones. Reserves for potential warranty claims not covered by the manufacturer are provided at the time of revenue recognition and are based on several factors, including current sales levels and our estimate of repair costs. Shipping and handling charges are expensed as incurred.

Research and Development

Research and Development (R&D)costs are expensed as incurred. R&D costs are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 2, *Accounting for Research and Development Costs* Research and development costs consists mainly of personnel related costs in addition to some external consultancy costs such as testing, certifying and measurements.

Long-lived Assets

We assess any impairment by estimating the future cash flow from the associated asset in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* . If the estimated undiscounted cash flow related to these assets decreases in the future or the useful life is shorter than originally estimated, we may incur charges for impairment of these assets. The impairment is based on the estimated discounted cash flow associated with the asset.

Stock Based Compensation Expense

We account for stock-based employee compensation arrangements in accordance with SFAS 123 (revised 2004), *Share-Based Payment (SFAS 123R)* . We account for equity instruments issued to non-employees in accordance with SFAS 123R and Emerging Issues Task Force (EITF) 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* , which require that such equity instruments be recorded at their fair value and the unvested portion is re-measured each reporting period. When determining stock based compensation expense involving options and warrants, we determine the estimated fair value of options and warrants using the Black-Scholes option pricing model.

Accounting for Debt Issued with Stock Purchase Warrants

We account for debt issued with stock purchase warrants in accordance with Accounting Principles Board (APB) opinion 14, *Accounting for Convertible Debts and Debts issued with stock purchase warrants,* if they meet equity classification . We allocate the proceeds of the debt between the debt and the detachable warrants based on the relative fair values of the debt security without the warrants and the warrants themselves.

Derivatives

We do not enter into derivative contracts for purposes of risk management or speculation. However, from time to time, we enter into contracts that are not considered derivative financial instruments in their entirety but that include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments pursuant to SFAS 133 , *Accounting for Derivative Instruments and Hedging Activities,* as amended (together, SFAS 133. We account for these derivatives under SFAS 133.

SFAS 133 requires that we analyze all material contracts and determine whether or not they contain embedded derivatives. Any such derivatives are then bifurcated from their host contract and recorded on the consolidated balance sheet at fair value and the changes in the fair value of these derivatives are recorded each period in the consolidated statements of operations.

Income taxes

We account for income taxes in accordance with SFAS 109, *Accounting for Income Taxes* . SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of items that have been included in the financial statements or tax returns. We estimate income taxes based on rates in effect in each of the jurisdictions in which we operate. Deferred income tax assets and liabilities are determined based upon differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The realization of deferred tax assets is based on historical tax positions and expectations about future taxable income. Valuation allowances are recorded against net deferred tax assets where, in our opinion, realization is uncertain based on the “not more likely than not” criteria of SFAS 109.

Based on the uncertainty of future pre-tax income, we fully reserved our net deferred tax assets as of December 31, 2007 and 2006. In the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such a determination was made. The provision for income taxes represents the net change in deferred tax amounts, plus income taxes payable for the current period.

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* , which provisions included a two-step approach to recognizing, de-recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. As a result of the implementation of FIN 48, we recognized no increase in the liability for unrecognized tax benefits and a decrease in the related reserve of the same amount. Therefore upon implementation of FIN 48,

we recognized no material adjustment to the January 1, 2007 balance of retained earnings. As of December 30, 2007, unrecognized tax benefits approximated $0.

New Accounting Pronouncements

The following are expected effects of recent accounting pronouncements. We are required to analyze these pronouncements and determined the effect, if any, the adoption of these pronouncements would have on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity's fiscal year that begins after 15 December 2008, and will be adopted by us in the first quarter of 2009. We do not believe that the adoption of SFAS 141R will have material impact on our consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. The standard provides guidance for using fair value to measure assets and liabilities. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. The statement is effective for us beginning in fiscal year 2009. In February 2008, the FASB issued FASB Staff Position (FSP) SFAS 157-2, Effective Date of FASB Statement No. 157 (FSP SFAS 157-2) that deferred the effective date of SFAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities. We have not determined the effect, if any, the adoption of this statement will have on our results of operations or financial position.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned subsidiaries. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. The Company is currently evaluating the potential impact of this statement.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* , as amended and interpreted, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format provides a more complete picture of the location in an entity's financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted. We do not expect SFAS 161 to have a material impact on our financial position, and we will make all necessary disclosures upon adoption, if applicable.

Results of Operations

On August 10, 2007, SBE announced the completion of the previously announced merger of its wholly-owned subsidiary, Cold Winter Acquisition Corporation, with and into Neonode Inc., pursuant to which Neonode changed its name to "Cold Winter, Inc." and became a wholly-owned subsidiary of the Company. Following the closing of the merger transaction, the Company was renamed "Neonode Inc." The newly-combined Company's headquarters is located in Stockholm, Sweden. SBE issued approximately 20.4 million shares of its common stock in exchange for 5.8 million outstanding shares of Neonode Inc. common stock and the assumption of outstanding options and warrants to purchase an additional 7.9 million shares of Neonode Inc. common stock. The Company's common stock started trading on the Nasdaq Capital Market on August 13, 2007 under the new ticker symbol "NEON."

For accounting purposes, the Merger was accounted for as a reverse merger with Old Neonode as the accounting acquirer. This transaction was treated as a recapitalization. Thus, the historical financial statements of Old Neonode have become our historical financial statements and the results of operations of our company (formally known as SBE, Inc.) are included in the results of operations presented elsewhere and discussed herein only from August 10, 2007. Thus the audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and discussion of our financial condition and results of operations for the year ended December 31, 2006 below reflect Old Neonode's stand-alone consolidated operations. The audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and the discussion of our financial condition and results of operations for the year ended December 31, 2007 appearing below include the results of operations of formerly SBE, Inc. only from August 10, 2007. Our consolidated financial statements include Old Neonode's accounts, those of its wholly-owned subsidiary, Neonode AB, and, from August 10, 2007, SBE, Inc.'s accounts and the accounts of SBE, Inc.'s wholly-owned subsidiary Cold Winter, Inc.

The following table sets forth, as a percentage of net sales, certain statements of operations data for the twelve months ended December 31, 2007 and 2006. These operating results are not necessarily indicative of our operating results for any future period.

	2007	2006
Net sales	100%	100%
Cost of sales	74%	79%
Gross profit	**26%**	**21%**
Operating expenses:		
Research and development	142%	135%
Sales and marketing	100%	45%
General and administrative	162%	112%
Total operating expenses	404%	292%
Operating loss	**(379%)**	**(272%)**
Other income (expense):		
Interest income and other, net	(9%)	(14%)
Interest expense	(9%)	(14%)
Charges related to debt extinguishments and debt discounts	(125%)	(12%)
Non-cash charges for conversion features & warrants	(1,024%)	1%
Total other expense	(1,167%)	(39%)
Net loss	**(1,547%)**	**(311%)**
Non-cash inducement charge related to corporate reorganization February 28, 2006	-	6%
Net loss attributable to common shareholders	**(1,547%)**	**(318%)**

Net Sales

Net sales for the year ended December 31, 2007 were $3.1 million, an approximately 94% increase from $1.6 million for the year ended December 31, 2006. Revenue for the year ended December 31, 2007 and 2006 includes $2.7 million and $793,000 revenue from the sales of our multimedia mobile phones, respectively. In addition, license revenue in 2007 and 2006 amounted to $463,000 and $851,000. License revenue was received from a July 2005 licensing agreement with a major Asian manufacturer whereby we licensed our touchscreen technology for use in a mobile phone to be included in their product assortment. In this agreement, we received an initial payment of approximately $2.0 million plus will receive $2.65 for each device manufactured using our technology in return for granting an exclusive right to use our touchscreen technology for a mobile phone handset for a period that expired in July 2007. We extended the contract for an additional one year period until July 2008 without the exclusive rights. The increase in Net Sales is attributable to the launch of the N2 model of our multimedia mobile phone in mid-February 2007. The N2 phone represents our first general release mobile phone handset and we began shipping to our first European customers in July of 2007.

We sell our products through a direct sales force that supports our distributors. In 2007, we concentrated our sales efforts on the European and Indian markets. In 2008, we plan an expansion into the North American, South American and Chinese markets through Neonode USA, a joint venture between Neonode Inc and Distribution Management Consolidators Worldwide, LLC (DMC).

We depend on a limited number of customers for substantially all revenue to date. Failure to anticipate or respond adequately to technological developments in our industry, changes in customer or supplier requirements or changes in regulatory requirements or industry standards, or any significant delays in the development or introduction of products or services, could have a material adverse effect on our business, operating results and cash flows.

Gross Profit

Gross profit as a percentage of net sales was 26% and 21% in the years ended December 31, 2007 and 2006. Our cost of sales include the direct cost of production of the phone plus the cost of our internal production department and accrued estimated warranty costs. The primary reason for the increase in gross profit is a result of the fact that our cost of sales includes write-downs of obsolete inventory relating to the N1 phones of $565,000 for the twelve months ended December 31, 2006 as compared to $0 for the 12 months ended December 31, 2007.

We began producing and shipping our commercially available N2 mobile phone handsets in the second half of 2007. The cost of sales for 2007 reflects the cost to produce the N2 mobile phone handsets and a limited number of N1 and N1m mobile phone handsets delivered in the first quarter of 2007. The start-up production runs of the new N2 mobile phone handsets had higher costs of production due to the price of purchasing components in lower volumes.

We expect our gross profit to increase in 2008 as we begin to produce and sell our N2 mobile phone handsets in larger quantities. Our target range for gross profit is between 28% and 30% once we increase production volumes.

Product Research and Development

Product research and development (R&D) expenses for the year ended December 31, 2007 were $4.4 million, a 100% increase over $2.2 million for the same period ending December 31, 2006.

The main factors that contributed to the increase in R&D costs are as follows:

- an increase in the headcount of our engineering department from 10 to 14 amounting to an increase of $509,000 along with significant increases in external consultancy costs of $741,000. In 2007, in order to recruit, retain and motivate employees, we began to increase employee’s salaries to market levels. Prior to 2007, Neonode’s employee’s salaries were below market level; and
- an increase in engineering expenditures in the late stage processes of bringing the N2 into commercial production amounting to $280,000.

We plan to continue to increase expenditures on critical R&D projects and have planned increases in both the headcount of our engineering department and the purchase of critical design and testing technology. We have a product roadmap of future mobile phone handsets and technologies and expects to increase our R&D budgets in order to develop these products and technologies to meet market demands.

Sales and Marketing

Sales and marketing expenses for the year ended December 31, 2007 were $3.1 million compared to $746,000 for the same period in 2006, an increase of 329%.

The increase in 2007 over 2006 is primarily related to increases in product marketing activities such as advertising agency fees as well as an 80% increase in sales and marketing headcount . During 2007, we launched our N2 model phone handset at the 3GSM trade show in Barcelona, Spain. In addition, the sales force was strengthened for the product rollout on the European market.

Sales and marketing programs are focused on design wins with new customers and, therefore, as new customer sales increase, sales and marketing expenses are expected to increase. We expect our sales and marketing expenses to continue to increase as we position the Company to take advantage of new market opportunities for our N2 and future mobile phone handsets and participate in more sales lead generation and branding initiatives, such as, industry trade events, public relations and direct marketing. Our target range for sales and marketing expense is between 12% and 15% of total sales once we increase production volumes.

General and Administrative

General and administrative (G&A) expenses for the year ended December 31, 2007 were $5.1 million, a 183% increase from $1.8 million for the same period in 2006.

The increase in 2007 over 2006 is primarily related to:

- approximately $1.5 million in legal and accounting costs associated with bringing our accounting and reporting up to US GAAP standards in preparation for the merger with SBE in August 2007; and
- an increase in headcount and general overhead expense including the personnel additions from the August 10, 2007 merger with SBE amounting to $1.3 million.

We expect the basic general and administrative expense to continue to increase due to increasing demands on legal, accounting, insurance and other costs, including compliance with Sarbanes-Oxley regulations, associated with being a public company as a result of the merger with SBE. However, the absence of one-time costs incurred in 2007 associated with the merger with SBE should mitigate some of this increase so that total G&A should not continue to increase at the same rate as in 2007.

Interest Expense and Other Expense

Interest expense for the twelve months ended December 31, 2007 was $295,000 million as compared to $229,000 for the twelve months ended December 31, 2006. The $66,000 increase is due to a combination of a increase in interest bearing debt outstanding during 2007 and an increase in the interest rate.

Charges related to debt extinguishments and debt discounts

Charges related to debt extinguishments and debt discounts for the twelve months ended December 31, 2007 amounted to $3.9 million compared to $200,000 for the twelve months ended December 31, 2006. The $3.7 million increase is due a combination of debt extinguishment costs related to the conversion of senior secured notes and bridge notes of $1.9 million, the debt discount amortization and the write-off of excess debt discounts related to the bridge notes and September 26, 2007 financing amounting to $1.6 million and $210,000 related to the amortization of debt issuance costs.

Non-Cash Charges for Conversion Feature and Warrants

On August 10, 2007, all the senior secured notes, loan from Petrus and Almi and accrued interest totalling $14.3 million were converted to 10,096,197 shares of our common stock and 5 year warrants to purchase 5,048,095 shares of our common stock at $2.83 per share. We computed the fair value of the conversion option related to the notes using the Black-Scholes option pricing model on the day of the conversion to common stock and warrants and compared the computed fair value to the recorded value of the notes and related accrued interest. The $32.1 million in the non-cash charges for conversion feature and warrants is comprised of $35.6 million increase in the computed fair value of the embedded conversion features related to convertible debt and a $1.5 million benefit related the valuation of warrants recorded as a liability. These net charges were recorded as a non-cash valuation charge in the statements of operations pursuant to Emerging Issues Task Force Issue (EITF) 03-7 *, Accounting for the Settlement of the Equity-Settled Portion of a Convertible Debt Instrument that Permits or Requires the Conversion Spread to Be Settled in Stock* , and APB 26, *Early Extinguishment of Debt.*

Income Taxes

Our effective tax rate was 0% in the year ended December 31, 2007 and 2006, respectively. We recorded valuation allowances in 2007 and 2006 for deferred tax assets related to net operating losses due to the uncertainty of realization. In the event of future taxable income, our effective income tax rate in future periods could be lower than the statutory rate as such tax assets are realized.

Net Loss

As a result of the factors discussed above, we recorded a net loss attributable to shareholders of $48.4 million for the year ended December 31, 2007 compared to a net loss available to shareholders of $5.2 million in the comparable period in 2006.

Off-Balance Sheet Arrangements

We do not have any transactions, arrangements, or other relationships with unconsolidated entities that are reasonably likely to affect our liquidity or capital resources other than the operating leases. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support; or engage in leasing, hedging, research and development services, or other relationships that expose us to liability that is not reflected on the face of the financial statements.

Liquidity and Capital Resources

Our liquidity is dependent on many factors, including sales volume, operating profit and the efficiency of asset use and turnover. Our future liquidity will be affected by, among other things:

- actual versus anticipated sales of our products;
- our actual versus anticipated operating expenses;
- the timing of our product shipments;
- the timing of payment for our product shipments;
- our actual versus anticipated gross profit margin;
- our ability to raise additional capital, if necessary; and
- our ability to secure credit facilities, if necessary.

The consolidated financial statements included herein have been prepared on a going concern basis, which contemplates continuity of operations and the realization of assets and liquidation of liabilities in the ordinary course of business. The report of our independent registered public accounting firm in respect of the 2007 fiscal year, included elsewhere in this annual report includes an explanatory going concern paragraph which raises substantial doubt to continue as a going concern, which indicates an absence of obvious or reasonably assured sources of future funding that will be required by us to maintain ongoing operations. Although we have been able to fund our operations to date, there is no assurance that our capital raising efforts will be able to attract the additional capital or other funds needed to sustain our operations. The going concern qualification from our auditors may make it more difficult for us to raise funds. If we are unable to obtain additional funding for operations, we may not be able to continue operations as proposed, requiring us to modify our business plan, curtail various aspects of our operations or cease operations. In such event, investors may lose a portion or all of their investment.

Our cash is subject to interest rate risk. We invest primarily on a short-term basis. Our financial instrument holdings at December 31, 2007 were analyzed to determine their sensitivity to interest rate changes. The fair values of these instruments were determined by net present values. In our sensitivity analysis, the same change in interest rate was used for all maturities and all other factors were held constant. If interest rates increased by 10%, the expected effect on net loss related to our financial instruments would be immaterial. The functional currency of our foreign subsidiary is the applicable local currency, the Swedish krona, and is subject to foreign currency exchange rate risk. Any increase or decrease in the exchange rate of the U.S. Dollar compared to the Swedish krona will impact Neonode's future operating results. Certain of Neonode loans are in Swedish kronor and fluctuations in the exchange rate of the U.S. Dollar compared to the Swedish krona will impact both the interest and future principal payments associated with these loans.

In January 2008, we offered our customers a design modification for the N2 phones held in their inventory. We expect the cost of the modification program to be approximately $200,000 As part of the modification program we offered to transport the inventory to our manufacturing partner (Balda Malaysia) and provide the modifications at no cost to our customers. As a result, certain of our customers are withholding payment of amounts due us until the modifications are completed and the inventory is returned to them.

At December 31, 2007, we had cash and cash equivalents of $6.8 million (with $5.7 million held as restricted cash), as compared to $369,000 at December 31, 2006. In the twelve month period ended December 31, 2007, $11.1 million of cash was used in operating activities, primarily as a result of our net loss reduced by the following non-cash items (in thousands):

Depreciation and amortization	$	298
Deferred interest		340
Debt discounts and deferred financing fees		2,557
Stock-based compensation expense		408
Write-off of merger costs in excess of cash received from SBE, Inc.		263
Debt extinguishment loss		1,524
Change in fair value of embedded derivatives and warrants recorded as a liability		32,079
	$	37,469

We provided bank guaranties totaling $5.7 million as collateral for the performance of our obligations under our agreement with our manufacturing partner. The outstanding bank guaranties expired at December 29, 2007 and the funds were released by our bank to cash on January 2, 2008.

During the twelve months ended December 31, 2007, we sold a combination of convertible notes and equity for cash totaling $17.2 million. Adjusted working capital (current assets less current liabilities not including non-cash liabilities related to warrants and embedded derivatives) was $5.8 million at December 31, 2007, compared to an adjusted working capital deficit of $5.7 million at December 31, 2006.

In the twelve months ended December 31, 2007, we purchased $437,000 of fixed assets, consisting primarily of manufacturing tooling, computers and engineering equipment.

On February 12, 2007, we completed a $5.0 million convertible senior secured note financing with interest at 4% per annum and on June 15, 2007, we completed an additional $3.0 million convertible senior secured note financing with interest at 4% per annum. On August 10, 2007, all the senior secured notes, loan from Petrus, and Almi 1 and related accrued interest totaling $14.3 million were converted to 10,096,197 shares of our common stock and 5 year warrants to purchase 5,048,095 shares of our common stock at $2.83 per share.

On August 8, 2007, we completed a $3.2 million offering of convertible notes (the Bridge Notes) bearing 8% interest, due December 31, 2007, and convertible into a combination of shares of our common stock, warrants and convertible debt. We also issued an option to invest $750,000, at the same terms and conditions as the Bridge Notes, to a particular investor. On September 26, 2007, the August Bridge Notes' maturity date was extended to June 30, 2008 and the conversion period was pushed back to no earlier than March 15, 2008 and before June 30, 2008. In consideration, we issued 219,074 additional warrants to the Bridge Note holders. On March 31, 2008, the expiration of the option was extended until June 30, 2008. On September 26, 2007, $450,000 of the $3.2 million was converted to 75,817 shares of our common stock, warrants to purchase 105,612 shares of our common stock at a price of $3.92 per share and a $227,450 promissory note under the same terms as conditions as the September 2007 private placement, described below. The note holders of the remaining $2.8 million of unconverted notes have the right to convert their notes to equity and debt securities anytime between March 15, 2008 and June 30, 2008 under the same terms as the September 26, 2007 private placement financing.

On September 26, 2007, we sold $5.7 million of securities in a private placement, comprised of $2.9 million of three-year promissory notes bearing the higher of LIBOR plus 3% or 8% interest per annum, convertible into shares of our common stock at a conversion price of $3.50 per share, 952,499 shares of our common stock and warrants to purchase 1,326,837 shares of our common stock at a price of $3.92 per share.

During 2007 we provided bank guaranties totalling $5.7 million as collateral for the performance of our obligations under our agreement with our manufacturing partner. The outstanding bank guaranties expired at December 29, 2007 and the funds were released by our bank to cash on January 02, 2008. The cash restricted from withdrawal by our bank to secure the obligations of the bank guaranty is shown as restricted cash within current assets as of December 31, 2007.

On March 4, 2008, we sold $4.5 million in securities in a private placement to accredited investors. We sold 1,800,000 shares of our common stock for $2.50 per share. After placement agent fees and offering expenses, we received net proceeds of approximately $4 million.

The majority of our cash for the twelve months ended December 31, 2007 was provided by borrowings from senior secured notes and bridge notes that have been or are convertible into shares of our common stock. Unless we are able to increase our sales to reach cash breakeven or increase our secured lines or credit or enter into new lines of credit, we may have to raise additional funds through the issuance of additional debt or equity securities. If we raise additional funds through the issuance of preferred stock or debt, these securities could have rights, privileges or preferences senior to those of common stock, and debt covenants could impose restrictions on our operations. The sale of equity or debt could result in additional dilution to current stockholders, and such financing may not be available to us on acceptable terms, if at all.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Neonode Inc.
Stockholm, Sweden

We have audited the accompanying consolidated balance sheets of Neonode Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2007. In connection with our audits of the financial statements, we have also audited the schedule listed in the accompanying index. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neonode Inc. at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the Liquidity section of Note 1 to the consolidated financial statements, the Company has suffered recurring losses and negative cash flows from operations and has a working capital deficiency that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome from this uncertainty.

Stockholm, Sweden

April 14, 2008

BDO Feinstein International AB

/s/ Johan Pharmanson
Authorized Public Accountant

BDO Feinstein International AB

/s/ Tommy Bergendahl
Authorized Public Accountant

Neonode Inc.
Consolidated Balance Sheets

Amounts in thousands, except for share and per share amounts	December 31, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash	$ 1,147	$ 369
Restricted cash	5,702	-
Accounts receivable, net of allowances for doubtful accounts of $4,264 for Dec. 31, 2007 and $0 Dec. 31, 2006, respectively	868	46
Inventories, net	6,610	-
Prepaid expenses	1,081	621
Other current assets	650	117
Total current assets	16,058	1,153
Machinery and equipment, net	375	65
Intangible assets, net	95	155
Other long-term assets	395	-
Total assets	$ 16,923	$ 1,373
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of convertible long-term debt (Note 12)	$ 132	$ 5,112
Accounts payable	5,065	245
Accrued expenses	1,391	893
Deferred revenue	2,979	462
Liability for warrants to purchase common stock	5,971	-
Embedded derivatives of convertible debt	3,536	124
Other liabilities	674	313
Total current liabilities	19,748	7,149
Long-term convertible debt (Note 12)	60	854
Total liabilities	19,808	8,003
Commitments and contingencies (Notes 15, 17 and 18)		
Stockholders' deficit		
Common stock (75,000,000 shares authorized, par value $0.01; 23,780,670 and 10,282,110 shares issued and outstanding at Dec. 31, 2007 and 2006, respectively)	238	102
Additional paid-in-capital	55,191	3,407
Accumulated other comprehensive income	354	88
Accumulated deficit	(58,668)	(10,227)
Total stockholders' deficit	(2,885)	(6,630)
Total Liabilities and Stockholders' Deficit	$ 16,923	$ 1,373

The accompanying notes are an integral part of these Consolidated Financial Statements.

Neonode Inc.
Consolidated Statements of Operations

Amounts in thousands, except for per share amounts	**Twelve Months Ended December 31,**	
	2007	**2006**
Net product sales	$ 2,669	$ 793
Net technology license sales	463	851
Total net sales	3,132	1,644
Cost of sales	2,317	1,297
Gross profit	**815**	**347**
Operating expenses:		
Research and development	4,449	2,226
Sales and marketing	3,147	746
General and administrative	5,080	1,846
Total operating expenses	12,676	4,818
Operating loss	**(11,861)**	**(4,471)**
Other income (expense):		
Interest income and other, net	(277)	(237)
Interest expense	(295)	(229)
Charges related debt extinguishments and debt discounts	(3,929)	(199)
Non-cash charges for conversion features and warrants	(32,079)	18
Total other expense	(36,580)	(647)
Loss before non-cash inducement charge	**(48,441)**	**(5,118)**
Net loss	**(48,441)**	**(5,118)**
Non-cash inducement charge related to corporate reorganization Feb. 28, 2006	-	106
Net loss attributable to common shareholders	$ (48,441)	$ (5,224)
Loss per common share :		
Basic and diluted	$ (3.15)	$ (0.52)
Weighted average common shares outstanding	15,400	10,119

The accompanying notes are an integral part of these Consolidated Financial Statements.

Neonode Inc.
Consolidated Statements of Stockholder's Deficit

Amounts in thousands	Shares issued (1)	Par value	Additional paid-in- capital	Accumulated Comprehensive loss	Accumulated deficit	Stock-holders' equity (deficit)	Comprehensive loss
Balances, December 31, 2005	**9,233**	**$ 92**	**$ 2,608**	**$ 146**	**$ (5,109)**	**$ (2,263)**	
Issuance of common stock	127	1	197	-	-	198	
Issuance of common stock and warrants as part of Company reorganization Feb. 28, 2006	922	9	713	-	-	722	
Non-cash inducement charge in conjunction with reorganization Feb.28, 2006	-	-	(106)	-	-	(106)	
Reclassification of warrants to liability	-	-	(5)	-	-	(5)	
Foreign currency translation adjustment	-	-	-	(58)	-	(58)	$ (58)
Net loss	-	-	-	-	(5,118)	(5,118)	(5,118)
Comprehensive loss	-	-	-	-	-	-	$ (5,176)
Balances, December 31, 2006	**10,282**	**102**	**3,407**	**88**	**(10,227)**	**(6,630)**	
Purchase of stock options by certain employees for cash	-	-	161	-	-	161	
Employee stock option compensation expense	-	-	408	-	-	408	
Reclassification of warrants to equity	-	-	5	-	-	5	
Advisory warrants issued on 5/18/07	-	-	158	-	-	158	
Conversion of pre-merger debt Aug. 10, 2007 to common stock and warrants	10,096	101	49,371	-	-	49,472	
Merger with SBE on Aug. 10, 2007	2,296	23	(23)	-	-	-	
Equity contributed by SBE in merger	-	-	1,197	-	-	1,197	
Merger costs	-	-	(122)	-	-	(122)	
Conversion of certain August Bridge Notes on September 26, 2007	76	1	295	-	-	296	
Equity from September 2007 private placement	952	10	659	-	-	669	
Issuance costs for equity in September 2007	-	-	(376)	-	-	(376)	
Issuance of common stock under stock based compensation plans	23	-	52	-	-	52	
Cashless exercise of employee warrants	56	1	(1)	-	-	-	
Foreign currency translation adjustment	-	-	-	266	-	266	$ 266
Net loss					(48,441)	(48,441)	(48,441)
Comprehensive loss	-	-	-	-	-	-	$ (48,175)

Balances, December 31, 2007	**23,781**	**$**	**238**	**$**	**55,191**	**$**	**354**	**$**	**(58,668)**	**$**	**(2,885)**

(1) Shares issued have been adjusted for share exchanges.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Neonode Inc.
Consolidated Statements of Cash Flows

Amounts in thousands	Twelve Months Ended December 31, 2007	2006
Cash Flows from Operating Activities:		
Net loss	$ (48,441)	$ (5,118)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	298	90
Deferred interest	340	76
Debt discounts and deferred financing fees	2,405	240
Stock option expense	408	-
Stock compensation expense related to corporate reorganization	-	722
Inducement charge related to corporate reorganization	-	(106)
Write-down of inventories	-	133
Write-off of excess merger expenses	158	-
Debt extinguishment loss	1,524	-
Change in fair value of embedded derivatives and warrants	32,079	(18)
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	(1,324)	(97)
Prepaid expenses	(339)	(379)
Inventories	(6,616)	38
Accounts payable, accrued expenses and other liabilities	5,605	425
Deferred revenue	2,547	(851)
Net cash used in operating activities	**(10,678)**	**(4,845)**
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(437)	(34)
Net cash used in investing activities	**(437)**	**(34)**
Cash Flows From Financing Activities:		
Proceeds from issuance of convertible debt	16,965	5,000
Deferred financing fees	(821)	(307)
Payments on long-term notes payable	(92)	(93)
Restricted cash	(5,463)	-
Proceeds from sale of software business	90	-
Cash from SBE merger	1,123	-
Merger costs	(227)	-
Proceeds from sale of employee stock options	213	-
Proceeds from issuance of common stock	-	198
Net cash provided by financing activities	**11,788**	**4,798**
Effect of exchange rate changes on cash	105	251
Net Increase in cash and cash equivalents	**778**	**170**
Cash and cash equivalents - beginning of period	369	199
Cash - end of period	$ **1,147**	$ **369**
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 100	$ 14
Fair value of common stock and warrants issued in company reorganization	$ -	$ 722
Fair value of warrants issued to financial advisor	$ 158	$ -

Conversion of pre-merger debt to common stock and warrants	$	49,472	$	-
Fair value of warrants issued to Bridge Note holders	$	705	$	-
Fair value of equipment acquired in the merger with SBE, Inc.	$	79	$	-
Fair value of option granted to financial advisor that expires June 2008	$	716	$	-
Equity contributed by SBE in merger	$	1,197		-
Conversion of August Bridge Note	$	296	$	-

The accompanying notes are an integral part of these Consolidated Financial Statements.

NEONODE INC

Notes to the Consolidated Financial Statements

1. Nature of the business and operations

Neonode Inc. (the Company) was incorporated in the State of Delaware in 2006 as the parent of Neonode AB, a company founded in February 2004 and incorporated in Sweden. In February 2004, Neonode AB acquired the assets, including intangible assets, relating to the current business, in exchange for cash of $168,000 and the assumption of a loan of $141,000. The Company allocated the consideration to intangible assets in the amount of $284,000 and to equipment in the amount of $25,000 based on relative fair values. In February, 2006, a corporate reorganization was effected by issuing all of the shares of Neonode Inc. to the stockholders of Neonode AB based upon the number and class of shares owned by each in exchange for all of the outstanding stock of Neonode AB. Following the reorganization, Neonode AB became a wholly-owned subsidiary of Neonode Inc. The reorganization was accounted for with no change in accounting basis for Neonode AB, since there was no change in control of the Group. The consolidated accounts comprise the accounts of the Companies as if they had been owned by the Company throughout the entire reporting period. In connection with the reorganization, the Company commenced borrowing from a group of new investors.

Our business focus is a combination of licensing our touchscreen technology to other companies and developing and selling our own products using our technology in mobile device markets. We design, develop and sell multimedia mobile phones with a focus on unique design and user experience. Our first model, the N1, was released in November 2004. Our next generation multimedia mobile phone, the Neonode N2, was launched in February 2007 with first customer shipments of the phone mid-July 2007. For the year ended December 31, 2007 and 2006, our customers are primarily located in 13 Europe and India regions.

Liquidity

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. We have incurred net operating losses and negative operating cash flows since inception. As of December 31, 2007, we had an accumulated deficit of $58.7 million and adjusted working capital (current assets less current liabilities not including non-cash liabilities related to warrants and embedded derivatives) of $5.8 million. Our operations are subject to certain risks and uncertainties frequently encountered by companies in the early stages of operations. Such risks and uncertainties include, but are not limited to, technical and quality problems in new products, ability to raise additional funds, credit risks and costs for developing new products. The ability to generate revenues in the future will depend substantially on success of resolving quality problems, raising additional funds through debt or equity, and entering customer contracts with customers that are financially stable.

There is no assurance that we will be successful in obtaining sufficient funding on acceptable terms, if at all. If we are unable to secure additional funding and stockholders, if required, do not approve such financing, we would have to curtail certain expenditures which we consider necessary for optimizing the probability of success of developing new products and executing on our business plan. If we are unable to obtain additional funding for operations, we may not be able to continue operations as proposed, requiring us to modify our business plan, curtail various aspects of our operations or cease operations.

In March 2008, we completed a private placement offering of $4.5 million of our common stock. The financial statements do not include any adjustments related to the recovery of assets and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Merger

On August 10, 2007, SBE announced the completion of the previously announced merger of its wholly-owned subsidiary, Cold Winter Acquisition Corporation, with and into Neonode Inc., pursuant to which Neonode changed its name to “Cold Winter, Inc.” and became a wholly-owned subsidiary of the company. Following the closing of the merger transaction, the company was renamed “Neonode Inc.” The newly-combined company's headquarters is located in Stockholm, Sweden. SBE issued approximately 20.4 million shares of its common stock in exchange for 5.8 million outstanding shares of Neonode Inc. common stock and the assumption of outstanding options and warrants to purchase an additional 7.9 million shares of Neonode Inc. common stock. The Company’s common stock started trading on the Nasdaq Capital Market on August 13, 2007 under the new ticker symbol “NEON.”

For accounting purposes, the merger is considered a recapitalization of Neonode with the issuance of stock for cash, other assets and the assumption of liabilities by Neonode under which Neonode is considered to be acquiring SBE. Accordingly, the fair value of the assets and liabilities of SBE are combined with Neonode as of August 10, 2007 while the historical results of Neonode are reflected in the results of the combined company. The consolidated financial statements include SBE's operations from August 10, 2007.

Neonode shareholders exchanged each share of Neonode common stock for 3.5319 shares of SBE common stock (exchange ratio) in the recapitalization. Each Neonode warrant and stock option that was outstanding on the closing date has been converted into SBE warrants and stock options by multiplying the Neonode stock options by the same exchange ratio described above. The new exercise price was also determined by dividing the old exercise price by the same exchange ratio. Each of these warrants and options is subject to the same terms and conditions that were in effect for the related Neonode warrants and options. Neonode stockholders and employees own approximately 28.5 million shares of the Company's common stock or instruments convertible into common stock, or 90.6% of the fully diluted capitalization, including warrants and options, of the combined company.

The following table is the number of shares of common stock, warrants and stock options outstanding immediately following the consummation of the merger, on August 10, 2007:

On August 10, 2007	**SBE**	**Neonode**	**Total**
Common Stock	2,295,529	20,378,251	22,673,780
Warrants to purchase common stock	232,000	5,965,397	6,197,397
Employee stock options	437,808	2,117,332	2,555,140
Total	2,965,337	28,460,980	31,426,317

Adjustment to Number of Shares of Common Stock Outstanding

The number of shares of Neonode common stock outstanding as of December 31, 2006 and presented on the Consolidated Balance Sheets has been adjusted to reflect the number of shares of SBE, Inc. issued to Neonode shareholders in conjunction with the recapitalization that culminated on August 10, 2007. Neonode Shareholders exchanged each share of Neonode common stock for 3.5319 shares of SBE common stock (exchange ratio).

	December 31, 2006
Historical shares of common stock outstanding	2,911,217
Adjusted shares of common stock outstanding	10,282,127

2. Summary of significant accounting policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of Neonode Inc. and its subsidiary based in Sweden, Neonode AB. All inter-company accounts and transactions have been eliminated in consolidation. Please refer to the Merger section above for description of our reverse merger with SBE, Inc. that was completed on August 10, 2007.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires making estimates and assumptions that affect, at the date of the financial statements, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. Significant estimates include but are not limited to collectibility of accounts receivable, carrying value of inventory, estimated useful lives of long-lived assets, recoverable amounts and fair values of intangible assets, and the fair value of securities such as options and warrants issued for stock-based compensation and in certain financing transactions.

Cash

We have not had any liquid investments other than normal cash deposits with bank institutions to date.

Restricted Cash

We have provided bank guaranties totalling $5.7 million as collateral for the performance of our obligations under our agreement with our manufacturing partner. The outstanding bank guaranties expired at December 29, 2007 and the funds were released by our bank to cash on January 02, 2008. The cash restricted from withdrawal by our bank to secure the obligations of the bank guaranty is shown as restricted cash within current assets.

Accounts Receivable and Allowance for Doubtful Accounts

Our net accounts receivable are stated at net realizable value. Our policy is to maintain allowances for estimated losses resulting from the inability of our customers to make required payments. Credit limits are established through a process of reviewing the financial history and stability of each customer. Where appropriate, we obtain credit rating reports and financial statements of the customer when determining or modifying their credit limits. We regularly evaluate the collectibility of our trade receivable balances based on a combination of factors. When a customer's account balance becomes past due, we initiates dialogue with the customer to determine the cause. If it is determined that the customer will be unable to meet its financial obligation, such as in the case of a bankruptcy filing, deterioration in the customer's operating results or financial position or other material events impacting their business, we record a specific allowance to reduce the related receivable to the amount we expect to recover. Should all efforts fail to recover the related receivable, we will write-off the account. We also record an allowance for all customers based on certain other factors including the length of time the receivables are past due and historical collection experience with customers.

Inventories

Inventories are stated at the lower of cost, using the first-in, first-out method, or market. Our policy is to establish inventory reserves when conditions exist that suggest that our inventory may be in excess of anticipated demand or is obsolete based upon our assumptions about future demand for our products and market conditions.

Machinery and Equipment

Machinery and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method based upon estimated useful lives of the assets ranging from one to five years as follows:

	Estimated useful lives
Tooling	1 year
Computer equipment	3 years
Furniture and fixtures	5 years

Equipment purchased under capital leases are amortized on a straight-line basis over the estimated useful life of the asset.

Upon retirement or sale of property and equipment, cost and accumulated depreciation on such assets are removed from the accounts and any gains or losses are reflected in the statement of operations. Maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets consists of patents, with finite lives are recorded at cost less accumulated amortization. Amortization is computed over the estimated useful life of the asset, which is generally five years for our patents.

Long-lived Assets

We assess any impairment by estimating the future cash flow from the associated asset in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* . If the estimated undiscounted cash flow related to these assets decreases in the future or the useful life is shorter than originally estimated, we may incur charges for impairment of these assets. The impairment is based on the estimated discounted cash flow associated with the asset. To date, we have not had any impairment of long-lived assets.

Foreign Currency Translation

The functional currency of our foreign subsidiary is the applicable local currency, the Swedish krona. The translation from Swedish krona to U.S. Dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for income statement accounts using a weighted average exchange rate during the period. Gains or losses resulting from such translation are included as a separate component of accumulated other comprehensive income. Gains or losses resulting from foreign currency transactions are included in other income (expense). Foreign currency transaction gains and losses which are included in other income and (expense) were $362,000 and $265,000 during the twelve month periods ending December 31, 2007 and 2006, respectively.

Liability for Warrants and Embedded Derivatives

We do not enter into derivative contracts for purposes of risk management or speculation. However, from time to time, we enter into contracts that are not considered derivative financial instruments in their entirety but that include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and every reporting period, depending on their characteristics, are accounted for as separate derivative financial instruments pursuant to SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* , as amended (together, SFAS 133), if such embedded conversion features, if freestanding, would meet the classification of a liability. SFAS 133 requires that we analyze all material contracts and determine whether or not they contain embedded derivatives. Any such embedded conversion features that meet the above criteria are then bifurcated from their host contract and recorded on the consolidated balance sheet at fair value and the changes in the fair value of these derivatives are recorded each period in the consolidated statements of operations as an increase or decrease to Non-cash charges for conversion features and warrants.

Similarly, if warrants meet the classification of liabilities in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* , then the fair value of the warrants are recorded on the consolidated balance sheet at their fair values, and any changes in such fair values are recorded each period in the consolidated statements of operations as an increase or decrease to Non-cash charges for conversion features and warrants.

Revenue Recognition

Our policy is to recognize revenue for product sales when title transfers and risk of loss has passed to the customer, which is generally upon shipment of products to our customers. We estimate expected sales returns and record the amount as a reduction of revenues and cost of sales at the time of shipment. Our policy complies with the guidance provided by the Securities and Exchange Commission’s Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements,* issued by the Securities and Exchange Commission. We recognize revenue from the sale of our mobile phones when all of the following conditions have been met: (1) evidence exists of an arrangement with the customer, typically consisting of a purchase order or contract; (2) our products have been delivered and risk of loss has passed to the customer; (3) we have completed all of the necessary terms of the contract; (4) the amount of revenue to which we are entitled is fixed or determinable; and (5) we believe it is probable that we will be able to collect the amount due from the customer. To the extent that one or more of these conditions has not been satisfied, we defer recognition of revenue. Judgments are required in evaluating the credit worthiness of our customers. Credit is not extended to customers and revenue is not recognized until we have determined that collectibility is reasonably assured.

To date, our revenues have consisted primarily to distributors located in various 13 regions. We may allow, from time to time, certain distributors price protection subsequent to the initial product shipment. P rice protection may allow the distributor a credit (either in cash or as a discount on future purchases) if there is a price decrease during a specified period of time or until the distributor resells the goods. Future price adjustments are difficult to estimate since we do not have sufficient history of making price adjustments. We, therefore, defer recognition of revenue (in the balance sheet line item “deferred revenue”) derived from sales to these customers until they have resold our products to their customers. Although revenue recognition and related cost of sales are deferred, we record an accounts receivable at the time of initial product shipment. As standard terms are generally FOB shipping point, payment terms are enforced from shipment date and legal title and risk of inventory loss passes to the distributor upon shipment.

For products sold to distributors with agreements allowing for price protection and product returns, we recognize revenue based on our best estimate of when the distributor sold the product to its end customer. Our estimate of such distributor sell-through is based on information received from our distributors. Revenue is not recognized upon shipment since, due to various forms of price concessions, the sales price is not substantially fixed or determinable at that time.

Revenue from products sold directly to end-users though our web sales channels is generally recognized when title and risk of loss has passed to the buyer, which typically occurs upon shipment. Reserves for sales returns are estimated based primarily on historical experience and are provided at the time of shipment.

We derive revenue from license of our internally developed intellectual property (IP). We enter into IP licensing agreements that generally provide licensees the right to incorporate our IP components in their products with terms and conditions that vary by licensee. The IP licensing agreements will generally include a nonexclusive license for the underlying IP. Fees under these agreements may include license fees relating to our IP and royalties payable following the sale by our licensees of products incorporating the licensed technology. The license for our IP has standalone value and can be used by the licensee without maintenance and support.

Revenue for the twelve months ended December 31, 2007 and 2006 includes revenue from the sales of the N1 and N2 multimedia mobile phones and revenue from a licensing agreement with a major Asian manufacturer. In July 2005, we entered into a licensing agreement with a major Asian manufacturer whereby we licensed our touchscreen technology for use in a mobile phone to be included in their product assortment. In this agreement, we received approximately $2.0 million in return for granting an exclusive right to use our touchscreen technology over a two year period. Another component of the agreement provides for a fee of approximately $2.65 per telephone if the Asian manufacture sells mobile phones based on our technology. In July 2007, we extended this license agreement on a non-exclusive basis for an additional term of one year. As of March 31, 2008, the Asian manufacturer had not sold any mobile telephones using our technology.

The net revenue related to this agreement has been allocated over the term of the agreement, amounting to $463,000 in 2007 and $851,000 in 2006, respectively. The contract also includes consulting services to be provided by Neonode on an "as needed basis". The fees for these consultancy services vary from hourly rates to monthly rates and are based on reasonable market rates for such services. To date, we have not provided any consulting service related to this agreement. Generally, our customers are responsible for the payment of all shipping and handling charges directly with the freight carriers.

Warranty Reserve

Our products are generally warranted against defects for twelve months following the sale. We have a twelve month warranty from the manufacturer of the mobile phones. Reserves for potential warranty claims not covered by the manufacturer are provided at the time of revenue recognition and are based on several factors, including current sales levels and an estimate of repair costs. Shipping and handling charges are expensed as incurred.

Advertising

Advertising costs are expensed as incurred. External advertising costs amounted to $661,000 and $157,000 for the years ending December 31, 2007 and 2006, respectively.

Research and Development

Research and Development (R&D) costs are expensed as incurred. R&D costs are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 2, *Accounting for Research and Development Costs.* Research and development costs consists mainly of personnel related costs in addition to some external consultancy costs such as testing, certifying and measurements.

Concentration of Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of accounts receivable with customers. Since we are in the process of getting our product to market, our first customers will comprise over 15 percent of revenue and we will need to rely on a smaller customer base as we grow. In addition, we usually sell to customers with either prepayment, letter of credit or bank guarantees. Our customers are generally distributors of telecommunications equipment. We will maintain allowances for potential credit losses, if necessary.

Risk and Uncertainties

Our long-term success is dependent on obtaining sufficient capital to fund our operations and development of our products, bringing such products to the worldwide market, and obtaining sufficient sales volume to be profitable. To achieve these objectives, we will be required to raise additional capital through public or private financings or other arrangements. It cannot be assured that such financings will be available on terms attractive to us, if at all. Such financings may be dilutive to our stockholders and may contain restrictive covenants.

We are subject to certain risks common to technology-based companies in similar stages of development. Principal risks include uncertainty of growth in market acceptance for our products; history of losses since inception, ability to remain competitive in response to new technologies, costs to defend, as well as risks of losing patent and intellectual property rights, reliance on limited number of suppliers, reliance on outsourced manufacture of our products for quality control and product availability, ability to increase production capacity to meet demand for our products, concentration of our operations in a limited number of facilities, uncertainty of demand for our products in certain markets, ability to manage growth effectively, dependence on key members of our management and development team, limited experience in conducting operations internationally, and ability to obtain adequate capital to fund future operations.

Since we are in the process of launching a new generation of our product, the first customers may comprise over 15 percent of revenue and we will need to rely on a smaller customer base as we grow. In addition we will produce telephones through an agreement with a production partner. This exposes us to the risk that the partner may not fulfil contracted volumes or deliveries. Even the sources of components used in our product could cause delays in production and deliveries.

We are exposed to a number of economic and industry factors that could result in portions of our inventory becoming either obsolete or in excess of anticipated usage, or subject to lower of cost or market issues. These factors include, but are not limited to, technological changes in our markets, our ability to meet changing customer requirements, competitive pressures in products and prices, and the availability of key components from our suppliers.

A significant portion of our business is conducted in currencies other than the U.S. dollar (the currency in which its financial statements are reported), primarily the Swedish krona and, to a lesser extent, the Euro. We incur a significant portion of our expenses in Swedish kronor, including a significant portion of our product development expense and a substantial portion of our general and administrative expenses. As a result, appreciation of the value of the Swedish krona relative to the other currencies, particularly the U.S. dollar, could adversely affect operating results. We do not currently undertake hedging transactions to cover our currency exposure, but we may choose to hedge a portion of our currency exposure in the future as it deems appropriate.

Our future success depends on market acceptance of our products as well as our ability to introduce new versions of our products to meet the evolving needs of our customers.

Stock Based Compensation Expense

Effective January 1, 2006, we adopted SFAS 123 (revised 2004) *Share-Based Payment (SFAS 123R,* which establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services , primarily focusing on accounting for transactions where an entity obtains employee services in share based payment transactions. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, including share options, based on the fair value of the award on the grant date, and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period. SFAS 123R supersedes our previous accounting under APB 25, *Accounting for Stock Issued to Employees* , and related interpretations for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 relating to SFAS 123R. We adopted SFAS 123R using the modified prospective transition method as permitted under SFAS 123R. Accordingly, prior period amounts have not been restated. Under this application, we are required to record compensation expense for awards granted after the date of adoption and for the unvested portions of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS 123R, we used the intrinsic value method as prescribed by APB 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of our common stock on the date of grant.

We account for equity instruments issued to non-employees in accordance with SFAS 123R and Emerging Issues Task Force (EITF) 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* , which require that such equity instruments be recorded at their fair value and the unvested portion is re-measured each reporting period. When determining stock based compensation expense involving options and warrants, we determine the estimated fair value of options and warrants using the Black-Scholes option pricing model.

Accounting for Debt Issued with Detachable Stock Purchase Warrants

We account for debt issued with stock purchase warrants in accordance with APB opinion 14, *Accounting for Convertible Debts and Debts issued with Stock Purchase Warrants* , if such warrants meet equity classification. We allocate the proceeds of the debt between the debt and the detachable warrants based on the relative fair values of the debt security without the warrants and the warrants themselves, if the warrants are equity instruments.

Income Taxes

We account for income taxes in accordance with SFAS 109, *Accounting for Income Taxes* . SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of items that have been included in the financial statements or tax returns. We estimate income taxes based on rates in effect in each of the jurisdictions in which it operates. Deferred income tax assets and liabilities are determined based upon differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The realization of deferred tax assets is based on historical tax positions and expectations about future taxable income. Valuation allowances are recorded against net deferred tax assets where, in our opinion, realization is uncertain based on the “not more likely than not” criteria of SFAS 109.

Based on the uncertainty of future pre-tax income, we fully reserved our net deferred tax assets as of December 31, 2007 and 2006. In the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such a determination was made. The provision for income taxes represents the net change in deferred tax amounts, plus income taxes payable for the current period.

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* , which provisions included a two-step approach to recognizing, de-recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. As a result of the implementation of FIN 48, we recognized no increase in the liability for unrecognized tax benefits. Therefore upon implementation of FIN 48, we recognized no material adjustment to the January 1, 2007 balance of retained earnings. As of December 31, 2007, we had no unrecognized tax benefits.

Net Loss Per Share

Net loss per share amounts have been computed in accordance with SFAS 128, *Earnings per Share* . For each of the periods presented, basic loss per share amounts were computed based on the weighted average number of shares of common stock outstanding during the period. Net loss per share, assuming dilution amounts from common stock equivalents, are computed based on the weighted average number of shares of common stock and potential common stock equivalents outstanding during the period. The weighted average numbers of shares of common stock and potential common stock equivalents used in computing the net loss per share for the twelve month periods ending December 31, 2007 and 2006, excluded the potential common stock equivalents, as the effect would be anti-dilutive.

Comprehensive Loss

We apply SFAS 130, *Reporting Comprehensive Income* , which establishes standards for reporting and displaying all changes in equity other than transaction with owners in their capacity as owners. Our comprehensive loss includes foreign currency translation gains and losses reflected in equity. We have reported the components of comprehensive loss in our Consolidated Statements of Stockholders' Equity.

Cash Flow Information

Cash flows in foreign currencies have been converted to U.S. dollars at an approximate weighted average exchange rate for the respective reporting periods. The weighted average exchange rate for the Consolidated Statements of Operations was 6.759 and 7.377 Swedish Krona to one U.S. Dollar for the year ended December 31, 2007 and 2006, respectively. The weighted average exchange rate for the consolidated Balance Sheets was 6.4675 and 6.8725 Swedish Krona to one U.S. Dollar as of December 31, 2007 and 2006, respectively.

Fair Value of Financial Instruments

We disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. Financial instruments including cash and cash equivalents, receivables and payables and current portions of long-term debt are deemed to approximate fair value due to their short maturities. The carrying amounts of long-term debt and capitalized lease obligations are also deemed to approximate their fair values. Since no quoted market prices exist for certain of our financial instruments, the fair values of such instruments have been derived based on our assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates.

Effects of Recent Accounting Pronouncements

The following are expected effects of recent accounting pronouncements. We are required to analyze these pronouncements and determined the effect, if any, the adoption of these pronouncements would have on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity's fiscal year that begins after 15 December 2008, and will be adopted by us in the first quarter of 2009. We do not believe that the adoption of SFAS 141R will have material impact on our consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* . The standard provides guidance for using fair value to measure assets and liabilities. SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. The statement is effective for us beginning in fiscal year 2009. In February 2008, the FASB issued FASB Staff Position (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2) that deferred the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities. We have not determined the effect, if any, the adoption of this statement will have on our results of operations or financial position.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilitie* s-Including an Amendment of FASB Statement 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements.* SFAS 160 establishes new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned subsidiaries. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements shall be applied prospectively. The Company is currently evaluating the potential impact of this statement.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* , as amended and interpreted, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format provides a more complete picture of the location in an entity's financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. . We do not expect the adoption of SFAS 161 to have a material impact on our financial position, and we will make all necessary disclosures upon adoption, if applicable.

3. Inventories

At December 31, 2007 and 2006, inventories consisted of parts, materials and finished products as follows (in thousands):

	December 31, 2007	December 31, 2006
Parts and materials	$ 247	$ -
Finished products	1,243	-
Finished goods held at Balda	5,120	-
Total inventories	$ 6,610	$ -

Parts and materials consist of components purchased by us in order to reduce the production lead time of our products. Finished products consist of N1 phones and accessories located at our manufacturing partner or with our web sales partner. Finished goods held at customer locations consists of N2 phones that have been shipped to distributors but remain in their inventories at the end of the period for which revenue has been deferred.

During 2006 we took write-down charges of $565,000 related to components and spare parts of the N1 phones. In 2006 management made a decision to stop further production of the N1 phone and deemed the component and spare parts inventories not to be of any use in the coming production of the N2 mobile phone.

4. Prepaid Expenses

Prepaid expenses consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Prepayment to supplier	$ -	$ 350
Deferred financing fees	819	149
Prepaid rent	87	83
Prepaid interest	70	-
Prepaid insurance	16	-
Other	89	39
Total prepaid expenses	$ 1,081	$ 621

The prepayment to supplier is to our production partner and is for the sourcing of component inventories relating to the new N2 mobile telephone launched in 2007.

The deferred financing fees consist of legal fees, advisor fees and the value of detachable warrants issued to advisors relating to the issuance of debt financing.

5. Other Current Assets

Other current assets consist of the following (in thousands):

	December31, 2007	December31, 2006
Value added tax receivable	$ -	$ 116
Receivable from Balda for components	648	1
Other	2	-
Total other current assets	$ 650	$ 117

6. Machinery and Equipment

Machinery and equipment consists of the following (in thousands):

	December 31, 2007	December 31, 2006
Tooling	$ 341	$ -
Furniture and equipment	102	31
Computers	228	93
less accumulated depreciation	(296)	(59)
Machinery and equipment, net	$ 375	$ 65
Depreciation expense	$ 231	$ 29

7. Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Patents	$ 349	$ 328
less accumulated amortization	(254)	(173)
Patents, net	$ 95	$ 155
Amortization expense	$ 67	$ 61

We have not recorded any further investment in our patents since 2004. The change in the carrying value of intangibles is due to balance sheet currency fluctuations between the U.S. Dollar and the Swedish krona (SEK), since the patents are held by the Swedish subsidiary with a functional currency in SEK. The amortization of patents for future years, 2008 and 2009 is estimated at approximately $71,000, and $24,000, respectively.

8. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Legal settlement	$ -	$ 291
Earned salary, vacation and benefits	359	164
Accrued pension premiums	233	21
Accrued Interest expense	106	161
Accrued legal, audit and consulting fees	425	255
Other costs	268	1
Total accrued expenses	$ 1,391	$ 893

For a description of the legal settlement see note 18.

9. Other Liabilities

Other liabilities consist of the following (in thousands):

	December 31, 2007	December 31, 2006
VAT payable	$ 187	$ -
Customer pre-payments	-	145
Warranty reserve	92	-
Employee withholding taxes	111	65
Social security fees	160	52
Accrued liability to suppliers	120	-
Other	4	51
Total other liabilities	$ 674	$ 313

10. Deferred Revenue

We may allow, from time to time, certain distributors price protection and pricing adjustments subsequent to the initial product shipment. Since we only recently began shipping products, any future price concessions are difficult to reliably estimate. Therefore, we defer recognition of revenue (in the balance sheet line item "deferred revenue") derived from sales to these customers until they have resold our products to their customers or the price protection period ends. Although revenue recognition and related cost of sales are deferred, we record an accounts receivable at the time of initial product shipment. As standard terms are generally FOB shipping point, payment terms are enforced from shipment date and legal title and risk of inventory loss passes to the distributor upon shipment. In addition, where revenue is deferred upon shipment and recognized on a sell-through basis, we may offer price adjustments to our distributors to allow the distributor to price our products competitively for specific resale opportunities. As of December 31, 2007, we have $3.0 million of deferred revenue that will be recognized as our customers sell our products and the applicable price protection ends.

11. Liability for Warrants and Embedded Derivatives (in thousands):

	December 31, 2007	December 31, 2006
Liability for warrants to purchase common stock	$ 5,971	$ -
Embedded derivative of convertible debt	$ 3,536	$ 124

12. Convertible Debt and Notes Payable

Our convertible debt and notes payable consists of the following (in thousands):

	December 31, 2007	December 31, 2006
Senior Convertible Secured Notes August (face value $2,800)	$ 2,634	$ -
Pre-merger Convertible Secured Notes (face value $5,000)	-	5,000
Senior Convertible Secured Notes September (face value $3,085)	1,112	-
Pre-merger Convertible Loan - Petrus Holding SA	-	780
Loan - Almi Företagspartner 2	120	201
Pre-merger Convertible Loan - Almi Företagspartner 1	-	94
Capital lease	72	5
Total fair value of notes outstanding	3,938	6,080
Unamortized debt discount	3,746	114
Total debt, net of debt discount	192	5,966

Less: short-term portion of long-term debt	132	5,112
Long-term debt	$ 60	$ 854

Future maturities of notes payable (in thousands):

Year ended December 31,	Future Maturity of Notes Payable
2008	$ 2,895
2009	24
2010	3,085
Thereafter	-
Total principal payments	$ 6,004

The short-term portion of the unamortized debt discounts amounts to $2.6 million.

Future lease payments related to capital leases are as follows (in thousands):

Year ending December 31:	Future minimum payments on capital leases
2008	$ 44
2009	37
Total minimum lease payments	$ 81
Less: Amount representing interest	(9)
Present value of net minimum lease payments	$ 72

Pre-Merger Notes

Convertible Loan Agreement - Petrus Holding SA (Petrus)

On December 22, 2004, Neonode AB entered into a Loan agreement with Petrus, a company incorporated under the laws of Luxemburg. The funds under this loan agreement were received in January 2005. In this loan arrangement, Petrus granted a loan denominated in Swedish krona (SEK) amounting to SEK 5,000,000, or approximately $758,000 U.S. Dollars, to Neonode AB at an interest rate of 5% per annum. The loan shall be repaid no later than December 22, 2009. The Petrus loan is subordinated in right of payment to all indebtedness of Neonode to Almi Företagspartner Stockholm AB.

Convertible Loan Agreements - ALMI Företagspartner Stockholm AB (Almi)

Almi 1

On April 29, 2004, Neonode AB entered into a loan agreement with Almi in the initial amount of SEK 1,000,000, or approximately $136,000 U.S. Dollars, with the following principle conditions. The credit period for the loan is expected to be 44 months starting April 29, 2004 with an annualized interest rate of 9.75%. Neonode was not required to make any repayments of principle for the first 14 months, after which the loan should be repaid with quarterly principle payments of SEK 91,000. or approximately $12,400 U.S. Dollars. We have the right to redeem the loan at any time prior to expiration subject to a prepayment penalty of $14,000. A floating charge (chattel mortgage) of SEK 1,000,000, or approximately $136,000 U.S. Dollars, is pledged as security.

Almi 2

On April 6, 2005, Neonode AB entered into a second loan agreement with Almi in the amount of SEK 2,000,000, or approximately $257,000 U.S. Dollars, with 40,000 detachable warrants in Neonode AB (corresponding to 72,000 warrants when converted into Neonode Inc. shares). The loan has an expected credit period of 48 months with an annualized interest rate of 2%. We were not required to make any repayments of principle for the first nine months. Quarterly repayments of principle thereafter amounted to SEK 154,000, or approximately $19,800 U.S. Dollars. We have the right to redeem the loan at any time prior to expiration subject to a prepayment penalty of 1%, on an annualized basis, of the outstanding principle amount over the remaining term of the loan. A floating charge (chattel mortgage) of SEK 2,000,000, or approximately $257,000 U.S. Dollars, is pledged as security.

The warrants have a term of five years with a strike price of $10.00. The warrants may be called by us for $0.10 should the price of the Company's common stock trade over $12.50 on a public exchange for 20 consecutive days. The warrants were analyzed under EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* , and were determined to be equity instruments. In accordance with APB 14, because the warrants are equity instruments, we have allocated the proceeds of the second Almi loan between the debt and detachable warrants based on the relative fair values of the debt security without the warrants and the warrants themselves. To calculate the debt discount related to the warrants, the fair market value of the warrants was calculated using the Black-Scholes options pricing model. The assumptions used for the Black-Scholes option pricing model were a term of five years, volatility of 30% and interest rate of 4.50%.The aggregate debt discount amounted to $42,000 and was amortized over the expected term of the loan agreement.

Convertible Senior Secured Notes

On February 28, 2006, we commenced borrowing from a new group of investors (AIGH). The senior secured notes issued under the note purchase agreement bear interest at 4% and have a maturity date of August 28, 2007. At December 31, 2006, we had drawn down $5.0 million ($4.0 million in February 2006 and an additional $1.0 million in November 2006) out of the total amount of $5.5 million available. The senior secured notes were collateralized by the common stock shares of Neonode AB and are subordinated in right of payment to all indebtedness of Neonode AB to Almi. In addition, our Board of Directors Chairman and two founders, Per Bystedt, Thomas Ericsson and Magnus Goertz pledged their beneficial holdings in Neonode Inc. as collateral for the senior secured notes. The senior secured notes were convertible under three scenarios:

(i) In the event of a successful initial public offering on or before August 28, 2007, the Convertible Senior Secured Notes, including without limitation all accrued interest and other obligations under the notes, shall automatically convert without any action of the holder into units in the Company at a price of $5 per unit, each unit consisting of one share of Company common stock and 0.5 five-year warrant, each exercisable to purchase one share at $10 per share. These warrants may be called by us for $0.10 should the price of the Company's common stock trade over $12.50 on a public exchange for 20 consecutive days.

(ii) The Convertible Senior Secured Notes may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the bridge note investors shall have the opportunity, prior to such prepayment, to convert the amounts borrowed under the bridge notes into common stock of the Company at a ratio equal to the outstanding debt and interest divided by $5.

(iii) In the event that we fail to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007, the Convertible Senior Secured Notes shall be converted into common stock of the Company at a price per share equal to the fair market value of such shares as determined by negotiation. The number of shares to be issued as a result of such a negotiation cannot be less than the amounts borrowed including accrued interest under the bridge notes divided by $5.

Derivatives

The senior secured notes issued on February 28, 2006 and November 20, 2006 contained an embedded derivative instrument (conversion feature) with three triggers. Pursuant to SFAS 133 and EITF 00-19, this conversion feature was considered an embedded derivative requiring bifurcation from the debt host, and is included in "Embedded derivates of convertible debt" at fair value each reporting period. This was because there were an indeterminable number of shares the senior secured notes could convert into, and the embedded conversion feature met a definition of a derivative. If the feature was freestanding, it would meet the definition of a liability. Accordingly, bifurcation was required from the debt host instrument. At the time of issuance of the $4.0 million senior secured notes on February 28, 2006, the fair value of the conversion feature was $125,000, which was recorded as a debt discount and amortized to interest expense over the expected term of the senior secured notes. An additional $24,000 was added to the fair value of the conversion feature on November 20, 2006 upon issuance of an additional $1.0 million in senior secured notes. Changes in the fair value of the conversion feature are recorded in "Non-cash charges for conversion features and warrants." During 2006, we recorded $72,000 of interest expense associated with the amortization of the debt discount along with a reduction of $25,000 associated with the changes in the fair value of the conversion feature liability.

Debt Modifications

In March 2006 the Almi 1 loan with an outstanding balance of SEK 646,000, approximately $83,000 U.S. Dollars, was amended to provide for conversion rights as defined in the provisions for the senior secured notes as described in (i) above under the Convertible Senior Secured Notes and a waiver of further principle payments until the conversion date. In addition, the Almi 2 loan was amended to state that in the event the related 40,000 warrants are called by Neonode Inc., Almi is entitled to make payment for the securities issued by reducing the par value of the outstanding balance of the Almi 2 loan. For accounting purposes, the change in terms was accounted for as a modification of the Almi 1 loan.

On October 26, 2006 the Petrus loan agreement was amended to include accrued interest to May 31, 2006 in the loan amount, which increased the loan amount to SEK 5,353,000, approximately $758,000 U.S. Dollars, and instated the same conversion rights as the senior secured notes as defined under scenario (i) above. For accounting purposes, the change in terms was accounted for as a modification.

Additional Issuances of Convertible Senior Secured Notes

In February 2007, we completed an additional $5.0 million convertible senior secured note financing. The note bears interest at 4% per annum and has a maturity date of September 30, 2007. The terms and conditions of these notes are substantially the same as for the existing senior secured notes, as amended on January 19, 2007. Pursuant to SFAS 133 and EITF 00-19, the conversion feature valued at $135,000 was considered an embedded derivative requiring bifurcation from the debt host, and is included in "Embedded derivatives of convertible debt" at fair value each reporting period. Prior to the consummation of the merger, the related debt discount was amortized to interest expense and the loan was converted on August 10, 2007.

On May 18, 2007, the maturity date for all outstanding senior secured notes was extended from September 30, 2007 to December 31, 2007. All other terms remained the same. For accounting purposes, the change in terms was accounted for as a modification of the debt in accordance with EITF 96-19.

On June 15, 2007, we completed an additional $3.0 million convertible senior secured note financing. The note bears interest at 4% per annum and has a maturity date of December 31, 2007. The terms and conditions of these notes are substantially the same terms and conditions as the existing senior secured notes. Pursuant to SFAS 133 and EITF 00-19, this conversion feature amounting to $114,000 was considered an embedded derivative requiring bifurcation from the debt host, and is included in "Embedded derivatives of convertible debt" at fair value each reporting period. The debt discount was amortized to interest expense. Prior to the consummation of the merger, the loan was converted on August 10, 2007.

Conversion of Outstanding Pre-Merger Convertible Debt

On August 10, 2007, just prior to the consummation of the reverse merger, all the above convertible debt and accrued interest were converted to 2,858,574 shares of Neonode Inc. common stock and warrants to purchase 1,429,286 shares of Neonode Inc. common stock. Immediately prior to the conversion of the pre-merger convertible debt, the embedded conversion feature of such convertible debt became much more valuable, due to the fact that a reverse merger with SBE was imminent.

Immediately prior to the conversion, we determined the fair value of the embedded conversion feature of these notes and loans to be $35.6 million, using SBE's share price as of August 10, 2007. The expense associated with the valuation of the embedded conversion feature was the result of the fixed exchange ratio of pre-merger Neonode common stock to that of SBE common stock. The change in the fair value of the loan conversion feature was recorded as a non-cash valuation charge in the statement of operations. We then compared the total value of the common stock and warrants to be issued upon conversion to the book value of the loans and the updated fair value of the related conversion feature, resulting in a non-cash charge of $376,000. The fair value of the common stock issued upon conversion amounted to $49.5 million and was recorded under stockholders equity. The fair value of the detachable warrants issued upon conversion amounted to $404,000, which was computed using the Black-Scholes option pricing model. The warrants were classified as a liability in accordance in EITF 00-19, as the warrants met the liability classification due to the underlying shares required to be registered and maintained effectiveness without any penalties to the Company. Maintaining effectiveness is not within our control, and accordingly, the warrants were classified as a liability. The assumptions used for the Black-Scholes option pricing model were a term of five years, volatility of 116% and interest rate of 4.20%. For the twelve months ending December 31, 2007, non-cash charges amounting $32.1 million were recorded to the statement of operations relating the changes in valuations of the above conversion feature.

The conversion of the notes were accounted for using extinguishment accounting based on the guidance in APB 26, *Early Extinguishment of Debt.* To account for the conversion of the senior secured notes when an embedded conversion feature has been bifurcated as a liability, the following steps were taken:

- Update the valuation of the bifurcated derivative to the legal conversion date (August 10, 2007).
- Adjust the carrying value of the host debt instrument to reflect accretion of any premium or discount on the host debt instrument up to the date of legal conversion (August 10, 2007).
- Amortize debt issue costs to the date of legal conversion (August 10, 2007).
- Ensure that the book basis in the host debt instrument considered all components of book value, including the unamortized portion of any premiums or discounts on the debt host recorded as an adjustment to the debt host and any unamortized debt issue costs recorded as deferred charges.
- Calculate the difference between the re-acquisition price and net carrying amount of the debt by comparing the fair value of the securities (warrants and common stock) issued upon conversion to the updated net carrying value of the sum of the bifurcated embedded derivative liability and the debt host. Record any difference as an extinguishment gain or loss in the income statement and statement of cash flows.

The extinguishment accounting of the conversion of the senior secured notes resulted in a charge totaling $376,000, which is included "Charges related debt extinguishments and debt discounts."

The securities issued in the merger have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On August 10, 2007, in conjunction with the reverse merger with SBE accounted for as a recapitalization, all the pre-merger Neonode Inc. common stock and warrants was exchanged into 10,096,197 shares of our (SBE) common stock and warrants to purchase 5,048,095 shares of our (SBE) common stock. The warrants have an exercise price of $2.83 per share and expire on August 10, 2012. The warrants may be called by us for $0.10 should the price of the Company's common stock trade over $3.54 on a public exchange for 20 consecutive days.

Senior Convertible August Bridge Notes

On August 8, 2007, we made an offering of convertible notes pursuant to a Note Purchase Agreement (August Bridge Notes or Bridge Notes), dated as of July 31, 2007, amended August 1, 2007 and September 26, 2007. We received $3,250,000 from the Bridge Note offering and issued an option to invest $750,000, at the same terms and conditions as the Bridge Notes, to one of the Bridge Note investors/financial advisor as part of a longer range financing plan. The August Bridge Notes and the option to invest $750,000 expires on June 30, 2008.

The fair value of the $750,000 option to invest at a future date was $716,000 as calculated using the Black-Scholes option pricing model on the date of issue. The assumptions used for the Black-Scholes option pricing model were a term of 0.39 years, volatility of 99% and interest rate of 4.16%. The fair value was recorded as a deferred financing fee to be allocated to interest expense using the effective interest rate method over the nine month term of the notes with the offset recorded as other current liability. At December 31, 2007, this option was extended to March 31, 2008 as part of debt negotiations in a private placement that closed in March 2008. On March, 31, 2008, the expiration of the option was extended until June 30, 2008. The value of the extension of this option was calculated using the Black-Scholes option pricing model and amounted to $474,000. The assumptions used for the Black-Scholes option pricing model were a term of 0.39 years, volatility of 33% and interest rate of 4.16%. The $474,000 warrants were recorded as a liability with the corresponding amount recorded as a deferred financing fee, which is being amortized using the effective interest method over the life of the August Bridge Notes. Such warrants met the liability classification—see below.

The Bridge Notes were convertible into the same rights and terms of any future financing occurring by December 31, 2007, if such financing was greater than $5 million. On September 26, 2007, we sold $5.7 million of securities (see next section). As a result, all Bridge Notes became convertible into September 26, 2007 units which consist of common stock, warrants and convertible debt.

On September 26, 2007, certain holders of the Bridge Notes converted an aggregate of $454,900 of debt and accrued interest. The conversion was accounted for as an extinguishment as described above and resulted in a charge amounting to $608,000. We converted these Bridge Notes into the following components based on their fair values at conversion:

- $227,450 three-year promissory notes bearing the higher of LIBOR plus 3% or 8% interest per annum, convertible into shares of our common stock at a conversion price of $3.50 per share,
- 75,817 shares of our common stock,
- 5 year warrants to purchase 105,612 shares of our common stock at a price of $3.92 per share.
- The fair value of the 5 year warrants totaled $340,000 and was calculated using the Black-Scholes option pricing model. The assumptions used for the Black-Scholes option pricing model were a term of 5 years, volatility of 33% and interest rate of 4.2%. The warrants are recorded as other current liability (see below) and will be fair valued at each period end as long as they are outstanding; and,
- The fair value of the embedded conversion feature related to the convertible notes amounting to $152,000, was bifurcated from the host instrument (see below) and was recorded as "Embedded derivatives of convertible debt" and a debt discount.

We registered these shares related to the September 26, 2007 conversion pursuant to a Registration Statement on Form S-3 declared effective on December 3, 2007.

The remaining $2.8 million of Bridge Notes, after the September 26, 2007 conversion, are due June 30, 2008, bear 8% per annum interest and are convertible into purchase units that are made up of a combination of shares of our common stock, debt and warrants. The note holders have a right to convert their notes anytime before June 30, 2008 into a total of 933.33 purchase units. Each purchase unit of $3,000 is comprised of one $1,500 three-year promissory note bearing the higher of LIBOR plus 3% or 8% interest per annum, convertible into shares of our common stock at a conversion price of $3.50 per share, 600 shares of our common stock and 5 year warrants to purchase 696.5 shares of our common stock at a price of $3.92 per share. For accounting purposes the embedded conversion feature was determined to meet the definition of a derivative, and if freestanding, was a liability. This was because the holder of the notes could convert debt and accrued interest, where interest is at the greater of 8% or LIBOR plus 3%, and therefore, total number of shares the instrument could be convertible into were not fixed. Accordingly, the embedded conversion feature is bifurcated from the debt host instrument and booked as a liability, pursuant to the guidance in SFAS 133 and EITF 00-19, with the offset to debt discount. The related warrants were also recorded as a liability, due to the same reason.

The fair value of the embedded conversion feature related to the Bridge Notes was calculated at September 26, 2007 using the Black-Scholes option pricing model and amounted to $3.3 million. The assumptions used for the Black-Scholes option pricing model were a term of 0.76 years, volatility of 99% and interest rate of 4.16%. The $3.3 million was recorded as "Embedded derivatives of convertible debt" and a debt discount. The debt discount exceeded the amount of recorded debt, which resulted in a charge of $654,000 for the difference between the debt discount and the value of the debt. The remaining debt discount balance is allocated to interest expense based on the effective interest rate method, with such interest rate of 7,330%, over the nine-month term of the notes. The value of the embedded conversion feature is revalued at each period-end and the liability is adjusted with the offset recorded as "Non-cash charges for conversion features & warrants." The liability of the embedded conversion feature amounted to $2.1 million at December 31, 2007 which is a decrease of $1.2 million from September 30, 2007.

Simultaneously with the conversion, in exchange for three year warrants to purchase up to 219,074 shares of our common stock at a price of $3.92 per share, the holders of the remaining $2.8 million of unconverted Bridge Notes agreed to extend the term of their notes from December 31, 2007 until June 30, 2008. In addition, the Bridge Note holders agreed to delay the right to convert their Bridge Notes until after March 15, 2008 and until June 30, 2008. The fair value of the warrants issued to the holders of the $2.8 million of Bridge Note was calculated at September 26, 2007 as $706,000 using the Black-Scholes option pricing model. These warrants were also classified as a liability due to the same reason as above. The assumptions used for the Black-Scholes option pricing model were a term of 0.76 years, volatility of 116% and interest rate of 4.16%. As a result of the extension of the loan maturity period, the agreement to delay conversion of the bridge notes and the issuance of additional warrants, the modifications were significant enough to trigger debt extinguishment accounting resulting in a debt extinguishment charge amounting to $540,000.The fair value was recorded as a debt issuance cost to be allocated to interest expense based on the effective interest rate method over the nine month term of the notes with the offsetting entry to a liability. The liability is revalued at each period-end and the change in the liability is recorded as "Non-cash charges for conversion features & warrants." The revalued liability amounted to $608,000 at December 31, 2007 resulting in an decrease from September 30, 2007 in "Non-cash charges for conversion features & warrants" of $98,000 in the fourth quarter of 2007.

September 2007 Financing Transaction **(Senior Convertible September Secured Notes)**

On September 26, 2007, we sold $5.7 million of securities in a private placement, comprised of $2.9 million of three-year promissory notes bearing the higher of LIBOR plus 3% or 8% interest per annum, convertible into shares of our common stock at a conversion price of $3.50 per share, 952,499 shares of our common stock, and 5 year warrants to purchase 1,326,837 shares of our common stock at a price of $3.92 per share.

The embedded conversion feature in the debt host met the definition of a derivative and liability classification in accordance with SFAS 133 and EITF 00-19. This was because the holder of the notes could convertible debt and accrued interest, where interest is at the greater of 8% or LIBOR plus 3%, and therefore, total number of shares the instrument could be convertible into were not fixed. Accordingly, t the embedded conversion features are revalued on each balance sheet date and marked to market with the adjusting entry to “Non-cash charges for conversion features & warrants.” We allocated the proceeds first to the warrants based on their fair value with the remaining balance allocated between debt, $771,000, and equity, $669,000, based on their relative fair values.

The warrants met the definition of a liability for the same reason as the embedded conversion feature described above. The fair value of the warrants issued in conjunction with issuance of shares of our common stock and convertible debt totaled $4.3 million on its issue date and was recorded as a liability pursuant to the provisions of EITF No. 00-19 . The fair value of the warrants was calculated using the Black-Scholes option pricing model. The assumptions used for the Black-Scholes option pricing model were a term of 5 years, volatility of 33% and interest rate of 4.2%. The value of these warrants at December 31, 2007 decreased to $3.7 million and the offsetting amount of $593,000 was recorded in “Non-cash charges for conversion features & warrants.”

The fair value of the conversion feature related to the September 26, 2007 convertible notes totaled $1.9 million at September 26, 2007. The debt discount exceeded the amount allocated to the debt, including $227,000 from conversion of Bridge Notes, which resulted in a charge of $902,000 for the difference between the debt discount and the value of the debt. The fair value was recorded as a debt discount and is allocated to interest expense using the effective interest rate method over the three year term of the notes. The liability of the embedded conversion feature decreased to $1.4 million at December 31, 2007 with the offset of $470,000 recorded in “Non-cash charges for conversion features and warrants.”

As part of the September 2007 Private Placement, we incurred cash and non-cash transaction expenses amounting to $1.2 million. Empire Asset Management Company (Empire) acted as financial advisor in the private placement. We agreed to pay Empire a fee of $479,000 in cash and issue 142.875 unit purchase warrants. Each unit purchase warrant has a strike price of $3,250 and is comprised of a $1,500 three-year promissory note, bearing the higher of LIBOR plus 3% or 8% interest per annum, convertible into shares of our common stock at a conversion price of $3.50 per share, 500 shares of our common stock and a 5 year warrant to purchase 696.5 shares of our common stock at a purchase price of $3.92 per share. At the date of issuance, the fair value of the unit purchase warrants issued to Empire totaled $614,000. The assumptions used for the Black-Scholes option pricing model were a term of 5 years, volatility of 99% and interest rate of 4.2%. At December 31, 2007, the fair value of the unit purchase warrants issued to Empire decreased to $509,000 with the adjusting offset of $105,000 recorded in “Non-cash charges for conversion features & warrants.” Transaction costs were allocated based on the relative fair values of the individual components in the financing transaction. $431,000 of transaction costs allocated to the warrants were expensed immediately. The note portion of $433,000 was recorded as a deferred financing fee to be allocated to interest expense using the effective interest rate method, with such rate equaling 624% over the 3 year term of the notes. The equity portion of $376,000 was recorded as an offering expense and included as a reduction of shareholders’ equity.

Outstanding Warrants as of December 31, 2007

Description	**Issue Date**		**Exercise Price**	**Shares**	**Expiration Date**
Merger Investor Warrants	8/10/2007	$	2.83	5,863,678	8/10/2012
Bridge Note Warrants	9/26/2007	$	3.92	219,073	9/26/2010
September 2007 Unit Warrants	9/26/2007	$	3.92	1,432,449	9/27/2012
SBE Investor Warrants (pre-merger warrants)	6/27/2003	$	7.50	11,000	6/27/2008
SBE Investor Warrants (pre-merger warrants)	6/27/2003	$	8.75	5,000	6/27/2008
SBE Investor Warrants (pre-merger warrants)	6/27/2003	$	10.00	10,000	6/27/2008
SBE Investor Warrants (pre-merger warrants)	7/26/2005	$	16.65	206,000	7/26/2010
Total warrants outstanding				**7,747,200**	

Derivatives

As discussed above the senior secured, bridge and promissory notes issued above contain embedded conversion features. Pursuant to SFAS 133 and EITF 00-19 the conversion features are considered embedded derivatives and are included in “Embedded derivative of convertible debt.” At the time of issuance of the senior secured notes, the fair value of the conversion feature was recorded as a debt discount and amortized to interest expense over the expected term of the senior secured notes using the effective interest rate method. Changes in the fair value of the conversion feature are recorded in “Non-cash charges for conversion features & warrants.” During the twelve months ending December 31, 2007 and 2006, we recorded $441,000 and $71,000 of interest expense associated with the amortization of the debt discounts along with $33.6 million and ($24,000) associated with the changes in the fair value of the conversion feature liability.

13. Stockholders’ Equity

On January 8, 2007, we engaged Griffin Securities, Inc. (Griffin) to act as our financial advisor. Under the terms of the agreement, upon the completion of a merger transaction, we agreed to pay a fee of $250,000 in cash and issue 229,573 unit purchase warrants to Griffin. Each unit purchase warrant is convertible into one share of our common stock at a purchase price of $1.42 per share and a warrant to purchase one-half share of our common stock at a purchase price of $2.83 per share. We amended the Griffin agreement to allow the unit purchase warrants to be granted subsequent to May 18, 2007. The unit purchase warrants were issued to Griffin on June 29, 2007.

The fair value of the unit purchase warrants issued to Griffin totals $158,000 and was calculated using the Black-Scholes option pricing model. The assumptions used for the Black-Scholes option pricing model were a term of 5 years, volatility of 50% and interest rate of 4.875%. The fair value was recorded as a prepaid expense and was allocated to merger costs at the completion of the merger and is included in “Non-cash charges for conversion features & warrants” on the Consolidated Statements of Operations.

On June 29, 2007, the exercise deadline for 101,719 employee warrants to purchase our common stock was extended from June 30, 2007 to December 31, 2007. In December 2007, the employee warrants were exercised pursuant to the warrant net exercise provisions and resulted in the issuance of 55,818 shares of our common stock by forfeiting the remaining 45,901 shares of common stock.

The stock based compensation cost associated with the extension of these warrants totalled $7,000 and was calculated using the Black-Scholes option pricing model. The assumptions used for the Black-Scholes option pricing model were a term of 0.51 years, volatility of 50% and interest rate of 4.88%.

On August 10, 2007 in conjunction with the merger transaction accounted for as a recapitalization, Neonode shareholders exchanged each share of Neonode common stock for 3.5319 shares of SBE common stock (exchange ratio). Each Neonode warrant and stock option that was outstanding on the closing date has been converted into SBE warrants and stock options by multiplying the Neonode stock options by the same exchange ratio described above. The new exercise price was also determined by dividing the old exercise price by the same exchange ratio. Each of these warrants and options is subject to the same terms and conditions that were in effect for the related Neonode warrants and options. Immediately following the consummation of the merger, Neonode stockholders and employees own approximately 28.5 million shares of the Company’s common stock or instruments convertible into common stock, or 90.6% of the fully diluted capitalization, including warrants and options, of the combined company.

The following table is the number of shares of common stock, warrants and stock options outstanding immediately following the consummation of the merger.

As of August 10, 2007	**SBE**	**Neonode**	**Total**
Common Stock	2,295,529	20,378,251	22,673,780
Warrants to purchase common stock	232,000	5,965,397	6,197,397
Employee stock options	437,808	2,117,332	2,555,140
Total	2,965,337	28,460,980	31,426,317

The securities issued in the merger have not been registered under the Securities Act of 1933, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

We completed a private placement of our debt and equity securities on September 26, 2007 and in consideration, we agreed to delay the filing a registration statement to register for resale the shares of the common stock issued to the Neonode shareholders plus all the shares underlying the warrants to purchase common stock and employee stock options until after March 3, 2008; except that up to 600,000 such shares sold in a simultaneous private placement by certain officers were registered on December 3, 2007.

14. Stock-Based Compensation

We have several approved stock option plans for which stock options and restricted stock awards are available to grant to employees, consultants and directors. All employee and director stock options granted under our stock option plans have an exercise price equal to the market value of the underlying common stock on the grant date. There are no vesting provisions tied to performance conditions for any options, as vesting for all outstanding option grants was based only on continued service as an employee, consultant or director. All of our outstanding stock options and restricted stock awards are classified as equity instruments.

Stock Options

As of December 31, 2007, we had four equity incentive plans:

- The 1996 Stock Option Plan (the 1996 Plan), which expired in January 2006;
- The 1998 Non-Officer Stock Option Plan (the 1998 Plan) ;
- The 2007 Neonode Stock Option Plan (the Neonode Plan), we will not grant any additional equity awards out of the Neonode Plan; and
- The 2006 Equity Incentive Plan (the 2006 Plan).

We also had one non-employee director stock option plan as of December 31, 2007:

- The 2001 Non-Employee Director Stock Option Plan (the Director Plan).

The following table details the outstanding options to purchase shares of our common stock pursuant to each plan at December 31, 2007:

Plan	Shares Reserved	Options Outstanding	Available for Issue	Outstanding Options Vested
1996 Plan	546,000	61,000	---	61,000
1998 Plan	130,000	35,900	36,495	35,900
Neonode Plan	2,119,140	2,117,332	---	2,117,332
2006 Plan	1,300,000	205,000	835,000	5,000
Director Plan	68,000	15,500	27,000	15,500
Total	4,163,140	2,434,732	898,495	2,234,732

The following table summarizes information with respect to all options to purchase shares of common stock outstanding under the 1996 Plan, the 1998 Plan, the 2006 Plan , the Neonode Plan and the Director Plan at December 31, 2007:

	Options Outstanding				Options Exercisable		
Range of Exercise Price	Number Outstanding at 12/31/07	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price		Number Exercisable at 12/31/07	Weighted Average Exercise Price	
$ 0.00 - $ 1.50	353,190	4.05	$	1.42	353,190	$	1.42
$ 1.51 - $ 2.00	911,677	0.30	$	1.84	911,677	$	1.84
$ 2.01 - $ 3.00	814,865	1.29	$	2.13	814,865	$	2.13
$ 3.01 - $ 4.00	2,000	4.26	$	4.00	2,000	$	4.00
$ 4.01 - $ 5.00	240,600	5.82	$	4.86	40,600	$	4.69
$ 5.01 - $ 6.50	3,400	4.13	$	5.30	3,400	$	5.30
$ 6.51 - $ 8.00	37,502	4.61	$	6.74	37,502	$	6.74
$ 8.01 - $10.00	37,498	4.61	$	8.49	37,498	$	8.49
$10.01 - $15.00	24,000	4.14	$	14.53	24,000	$	14.53
$15.01 - $30.00	10,000	3.26	$	24.04	10,000	$	24.04
	2,434,732	1.91	$	2.58	2,234,732	$	2.37

A summary of the combined activity under all of the stock option plans is set forth below:

	Weighted Average Number of Shares	Exercise Price Per Share		Exercise Price	
Outstanding at December 31, 2005	866,702	$	3.50 - $91.88	$	12.91
Granted	124,400	$	1.80 - $7.75	$	5.27
Cancelled or expired	(429,912)	$	4.50 - $80.94	$	13.36
Exercised	(8,533)	$	4.50 - $4.50	$	4.50
Outstanding at December 31, 2006	552,657	$	1.80 - $91.88	$	10.96
Granted	2,383,482	$	1.42 - $8.49	$	2.32
Cancelled or expired	(478,657)	$	3.20 - $91.88	$	11.04
Exercised	(22,750)	$	1.80 - $2.33	$	2.28
Outstanding at December 31, 2007	2,434,732	$	1.42 - $27.50	$	2.58

The stock options granted in 2006 were to employees of SBE, Inc. that continued to be employees of Neonode after the culmination of the merger transaction on August 10, 2007.

The 1996 Plan terminated effective January 17, 2006 and although we can no longer issue stock options out of the plan, the outstanding options at the date of termination will remain outstanding and vest in accordance with their terms. Options granted under the Director Plan vest over a one to four-year period, expire five to seven years after the date of grant and have exercise prices reflecting market value of the shares of our common stock on the date of grant. Stock options granted under the 1996, 1998 and 2006 and are exercisable over a maximum term of ten years from the date of grant, vest in various installments over a one to four-year period and have exercise prices reflecting the market value of the shares of common stock on the date of grant.

The Neonode Plan has been designed for participants (i) who are subject to Swedish income taxation (each, a "Swedish Participant") and (ii) who are not subject to Swedish income taxation (each, a "Non-Swedish Participant"). We will not grant any additional equity awards out of the Neonode Plan. The options issued under the plan to the Non-Swedish Participant are five year options with 25% vesting immediately and the remaining vesting over a three year period. The options issued to Swedish participants are vested immediately upon issuance.

We granted options to purchase 2,383,482 shares of our common stock to employees or members of our Board of Directors (Board) during the twelve months ending December 31, 2007, respectively, compared to grants of 124,400 options to purchase shares of our common stock to employees and members of the Board for the twelve months ending December 31, 2006, respectively. The fair value of stock-based compensation related to the employee and director stock options is calculated using the Black-Scholes option pricing model as of the grant date of the underlying stock options.

Salary expense for the twelve months ending December 31, 2007 includes a stock compensation charge relating to the above issuance of Swedish Participant and Non-Swedish Participant options. The fair value of the options at the date of issuance of the Swedish options was calculated using the Black-Scholes option pricing model. These calculations assumed risk free interest rates ranging from 4.5% to 4.875%, a volatility of 50% and a share prices ranging from $4.69 to $4.78. The fair market value of the options was allocated to the vested and unvested options. The amount allocated to the unvested portion is amortized on a straight line basis over the remaining vesting period.

The stock compensation expense reflects the fair value of the vested portion of options for the Swedish and Non-Swedish participants at the date of issuance, the amortization of the unvested portion of the stock options, less the option premiums received from the Swedish participants. Employee and director stock-based compensation expense related to stock options in the accompanying condensed statements of operations is as follows (in thousands):

	Twelve months ended December 31, 2006	Twelve months ended December 31, 2007	Remaining unamortized expense at December 31, 2007
Stock based compensation	$ 0	$ 408	$ 964

The remaining unamortized expense related to stock options will be recognized on a straight line basis monthly as compensation expense over the remaining vesting period which approximates 3 years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Options granted in years ended December 31	2007	2006
Expected life (in years)	4.27	5.12
Risk-free interest rate	5.55%	4.71%
Volatility	114.42%	104.47%
Dividend yield	0.00%	0.00%

The weighted average grant-date fair value of options granted during the fiscal years ended December 31, 2007 and 2006 was $1.54 and $4.52, respectively. The total intrinsic value of options exercised during the fiscal years ended December 31, 2007 and 2006 was $42,766 and $16,798, respectively.

The fair value of stock-based awards to employees is calculated using the Black-Scholes option pricing model, even though this model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from our stock options. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term and forfeiture rate of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior, as well as expected behavior on outstanding options. The risk-free rate is based on the U.S. Treasury rates in effect during the corresponding period of grant. The expected volatility is based on the historical volatility of our stock price. These factors could change in the future, which would affect fair values of stock options granted in such future periods, and could cause volatility in the total amount of the stock-based compensation expense reported in future periods.

15. Warranty Obligations and Other Guarantees

The following is a summary of our agreements that we have determined are within the scope of FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others* -- *an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FIN 34.*

Our products are generally warranted against defects for twelve months following the sale. We generally have a twelve month warranty from the manufacturers of our products. Our estimate of costs to service our warranty obligations is based on expectation of future conditions. To the extent we estimate warranty claim activity or increased costs associated with servicing those claims, a warranty accrual will be created and may increase or decrease from time to time, resulting in increases or decreases in gross margin. In January 2007, we offered our customers a design modification for the N2 phones held in their inventory. We expect the cost of the modification program to be approximately $200,000.

We enter into indemnification provisions under our agreements with other companies in the ordinary course of business, typically with business partners, contractors, customers and landlords. Under these provisions we generally indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of our activities or, in some cases, as a result of the indemnified party's activities under the agreement. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal and have no liabilities recorded for these agreements as of December 31, 2007 and 2006, respectively.

We have agreed to indemnify each of our executive officers and directors for certain events or occurrences arising as a result of the officer or director serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited. However, we have a directors' and officers' liability insurance policy that should enable us to recover a portion of future amounts paid. As a result of our insurance policy coverage, we believe the estimated fair value of these indemnification agreements is minimal and have no liabilities recorded for these agreements as of December 31, 2007 and 2006, respectively.

We are the secondary guarantor on the building lease assumed by One Stop Systems, Inc. as part of the sale of the SBE, Inc hardware business on March 30, 2007. This lease commitment expires in September 2010.

16. Income Taxes

Loss before income taxes was distributed geographically as follows (in thousands):

	Twelve Months Ended Dec. 31, 2007	Twelve Months Ended Dec. 31, 2006
Domestic	$ (39,608)	$ (1,359)
Foreign	(8,833)	(3,759)
Total	$ (48,441)	$ (5,118)

We had no provision (benefit) for income taxes for the year ended December 31, 2007 and 2006.

The effective income tax rate differs from the statutory federal income tax rate for the following reasons:

	Twelve Months Ended Dec. 31, 2007	Twelve Months Ended Dec. 31, 2006
Amount at standard tax rates	(35%)	(35%)
Non-deductible loss on revaluation of embedded conversion features and extinguishment of convertible debt	30%	0
Increase in valuation allowance for deferred tax asset	5%	35%
Effective tax rate	0%	0%

Significant components of the deferred tax balances are as follows (in thousands):

	December 31,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	$ 5,703	$ 2,850
Amortization	1,305	314
Other	210	-
Total deferred tax assets	$ 7,218	$ 3,164
Valuation allowance	(7,218)	(3,164)
Total net deferred tax assets	$ -	$ -

Valuation allowances are recorded to offset certain deferred tax assets due to management's uncertainty of realizing the benefits of these items. Management applies a full valuation allowance for the accumulated losses of Neonode Inc, and its subsidiary Neonode AB, since it is not determinable using the "more likely than not" criteria that there will be any future benefit of our deferred tax assets. This is mainly due to our history of operating losses and due to the competitive character of the hand-held media device/mobile telephone market. The main components of our deferred tax benefits are the accumulated net operating loss carry-forwards, which are almost entirely related to the operations of Neonode AB in Sweden. Currently, under Swedish tax law these benefits do not expire and may be carried forward and utilized indefinitely.

Effective January 1, 2007, we adopted the provisions of FIN 48 which includes a two-step approach to recognizing, de-recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. As a result of the implementation of FIN 48, we recognized no increase in the liability for unrecognized tax benefits. Therefore upon implementation of FIN 48, we recognized no material adjustment to the January 1, 2007 balance of retained earnings. A reconciliation of the unrecognized tax benefits for the year ended December 31, 2007 is as follows:

Balance at January 1, 2007	$ 0
Additions for tax positions of prior years	---
Reductions for tax position of prior years	---
Additions based on tax positions related to the current year	---
Decreases - Settlements	---
Reductions - Settlements	---
Balance at December 31, 2007	$ 0

We adopted a policy to classify accrued interest and penalties as part of the accrued FIN 48 liability in the provision for income taxes. For the year ended December 31, 2007, we did not recognize any interest or penalties related to unrecognized tax benefits.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2007, we had no accrued interest and penalties related to uncertain tax matters.

By the end of 2007, we had no uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations. We do not anticipate the adjustments would result in a material change to our financial position.

We file income tax returns in the U.S. federal jurisdiction, California and Sweden. The 1994 through 2007 tax years are open and may be subject to potential examination in one or more jurisdictions. We are not currently under federal, state or foreign income tax examination.

17. Employee Benefit Plans

We participate in a number of individual defined contribution pension plans for our employees in Sweden. Contributions relating to these defined contribution plans for the years ended December 31, 2007 and 2006 were $237,000 and $26,000 respectively.

18. Commitments and Contingencies

Legal Proceedings

During 2006, a reserve was recorded for a dispute that developed between us and a supplier. Neonode AB contracted with a supplier for the production and delivery of telephones during 2005. Neonode AB believes that the supplier did not deliver the telephones in accordance with its obligations under the contract, which entitled Neonode AB to terminate the contract. Neonode AB terminated the contract in June 2006. Since the contract was terminated due to the supplier's breach of contract, we believed that the supplier had no right to payment in excess of what had already been paid for telephones delivered. The invoices for the produced but not delivered telephones amounted to $860,000. We and the supplier came to agreement in a settlement in December 2006 where Neonode AB should pay the supplier $410,000 in three instalments for three shipments of 500 phones each, after which none of the parties will have any claims on the other party except for warranty claims. The first instalment of $119,000 was paid in December 2006, the remainder in 2007. Since we are not certain that any telephones received in this settlement will be sellable in the future, due to newer models currently being introduced, the cost for the settlement has been expensed in 2006.

There were no legal proceedings at December 31, 2007.

Operating Leases

We lease our office facilities in Sweden under a non-cancellable operating lease agreement. On October 22, 2007, our subsidiary Neonode AB entered into a lease agreement with NCC Property G AB for 9,500 square feet office space at Warfvingsesvag 41, Stockholm, to be used as the corporate headquarters. The lease period began on April 1, 2008 and expires on March 31, 2013. The annual payment for these premise equates to approximately $288,000 per year and is indexed to the consumer price index in Sweden. As an incentive to enter into the agreement as one of the firs tenants to occupy the building, the NCC Property G AB has given Neonode AB discounts amounting to approximately $120,000 allocated over the first eight months of the leasing period. Prior to taking occupancy of this new facility, during fiscal year 2007 through March 31, 2008, we occupied 6,000 square feet of office space in Stockholm under a lease which has now expired.

The future minimum lease payments under this non-cancellable operating lease are as follows as of December 31, 2007 (in thousands):

	Future minimum payments on operating leases	
Year Ending December 31,		
2008	$	207
2009		317
2010		317
2011		317
2012		317
Thereafter		106
Total future minimum lease payments	$	1,581

Total rent expense under the leases was $343,000 and $270,000 for the years ended December 31, 2007 and 2006, respectively.

19. Concentration of Credit and Business Risks

Our trade accounts receivable are concentrated among a small number of customers, principally located in Europe and India. Two customers accounted for 68% of our outstanding accounts receivable at December 31, 2007 compared to two customers who accounted for more than 41% of total accounts receivable at December 31, 2006. Ongoing credit evaluations of customers' financial condition are performed and, generally, no collateral is required.

Sales to individual customers in excess of 15% of net sales for the year ended December 31, 2007 included sales to My Phone located in Greece of $992,000, or 32% of net sales and Brightpoint located in Sweden and Norway of $749,000, or 24% of net sales. Sales to individual customers in excess of 15% of net sales for the year ended December 31, 2006 included sales to a major Asian manufacturer located in Korea of $851,000, or 52% of net sales and sales to a Russian distributor of $740,000, or 45% of net sales. All sales were executed in Euros or U.S. dollars.

We depend on a limited number of customers for substantially all revenue to date. Failure to anticipate or respond adequately to technological developments in our industry, changes in customer or supplier requirements or changes in regulatory requirements or industry standards, or any significant delays in the development or introduction of products or services, could have a material adverse effect on our business, operating results and cash flows.

Substantially all of our manufacturing process is subcontracted to one independent company. The chipsets used in our mobile phone handset product are currently available from single source suppliers. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments or margins that, in turn, could have a material adverse effect on our business, operating results, financial condition and cash flows.

20. Net Loss Per Share

Basic net loss per common share for the years ended December 31, 2007 and 2006 was computed by dividing the net loss for the relevant period by the weighted average number of shares of common stock outstanding. Diluted earnings per common share is computed by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding.

However, common stock equivalents of approximately 404,000 and 0 stock options and 7.7 million and 0 warrants to purchase common stock are excluded from the diluted earnings per share calculation for fiscal 2007 and 2006, respectively, due to their anti-dilutive effect.

(in thousands, except per share amounts)	Years ended December 31, 2007	2006
Basic Earnings Per Share:		
Net loss available to common shareholders	$ (48,441)	$ (5,224)
Number of shares for computation of earnings per share	15,400	10,119
Basic loss per share	$ (3.15)	$ (0.52)
Diluted Earnings Per Share:		
Weighted average number of common shares outstanding during the year	15,400	10,119
Assumed issuance of stock under warrant plus stock issued the employee and non-employee stock option plans	(a)	(a)
Number of shares for computation of earnings per share	15,400	10,119
Diluted loss per share	$ (3.15)	$ (0.52)

(a) In loss periods, common share equivalents would have an anti-dilutive effect on net loss per share and therefore have been excluded.

21. Segment Information

We have one reportable segment, as defined in SFAS 131, *Disclosures about Segments of an Enterprise and Related Information* . We currently operate in one industry segment: the development and selling of multimedia mobile phones. To date, we have carried out substantially all of our operations through our subsidiary in Sweden, although we do carry out some development activities together with our manufacturing partner in Malaysia. We intend to manage our future growth on a geographic basis and our management will evaluate the performance of our segments and allocate resources to them based upon income (loss) from operations.

During 2007, substantially all of our phones were sold in European countries. In 2006 we discontinued our N1 phone. We sold limited amounts of the N1 without any right of return. Over 90% of our phone revenues for 2006 were from Russia.

In addition to phone sales, revenues included license revenue from an Asian manufacturer amounting to $463,000 and $851,000 for 2007 and 2006, respectively.

22. Related Party Transactions

Petrus Holding, Iwo Jima SARL and Spray AB are companies where the Chairman of the Board and a significant shareholder of Neonode Inc., Per Bystedt, owns or has significant influence. All three companies have invested in senior secured notes that were convertible in our common stock and warrants to purchase our common stock. All the convertible senior secured notes were converted to our common stock and warrants to purchase our common stock just prior to the merger with SBE on August 10, 2007 (see Notes 1 and 12).

23. Subsequent Events

Effective March 4, 2008, we sold $4.5 million in securities in a private placement to accredited investors (“Investors”) pursuant to a Subscription Agreement, dated March 4, 2008 (“Subscription Agreement”). We sold 1,800,000 shares (“Investor Shares”) of our common stock, $0.001 par value (“Common Stock”), for $2.50 per share. After placement agent fees and offering expenses, we received net proceeds of approximately $4,000,000.

Pursuant to the Subscription Agreement, we granted the Investors piggyback registration rights in respect to the Investor Shares and we are obligated to include the Investor Shares in the next registration statement we file with the Securities and Exchange Commission (“SEC”), subject to limited exceptions. In addition, we issued an aggregate of 207,492 shares of Common Stock to investors who participated in the September 2007 private placement pursuant to anti-dilution provisions contained. Empire Asset Management, Inc. acted as financial advisor in the private placement and received compensation in connection with the private placement of approximately $450,000 and 120,000 shares of Common Stock.

In January 2008, we offered our customers a design modification for the N2 phones held in their inventory. We expect the cost of the modification program to be approximately $200,000. As part of the modification program we offered to transport the inventory to our manufacturing partner (Balda Malaysia) and provide the modifications at no cost to our customers. As a result, certain of our customers are withholding payment of amounts due us until the modifications are completed and the inventory is returned to them.

Neonode Inc.
Schedule II - Valuation and Qualifying Accounts
For the Years Ended December 31, 2007 and 2006
(amounts in thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions charged to costs and expenses	Deductions	Balance End of Period
Year ended December 31, 2007				
Allowance for Warranty Reserve	$ -	$ 92	$ -	$ 92
Allowance for Deferred Tax Assets	(3,164)	-	-	(7,218)
Year ended December 31, 2006				
Allowance for Warranty Reserve	-	-	-	-
Allowance for Deferred Tax Assets	(1,268)	-	(1,896)	(3,164)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

I TEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision of and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the December 31, 2007. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective for the reasons described below.

During the audit of our consolidated financial statements for the year ended December 31, 2007, management determined that we had certain material weaknesses relating to our revenue recognition policies and our accounting for certain financing transactions, including convertible debt and derivative financial instruments. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a Company's annual or interim financial statements will not be prevented or detected on a timely basis. During mid-2007 we began shipping products to customers and initially recorded revenue as products were shipped. After evaluation of contracts and actual sell through, we determined that the proper revenue recognition methods would be "sell through." This change resulted in certain accounting adjustments during our year-end audit. In addition, we entered into several complex financing transactions (including convertible debt, derivatives, bifurcation and complex valuation and measurement activities) that resulted in accounting adjustments during our year-end audit. Because these material weaknesses as to internal control over financial reporting also bear upon our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer were unable to conclude our disclosure controls and procedures were effective.

The factors described below under "Internal Control of Financial Reporting" related to the integration and consolidation of the Swedish operating subsidiary we acquired on August 10, 2007 further contributed to the conclusion of our Chief Executive Officer and Chief Financial Officer.

Despite the conclusion that disclosure controls and procedures were not effective as of the end of period covered by this report, the Chief Executive Officer and Chief Financial Officer believe that the financial statements and other information contained in this annual report present fairly, in all material respects, our business, financial condition and results of operations.

Internal Control over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm. As discussed elsewhere in this report, the merger between SBE and Neonode on August 10, 2007 represented a significant change in our business and financial operations. Having occurred in the final third of the fiscal year, the merger left management with insufficient time to finalize integration and consolidate operations to fully assess the effectiveness of internal control over financial reporting. Our new operating subsidiary was not previously subject to Commission reporting standards, including those relating to internal control over financial reporting. The merger resulted in new employees, systems, and processes at fiscal year-end that were significantly different from those in place for the majority of the fiscal year. We also experienced a change in most members of senior management and the board of directors upon the merger. As a result, our management believed it was impracticable to fully and appropriately assess our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

Even if our management had provided their conclusion as to the effectiveness of our internal control over financial reporting, it would not have been subject to attestation by our independent registered public accounting firm due to temporary rules of the Commission that would permit us to provide only management's assessment in this annual report.

Comparable to a newly public company and consistent with public guidance from the Commission, we believe that having the benefit of a full fiscal year of consolidated business and financial operations, we expect our Chief Executive Officer and Chief Financial Officer will be positioned to provide the assessment of internal control over financial reporting as part of the annual report for the fiscal year ending December 31, 2008.

As of the period ended December 31, 2007, we undertook the following changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

- We implemented corporate governance policies, including an employee code of conduct and whistleblower provisions, so that employees of our operating subsidiary would be aware of our compliance duties and responsibilities; and
- We purchased new management reporting system software, and retained a consultant to oversee its implementation, to better enable us to consolidate our accounting and budgeting systems across different international locations and functional currencies.

As we move towards complete integration and consolidation of business and financial operations of SBE and Neonode, we expect to take additional steps to both remedy the material weaknesses described above and facilitate our management's assessment of internal control over financial reporting in accordance the Sarbanes-Oxley Act and Commission rules. Our planned steps include:

- adding personnel to our financial department, consultants, or other resources (including those with public company reporting experience) to enhance our policies and procedures, including those related to revenue recognition;
- exploring the suitability of further upgrades to our accounting system to complement the new management reporting system software described above;
- modifying the documentation and testing programs SBE was developing prior to the merger to appropriately apply to the new Neonode; and
- engaging a qualified consultant in 2008 to perform an assessment of the effectiveness of our internal control over financial reporting and assist us in implementing appropriate internal controls on weaknesses determined, if any, documenting, and then testing the effectiveness of those controls.

ITEM 9B. OTHER INFORMATION

On October 22, 2007, our subsidiary Neonode AB entered into a lease agreement with NCC Property G AB for 9,500 square feet office space at Warfvingsesvag 41, Stockholm, to be used as the corporate headquarters. The lease period began on April 1, 2008 and expires on March 31, 2013. The annual payment for these premise equates to approximately $288,000 per year and is indexed to the consumer price index in Sweden. As an incentive to enter into the agreement as one of the firs tenants to occupy the building, the NCC Property G AB has given Neonode AB discounts amounting to approximately $120,000 allocated over the first eight months of the leasing period.

On October 21, 2007, Neonode AB also entered into a lease agreement with NCC Property G AB for 10 parking spaces located at Warfvingsesvag 41, Stockholm. The lease period begins on April 1, 2008 and expires on March 31, 2013. The annual payment for these premise amounts to $28,000 per year and is indexed to the consumer price index in Sweden. Neonode AB has the right to terminate the lease on March 31, 2011 if notice of termination is given by Neonode AB at least 9 months prior to March 31, 2011.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The identification of our executive officers is provided above at the end of Part I of this Annual Report on Form 10-K.

We have adopted a code of ethics that applies to our principal officers. The code of ethics has been posted on our internet website found at www.neonode.com. We intend to satisfy disclosure requirements regarding amendments to, or waivers from, any provisions of its code of ethics on our website.

The other information required by this Item is incorporated by reference to "Election of Directors," "Board of Directors Committees and Corporate Governance" and "Additional Information - Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for our 2008 Annual Meeting of Stockholders to be filed within 120 days of the end of our December 31, 2007 fiscal year (the "2008 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to "Executive Compensation" in our 2008 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item, other than as provided below, is incorporated by reference to "Security Ownership of Certain Beneficial Owners and Management" in our 2008 Proxy Statement.

The following table includes information regarding our equity incentive plans as of the end of fiscal 2007:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	4,063,281	$3.79	862,000
Equity compensation plans not approved by security holders	5,774,291	$2.87	36,495
Total	9,837,572	$3.25	898,495

The following table details the outstanding options to purchase shares of our common stock pursuant to each plan at December 31, 2007:

Plan	Shares Reserved	Options Outstanding	Available for Issue	Outstanding Options Vested
1996 Plan	546,000	61,000	---	61,000
1998 Plan [(1)]	130,000	35,900	36,495	35,900
2007 Neonode Plan [(2)]	2,119,140	2,117,332	---	2,117,332
2006 Plan	1,300,000	205,000	835,000	5,000
Director Plan	68,000	15,500	27,000	15,500
Total	4,163,140	2,434,732	898,495	2,234,732

(1) The 1998 Plan has not been approved by our shareholders.

(2) The 2007 Neonode Plan was assumed by Neonode upon the consummation of the August 2007 Merger with Old Neonode.

Summary of 1998 Non-Officer Stock Option Plan

The purpose of the 1998 Non-officer Stock Option Plan is to provide a means by which eligible recipients of options may be given an opportunity to benefit from increases in value of our common stock through the granting of nonstatutory stock options. The plan permits the grant of nonstatutory stock options. Nonstatutory stock options may be granted under the 1998 Plan to our employees or consultants who are not, at the time of such grants, directors or officers. The administrator, in its discretion, selects the persons to whom options are granted, the time or times at which such options are granted, and the exercise price and number of shares subject to each such grant. We do not expect to issue any further options under the 1998 Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to “Related Person Transactions” and “Corporate Governance” in our 2008 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to “Ratification Of Selection Of Independent Auditors” in our 2008 Proxy Statement.

PART IV

ITEM 15. EXHIBITS

Financial Statements

The financial statements of the registrant are listed in the index to the financial statements and filed under Item 8 of this report.

Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts is listed in the index to the financial statements and filed under Item 8 of this report. Schedules not listed have been omitted because the information required therein is not applicable or is shown in the financial statements and the notes thereto.

Exhibits

Exhibit #	Description
2.1	Agreement and Plan of Merger and Reorganization between SBE, Inc. and Neonode Inc., dated January 19, 2007 *(incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on January 22, 2007*) (*In accordance with Commission rules, we supplementally will furnish a copy of any omitted schedule to the Commission upon request*)
2.2	Amendment No. 1 to the Agreement and Plan of Merger and Reorganization between SBE, Inc. and Neonode Inc., dated May 18, 2007, effective May 25, 2007 (*incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on May 29, 2007*)
3.1	Amended and Restated Certificate of Incorporation, dated December 20, 2007, effective December 21, 2007
3.2	Bylaws, as amended through December 5, 2007
10.1	Note Purchase Agreement, dated February 28, 2006
10.2	Senior Secured Note issued to AIGH Investment Partners LLC, dated February 28, 2006
10.3	Senior Secured Note issued to Hirshcel Berkowitz, dated February 28, 2006
10.4	Senior Secured Note issued to Joshua Hirsch, dated February 28, 2006
10.5	Security Agreement, dated February 28, 2006
10.6	Stockholder Pledge and Security Agreement (form of), dated February 28, 2006
10.7	Intercreditor Agreement, dated February 28, 2006
10.8	Note Purchase Agreement, dated November 20, 2006
10.9	Senior Secured Note issued to AIGH Investment Partners LLC, dated November 20, 2006
10.10	Senior Secured Note issued to Hirshcel Berkowitz, dated November 20, 2006
10.11	Senior Secured Note issued to Joshua Hirsch, dated November 20, 2006
10.12	Amendment to Security Agreement, dated November 20, 2006
10.13	Amendment to Stockholder Pledge and Security Agreement, dated November 20, 2006
10.14	Amendment to Security Agreement, dated January 22, 2007

10.15	Amendment to Stockholder Pledge and Security Agreement, dated January 22, 2007
10.16	Amendment to Senior Secured Notes, dated May 22, 2007, effective May 25, 2007
10.17	Note Purchase Agreement between SBE, Inc. and Neonode Inc., dated May 18, 2007, effective May 25, 2007 (*incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on May 29, 2007*)
10.18	Senior Secured Note issued to SBE, Inc., dated May 18, 2007, effective May 25, 2007 (*incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on May 29, 2007*)
10.19	Amendment to Security Agreement, dated July 31, 2007
10.20	Amendment to Stockholder Pledge and Security Agreement, dated July 31, 2007
10.21	Note Purchase Agreement, dated July 31, 2007
10.22	Amendment to Note Purchase Agreement, dated August 1, 2007
10.23	Amendment No. 2 to Note Purchase Agreement, dated December 21, 2007
10.24	Amendment No. 3 to Note Purchase Agreement, dated March 31, 2008
10.25	Senior Secured Note, dated August 8, 2007 (*incorporated by reference to Exhibit 10.22(a) of our Current Report on Form 8-K filed on October 2, 2007*)
10.26	Amendment to Senior Secured Note, dated September 10, 2007 (*incorporated by reference to Exhibit 10.22(b) of our Current Report on Form 8-K filed on October 2, 2007*)
10.27	Form of Common Stock Purchase Warrant issued pursuant to Amendment to Senior Secured Notes, dated September 10, 2007 (*incorporated by reference to Exhibit 10.22(c) of our Current Report on Form 8-K filed on October 2, 2007*)
10.28	Subscription Agreement, dated September 10, 2007 (*incorporated by reference to Exhibit 10.23 of our Current Report on Form 8-K filed on October 2, 2007*)
10.29	Convertible Promissory Note (*incorporated by reference to Exhibit 10.24 of our Current Report on Form 8-K filed on October 2, 2007*)
10.30	Form of Common Stock Purchase Warrant (*incorporated by reference to Exhibit 10.25 of our Current Report on Form 8-K filed on October 2, 2007*)
10.31	Form of Unit Purchase Warrant (*incorporated by reference to Exhibit 10.26 of our Current Report on Form 8-K filed on October 2, 2007*)
10.32	Subscription Agreement, dated March 4, 2008 (*incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on March 3, 2008*)
10.33	Asset Purchase Agreement with One Stop Systems, Inc., dated January 11, 2007 (*incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on January 12, 2007*)
10.34	Asset Purchase Agreement with Rising Tide Software, dated August 15, 2007 (*incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on August 24, 2007*)
10.35	Lease for 4000 Executive Parkway, Suite 200 dated July 27, 2005 with Alexander Properties Company
10.36	Lease for Warfvingesväg 45, SE-112 51 Stockholm, Sweden dated October 16, 2007 with NCC Property G AB
10.37	1998 Non-Officer Stock Option Plan, as amended (*incorporated by reference to Exhibit 99.2 of our Registration Statement on Form S-8 (333-63228) filed on June 18, 2001*)+
10.38	2001 Non-Employee Directors' Stock Option Plan, as amended (*incorporated by reference to Exhibit 10.2 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2002, as filed on January 27, 2003*)+
10.39	Director and Officer Bonus Plan, dated September 21, 2006 (*incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on September 26, 2006*)+
10.40	Employment Agreement with Mikael Hagman, dated November 30, 2006+
10.41	Executive Severance Benefits Agreement with Kenneth G. Yamamoto, dated March 21, 2006 (*incorporated by reference to Exhibit 10.16 of our Quarterly Report on Form 10-Q for the period ended January 31, 2007, as filed on March 16, 2007*)+
10.42	Executive Severance Benefits Agreement with David W. Brunton, dated April 12, 2004 (*incorporated by reference to Exhibit 10.13 of our Quarterly Report on Form 10-Q for the period ended January 31, 2005, as filed on March 2, 2005*)+
10.43	Executive Severance Benefits Agreement with Kirk Anderson, dated April 12, 2004 (*incorporated by reference to Exhibit 10.14 of our Quarterly Report on Form 10-Q for the period ended January 31, 2005, as filed on March 2, 2005*)+
10.44	Executive Severance Benefits Agreement with Leo Fang, dated May 24, 2006 (*incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on May 26, 2006*)+
10.45	Executive Severance Benefits Agreement with Nelson Abal, dated August 4, 2006 (*incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on August 7, 2006*)+
21	Subsidiaries of the registrant
23.1	Consent of BDO Feinstein International AB, Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act Of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

+ Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEONODE INC.
(Registrant)

Date: April 14, 2008

By: /s/ David W. Brunton

David W. Brunton
Chief Financial Officer,
Vice President, Finance
and Secretary

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned officers and directors of the registrant constitutes and appoints, jointly and severally, Mikael Hagman and David W. Brunton, and each of them, as lawful attorneys-in-fact and agents for the undersigned and for each of them, each with full power of substitution and resubstitution, for and in the name, place and stead of each of the undersigned officers and directors, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or appropriate to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact or any of them, or any of their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements for the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacity and dates indicated.

Name	Title	Date
/s/ Mikael Hagman Mikael Hagman	President and Chief Executive Officer, and Director *(Principal Executive Officer)*	April 14, 2008
/s/ David W. Brunton David W. Brunton	Chief Financial Officer, Vice President, Finance and Secretary *(Principal Financial and Accounting Officer)*	April 14, 2008
/s/ Per Bystedt Per Bystedt	Director, Chairman of the Board	April 14, 2008
/s/ John Reardon John Reardon	Director	April 14, 2008
/s/ Susan Major Susan Major	Director	April 14, 2008

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
NEONODE INC.

Neonode Inc., a corporation organized and existing under the laws of the State of Delaware (the “Corporation”), hereby certifies as follows:

1. The current name of the Corporation is Neonode Inc. The name under which the Corporation was originally incorporated is SBE (Delaware), Inc. and the date of the filing of the original Certificate of Incorporation with the Secretary of State of the State of Delaware is September 4, 1997.

2. The Certificate of Incorporation of the Corporation, as the same heretofore has been amended, supplemented or restated (the "Certificate of Incorporation") currently authorizes the issuance of 42,000,000 shares of all classes, which are divided into (i) 40,000,000 shares of common stock, $0.001 par value per share and (ii) 2,000,000 shares of Preferred Stock, $0.001 par value per share, of which no series have been designated, and the Corporation wishes to increase the number of authorized shares of common stock to 75,000,000 shares.

3. The amendment and the restatement of the restated Certificate of Incorporation herein certified have been duly adopted by the stockholders in accordance with the provisions of Section 242 and of Section 245 of the General Corporation Law of the State of Delaware and integrates and further amends the Certificate of Incorporation of the Corporation, so as to read in its entirety as follows:

ARTICLE I.

The name of this Corporation is Neonode Inc.

ARTICLE II.

The address of the registered office of the corporation in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, and the name of the registered agent of the corporation in the State of Delaware at such address is the The Corporation Trust Company.

ARTICLE III.

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV.

A. This corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the corporation is authorized to issue is Seventy-Seven Million (77,000,000) shares, of which Seventy-Five Million (75,000,000) shares will be Common Stock, par value $0.001 per share, and Two Million (2,000,000) shares will be Preferred Stock, par value $0.001 per share.

B. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing a certificate (a "Preferred Stock Designation") pursuant to the Delaware General Corporation Law, to fix or alter from time to time the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions of any wholly unissued series of Preferred Stock, and to establish from time to time the number of shares constituting any such series or any of them; and to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series is decreased in accordance with the foregoing sentence, the shares constituting such decrease will resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE V.

For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation and regulation of the powers of the corporation, of its directors and of its stockholders or any class thereof, as the case may be, it is further provided that:

A.

(1) The management of the business and the conduct of the affairs of the corporation will be vested in its Board of Directors. The number of directors that will constitute the whole Board of Directors will be fixed exclusively by one or more resolutions adopted by the Board of Directors.

(2) Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the directors will be divided into three classes designated as Class I, Class II and Class III, respectively. Directors will be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class I directors will expire and Class I directors will be elected for a full term of three years. At the second annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class II directors will expire and Class II directors will be elected for a full term of three years. At the third annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class III directors will expire and Class III directors will be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors will be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting. Notwithstanding the foregoing provisions of this Article, each director will serve until his or her successor is duly elected and qualified or until his or her death, resignation or removal. No decrease in the number of directors constituting the Board of Directors will shorten the term of any incumbent director.

(3) Subject to the rights of the holders of any series of Preferred Stock, no director will be removed without cause. Subject to any limitations imposed by law, the Board of Directors or any individual director may be removed from office at any time with cause by the affirmative vote of the holders of sixty-six and two thirds percent (66-2/3%) of the voting power of all the then-outstanding shares of voting stock of the corporation entitled to vote at an election of directors (the "Voting Stock").

(4) Subject to the rights of the holders of any series of Preferred Stock, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors will, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships will be filled by the stockholders, except as otherwise provided by law, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors, and not by the stockholders. Any director elected in accordance with the preceding sentence will hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor has been elected and qualified.

(5) In the event that Section 2115(a) of the California Corporations Code is applicable to this corporation, then the following will apply:

(a) Every stockholder entitled to vote in any election of directors of this corporation may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder thinks fit;

(b) No stockholder, however, may cumulate such stockholder's votes for one or more candidates unless (A) the names of such candidates have been properly placed in nomination, in accordance with the Bylaws of the corporation, prior to the voting, (B) the stockholder has given advance notice to the corporation of the intention to cumulative votes pursuant to the Bylaws, and (C) the stockholder has given proper notice to the other stockholders at the meeting, prior to voting, of such stockholder's intention to cumulate such stockholder's votes; and

(6) If any stockholder has given proper notice, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. The candidates receiving the highest number of votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares shall be declared elected.

B.

(1) Subject to paragraph (h) of Section 43 of the Bylaws, the Bylaws may be altered or amended or new Bylaws adopted by the affirmative vote of sixty-six and two thirds percent (66-2/3%) of the then outstanding shares of the Voting Stock. The Board of Directors will also have the power to adopt, amend, or repeal Bylaws.

(2) The directors of the corporation need not be elected by written ballot unless the Bylaws so provide.

(3) Following the filing with the Secretary of State of the State of Delaware of the Agreement and Plan of Merger effecting the merger between the corporation and SBE, Inc., a California corporation, no action will be taken by the stockholders of the corporation except at an annual or special meeting of stockholders called in accordance with the Bylaws.

(4) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (A) the Chairman of the Board of Directors, (B) the Chief Executive Officer, or (C) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption) or (D) by the holders of the shares entitled to cast not less than sixty-six and two thirds percent (66-2/3%) of the votes at the meeting, and will be held at such place, on such date, and at such time as the Board of Directors fix therefor.

(5) Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation must be given in the manner provided in the Bylaws of the corporation.

ARTICLE VI.

A. A director of the corporation will not be personally liable to the corporation or its stockholders for monetary damages for any breach of fiduciary duty as a director, except for liability (1) for any breach of the director's duty of loyalty to the corporation or its stockholders, (2) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law (3) under Section 174 of the Delaware General Corporation Law, or (4) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director will be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law as so amended.

B. Any repeal or modification of this Article VI will be prospective and will not affect the rights under this Article VI in effect at the time of the alleged occurrence of any act or omission to act giving rise to liability or indemnification.

ARTICLE VII.

A. The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, except as provided in paragraph B. of this Article VII, and all rights conferred upon the stockholders herein are granted subject to this reservation.

B. Notwithstanding any other provisions of this Certificate of Incorporation or any provision of law that might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, this Certificate of Incorporation or any Preferred Stock Designation, the affirmative vote of the holders of sixty-six and two thirds percent (66-2/3%) of the then outstanding shares of the Voting Stock, voting together as a single class, will be required to alter, amend or repeal Articles V, VI, and VII.

4. This certificate is filed pursuant to Section 242 and 245 of Title 8 of the Delaware Code, as amended.

IN WITNESS WHEREOF, the undersigned have executed this Certificate of Amendment as of the 20th day of December, 2007.

/s/ David Brunton

David Brunton, Chief Financial Officer and Secretary

BYLAWS
OF
SBE, INC.

ARTICLE I
OFFICES

1. REGISTERED OFFICE. The registered office of the corporation in the State of Delaware will be in the City of Wilmington, County of New Castle.

2. OTHER OFFICES. The corporation will also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors, and may also have offices at such other places, both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II
CORPORATE SEAL

3. CORPORATE SEAL. The corporate seal will consist of a die bearing the name of the corporation and the inscription, "Corporate Seal-Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE III
STOCKHOLDERS' MEETINGS

4. PLACE OF MEETINGS. Meetings of the stockholders of the corporation will be held at such place, either within or without the State of Delaware, as may be designated from time to time by the Board of Directors, or, if not so designated, then at the office of the corporation required to be maintained pursuant to Section 2 hereof.

5. ANNUAL MEETING.

(a) The annual meeting of the stockholders of the corporation, for the purpose of election of directors and for such other business as may lawfully come before it, will be held on such date and at such time as may be designated from time to time by the Board of Directors.

(b) At an annual meeting of the stockholders, only such business will be conducted as will have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (2) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (3) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not later than the close of business on the sixtieth (60th) day nor earlier than the close of business on the ninetieth (90th) day prior to the first anniversary of the preceding year's annual meeting; PROVIDED, HOWEVER, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or, in the event public announcement of the date of such annual meeting is first made by the corporation fewer than seventy (70) days prior to the date of such annual meeting, the close of business on the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the corporation.

A stockholder's notice to the Secretary will set forth as to each matter the stockholder proposes to bring before the annual meeting: (1) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (3) the class and number of shares of the corporation which are beneficially owned by the stockholder, (4) any material interest of the stockholder in such business and (5) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Notwithstanding anything in these Bylaws to the contrary, no business will be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph (b). The chairman of the annual meeting will, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph (b), and, if he should so determine, he will so declare at the meeting that any such business not properly brought before the meeting will not be transacted.

(c) Only persons who are nominated in accordance with the procedures set forth in this paragraph (c) will be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (c). Such nominations, other than those made by or at the direction of the Board of Directors, will be made pursuant to timely notice in writing to the Secretary of the corporation in accordance with the provisions of paragraph (b) of this Section 5. Such stockholder's notice will set forth (1) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation which are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (2) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (b) of this Section 5. At the request of the Board of Directors, any person nominated by a stockholder for election as a director will furnish to the Secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person will be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (c). The chairman of the meeting will, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he will so declare at the meeting, and the defective nomination will be disregarded.

(d) For purposes of this Section 5, “public announcement” will mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

6. SPECIAL MEETINGS.

(a) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (1) the Chairman of the Board of Directors, (2) the Chief Executive Officer, (3) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption) or (4) by the holders of shares entitled to cast not less than a majority of the votes at the meeting, and will be held at such place, on such date, and at such time as the Board of Directors, will fix.

(b) If a special meeting is called by any person or persons other than the Board of Directors, the request will be in writing, specifying the general nature of the business proposed to be transacted, and will be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the Chairman of the Board of Directors, the Chief Executive Officer, or the Secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors will determine the time and place of such special meeting, which will be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request will cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 7 of these Bylaws. If the notice is not given within sixty (60) days after the receipt of the request, the person or persons requesting the meeting may set the time and place of the meeting and give the notice. Nothing contained in this paragraph (b) will be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

7. NOTICE OF MEETINGS. Except as otherwise provided by law or the Certificate of Incorporation, written notice of each meeting of stockholders will be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, date and hour and purpose or purposes of the meeting. Notice of the time, place and purpose of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting will be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

8. QUORUM. At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these Bylaws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote will constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business will be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, all action taken by the holders of a majority of the vote cast, excluding abstentions, at any meeting at which a quorum is present will be valid and binding upon the corporation; PROVIDED, HOWEVER, that directors will be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or classes or series is required, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, a majority of the outstanding shares of such class or classes or series, present in person or represented by proxy, will constitute a quorum entitled to take action with respect to that vote on that matter and, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the majority (plurality, in the case of the election of directors) of the votes cast, including abstentions, by the holders of shares of such class or classes or series will be the act of such class or classes or series.

9. ADJOURNMENT AND NOTICE OF ADJOURNED MEETINGS. Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the shares casting votes, excluding abstentions. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the meeting.

10. VOTING RIGHTS. For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the corporation on the record date, as provided in Section 12 of these Bylaws, will be entitled to vote at any meeting of stockholders. Every person entitled to vote will have the right to do so either in person or by an agent or agents authorized by a proxy granted in accordance with Delaware law. An agent so appointed need not be a stockholder. No proxy will be voted after three (3) years from its date of creation unless the proxy provides for a longer period.

11. JOINT OWNERS OF STOCK. If shares or other securities having voting power stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two (2) or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting will have the following effect: (a) if only one (1) votes, his act binds all; (b) if more than one (1) votes, the act of the majority so voting binds all; (c) if more than one (1) votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the General Corporation Law of Delaware, Section 217 (b). If the instrument filed with the Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of subsection (c) will be a majority or even-split in interest.

12. LIST OF STOCKHOLDERS. The Secretary will prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list will be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place will be specified in the notice of the meeting, or, if not specified, at the place where the meeting is to be held. The list will be produced and kept at the time and place of meeting during the whole time thereof and may be inspected by any stockholder who is present.

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13. ACTION WITHOUT MEETING. No action will be taken by the stockholders except at an annual or special meeting of stockholders called in accordance with these Bylaws, and no action will be taken by the stockholders by written consent.

14. ORGANIZATION.

(a) At every meeting of stockholders, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or, if the President is absent, a chairman of the meeting chosen by a majority in interest of the stockholders entitled to vote, present in person or by proxy, will act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, will act as secretary of the meeting.

(b) The Board of Directors of the corporation will be entitled to make such rules or regulations for the conduct of meetings of stockholders as it will deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting will have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman will permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders will not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE IV
DIRECTORS

15. NUMBER AND TERM OF OFFICE. The authorized number of directors of the corporation will be fixed in accordance with the Certificate of Incorporation. Directors need not be stockholders unless so required by the Certificate of Incorporation. If for any cause, the directors will not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these Bylaws.

16. POWERS. The powers of the corporation will be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation.

17. CLASSES OF DIRECTORS. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the directors will be divided into three classes designated as Class I, Class II and Class III, respectively. Directors will be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class I directors will expire and Class I directors will be elected for a full term of three years. At the second annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class II directors will expire and Class II directors will be elected for a full term of three years. At the third annual meeting of stockholders following the adoption and filing of this Certificate of Incorporation, the term of office of the Class III directors will expire and Class III directors will be elected for a full term of three years. At each succeeding annual meeting of stockholders, directors will be elected for a full term of three years to succeed the directors of the class whose terms expire at such annual meeting. Notwithstanding the foregoing provisions of this Article, each director will serve until his or her successor is duly elected and qualified or until his or her death, resignation or removal. No decrease in the number of directors constituting the Board of Directors will shorten the term of any incumbent director.

18. VACANCIES. Unless otherwise provided in the Certificate of Incorporation, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors, will unless the Board of Directors determines by resolution that any such vacancies or newly created directorships will be filled by stockholders, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence will hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor will have been elected and qualified. A vacancy in the Board of Directors will be deemed to exist under this Bylaw in the case of the death, removal or resignation of any director.

19. RESIGNATION. Any director may resign at any time by delivering his written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it will be deemed effective at the pleasure of the Board of Directors. When one or more directors will resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, will have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations will become effective, and each Director so chosen will hold office for the unexpired portion of the term of the Director whose place will be vacated and until his successor will have been duly elected and qualified.

20. REMOVAL. Subject to the rights of the holders of any series of Preferred Stock, no director will be removed without cause. Subject to any limitations imposed by law, the Board of Directors or any individual director may be removed from office at any time with cause by the affirmative vote of the holders of a majority of the voting power of all the then-outstanding shares of voting stock of the corporation, entitled to vote at an election of directors (the "Voting Stock").

21. MEETINGS.

(a) ANNUAL MEETINGS. The annual meeting of the Board of Directors will be held immediately before or after the annual meeting of stockholders and at the place where such meeting is held. No notice of an annual meeting of the Board of Directors will be necessary and such meeting will be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) REGULAR MEETINGS. Except as hereinafter otherwise provided, regular meetings of the Board of Directors will be held in the office of the corporation required to be maintained pursuant to Section 2 hereof. Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may also be held at any place within or without the State of Delaware which has been designated by resolution of the Board of Directors or the written consent of all directors.

(c) SPECIAL MEETINGS. Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the President or any two of the directors.

(d) TELEPHONE MEETINGS. Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means will constitute presence in person at such meeting.

(e) NOTICE OF MEETINGS. Notice of the time and place of all special meetings of the Board of Directors will be orally or in writing, by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means, during normal business hours, at least twenty-four (24) hours before the date and time of the meeting, or sent in writing to each director by first class mail, charges prepaid, at least three (3) days before the date of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(f) WAIVER OF NOTICE. The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, will be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present will sign a written waiver of notice. All such waivers will be filed with the corporate records or made a part of the minutes of the meeting.

22. QUORUM AND VOTING.

(a) Unless the Certificate of Incorporation requires a greater number and except with respect to indemnification questions arising under Section 43 hereof, for which a quorum will be one-third of the exact number of directors fixed from time to time in accordance with the Certificate of Incorporation, a quorum of the Board of Directors will consist of a majority of the exact number of directors fixed from time to time by the Board of Directors in accordance with the Certificate of Incorporation; PROVIDED, HOWEVER, at any meeting whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business will be determined by the affirmative vote of a majority of the directors present, unless a different vote be required by law, the Certificate of Incorporation or these Bylaws.

23. ACTION WITHOUT MEETING. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

24. FEES AND COMPENSATION. Directors will be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained will be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor.

25. COMMITTEES.

(a) EXECUTIVE COMMITTEE. The Board of Directors may by resolution passed by a majority of the whole Board of Directors appoint an Executive Committee to consist of one (1) or more members of the Board of Directors. The Executive Committee, to the extent permitted by law and provided in the resolution of the Board of Directors will have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, including without limitation the power or authority to declare a dividend, to authorize the issuance of stock and to adopt a certificate of ownership and merger, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee will have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation’s property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the bylaws of the corporation.

(b) OTHER COMMITTEES. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, from time to time appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors will consist of one (1) or more members of the Board of Directors and will have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event will such committee have the powers denied to the Executive Committee in these Bylaws.

(c) TERM. Each member of a committee of the Board of Directors will serve a term on the committee coexistent with such member’s term on the Board of Directors. The Board of Directors, subject to the provisions of subsections (a) or (b) of this Bylaw may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The membership of a committee member will terminate on the date of his death or voluntary resignation from the committee or from the Board of Directors. The Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) MEETINGS. Unless the Board of Directors will otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 25 will be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any director who is a member of such committee, upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends such special meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. A majority of the authorized number of members of any such committee will constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present will be the act of such committee.

26. ORGANIZATION. At every meeting of the directors, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or if the President is absent, the most senior Vice President, or, in the absence of any such officer, a chairman of the meeting chosen by a majority of the directors present, will preside over the meeting. The Secretary, or in his absence, an assistant secretary directed to do so by the President, will act as secretary of the meeting.

ARTICLE V
OFFICERS

27. OFFICERS DESIGNATED. The officers of the corporation will include, if and when designated by the Board of Directors, the Chairman of the Board of Directors, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer, all of whom will be elected at the annual organizational meeting of the Board of Directors. The Board of Directors may also appoint other officers and agents with such powers and duties as it will deem necessary. The Board of Directors may assign such additional titles to one or more of the officers as it will deem appropriate. The Board of Directors may empower the chief executive officer of the corporation to appoint such officers, other than the Chairman of the Board, President, Secretary or Chief Financial Officer, as the business of the corporation may require. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation will be fixed by or in the manner designated by the Board of Directors.

28. TENURE AND DUTIES OF OFFICERS.

(a) GENERAL. All officers will hold office at the pleasure of the Board of Directors and until their successors will have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

(b) DUTIES OF CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors, when present, will preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors will perform other duties commonly incident to his office and will also perform such other duties and have such other powers as the Board of Directors will designate from time to time. If there is no President, then the Chairman of the Board of Directors will also serve as the general manager and chief executive officer of the corporation and will have the powers and duties prescribed in paragraph (c) of this Section 28.

(c) DUTIES OF PRESIDENT. The President will preside at all meetings of the stockholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. The President will be general manager and chief executive officer of the corporation and will, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the corporation. The President will have discretion to prescribe the duties of other officers and employees of the corporation in a manner not inconsistent with the provisions of these bylaws and the directions of the Board of Directors. The President will perform other duties commonly incident to his office and will also perform such other duties and have such other powers as the Board of Directors will designate from time to time.

(d) DUTIES OF VICE PRESIDENTS. The Vice Presidents, in order of their rank as fixed by the Board of Directors, or if not ranked, the Vice President designated by the Board of Directors, may assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. The Vice Presidents will perform other duties commonly incident to their office and will also perform such other duties and have such other powers as the Board of Directors or the President will designate from time to time.

(e) DUTIES OF SECRETARY. The Secretary will attend all meetings of the stockholders and of the Board of Directors and will record all acts and proceedings thereof in the minute book of the corporation. The Secretary will give notice in conformity with these Bylaws of all meetings of the stockholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary will perform all other duties given him in these Bylaws and other duties commonly incident to his office and will also perform such other duties and have such other powers as the Board of Directors will designate from time to time. If any assistant secretaries are appointed, the President may direct the assistant secretary or one of the assistant secretaries in the order of their rank as fixed by the Board of Directors or, if they are not so ranked, the assistant secretary designated by the Board of Directors, to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary will perform other duties commonly incident to his office and will also perform such other duties and have such other powers as the Board of Directors or the President will designate from time to time.

(f) DUTIES OF CHIEF FINANCIAL OFFICER. The Chief Financial Officer will be responsible for all functions and duties of the treasurer of the corporation. The Chief Financial Officer will keep or cause to be kept the books of account of the corporation in a thorough and proper manner and will render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors or the President. The Chief Financial Officer, subject to the order of the Board of Directors, will have the custody of all funds and securities of the corporation. The Chief Financial Officer will perform other duties commonly incident to his office and will also perform such other duties and have such other powers as the Board of Directors or the President will designate from time to time. If any assistant financial officers are appointed, the President may direct the assistant financial officer, or one of the assistant financial officers, if there are more than one, in the order of their rank as fixed by the Board of Directors or if they are not so ranked, the assistant financial officer designated by the Board of Directors, to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each assistant financial officer will perform other duties commonly incident to his office and will also perform such other duties and have such other powers as the Board of Directors or the President will designate from time to time.

29. DELEGATION OF AUTHORITY. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer or agent, notwithstanding any provision hereof.

30. RESIGNATIONS. Any officer may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary. Any such resignation will be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation will become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation will not be necessary to make it effective. Any resignation will be without prejudice to the rights, if any, of the corporation under any contract with the resigning officer.

31. REMOVAL. Any officer may be removed from office at any time with cause by the affirmative vote of a majority of the directors in office at the time, or by the unanimous written consent of the directors in office at the time, or by any committee or superior officers upon whom such power of removal may have been conferred by the Board of Directors.

ARTICLE VI
EXECUTION OF CORPORATE INSTRUMENTS
AND VOTING OF SECURITIES OWNED BY THE CORPORATION

32. EXECUTION OF CORPORATE INSTRUMENTS. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the corporation any corporate instrument or document, or to sign on behalf of the corporation the corporate name without limitation, or to enter into contracts on behalf of the corporation, except where otherwise provided by law or these Bylaws, and such execution or signature will be binding upon the corporation.

Unless otherwise specifically determined by the Board of Directors or otherwise required by law, promissory notes, deeds of trust, mortgages and other evidences of indebtedness of the corporation, and other corporate instruments or documents requiring the corporate seal, and certificates of shares of stock owned by the corporation, will be executed, signed or endorsed by the Chairman of the Board of Directors, or the President or any Vice President, and by the Secretary or Chief Financial Officer. All other instruments and documents requiring the corporate signature, but not requiring the corporate seal, may be executed as aforesaid or in such other manner as may be directed by the Board of Directors.

All checks and drafts drawn on banks or other depositaries on funds to the credit of the corporation or in special accounts of the corporation will be signed by such person or persons as the Board of Directors will authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee will have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

33. VOTING OF SECURITIES OWNED BY THE CORPORATION. All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, will be voted, and all proxies with respect thereto will be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board of Directors, the President, or any Vice President.

ARTICLE VII
SHARES OF STOCK

34. FORM AND EXECUTION OF CERTIFICATES. The shares of the corporation shall be represented by certificates unless the Board of Directors shall, by resolution, provide that some or all of any class or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by certificate until the certificate is surrendered to the corporation. Certificates for the shares of stock of the corporation will be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the corporation will be entitled to have a certificate signed by or in the name of the corporation by the Chairman of the Board of Directors, or the President or any Vice President and by the Chief Financial Officer or assistant financial officer or the Secretary or assistant secretary, certifying the number of shares owned by him in the corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate will have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate will state upon the face or back thereof, in full or in summary, all of the powers, designations, preferences, and rights, and the limitations or restrictions of the shares authorized to be issued or will, except as otherwise required by law, set forth on the face or back a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation will send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section or otherwise required by law or with respect to this section a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of certificates representing stock of the same class and series will be identical.

35. LOST CERTIFICATES. A new certificate or certificates will be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it will require or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

36. TRANSFERS.

(a) Transfers of record of shares of stock of the corporation will be made only upon its books by the holders thereof, in person or by attorney duly authorized, upon compliance with the customary procedures for transferring shares in uncertificated form or upon surrender of a properly endorsed certificate or certificates for a like number of shares

(b) The corporation will have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

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37. FIXING RECORD DATES. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date will not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date will not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders will be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders will apply to any adjournment of the meeting; PROVIDED, HOWEVER, that the Board of Directors may fix a new record date for the adjourned meeting.

38. REGISTERED STOCKHOLDERS. The corporation will be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and will not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it will have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VIII
OTHER SECURITIES OF THE CORPORATION

39. EXECUTION OF OTHER SECURITIES. All bonds, debentures and other corporate securities of the corporation, other than stock certificates (covered in Section 34), may be signed by the Chairman of the Board of Directors, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an assistant secretary, or the Chief Financial Officer or assistant financial officer; PROVIDED, HOWEVER, that where any such bond, debenture or other corporate security will be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security will be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, will be signed by the Chief Financial Officer or assistant financial officer of the corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who will have signed or attested any bond, debenture or other corporate security, or whose facsimile signature will appear thereon or on any such interest coupon, will have ceased to be such officer before the bond, debenture or other corporate security so signed or attested will have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature will have been used thereon had not ceased to be such officer of the corporation.

ARTICLE IX
DIVIDENDS

40. DECLARATION OF DIVIDENDS. Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

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41. DIVIDEND RESERVE. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors will think conducive to the interests of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X
FISCAL YEAR

42. FISCAL YEAR. The fiscal year of the corporation will be fixed by resolution of the Board of Directors.

ARTICLE XI
INDEMNIFICATION

43. INDEMNIFICATION OF DIRECTORS, EXECUTIVE OFFICERS, OTHER OFFICERS, EMPLOYEES AND OTHER AGENTS.

(a) DIRECTORS AND EXECUTIVE OFFICERS. The corporation will indemnify its directors and executive officers (for the purposes of this Article XI, "executive officers will have the meaning defined in Rule 3b-7 promulgated under the 1934 Act) to the fullest extent not prohibited by the Delaware General Corporation Law; PROVIDED, HOWEVER, that the corporation may modify the extent of such indemnification by individual contracts with its directors and executive officers; and, PROVIDED, FURTHER, that the corporation will not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the Delaware General Corporation Law or (iv) such indemnification is required to be made under subsection (d).

(b) OTHER OFFICERS, EMPLOYEES AND OTHER AGENTS. The corporation will have power to indemnify its other officers, employees and other agents as set forth in the Delaware General Corporation Law.

(c) EXPENSES. The corporation will advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the corporation, or is or was serving at the request of the corporation as a director or executive officer of another corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or executive officer in connection with such proceeding upon receipt of an undertaking by or on behalf of such person to repay said amounts if it should be determined ultimately that such person is not entitled to be indemnified under this Bylaw or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to paragraph (e) of this Bylaw, no advance will be made by the corporation to an executive officer of the corporation (except by reason of the fact that such executive officer is or was a director of the corporation in which event this paragraph will not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to the proceeding, or (2) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

(d) ENFORCEMENT. Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and executive officers under this Bylaw will be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the corporation and the director or executive officer. Any right to indemnification or advances granted by this Bylaw to a director or executive officer will be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (1) the claim for indemnification or advances is denied, in whole or in part, or (2) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, will be entitled to be paid also the expense of prosecuting his claim. In connection with any claim for indemnification, the corporation will be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the corporation (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the corporation) for advances, the corporation will be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. Neither the failure of the corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, will be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct. In any suit brought by a director or executive officer to enforce a right to indemnification or to an advancement of expenses hereunder, the burden of proving that the director or executive officer is not entitled to be indemnified, or to such advancement of expenses, under this Article XI or otherwise will be on the corporation.

(e) NON-EXCLUSIVITY OF RIGHTS. The rights conferred on any person by this Bylaw will not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the Delaware General Corporation Law.

(f) SURVIVAL OF RIGHTS. The rights conferred on any person by this Bylaw will continue as to a person who has ceased to be a director, officer, employee or other agent and will inure to the benefit of the heirs, executors and administrators of such a person.

(g) INSURANCE. To the fullest extent permitted by the Delaware General Corporation Law, the corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this Bylaw.

(h) AMENDMENTS. Any repeal or modification of this Bylaw will only be prospective and will not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

(i) SAVING CLAUSE. If this Bylaw or any portion hereof will be invalidated on any ground by any court of competent jurisdiction, then the corporation will nevertheless indemnify each director and executive officer to the full extent not prohibited by any applicable portion of this Bylaw that will not have been invalidated, or by any other applicable law.

(j) CERTAIN DEFINITIONS. For the purposes of this Bylaw, the following definitions will apply:

(1) The term “proceeding” will be broadly construed and will include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(2) The term “expenses” will be broadly construed and will include, without limitation, court costs, attorneys’ fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(3) The term the “corporation” will include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, will stand in the same position under the provisions of this Bylaw with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(4) References to a “director,” “executive officer,” “officer,” “employee,” or “agent” of the corporation will include, without limitation, situations where such person is serving at the request of the corporation as, respectively, a director, executive officer, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

(5) References to “other enterprises” will include employee benefit plans; references to “fines” will include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the corporation” will include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan will be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this Bylaw.

ARTICLE XII
NOTICES

44. NOTICES.

(a) NOTICE TO STOCKHOLDERS. Whenever, under any provisions of these Bylaws, notice is required to be given to any stockholder, it will be given in writing, timely and duly deposited in the United States mail, postage prepaid, and addressed to his last known post office address as shown by the stock record of the corporation or its transfer agent.

(b) NOTICE TO DIRECTORS. Any notice required to be given to any director may be given by the method stated in subsection (a), or by facsimile, telex or telegram, except that such notice other than one which is delivered personally will be sent to such address as such director will have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such director.

(c) AFFIDAVIT OF MAILING. An affidavit of mailing, executed by a duly authorized and competent employee of the corporation or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the stockholder or stockholders, or director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, will in the absence of fraud, be prima facie evidence of the facts therein contained.

(d) TIME NOTICES DEEMED GIVEN. All notices given by mail, as above provided, will be deemed to have been given as at the time of mailing, and all notices given by facsimile, telex or telegram will be deemed to have been given as of the sending time recorded at time of transmission.

(e) METHODS OF NOTICE. It will not be necessary that the same method of giving notice be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

(f) FAILURE TO RECEIVE NOTICE. The period or limitation of time within which any stockholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent him in the manner above provided, will not be affected or extended in any manner by the failure of such stockholder or such director to receive such notice.

(g) NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL. Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, to any person with whom communication is unlawful, the giving of such notice to such person will not be required and there will be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which will be taken or held without notice to any such person with whom communication is unlawful will have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate will state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

(h) NOTICE TO PERSON WITH UNDELIVERABLE ADDRESS. Whenever notice is required to be given, under any provision of law or the Certificate of Incorporation or Bylaws of the corporation, to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a twelve-month period, have been mailed addressed to such person at his address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice to such person will not be required. Any action or meeting which will be taken or held without notice to such person will have the same force and effect as if such notice had been duly given. If any such person will deliver to the corporation a written notice setting forth his then current address, the requirement that notice be given to such person will be reinstated. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate need not state that notice was not given to persons to whom notice was not required to be given pursuant to this paragraph.

ARTICLE XIII
AMENDMENTS

45. AMENDMENTS.

Subject to paragraph (h) of Section 43 of the Bylaws, the Bylaws may be altered or amended or new Bylaws adopted by the affirmative vote of at least sixty-six and two-thirds percent (66 2/3%) of the voting power of all of the then-outstanding shares of the Voting Stock. The Board of Directors will also have the power to adopt, amend, or repeal Bylaws.

ARTICLE XIV
LOANS TO OFFICERS

46. LOANS TO OFFICERS. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a Director of the corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors will approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in these Bylaws will be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

NEONODE, INC.

NOTE PURCHASE AGREEMENT

NOTE PURCHASE AGREEMENT (the " Agreement ") dated as of February 28, 2006 among NEONODE, INC., a Delaware corporation (" Company "), AIGH Investment Partners LLC, a Delaware limited liability company ("AIGH"), and any other person who executes this agreement from time to time as purchaser of Notes (collectively with AIGH, the "Investors").

Background: The Company desires to sell to the Investors, and the Investors desire to purchase up to $5,500,000 in principal amount of Senior Secured Notes, in substantially the form attached hereto as Exhibit 1 (the " Notes "). It is anticipated there will be up to two closings since the Notes will be issued in tranches. The proceeds are necessary for the development and continuance of the business of the Company and each of its subsidiaries.

Certain Definitions:

" Common Stock " shall mean stock of the Company of any class (however designated) whether now or hereafter authorized, which generally has the right to participate in the voting and in the distribution of earnings and assets of the Company without limit as to amount or percentage, including the Company's Common Stock, $.01 par value per share.

" Company " includes the Company and any corporation or other entity which shall succeed to or assume, directly or indirectly, the obligations of the Company hereunder. The term " corporation " shall include an association, joint stock company, business trust, limited liability company or other similar organization.

" Company Disclosure " means the disclosure delivered to the Investors prior to the execution of this Agreement.

" Material Adverse Change " shall mean any change in the facts represented by the Company in the Agreement or the business, financial condition, results of operation, prospects, properties or operations of the Company and its subsidiaries taken as a whole which may have a material adverse effect on the value of the Common Stock of the Company.

" Neonode AB " means Neonode AB, a Swedish corporation.

" Petrus " means Petrus Holdings, SA, a corporation organized under the laws of Luxembourg.

" Person " means any individual, sole proprietorship, partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity, any university or similar institution, or any government or any agency or instrumentality or political subdivision thereof.

" Public Offering " shall mean a registered public offering of Common Stock of the Company.

" SEC " means the Securities and Exchange Commission.

" Securities Act " means the Securities Act of 1933, as amended.

In consideration of the mutual covenants contained herein, the parties agree as follows:

1 . Purchase and Sale of Notes .

1 . 1 . Sale and Issuance of Notes . The Company shall sell to the Investors and the Investors shall purchase from the Company, up to an aggregate in principal amount of $5,500,000 of Notes at par. The principal amount of Notes to be purchased by the Investors from the Company in the First Closing (as defined herein) is set forth opposite the name of each Investor on the signature page hereof, subject to acceptance, in whole or in part, by the Company. Subject to Section 1.4 hereof, AIGH shall purchase the Notes included in the Second Closing whether or not any other Investor agrees to participate in such purchase.

1 . 2 . Closings . The closings of the purchase and sale of the Notes hereunder (each a " Closing ") shall take place (i) within three business days after the date hereof, for the purchase of $4,000,000 principal amount of Notes (the " First Closing ") and, (ii) immediately prior to filing of an appropriate registration statement in connection with a Public Offering with Griffin Securities, Inc. or other investment bank satisfactory to the Investors, for the purchase of $1,500,000 principal amount of Notes (the " Second Closing "); provided in each case the Company has not suffered any Material Adverse Change since the date hereof. Any date on which a Closing occurs is referred to herein as the " Closing Date ." The date on which the First Closing takes place is referred to herein as the " First Closing Date ." The date on which the Second Closing takes place is referred to herein as the " Second Closing Date ." Each Closing shall take place at the offices of Hahn & Hessen LLP, the Investors' counsel, in New York, New York, or at such other location as is mutually acceptable to the Investors and the Company.

1.3. Conditions of First Closing . The obligation of the Investors to complete the purchase of the Notes at the First Closing is subject to fulfillment of the following conditions:

(a) the Company and the Investors shall execute and deliver a Security Agreement, dated the First Closing Date, in the form attached as Exhibit 2 (the " Security Agreement ");

(b) certain stockholders of the Company (the " Pledgors ") and the Investors shall execute and deliver a Pledge and Security Agreement, dated the First Closing Date, in the form attached as Exhibit 3 (the " Stockholder Pledge Agreement ");

(c) each Pledgor shall execute and deliver to the Investors a Guaranty Agreement, dated the First Closing Date, in the form attached as Exhibit 4 (the " Guaranty ");

(d) Petrus and the Investors shall enter into the Intercreditor Agreement, dated the First Closing Date, in the form attached hereto as Exhibit 5 (the " Intercreditor Agreement ", and with the Agreement, the Notes, the Security Agreements, the Stockholder Pledge Agreement, the Guaranty and other documents required in connection with the transactions contemplated in the Agreement, the " Transaction Documents ") ;

(e) the Company shall have executed and delivered all documents, such as financing statements and assignments, reasonably requested by counsel for the Investors;

(f) the absence of any Material Adverse Change since the date hereof, and

(g) the Company shall pay the Investors expenses to the extent set forth in Section 6.9 hereof.

1.4. Conditions of Second Closing . The obligations of the Investors to complete the purchase of the Notes at the Second Closing are subject to fulfillment of the following conditions:

(a) the absence of Material Adverse Change since the date hereof; and

(b) the Company shall pay the Investors expenses to the extent set forth in Section 6.9 hereof.

2 . Representations and Warranties of the Company . The Company hereby represents and warrants to each of the Investors as follows:

2 . 1 . Corporate Organization; Authority; Due Authorization .

(a) The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has the corporate power and authority to own or lease its properties as and in the places where such business is now conducted and to carry on its business as now conducted and (iii) is duly qualified and in good standing as a foreign corporation authorized to do business in every jurisdiction where the failure to so qualify, individually or in the aggregate, would have a material adverse effect on the operations, prospects, assets, liabilities, financial condition or business of the Company

(b) The Company (i) has the requisite corporate power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) has been authorized by all necessary corporate action to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to consummate the transactions contemplated hereby and thereby (the " Contemplated Transactions "). Each of this Agreement and the other Transaction Documents is a valid and binding obligation of the Company enforceable in accordance with its terms except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

2.2. Capitalization . As of February 28, 2006, the authorized capital stock of the Company is 6,500,000 shares of Common Stock, $.01 par value per share. Except as contemplated by this Agreement or as set forth in the Company Disclosure, there are (i) no outstanding subscriptions, warrants, options, conversion privileges or other rights or agreements obligating the Company or Neonode AB to purchase or otherwise acquire or issue any shares of capital stock of the Company or Neonode AB (or shares reserved for such purpose) except as set forth in the Capitalization Table attached hereto as Exhibit 6 (the " Capitalization Table "), (ii) no preemptive rights contained in the Company's Certificate of Incorporation, as amended (the " Certificate of Incorporation "), By-Laws of the Company or contracts to which the Company is a party or rights of first refusal with respect to the issuance of additional shares of capital stock of the Company, and (iii) no commitments or understandings (oral or written) of the Company or Neonode AB to issue any shares, warrants, options or other rights. Except as disclosed in the Company Disclosure, the Company owns 100% of the outstanding equity of Neonode AB.

2.3. Validity of Notes . The issuance of the Notes has been duly authorized.

2.4. Private Offering . Neither the Company nor anyone acting on its behalf has within the last 12 months issued, sold or offered any security of the Company (including, without limitation, any Notes) to any Person under circumstances that would cause the issuance and sale of the Notes, as contemplated by this Agreement, to be subject to the registration requirements of the Securities Act.

2.5. Brokers and Finders . The Company has not retained any investment banker, broker or finder in connection with the Contemplated Transactions.

2.6. Absence of Certain Changes . Except as specifically contemplated by this Agreement or set forth in the Company Disclosure, there has not been any Material Adverse Change since December 31, 2005.

2.7. Company Disclosure . No representation or warranty of the Company herein, no exhibit or schedule hereto, and no information contained or referenced in the Company Disclosure, when read together, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

3 . Representations and Warranties of the Investors . Each Investor represents and warrants to the Company as follows:

3 . 1 . Authorization . Such Investor (i) has full power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) if applicable has been authorized by all necessary corporate or equivalent action to execute, deliver and perform this Agreement and the other Transaction Documents and to consummate the Contemplated Transactions. Each of this Agreement and the other Transaction Documents to which the Investors are parties is a valid and binding obligation of such Investor enforceable in accordance with its terms, except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

3 . 2 . Brokers and Finders . Such Investor has not retained any investment banker, broker or finder in connection with the Contemplated Transactions.

4 . Securities Laws .

4 . 1 . This Agreement is made with each Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Notes to be received by such Investor will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof such that such Investors would constitute an "underwriter" under the Securities Act.

4 . 2 . Each Investor understands and acknowledges that the offering of the Notes pursuant to this Agreement will not be registered under the Securities Act or qualified under any Blue Sky Laws on the grounds that the offering and sale of the Notes are exempt from registration and qualification, respectively, under the Securities Act and the Blue Sky Laws.

4 . 3 . Each Investor represents that (i) such Investor is able to fend for itself in the Contemplated Transactions; (ii) such Investor has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of such Investor's prospective investment in the Notes; and (iii) such Investor has the ability to bear the economic risks of such Investor's prospective investment and can afford the complete loss of such investment.

4 . 4 . Each Investor further represents by execution of this Agreement that such Investor qualifies as an "accredited investor" as such term is defined under Rule 501 promulgated under the Securities Act. Any Investor that is a corporation, a partnership, a limited liability company, a trust or other business entity further represents by execution of this Agreement that it has not been organized for the purpose of purchasing the Notes.

4.5. By acceptance hereof, each Investor agrees that the Notes and any shares of capital stock of the Company received in respect of the foregoing held by it may not be sold by such Investor without registration under the Securities Act or an exemption therefrom, and therefore such Investor may be required to hold such securities for an indeterminate period.

5. Additional Covenants of the Company.

5.1. Reports and Information. Until the sooner of repayment or conversion of all the Notes or a Public Offering, the Company shall deliver to such Investor (or the successor or assign of such Investor), contemporaneously with delivery to Petrus or its affiliates, a copy of each report of the Company delivered to any such person.

6. Miscellaneous.

6.1. Entire Agreement; Successors and Assigns. This Agreement and the other Transaction Documents constitute the entire contract between the parties relative to the subject matter hereof and thereof, and no party shall be liable or bound to the other in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. This Agreement and the other Transaction Documents supersede any previous agreement among the parties with respect to the Notes. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective executors, administrators, heirs, successors and assigns of the parties. Except as expressly provided herein, nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

6.2. Survival of Representations and Warranties. All representations and warranties of the Company shall survive the execution and delivery of this Agreement and the Closing hereunder and shall continue in full force and effect for one year after the Fourth Closing. The covenants of the Company set forth in Section 5 shall remain in effect as set forth therein.

6.3. Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law. Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Agreement and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at its address specified in Section 6.6 (or as otherwise noticed to the other party). Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of *forum non conveniens*. Each party also waives any right to trial by jury.

6.4. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.5. Headings. The headings of the sections of this Agreement are for convenience and shall not by themselves determine the interpretation of this Agreement.

6.6. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon (i) personal delivery, (ii) delivery by fax (with answer back confirmed) or (iii) delivery by electronic mail (with reception confirmed), addressed to a party at its address or sent to the fax number or e-mail address shown below or at such other address, fax number or e-mail address as such party may designate by three days advance notice to the other party.

Any notice to Investors shall be sent to the addresses set forth on the signature pages hereof, with a copy to:

Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: James Kardon, Esq.
Fax Number: (212) 478-7400
e-mail: jkardon@hahnhessen.com

Any notice to the Company shall be sent to:

Neonode, Inc.
Biblioteksgatan 11
S111 46 Stockholm, Sweden
Attention: President
Fax Number:

with a copy to:

Reed Smith LLP
435 Sixth Avenue
Pittsburgh, PA 15219
Attention: Daniel Gallagher, Esq.
Fax Number: 412-288-3063

6.7. Rights of Transferees. Any and all rights and obligations of the Investor herein incident to the ownership of Notes shall pass successively to all subsequent transferees of such securities until extinguished pursuant to the terms hereof.

6.8. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be deemed prohibited or invalid under such applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, and such prohibition or invalidity shall not invalidate the remainder of such provision or any other provision of this Agreement.

6 . 9 . Expenses . Irrespective of whether any Closing is effected, the Company shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of this Agreement. Each Investor shall be responsible for all costs incurred by such Investor in connection with the negotiation, execution, delivery and performance of this Agreement including, but not limited to, legal fees and expenses, except that, at each Closing, the Company shall pay legal fees and expenses to Hahn & Hessen LLP, as counsel to the Investors.

6 . 10 . Amendments and Waivers . Unless a particular provision or section of this Agreement requires otherwise explicitly in a particular instance, any provision of this Agreement may be amended and the observance of any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of Notes. Any amendment or waiver effected in accordance with this Section 6.10 shall be binding upon each holder of any Notes at the time outstanding (including securities into which such Securities are convertible), each future holder of all such Notes, and the Company.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

NEONODE INC.

____

By:
Its:

AIGH INVESTMENT PARTNERS, LLC

____

By:
Its:

SIGNATURE PAGE
TO
NEONODE, INC.
SUBSCRIPTION AGREEMENT
Dated February 28, 2006

IF the PURCHASER is an INDIVIDUAL, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement this ____ day of ________, 2006.

Amount of Subscription:
$__________ principal amount of Notes

____
Print Name

____
Signature of Investor

____
Social Security Number

____
Address and Fax Number

____
E-mail Address

ACCEPTED AND AGREED:

NEONODE, INC.

By: ______________________________

Dated: ______________________________

SIGNATURE PAGE
TO
NEONODE, INC.
SUBSCRIPTION AGREEMENT
Dated February 28, 2006

IF the PURCHASER is a PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY, TRUST or OTHER ENTITY, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement this __th day of __________, 2006.

Amount of subscription:
$____________ principal amount of Notes

____
Print Full Legal Name of Partnership, Company, Limited Liability Company, Trust or Other Entity

By: __________________________________
(Authorized Signatory)
Name: ________________________________
Title: _________________________________
Address and Fax Number: _____________

____

Taxpayer Identification Number: __________
Date and State of Incorporation or Organization:__________________________
Date on which Taxable Year Ends:_____________________________________

E-mail Address: ________________________

ACCEPTED AND AGREED:

NEONODE, INC.

By: ____________________________
Name: ___________________________
Title: ___________________________
Dated: __________________________

EXHIBITS
TO THE NOTE PURCHASE AGREEMENT

Exhibit 1:	Form of Notes
Exhibit 2:	Form of Security Agreement
Exhibit 3:	Form of Stockholder Pledge Agreement
Exhibit 4:	Form of Guaranty
Exhibit 5:	Form of Intercreditor Agreement
Exhibit 6:	Capitalization Table

Exhibit 1

Form of Notes

Exhibit 2

Form of Security Agreement

Exhibit 3

Form of Stockholder Pledge Agreement

Exhibit 4

Form of Guaranty

Exhibit 5

Form of Intercreditor Agreement

Exhibit 6

Capitalization Table

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE WHICH OTHER COUNSEL IS SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM.

SENIOR SECURED NOTE

$3,200,000.00

New York, New York
February 28, 2006

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as the "Company"), a Delaware corporation having an address at Biblioteksgatan 11, S111 46 Stockholm, Sweden, hereby promises to pay to the order of AIGH Investment Partners, LLC, a Delaware limited liability company, or assigns ("Lender"), at its offices located at 6006 Berkeley Ave., Baltimore, MD 21209 or at such other place as the Lender may from time to time designate to the undersigned in writing, on August 28, 2007 subject to the conversion rights set forth herein, or such earlier date as required hereunder, the sum of THREE MILLION AND TWO HUNDRED THOUSAND DOLLARS ($3,200,000.00) at a rate per annum equal to four percent (4%). In no event, however, shall interest hereunder be in excess of the maximum interest rate permitted by law.

The obligations of the undersigned are secured in accordance with the terms of (i) a Pledge and Security Agreement (as amended, restated, modified and supplemented from time to time, the "Stockholder Pledge Agreement") between certain stockholders of the Company and Lender, dated February 28, 2006, by the pledge of certain Collateral, as defined in such Stockholder Pledge Agreement and (ii) a Security Agreement (as amended, restated, modified and supplemented from time to time, the "Security Agreement") between the Company and Lender, dated February 28, 2006, by the pledge of certain Collateral, as defined in such Security Agreement This Note is one of the Senior Secured Notes issued pursuant to a certain Note Purchase Agreement dated the date hereof between the Company and each Lender (the "Note Purchase Agreement") in connection with a financing of the undersigned up to an aggregate principal amount of FIVE MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($5,500,000).

A. Prepayment; Conversion :

1. This Note may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert this Note into common stock of the Company at a price based on the pre money valuation set forth in Section A.2 below.

2. In the event the undersigned completes a registered public offering with gross proceeds in excess of $5,500,000 on or before August 28, 2007, this Note, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under this Note, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of the undersigned, including for this purpose as equity all debt held by stockholders or their affiliates, of FIFTEEN MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($15,500,000) (determined based on the Capitalization Table attached as an exhibit to the Note Purchase Agreement); and provided further the undersigned has not suffered any material adverse change since the date hereof.

3. In the event the undersigned fails to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007 due to circumstances beyond the undersigned's control, this Note, including without limitation all accrued interest and other obligations under this Note, shall be converted into common stock of the undersigned at a price per share equal to the fair market value of such shares as determined by negotiations between the undersigned and the holder of the Note and in the aggregate amount of all such obligations, subject to compliance with applicable securities law; provided that (i) the pre-money valuation of the fully-diluted equity of the undersigned in the event and at the time of such conversion, including for this purpose as equity all debt held by stockholders or their affiliates, does not exceed US $15,500,000, (ii) the undersigned has not suffered any material adverse changes since the date hereof and (iii) the Lender and the undersigned enter into an investor rights agreement which provides the Lender with demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of the undersigned, rights to Company information and a bar on issuance of toxic preferreds or other death spiral convertible securities. During the term of the Bridge Notes, the undersigned shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of Bridge Notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of notes of similar tenor to this Note then outstanding divided by (B) the sum of $15,500,000 and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

B. Default; Remedy. If any one or more of the following events of default (each, an "Event of Default") shall occur, that is to say:

1. default shall be made in the payment of any principal or interest of this Note when the same shall become due and payable, whether at maturity, by acceleration, by notice of intention to prepay or otherwise;

2. [intentionally omitted;]

3. the undersigned shall become unable to pay its debts as they mature, seek to auction all or a substantial portion of its assets, make a general assignment for the benefit of creditors, commence or cause to be commenced a meeting of his creditors or take advantage of any of the insolvency laws, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code (i) is filed against the undersigned, or (ii) is filed by the undersigned, or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of the undersigned's assets or affairs, or an order for relief in a case commenced under the Federal Bankruptcy Code is entered;

4. any judgment or judgments against the undersigned or its property for any amount remains unpaid, undischarged, unsatisfied, unbonded or undismissed for a period of ten (10) days, or a levy, sequestration or attachment against the undersigned or his property for any amount remains unpaid, undischarged, unstayed, unsatisfied or undismissed for a period of ten (10) days;

5. any guaranty of the obligations of the undersigned to Lender is terminated or breached, or if any guarantor of the obligations of the undersigned to the Lender attempts to terminate, challenge the validity of, or its liability under, any such guaranty or similar agreement, or the undersigned terminates any guaranty which he has given to Lender to secure the indebtedness of any third party; or

6. any event of default shall occur under any agreement between Lender and the undersigned, including without limitation the Security Agreement, Stockholder Pledge Agreement or any guaranty related thereto, which is not cured within any applicable grace period,

then this Note (x)(i) upon the occurrence of an Event of Default pursuant to subsection 3 of this Section (B) shall immediately become due and payable, without notice; and (ii) upon the occurrence of any other Event of Default, shall become due and payable, upon delivery of written notice of such Event of Default by Lender to the undersigned, in each case together with reasonable attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof; and (y) shall bear interest at a rate of interest per annum equal to fifteen percent (15%). To the extent permitted by applicable law interest shall accrue with respect to interest that is due and not paid. In the event the Lender takes action under the Security Agreement or Stockholder Pledge Agreement, the Lenders shall proceed first under the Security Agreement and thereafter only if the Company's obligations to the Lender are not satisfied, under the Stockholder Pledge Agreement.

C. Governing Law. This Note is being delivered in the State of New York, and shall be construed and enforced in accordance with the laws of such State. Any judicial proceeding by the undersigned against Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note, shall be brought only in federal or state court located in the City of New York, State of New York. Any judicial proceeding brought against the undersigned with respect to this Note may be brought in any court of competent jurisdiction in the City of New York, State of New York, United States of America, and, by execution and delivery of this Note, the undersigned accepts, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Note or any related agreement. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Lender to bring proceedings against the undersigned in the courts of any other jurisdiction. The undersigned waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens.

D. Waiver of Jury Trial. THE UNDERSIGNED EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THIS WAIVER OF THE RIGHT TO TRIAL BY JURY.

E. Notices. All notices required hereunder shall be given in the manner set forth in the Note Purchase Agreement.

F. Transfer to Comply with the Securities Act of 1933 .

1. The holder of this Note, each transferee hereof and any holder and transferee of any shares issued upon conversion hereof other than in a registered public offering, by his acceptance thereof, agrees that (i) no public distribution of notes or such shares will be made in violation of the Act, and (ii) during such period as the delivery of a prospectus with respect to such shares may be required by the Act, no public distribution of such shares will be made in a manner or on terms different from those set forth in, or without delivery of, a prospectus then meeting the requirements of Section 10 of the Act and in compliance with applicable state securities laws. The holder of this note and each transferee hereof further agrees that if any distribution of any shares issued upon conversion hereof other than in a registered public offering is proposed to be made by them otherwise than by delivery of a prospectus meeting the requirements of Section 10 of the Act, such action shall be taken only after submission to the undersigned of an opinion of counsel, reasonably satisfactory in form and substance to the undersigned's counsel, to the effect that the proposed distribution will not be in violation of the Act or of applicable state law. Furthermore, it shall be a condition to the transfer of this note that any transferee thereof be bound by all of the terms and conditions contained in this Note.

3. Each certificate for shares issued upon conversion hereof shall bear a legend relating to the non-registered status of such shares under the Act, unless at the time of conversion of this note such shares are subject to a currently effective registration statement under the Act.

G. Certain Representations and Covenants .

1. No information provide by the undersigned to the Lender contains or will on the Closing Date contain any untrue statement of a material fact or omits or will on the Closing Date omit to state any material fact necessary to make the statements contained herein or therein not misleading. During the term of this Note, the Company shall provide the Lender upon its request with any and all information about the Company reasonably deemed necessary for the Lender to evaluate this Note or a possible conversion thereof.

2. While this Note is outstanding, the Company (a) shall not issue (i) any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to the Lender and all other holders of notes of similar tenor rights to purchase an aggregate of up to the Percentage of such issue or (ii) any toxic convertibles or death spiral preferreds, and (b) shall not permit its 100% owned subsidiary Neonode AB, a Swedish corporation, to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

3. The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Notes are convertible) so that the Notes may be converted or exercised to purchase Common Stock (or such other securities) at any time.

4. If any event occurs as to which the provisions of this Note are strictly applicable and the application thereof would not fairly protect the rights of the Lenders in accordance with the essential intent and principles of such provisions, including but not limited to protection from dilution, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid.

H. The undersigned expressly waives any presentment, demand, protest, notice of protest, or notice of any kind.

NEONODE, INC.

By: ______________________________

_______________________, Authorized Signatory

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE WHICH OTHER COUNSEL IS SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM.

SENIOR SECURED NOTE

$600,000.00 New York, New York
February 28, 2006

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as the "Company"), a Delaware corporation having an address at Biblioteksgatan 11, S111 46 Stockholm, Sweden, hereby promises to pay to the order of Hirshcel Berkowitz, a US citizen, or assigns ("Lender"), c/o AIGH Investment Partners, LLC, 6006 Berkeley Ave., Baltimore, MD 21209 or such other place as the Lender may from time to time designate to the undersigned in writing, on August 28, 2007 subject to the conversion rights set forth herein, or such earlier date as required hereunder, the sum of SIX HUNDRED THOUSAND DOLLARS ($600,000.00) at a rate per annum equal to four percent (4%). In no event, however, shall interest hereunder be in excess of the maximum interest rate permitted by law.

The obligations of the undersigned are secured in accordance with the terms of (i) a Pledge and Security Agreement (as amended, restated, modified and supplemented from time to time, the "Stockholder Pledge Agreement") between certain stockholders of the Company and Lender, dated February 28, 2006, by the pledge of certain Collateral, as defined in such Stockholder Pledge Agreement and (ii) a Security Agreement (as amended, restated, modified and supplemented from time to time, the "Security Agreement") between the Company and Lender, dated February 28, 2006, by the pledge of certain Collateral, as defined in such Security Agreement This Note is one of the Senior Secured Notes issued pursuant to a certain Note Purchase Agreement dated the date hereof between the Company and each Lender (the "Note Purchase Agreement") in connection with a financing of the undersigned up to an aggregate principal amount of FIVE MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($5,500,000).

A. Prepayment; Conversion :

1. This Note may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert this Note into common stock of the Company at a price based on the pre money valuation set forth in Section A.2 below.

2. In the event the undersigned completes a registered public offering with gross proceeds in excess of $5,500,000 on or before August 28, 2007, this Note, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under this Note, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of the undersigned, including for this purpose as equity all debt held by stockholders or their affiliates, of FIFTEEN MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($15,500,000) (determined based on the Capitalization Table attached as an exhibit to the Note Purchase Agreement); and provided further the undersigned has not suffered any material adverse change since the date hereof.

3. In the event the undersigned fails to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007 due to circumstances beyond the undersigned's control, this Note, including without limitation all accrued interest and other obligations under this Note, shall be converted into common stock of the undersigned at a price per share equal to the fair market value of such shares as determined by negotiations between the undersigned and the holder of the Note and in the aggregate amount of all such obligations, subject to compliance with applicable securities law ; provided that (i) the pre-money valuation of the fully-diluted equity of the undersigned in the event and at the time of such conversion, including for this purpose as equity all debt held by stockholders or their affiliates, does not exceed US $15,500,000, (ii) the undersigned has not suffered any material adverse changes since the date hereof and (iii) the Lender and the undersigned enter into an investor rights agreement which provides the Lender with demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of the undersigned, rights to Company information and a bar on issuance of toxic preferreds or other death spiral convertible securities. During the term of the Bridge Notes, the undersigned shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of Bridge Notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of notes of similar tenor to this Note then outstanding divided by (B) the sum of $15,500,000 and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

B . Default; Remedy . If any one or more of the following events of default (each, an "Event of Default") shall occur, that is to say:

1 . default shall be made in the payment of any principal or interest of this Note when the same shall become due and payable, whether at maturity, by acceleration, by notice of intention to prepay or otherwise;

2 . [intentionally omitted;]

3 . the undersigned shall become unable to pay its debts as they mature, seek to auction all or a substantial portion of its assets, make a general assignment for the benefit of creditors, commence or cause to be commenced a meeting of his creditors or take advantage of any of the insolvency laws, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code (i) is filed against the undersigned, or (ii) is filed by the undersigned, or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of the undersigned's assets or affairs, or an order for relief in a case commenced under the Federal Bankruptcy Code is entered;

4 . any judgment or judgments against the undersigned or its property for any amount remains unpaid, undischarged, unsatisfied, unbonded or undismissed for a period of ten (10) days, or a levy, sequestration or attachment against the undersigned or his property for any amount remains unpaid, undischarged, unstayed, unsatisfied or undismissed for a period of ten (10) days;

5 . any guaranty of the obligations of the undersigned to Lender is terminated or breached, or if any guarantor of the obligations of the undersigned to the Lender attempts to terminate, challenge the validity of, or its liability under, any such guaranty or similar agreement, or the undersigned terminates any guaranty which he has given to Lender to secure the indebtedness of any third party; or

6 . any event of default shall occur under any agreement between Lender and the undersigned, including without limitation the Security Agreement, Stockholder Pledge Agreement or any guaranty related thereto, which is not cured within any applicable grace period,

then this Note (x)(i) upon the occurrence of an Event of Default pursuant to subsection 3 of this Section (B) shall immediately become due and payable, without notice; and (ii) upon the occurrence of any other Event of Default, shall become due and payable, upon delivery of written notice of such Event of Default by Lender to the undersigned, in each case together with reasonable attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof; and (y) shall bear interest at a rate of interest per annum equal to fifteen percent (15%). To the extent permitted by applicable law interest shall accrue with respect to interest that is due and not paid. In the event the Lender takes action under the Security Agreement or Stockholder Pledge Agreement, the Lenders shall proceed first under the Security Agreement and thereafter only if the Company's obligations to the Lender are not satisfied, under the Stockholder Pledge Agreement.

C . Governing Law . This Note is being delivered in the State of New York, and shall be construed and enforced in accordance with the laws of such State. Any judicial proceeding by the undersigned against Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note, shall be brought only in federal or state court located in the City of New York, State of New York. Any judicial proceeding brought against the undersigned with respect to this Note may be brought in any court of competent jurisdiction in the City of New York, State of New York, United States of America, and, by execution and delivery of this Note, the undersigned accepts, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Note or any related agreement. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Lender to bring proceedings against the undersigned in the courts of any other jurisdiction. The undersigned waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens .

D . Waiver of Jury Trial . THE UNDERSIGNED EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THIS WAIVER OF THE RIGHT TO TRIAL BY JURY.

E . Notices . All notices required hereunder shall be given in the manner set forth in the Note Purchase Agreement.

F. Transfer to Comply with the Securities Act of 1933 .

1. The holder of this Note, each transferee hereof and any holder and transferee of any shares issued upon conversion hereof other than in a registered public offering, by his acceptance thereof, agrees that (i) no public distribution of notes or such shares will be made in violation of the Act, and (ii) during such period as the delivery of a prospectus with respect to such shares may be required by the Act, no public distribution of such shares will be made in a manner or on terms different from those set forth in, or without delivery of, a prospectus then meeting the requirements of Section 10 of the Act and in compliance with applicable state securities laws. The holder of this note and each transferee hereof further agrees that if any distribution of any shares issued upon conversion hereof other than in a registered public offering is proposed to be made by them otherwise than by delivery of a prospectus meeting the requirements of Section 10 of the Act, such action shall be taken only after submission to the undersigned of an opinion of counsel, reasonably satisfactory in form and substance to the undersigned’s counsel, to the effect that the proposed distribution will not be in violation of the Act or of applicable state law. Furthermore, it shall be a condition to the transfer of this note that any transferee thereof be bound by all of the terms and conditions contained in this Note.

3. Each certificate for shares issued upon conversion hereof shall bear a legend relating to the non-registered status of such shares under the Act, unless at the time of conversion of this note such shares are subject to a currently effective registration statement under the Act.

G. Certain Representations and Covenants .

1. No information provide by the undersigned to the Lender contains or will on the Closing Date contain any untrue statement of a material fact or omits or will on the Closing Date omit to state any material fact necessary to make the statements contained herein or therein not misleading. During the term of this Note, the Company shall provide the Lender upon its request with any and all information about the Company reasonably deemed necessary for the Lender to evaluate this Note or a possible conversion thereof.

2. While this Note is outstanding, the Company (a) shall not issue (i) any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to the Lender and all other holders of notes of similar tenor rights to purchase an aggregate of up to the Percentage of such issue or (ii) any toxic convertibles or death spiral preferreds, and (b) shall not permit its 100% owned subsidiary Neonode AB, a Swedish corporation, to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

3. The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Notes are convertible) so that the Notes may be converted or exercised to purchase Common Stock (or such other securities) at any time.

4. If any event occurs as to which the provisions of this Note are strictly applicable and the application thereof would not fairly protect the rights of the Lenders in accordance with the essential intent and principles of such provisions, including but not limited to protection from dilution, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid.

H. The undersigned expressly waives any presentment, demand, protest, notice of protest, or notice of any kind.

NEONODE, INC.

By:________________________________

_________________, Authorized Signatory

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE WHICH OTHER COUNSEL IS SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM.

SENIOR SECURED NOTE

$200,000.00

New York, New York
February 28, 2006

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as the "Company"), a Delaware corporation having an address at Biblioteksgatan 11, S111 46 Stockholm, Sweden, hereby promises to pay to the order of Joshua Hirsch, a US citizen, or assigns ("Lender"), c/o AIGH Investment Partners, LLC, 6006 Berkeley Ave., Baltimore, MD 21209 or such other place as the Lender may from time to time designate to the undersigned in writing, on August 28, 2007 subject to the conversion rights set forth herein, or such earlier date as required hereunder, the sum of TWO HUNDRED THOUSAND DOLLARS ($200,000.00) at a rate per annum equal to four percent (4%). In no event, however, shall interest hereunder be in excess of the maximum interest rate permitted by law.

The obligations of the undersigned are secured in accordance with the terms of (i) a Pledge and Security Agreement (as amended, restated, modified and supplemented from time to time, the "Stockholder Pledge Agreement") between certain stockholders of the Company and Lender, dated February 28, 2006, by the pledge of certain Collateral, as defined in such Stockholder Pledge Agreement and (ii) a Security Agreement (as amended, restated, modified and supplemented from time to time, the "Security Agreement") between the Company and Lender, dated February 28, 2006, by the pledge of certain Collateral, as defined in such Security Agreement This Note is one of the Senior Secured Notes issued pursuant to a certain Note Purchase Agreement dated the date hereof between the Company and each Lender (the "Note Purchase Agreement") in connection with a financing of the undersigned up to an aggregate principal amount of FIVE MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($5,500,000).

A . Prepayment; Conversion :

1. This Note may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert this Note into common stock of the Company at a price based on the pre money valuation set forth in Section A.2 below.

2. In the event the undersigned completes a registered public offering with gross proceeds in excess of $5,500,000 on or before August 28, 2007, this Note, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under this Note, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of the undersigned, including for this purpose as equity all debt held by stockholders or their affiliates, of FIFTEEN MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($15,500,000) (determined based on the Capitalization Table attached as an exhibit to the Note Purchase Agreement); and provided further the undersigned has not suffered any material adverse change since the date hereof.

3. In the event the undersigned fails to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007 due to circumstances beyond the undersigned's control, this Note, including without limitation all accrued interest and other obligations under this Note, shall be converted into common stock of the undersigned at a price per share equal to the fair market value of such shares as determined by negotiations between the undersigned and the holder of the Note and in the aggregate amount of all such obligations, subject to compliance with applicable securities law ; provided that (i) the pre-money valuation of the fully-diluted equity of the undersigned in the event and at the time of such conversion, including for this purpose as equity all debt held by stockholders or their affiliates, does not exceed US $15,500,000, (ii) the undersigned has not suffered any material adverse changes since the date hereof and (iii) the Lender and the undersigned enter into an investor rights agreement which provides the Lender with demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of the undersigned, rights to Company information and a bar on issuance of toxic preferreds or other death spiral convertible securities. During the term of the Bridge Notes, the undersigned shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of Bridge Notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of notes of similar tenor to this Note then outstanding divided by (B) the sum of $15,500,000 and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

B . Default; Remedy . If any one or more of the following events of default (each, an “Event of Default”) shall occur, that is to say:

1 . default shall be made in the payment of any principal or interest of this Note when the same shall become due and payable, whether at maturity, by acceleration, by notice of intention to prepay or otherwise;

2 . [intentionally omitted;]

3 . the undersigned shall become unable to pay its debts as they mature, seek to auction all or a substantial portion of its assets, make a general assignment for the benefit of creditors, commence or cause to be commenced a meeting of his creditors or take advantage of any of the insolvency laws, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code (i) is filed against the undersigned, or (ii) is filed by the undersigned, or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of the undersigned’s assets or affairs, or an order for relief in a case commenced under the Federal Bankruptcy Code is entered;

4 . any judgment or judgments against the undersigned or its property for any amount remains unpaid, undischarged, unsatisfied, unbonded or undismissed for a period of ten (10) days, or a levy, sequestration or attachment against the undersigned or his property for any amount remains unpaid, undischarged, unstayed, unsatisfied or undismissed for a period of ten (10) days;

5 . any guaranty of the obligations of the undersigned to Lender is terminated or breached, or if any guarantor of the obligations of the undersigned to the Lender attempts to terminate, challenge the validity of, or its liability under, any such guaranty or similar agreement, or the undersigned terminates any guaranty which he has given to Lender to secure the indebtedness of any third party; or

6 . any event of default shall occur under any agreement between Lender and the undersigned, including without limitation the Security Agreement, Stockholder Pledge Agreement or any guaranty related thereto, which is not cured within any applicable grace period,

then this Note (x)(i) upon the occurrence of an Event of Default pursuant to subsection 3 of this Section (B) shall immediately become due and payable, without notice; and (ii) upon the occurrence of any other Event of Default, shall become due and payable, upon delivery of written notice of such Event of Default by Lender to the undersigned, in each case together with reasonable attorneys’ fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof; and (y) shall bear interest at a rate of interest per annum equal to fifteen percent (15%). To the extent permitted by applicable law interest shall accrue with respect to interest that is due and not paid. In the event the Lender takes action under the Security Agreement or Stockholder Pledge Agreement, the Lenders shall proceed first under the Security Agreement and thereafter only if the Company’s obligations to the Lender are not satisfied, under the Stockholder Pledge Agreement.

C . Governing Law . This Note is being delivered in the State of New York, and shall be construed and enforced in accordance with the laws of such State. Any judicial proceeding by the undersigned against Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note, shall be brought only in federal or state court located in the City of New York, State of New York. Any judicial proceeding brought against the undersigned with respect to this Note may be brought in any court of competent jurisdiction in the City of New York, State of New York, United States of America, and, by execution and delivery of this Note, the undersigned accepts, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Note or any related agreement. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Lender to bring proceedings against the undersigned in the courts of any other jurisdiction. The undersigned waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens .

D . Waiver of Jury Trial . THE UNDERSIGNED EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THIS WAIVER OF THE RIGHT TO TRIAL BY JURY.

E . Notices . All notices required hereunder shall be given in the manner set forth in the Note Purchase Agreement.

F. Transfer to Comply with the Securities Act of 1933 .

1. The holder of this Note, each transferee hereof and any holder and transferee of any shares issued upon conversion hereof other than in a registered public offering, by his acceptance thereof, agrees that (i) no public distribution of notes or such shares will be made in violation of the Act, and (ii) during such period as the delivery of a prospectus with respect to such shares may be required by the Act, no public distribution of such shares will be made in a manner or on terms different from those set forth in, or without delivery of, a prospectus then meeting the requirements of Section 10 of the Act and in compliance with applicable state securities laws. The holder of this note and each transferee hereof further agrees that if any distribution of any shares issued upon conversion hereof other than in a registered public offering is proposed to be made by them otherwise than by delivery of a prospectus meeting the requirements of Section 10 of the Act, such action shall be taken only after submission to the undersigned of an opinion of counsel, reasonably satisfactory in form and substance to the undersigned's counsel, to the effect that the proposed distribution will not be in violation of the Act or of applicable state law. Furthermore, it shall be a condition to the transfer of this note that any transferee thereof be bound by all of the terms and conditions contained in this Note.

3. Each certificate for shares issued upon conversion hereof shall bear a legend relating to the non-registered status of such shares under the Act, unless at the time of conversion of this note such shares are subject to a currently effective registration statement under the Act.

G. Certain Representations and Covenants .

1. No information provide by the undersigned to the Lender contains or will on the Closing Date contain any untrue statement of a material fact or omits or will on the Closing Date omit to state any material fact necessary to make the statements contained herein or therein not misleading. During the term of this Note, the Company shall provide the Lender upon its request with any and all information about the Company reasonably deemed necessary for the Lender to evaluate this Note or a possible conversion thereof.

2. While this Note is outstanding, the Company (a) shall not issue (i) any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to the Lender and all other holders of notes of similar tenor rights to purchase an aggregate of up to the Percentage of such issue or (ii) any toxic convertibles or death spiral preferreds, and (b) shall not permit its 100% owned subsidiary Neonode AB, a Swedish corporation, to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

3. The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Notes are convertible) so that the Notes may be converted or exercised to purchase Common Stock (or such other securities) at any time.

4. If any event occurs as to which the provisions of this Note are strictly applicable and the application thereof would not fairly protect the rights of the Lenders in accordance with the essential intent and principles of such provisions, including but not limited to protection from dilution, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid.

H. The undersigned expressly waives any presentment, demand, protest, notice of protest, or notice of any kind.

NEONODE, INC.

By: ______________________________

______________________________, Authorized Signatory

SECURITY AGREEMENT

SECURITY AGREEMENT dated February 28, 2996, made by Neonode, Inc. a Delaware corporation (the "Grantor"), and AIGH Investment Partners, LLC, a Delaware limited liability company, or assigns, having an office located at 6006 Berkeley Ave., Baltimore, MD 21209, as agent for the Investors (as defined herein) ("Secured Party"), in connection with the Notes (as hereinafter defined).

PRELIMINARY STATEMENT:

The Grantor has issued to the parties listed on the attached Schedule I, as amended from time to time (each an "Investor" and collectively the "Investors") certain secured term notes listed opposite the respective Investor's name on Schedule I, in the aggregate amount of up to $5,500,000 (initially $4,000,000) and such other amounts as may be loaned to the Grantor from time to time by the Investors pursuant to notes of similar tenor to the Senior Secured Notes (collectively, the "Notes"). The parties desire to provide security for the obligations of the Grantor to the Investors under the Notes.

NOW, THEREFORE, in consideration of the premises, and in order to induce the Investors to make the loan under the Notes, the parties hereby agree as follows:

SECTION 1. Grant of Security. The Grantor hereby grants to Secured Party, for its benefit and for the ratable benefit of each Investor, a continuing security interest in all of the Grantor's right, title and interest in and to all the securities of Neonode AB the Grantor, whether now owned or hereafter acquired, and all proceeds of any and all of the foregoing, including without limitation any dividends or other distributions in respect of such securities (the "Collateral"). The Grantor represents and warrants that the Collateral includes all of the equity securities, including without limitation all securities convertible into, exchangeable for or exercisable to purchase, equity securities of Neonode AB. During the term of this Agreement, the Grantor shall not permit Neonode AB, a Swedish corporation, to issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities or incur an indebtedness other than reasonable accounts payable and indebtedness from affiliates.

SECTION 2. Security for Obligations. This Agreement secures the payment and performance of all obligations of the Grantor to Secured Party and the Investors now or hereafter existing under this Agreement and the Notes, whether for principal, interest, fees, expenses, or otherwise (all such obligations of the Grantor being the "Obligations").

SECTION 3. Voting Rights, Dividends, Etc. in Respect of the Collateral. So long as no Event of Default shall have occurred and be continuing, the Grantor may exercise any and all voting and other consensual rights pertaining to any Collateral for any purpose not inconsistent with the terms of this Agreement. The Grantor may receive and retain in trust for the benefit of the Investors in case there is an Event of Default, any and all dividends paid in cash with respect of the Collateral; and Secured Party and the Investors will execute and delivery (or cause to be executed and delivered) to the Grantor all such proxies and other instruments as Grantor may reasonably request for the purpose of enabling Grantor exercise the voting and other rights which it is entitled to exercise and to receive the dividends which it is authorized to receive and retain in trust herein.

SECTION 4. Voting Rights, Dividends, Etc. in Respect of the Collateral Upon the Occurrence and During the Continuance of an Event of Default . Upon the occurrence of an Event of Default and while an Event of Default is continuing, all rights of the Grantor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 3 of this Agreement, and to receive the dividends which it would otherwise be authorized to receive and retain in trust pursuant to Section 3 of this Agreement, shall cease, and all such rights shall thereupon become vested in Secured party and the Investors, who shall thereupon have the sole right to exercise such voting and other consensual rights and to receive and hold as Collateral such dividends.

Without limiting the generality of the foregoing, Secured Party and the Investors may, at its option, exercise any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Collateral as if it were the absolute owner thereof, including, without limitation, the right to exchange, in its discretion, any and all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other adjustment of the Grantor, or upon the exercise by the Grantor of any right, privilege or option pertaining to any Collateral, and, in connection therewith, to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine.

All dividends which are received by the Grantor contrary to the provisions of this Section 4 shall be received in trust for the benefit of the Investors, shall be segregate from other funds of the Grantor, and shall be forthwith paid over to the Investors as Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by Secured party as Collateral and as further collateral security for the Obligations.

SECTION 5. Representations, Warranties and Covenants . The Grantor represents, warrants and covenants as follows:

(1) The Grantor will notify Secured Party immediately in writing of any change in its address, name, or state or form of organization.

(2) The Grantor is the legal and beneficial owner of the Collateral free and clear of any Lien except for the security interest created by this Agreement. No effective financing statement or other document similar in effect covering all or any part of the Collateral is on file in any recording office.

(3) The Grantor has exclusive and absolute right to collect the Collateral.

(4) This Agreement creates a valid security interest in the Collateral, securing payment of the Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken, or shall be taken promptly upon execution hereof.

(5) The Grantor is a corporation duly incorporated, validly existing, and in good standing under the laws of Delaware; has the corporate power and authority to own its assets and to transact its business, and is duly qualified and in good standing under the laws of each jurisdiction in which qualification is required.

(6) The execution and performance by the Grantor of this Agreement have been duly authorized by all necessary corporate action and do not and will not (a) require any consent or approval of the stockholders of such corporation; (b) contravene such corporation's character or bylaws; (c) violate any provision of any law, rule, or regulation; or (d) result in a breach of or constitute a default under, any indenture or loan or credit agreement or any other agreement, lease, or instrument to which such corporation is a party of by which it or its properties may be bound or affected.

(7) This Agreement is the legal, valid, and binding obligation of the Grantor, enforceable in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, and other similar laws affecting creditor's rights generally.

(8) No consent of any other person or entity and no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (a) for the grant by the Grantor of the assignment and security interest granted hereby or for the execution, delivery, or performance of this Agreement by the Grantor; (b) for the perfection or maintenance of this assignment, and security interest created hereby (including the first priority nature of such assignment, and security interest); or (c) for the exercise by Secured Party of the rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement.

(9) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(10) Grantor shall not pledge, sell, assign, transfer, create or suffer to exist any security interest in or other lien or encumbrance on any part of the Collateral or grant or suffer to exist any security interest in or other lien or encumbrance on any of Grantor's inventory or other assets to anyone other than Secured Party, without Secured Party's prior written consent. Grantor hereby agrees to defend the same against any and all persons whatsoever.

SECTION 6. Certain Grantor Covenants .

(1) The Grantor, at its sole expense, will take any and all actions as may be necessary or appropriate to facilitate the perfection and preservation of the security interest granted herein, or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral.

(2) The Grantor hereby authorizes Secured Party to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of the Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(3) The Grantor will furnish to Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail.

(4) The Grantor hereby irrevocably appoints Secured Party the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time in the Secured party's discretion, to take any action and to execute any instrument which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement.

SECTION 7. The Secured Party's Duties . The powers conferred on Secured Party hereunder are solely to protect the Investor's interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in their possession and the accounting for moneys actually received by them hereunder, Secured party shall have no duty as to any Collateral, as to ascertaining or taking action with respect to any Collateral, whether or not Secured Party have or are deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in their possession if such Collateral is accorded treatment substantially equal to that which it accords its own property.

SECTION 8. Events of Default . It shall be an event of default (an "Event of Default") hereunder if:

(a) The Grantor breaches any of the representations, warranties or covenants under the Notes, this Agreement, or any other agreements between the Investors and the Grantor, of even date herewith, or there occurs an Event of Default under the Note;

(b) The Grantor becomes insolvent, admits its inability to pay its debts as they mature, or is in any form of bankruptcy, arrangement or reorganization proceeding (whether governed by Federal, state or common law);

(c) The Grantor fails to comply with, or defaults under, any term of any present or future agreement between it and any of the Investors.

SECTION 9. Remedies . If any Event of Default shall have occurred and be continuing Secured Party may exercise in respect of the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code (the "Code") (whether or not the Code applies to the affected Collateral), and also may (a) require the Grantor to, and the Grantor hereby agrees that it will, at its expense and upon request of Secured Party forthwith, assemble all or part of the Collateral as directed by Secured party and make it available to Secured Party at a place to be designated by the Secured Party which is convenient to the parties and (b) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Secured Party's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as Secured Party may deem commercially reasonable. The Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefore, and such sale may. Without further notice, be made at the time and place to which is was adjourned. All proceeds of Collateral shall be applied in the following order of priority: (i) fees and expense incurred by Secured Party as described in Section 10(2) until paid and satisfied in full, (ii) fees and expenses incurred by any Investor as described in Section 10(2) until paid and satisfied in full, (iii) due and unpaid interest on the Notes until paid and satisfied in full, (iv) due and unpaid principal on the Notes until paid and satisfied in full, and (v) the remainder, if any, to Grantor or any other person or entity lawfully entitled thereto.

SECTION 10. Indemnity and Expenses .

(a) The Grantor agrees to indemnify the Secured Party and the Investors from and against any and all claims, losses, and liabilities (including, without limitation, reasonable attorney fees) growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses, or liabilities resulting from the gross negligence or willful misconduct of the Investors or Secured Party.

(b) The Grantor will upon demand pay the amount of any and all reasonable expenses, including, without limitation, the reasonable fees and expenses of its counsel and of any experts and agents, which the Investors or Secured Party may incur in connection with (a) the preparation and administration of this Agreement and the Note; (b) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral; (c) the exercise or enforcement of any of the rights of the Investors or Secured Party hereunder; or (d) the failure by the Grantor to perform or observe any of the provisions hereof.

SECTION 11. Amendments; Etc. No amendment, modification, termination, or waiver of any provision of this Agreement, and no consent to any departure by the Grantor here from, shall in any event be effective unless the same shall be in writing and signed by Secured Party and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 12. Addresses for Notices . All notices and other communications provided for hereunder shall be in writing (including telegraphic, telex, and facsimile transmissions) and mailed or transmitted or delivered to the address for each such party set forth in the Note Purchase Agreement dated the date hereof or, as to either party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and other communications shall be effective when deposited in the mails or delivered to the telegraph company, or sent, answer back received, respectively.

SECTION 13. Waiver of Rights . The Grantor waives the right to assert against any of the Investor or Secured party or other holder any defense , counterclaim or set-off which it could assert against such person in any action brought by such holder upon the Grantor’s obligations hereunder.

SECTION 14. Continuing Security Interest: Assignments Under The Notes . This Agreement shall create a continuing security interest in the Collateral and shall: (1) remain in full force and effect until the payment in full of the Obligations and all other amounts payable under this Agreement; (2) be binding upon the Grantor, its successors and assigns; and (3) inure to the benefit of, and be enforceable by, each of the Secured party and Investors and their respective successors, transferees, and assigns. Without limiting the generality of the foregoing clause (3) the Secured Party and Investors may assign or otherwise transfer all or any portion of their rights and Obligations to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to the respected Secured Party or Investor therein or otherwise. Upon the payment in full of the Obligations and all other amounts payable under this Agreement, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Grantor. Upon any such termination, Secured party will, at the Grantor's expense, execute and deliver to the Grantor such documents as the Grantor shall reasonably request to evidence such termination.

SECTION 15. Governing Law; Terms . This Agreement shall be governed by and construed in accordance with the laws of the State of New Your, except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of New York.

SECTION 16. Submission to Jurisdiction . The Parties hereby submit to the non-exclusive jurisdiction of the United States District Court for the Southern District of New York and of any State court sitting in New York County for purposes of all legal proceedings which may arise hereunder or under the Note. The parties irrevocably waives to the fullest extent permitted by law, any objection which it may have or hereafter have to the laying of the venue or any such proceeding brought in an inconvenient forum and trial by jury. The parties hereby consent to process being served in any such proceeding by the mailing of a copy thereof by registered or certified mail, postage prepaid, to its address specified above or in any other manner permitted by law.

SECURED PARTY AND THE GRANTOR HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM, WHETHER IN CONTRACT OR TORT, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT. NO OFFICER OF SECURED PARTY HAS AUTHORITY TO WAIVE, CONDITION, OR MODIFY THIS PROVISION.

SECTION 17. Agency; Action by Secured Party . Each Investor hereby appoints the Secured Party as its agent hereunder with respect to the Collateral and the creation, perfection, priority, preservation, protection and enforcement of a security interest therein in accordance with the terms of this Agreement. Each Investor hereby authorizes Secured Party to take such actions with respect to the Collateral, for the pro-rata benefit of the Investors in accordance with Section 9, as Secured Party determines to take in its sole discretion, and each Investors agrees to indemnify and hold harmless Secured Party for all costs, claims or expenses (including without limitation attorneys' fees and expenses) in connection with such actions taken or omitted to be taken, except to the extent resulting from the gross negligence or willful misconduct of Secured Party. Secured Party shall provide prompt notice of any material action under this Agreement to the Investors.

IN WITNESS WHEREOF, the Investors, the Secured Party and the Grantor have caused this Agreement to be duly executed and delivered by duly authorized representatives as of the date first written above.

NEONODE INC	AIGH INVESTMENT PARTNERS, LLC
/s/	/s/
By: Per Bystedt	By: Orin Hirschman
Its: President	Its: President, General Partner

SCHEDULE I

Name and Address	Principal Amount of Existing Notes
Secured Party Investment Partners, LLC 6006 Berkeley Ave. Baltimore, MD 21209	[$4,000,000.00]
TOTAL	$4,000,000.00

STOCKHOLDER PLEDGE AND SECURITY AGREEMENT

STOCKHOLDER PLEDGE AND SECURITY AGREEMENT ("Agreement") dated as of February 28, 2006, made by ______________ ("Pledgor"), in favor of the Investors identified on Exhibit A hereto (collectively, the "Investors").

WITNESSETH;

WHEREAS, Pledgor is a principal shareholder or an affiliate of an officer and director of Neonode, Inc., a Delaware corporation ("Neonode");

WHEREAS, Neonode plans to issue certain secured notes, dated as of the date hereof, to each of the Investors (the "Notes");

WHEREAS, Pledgor is executing and delivering this Agreement, granting to the Investors a security interest in the shares of Neonode listed on Exhibit B hereto owned by Pledgor (the "Pledged Shares"), to secure Neonode's obligations to the Investors under the Notes and this Agreement;

WHEREAS, Pledgor has determined that the execution, delivery and performance of this Agreement directly benefits Pledgor and is in its best interests as a principal shareholder of Neonode:

WHEREAS, the Investors have appointed AIGH Investment Partners, LLC ("AIGH"), and AIGH has agreed to so act, as the pledgeholder (the "Pledgeholder") for and on behalf of the Investors and as the Investors' agent for purposes of this Agreement;

WHEREAS, the affiliates of Pledgor have guaranteed certain of Pledgor's Obligations hereunder; and

WHEREAS, the term "Default" shall mean any material breach of any of Neonode's obligations under the Notes or Pledgor's representations, warranties or covenants contained herein, the term "affiliate" means persons controlling, controlled by or under common control with another person, and all terms used in this Agreement which are defined in Article 9 of the Uniform Commercial Code (the "UCC") as currently in effect in the State of New York and which are not otherwise defined herein shall have the same meanings herein as set forth therein;

NOW, THEREFORE, in order to induce the Investors to purchase the Notes and in consideration of the premises and the agreements herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement hereby agree as follows:

1. Representation. Pledgor hereby represents that neither it nor any of its affiliates owns any interest in any technology, intellectual property or other assets or rights of any nature whatsoever used by Neonode or necessary for Neonode to carry on its business.

2. Pledge and Grant of Security Interest and Substituting and Release of Collateral .

(a) As collateral security for all of the Obligations (as defined in Section 3 hereof), the Pledgor hereby pledges and assigns to the Investors and grants to the Investors a continuing security interest in, the following (the “Pledged Collateral”):

(i) The Pledged Shares, the certificates representing the Pledged Shares and all options and other rights, contractual or otherwise, in respect thereof, and

(ii) All proceeds of any and all of the foregoing (including dividend whether paid in cash or in kind); in each case, as its interest therein may arise or appear (whether by ownership, security interest, claim or otherwise).

3. Security for Obligations . The security interest created hereby in the Pledged Collateral constitutes continuing collateral security for the following (collectively, the “Obligations”): (i) the timely satisfaction by Neonode of all of its liabilities and obligations under the Notes, (ii) any breach by Pledgor of its representations contained herein, and (iii) the performance by Pledgor of all of its obligations arising under, or contemplated by, this Agreement.

4. Delivery of the Pledged Collateral . All certificates currently representing the Pledged Shares shall be delivered to Pledgeholder on or prior to the execution and delivery of this Agreement, to be held by it as agent of and for the benefit of the Investors. All other certificates and other instruments constituting Pledged Collateral from time to time shall be delivered to the Pledgeholder promptly upon the receipt thereof by or on behalf of the Pledgor. All such certificates and instruments shall be held on behalf of the Investors by Pledgeholder pursuant hereto and shall be delivered in suitable form for transfer by delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Pledgeholder.

5. Representations and Warranties . The Pledgor represents and warrants as follows:

(a) The Pledged Shares have been duly authorized and are validly issued, fully paid and nonassessable.

(b) The Pledgor is and will be at all times the legal and beneficial owner of the Pledged Collateral, free and clear of any lien, security interest, option or other charge or encumbrance, except for transfer restrictions under applicable federal and state securities laws and the security interest created by this Agreement, except as set forth on Exhibit C attached hereto.

(c) Pledgor shall be entitled to all dividends payable in cash.

(d) The Investors’ rights to exercise any of their rights and remedied hereunder will not contravene any contractual restriction binding on or affecting Pledgor or any of its properties and will not result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties.

(e) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or other regulatory body is required for (i) the grant by Pledgor, or the perfection, of the security interest purported to be created hereby in the Pledged Collateral or (ii) the exercise by the Investors of any of their rights and remedies hereunder, except as may be required in connection with any sale of any Pledged Collateral by laws affecting the offering and sale of securities generally.

(f) This Agreement creates a valid security interest in favor of the Investors in the Pledged Collateral, as security for the Obligations. Pledgeholder's having possession of the certificates representing the Pledged Shares and all other certificates and instruments constituting Pledged Collateral from time to time results in the perfection of such security interest. Such security interest is, or in the case of Pledged Collateral in which Pledgor obtains rights after the date hereof, will be, a perfected, first priority security interest.

(g) All shareholders of Neonode, including the Pledgor, have irrevocably waived all pre-emption rights under the articles of association in relation to the Pledged Collateral and all shareholders have undertaken to procure that such waiver is binding upon each waiving shareholder's successors and assigns.

6. Covenants . So long as any of the Obligations shall remain outstanding, Pledgor will, unless the Pledgeholder on the Investors' behalf shall otherwise consent in writing:

(a) keep adequate records concerning the Pledged Collateral and permit the Pledgeholder or other representative of the Investors at any reasonable time and from time to time examine and make copies of and abstracts from such records;

(b) at its expense, promptly deliver to the Investors a copy of each notice or other communication received by it in respect of the Pledged Collateral;

(c) at its expense, defend Investors' right, title and security interest in and to the Pledged Collateral against the claims of any person;

(d) not sell, assign (by operation of law or otherwise), exchange or otherwise dispose of any Pledged Collateral or any interest therein;

(e) not create or suffer to exist any lien, security interest or other charge or encumbrance upon or with respect to any Pledged Collateral except for the security interest created hereby, or

(f) not make or consent to any amendment or other modification or waiver with respect to any Pledged Collateral or enter into any agreement or permit to exist any restriction with respect to any Pledged Collateral other than pursuant hereto.

7. Voting Rights, Dividends, Etc. in Respect of the Pledged Collateral .

(a) So long as no Default shall have occurred and be continuing:

(i) Pledgor may exercise any and all voting and other consensual rights pertaining to any Pledged Collateral for any purpose not inconsistent with the terms of this Agreement;

(ii) Pledgor may receive and retain in trust for the benefit of the Investors in case there is a Default, any and all dividends paid in cash with respect of the Pledged Collateral; and

(iii) The Pledgeholder and the Investors will execute and deliver (or cause to be executed and delivered) to Pledgor all such proxies and other instruments as Pledgor may reasonably request for the purpose of enabling Pledgor to exercise the voting and other rights which it is entitled to exercise pursuant to paragraph (i) of this Section 7(a) and to receive the dividends which it is authorized to receive and retain pursuant to paragraph (ii) of this Section 7(a).

(b) Upon the occurrence and during the continuance of a Default;

(i) all rights of Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to paragraph (i) of a subsection (a) of this Section 7, and to receive the dividends which it would otherwise be authorized to receive and retain pursuant to paragraph (ii) of subsection (a) of this Section 7, shall cease, and all such rights shall thereupon become vested in the Investors, who shall thereupon have the sole right to exercise such voting and other consensual rights and to receive and hold as Pledged Collateral such dividends;

(ii) without limiting the generality of the foregoing, the Pledgeholder on the Investors' behalf may, at its option, exercise any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Pledged Collateral as if it were the absolute owner thereof, including, without limitation, the right to exchange, in its discretion, any and all of the Pledged Collateral upon the merger, consolidation, reorganization, recapitalization or other adjustment of Neonode, or upon the exercise by Neonode of any right, privilege or option pertaining to any Pledged Collateral, and, in connection therewith, to deposit and deliver any and all of the Pledged Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine; and

(iii) all dividends which are received by the Pledgor contrary to the provisions of paragraph (i) of this Section 7(b) shall be received in trust for the benefit of the Investors, shall be segregated from other funds of Pledgor, and shall be forthwith paid over to Pledgeholder as Pledged Collateral in the exact form received with any necessary endorsement and/or appropriate stock powers duly executed in blank, to be held by Pledgeholder as Pledged Collateral and as further collateral security for the Obligations.

8. Additional Provisions Concerning the Pledged Collateral .

(a) Upon the occurrence and during the continuance of a Default, Pledgor hereby appoints Pledgeholder the Pledgor's attorney-in-fact and proxy, with full authority in the place and stead of the Pledgor and in name of Pledgor or otherwise, from time to time in Pledgeholder's discretion, to take any action and to execute any instrument which Pledgeholder may deem necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Pledgor under Section 7(a) hereof), including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any dividend or other distribution in respect of any Pledged Collateral and to give full discharge for the same.

(b) Upon the occurrence of and during the continuance of a Default, the Pledgor undertakes to execute and deliver (or cause to be executed and delivered) to the Pledgeholder all such proxies and other instruments as the Pledgeholder may reasonably request for the purpose of enabling the Pledgeholder to exercise the voting and other rights which the Pledgeholder is entitled to exercise under this Agreement upon the occurrence and continuance of a Default.

(c) If the Pledgor fails to perform any agreement or obligation contained herein, Pledgeholder itself may perform or cause performance of , such agreement or obligation, and the expenses of Pledgeholder incurred in connection therewith shall be payable by Pledgor.

(d) The Pledgor hererby irrevocably waives all per-emption rights under Neonode's articles of association in relation to all shares in Neonode held by the Pledgeholder for and on behalf of the Investors to secure the obligations under the Notes.

9. Remedies Upon Default : If a Default shall have occurred and be continuing;

(a) Upon 30 days prior notice to Pledgor, the Pledgeholder on the Investors' behalf may sell, assign and deliver to any person (including, but not limited to, themselves) any or all of the Pledged Collateral in such manner and upon such terms and conditions as the Pledgeholder, in its sole discretion may deem proper, with or without demand, advertisement or notice to Pledgor of the date, time or place of any such sale or sales or adjournments thereof.

(b) The Pledgeholder on the Investors' behalf may exercise in respect of the Pledged Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all of the rights and remedies of a secured party on default; and without limiting the generality of the foregoing and without notice except as specified below, sell the Pledged Collateral or any part thereof in one or more parcels at public or private sale, at any exchange or broker's board or elsewhere, at such price or prices and on such other terms as the Pledgeholder may deem commercially reasonable. Pledgor agrees that, to the extent notice of sale shall be required by law, at least 30 days notice to Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Pledgeholder shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given. The Pledgeholder may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(c) Pledgor recognizes that the Pledgeholder on the Investors' behalf may deem it impracticable to effect a public sale of all or any part of the Pledged Shares or any other securities constituting Pledged Collateral and that the Pledgeholder on the Investors' behalf may, therefore, determine to make one or more private sales of any such securities to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own account, for investment and not with a view to the distribution of resale thereof. Pledgor acknowledges that any such private sale may be at prices and on terms less favorable to the Investors than the prices and other terms which might have been obtained at a public sale and, notwithstanding the foregoing, agrees that such private sales shall be deemed to have been made in a commercially reasonable manner and that the Pledgeholder shall have no obligation to delay the sale of any such securities for the period of time necessary to permit the issuer of such securities to register such securities for public sale under the United States Securities Act of 1933, a amended.

(d) Any cash held by the Pledgeholder as Pledged Collateral and all cash proceeds received by the Pledgeholder in respect of any sale of, collection from, or other realization upon, all or any part of the Pledged Collateral shall be applied as follows:

(i) First, to the payment of the reasonable costs and expenses, including reasonable attorneys' fees and legal expenses, incurred by the Investors in connection with (A) the administration of this Agreement, (B) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Pledged Collateral, (C) the exercise or enforcement of any of the rights of the Investors hereunder or (D) the failure of Pledgor to perform or observe any of the provisions hereof;

(ii) Second, at the option of the Pledgeholder on the Investors' behalf, to the payment or other satisfaction of any liens and other encumbrances upon any of the Pledged Collateral;

(iii) Third, to the payment of the Obligations;

(iv) Fourth, to the payment of any other amounts required by applicable law; and

(v) Fifth, the surplus proceeds, if any, to Pledgor or to whosoever shall be lawfully entitled to receive the same or as a court of competent jurisdiction shall direct.

(e) Pledgor hereby waives and releases any and all rights of equity of redemption whether before or after any sale, transfer, or other disposition or application contemplated by this Section 9 and, except as herein expressly required, any and all notice to Pledgor of the foregoing action.

(f) For the avoidance of doubt, Chapter 10 of the Swedish Commercial code (Sw. Handelshalken) shall not apply when the Pledgeholder enforces the Pledged Collateral.

10. Expenses . Each party to this Agreement shall pay all of its own expenses incurred in connection with this Agreement.

11. Notices, Etc . All notices and other communications provided for hereunder shall be in writing and shall be mailed, sent by fax or delivered, if to the Pledgeholder or the Investors, c/o AIGH Investment Partners, LLC, 6006 Berkeley Avenue, Baltimore, Maryland 21209, fax 212-751-2892, Attention: Orin Hirschman, with a copy to Hahn & Hessen LLP, 488 Madison Avenue, New York, New York 10022, fax 212-478-7400, Attention: James Kardon, Esq,; and if to Pledgor, [________________] or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties complying as to delivery with the terms of this Section 11. All such notices and other communications shall be effective (i) if mailed, when deposited in the mail, (ii) if sent by facsimile, when received, or (iii) if delivered, when delivered.

12. Pledgeholder.

The Parties to this Agreement agree that AIGH, as the Pledgeholder (or any successor Pledgeholder hereunder), shall have no liability for any act or omission in the capacity of the Pledgeholder under this Agreement except for a willful misconduct or gross negligence. No successor Pledgeholder shall be liable for any act or omissions of a predecessor Pledgeholder.

The Pledgeholder may resign at any time by giving seven days written notice to the parties to this Agreement and the Investors, acting by a majority in number, may replace the Pledgeholder by giving the Pledgeholder two days written notice of the replacement and the identity of the new Pledgeholder. In the event of a resignation, the Investors, acting by a majority in number, shall designate a successor Pledgeholder and give notice as to the identity of the new Pledgeholder to the parties to this Agreement.

13. Miscellaneous.

(a) No amendment of any provision of this Agreement shall be effective unless it is in writing and signed by the parties hereto, and no waiver of any provision of this Agreement, and no consent to any departure by Pledgor therefrom, shall be effective unless it is in writing and signed by the Investors, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(b) No failure on the part of the Pledgeholder or the Investors to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The rights and remedies of the Investors provided herein are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

(d) Upon the satisfaction in full of the Obligations, (i) this Agreement and the security interest created hereby shall terminate and all rights to the Pledged Collateral shall revert to Pledgor, and (ii) the Pledgeholder or the Investors will, upon Pledgor's request; (A) return to Pledgor such of the Pledged Collateral as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof, and (B) execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence such termination.

(e) This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(f) The courts of New York, New York shall have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement or the consequences of its nullity).

[Signatures on the following pages.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Stockholder Pledge and Security Agreement as of the date first above written.

PLEDGOR

By: ______________________________
Name: ______________________________
Title: ______________________________

PLEDGEHOLDER

AIGH INVESTMENT PARTNERS, LLC

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT A

The Investors

EXHIBIT B

Shares of Neonode Inc held by the Pledgor

EXHIBIT C

Liens, Security Interest, Options or Other Charges or Encumbrances on the Pledged Collateral

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INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT (" Agreement ") dated as of February 28, 2006, is among AIGH INVESTMENT PARTNERS LLC, a Delaware limited liability company with offices located at 6006 Berkeley Avenue, Baltimore, Maryland 21209 (" AIGH ") and PETRUS HOLDINGS S.A., a corporation organized under the laws of Luxembourg (" Petrus ").

RECITALS

WHEREAS, Neonode Inc, a Delaware corporation, owns all the issued and outstanding shares of Neonode AB, a corporation organized under the laws of Sweden, at the date hereof.

WHEREAS, Neonode Inc may issue under a Note Purchase Agreement, Notes up to an aggregate amount of $5,500,000 to AIGH.

WHEREAS, Neonode AB has issued certain indebtedness to Petrus in an amount of SEK 5,353,000.

WHEREAS, AIGH and Petrus desire to set forth the status of the respective obligations owed to them.

1. Ranking

1.1 AIGH and Petrus hereby agree that any indebtedness of either Neonode Inc or Neonode AB, as the case may be, owing to either one of them will rank, as to both of them, equally (*pari passu*).

1.2 If either AIGH or Petrus, as the case may be, receives any payment with respect to such indebtedness including as a result of any realization on any collateral security for such indebtedness, it shall pay one to the other so much of such payment so that each of AIGH and Petrus shall receive an amount in proportion to the amount of such indebtedness held by it compared with the total amount of all such indebtedness.

2. Subordination

AIGH and Petrus hereby agree that all indebtedness of Neonode Inc and Neonode AB held by them shall be subordinated in right of payment to all indebtedness of Neonode AB to Almi Foretagspartner AB, a corporation organized under the laws of Sweden.

3. Severability

In case any one or more of the provisions contained in this Agreement or in any instrument contemplated hereby, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein, and any other application thereof, shall not in any way be affected or impaired thereby.

4. <u>Successor and Assigns</u>

This Agreement shall be binding upon AIGH and Petrus and their respective successors and assigns and shall inure to the benefit of AIGH and Petrus and their respective successors and assigns.

5. <u>Counterparts</u>

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

6. <u>Amendment; Waiver, Etc.</u>

Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated except in a writing signed by the party against whom enforcement of such amendment, waiver, discharge or termination is sought.

7. <u>Headings</u>

The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the terms hereof.

8. <u>Notices</u>

All notices permitted or required to be given by or among AIGH and Petrus under this Agreement shall be in writing and shall be deemed to be duly given if given personally with receipt acknowledged or sent by registered or certified mail or by facsimile (which shall be confirmed by a writing sent by registered or certified mail on the same day that such facsimile transmission is sent), or by overnight courier for next day delivery, addressed to the parties at their addresses or facsimile numbers set forth below, unless notice in writing is given of a change of address or facsimile number in the manner set forth herein, in which case notices shall be sent to the new address or facsimile number as designated. Notice of change of address or facsimile number shall be deemed given when actually received or upon refusal to accept delivery thereof; all other notices shall be deemed given and received on the earlier of (a) when actually received or upon refusal to accept delivery thereof, or (b) one business day after being sent by facsimile or overnight courier and four days after mailing, as aforesaid.

Petrus: Petrus Holding S.A.
Attention:
Telephone:
Facsimile:
Email:

AIGH: AIGH Investment Partners LLC
6006 Berkeley Avenue
Baltimore, Maryland 21209
Attention: Orin Hirschman, Managing member
Telephone: +1-410-415-6464
Facsimile: +1-212-751-2892
Email: orin@adamsmithco.com

9. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

10. Termination

Except with respect to any obligations hereunder which are expressly stated to survive the termination hereof, this Agreement shall terminate on the date on which the Neonode Inc and Neonode AB indebtednesses have been fully and indefeasibly paid in full.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

AIGH INVESTMENT PARTNERS LLC

By: ____________________

Name:
Title:

PETRUS HOLDING S.A.

By: ____________________

Name:
Title:

Receipt Acknowledged

ALMI FORETAGSPARTNER AB

____

By:
Its:

EXECUTION COPY

NEONODE, INC.

NOTE PURCHASE AGREEMENT

NOTE PURCHASE AGREEMENT (the " Agreement ") dated as of November 20, 2006 among NEONODE, INC., a Delaware corporation (" Company "), AIGH Investment Partners LLC, a Delaware limited liability company (" AIGH "), and any other person who executes this agreement from time to time as purchaser of Notes (collectively with AIGH, the " New Investors ").

Background : The Company desires to sell to the New Investors, and the New Investors desire to purchase up to, $1,000,000 in principal amount of Senior Secured Notes, in substantially the form attached hereto as Exhibit 1 (the " Notes "). On February 28, 2006, the Company sold $4,000,000 principal amount of senior secured notes on substantially the same terms as the Notes to AIGH and other investors (collectively in this capacity, the " Investors "), and in connection therewith (i) the Company entered into the Security Agreement with AIGH (as agent for the Investors), (ii) AIGH entered the Intercreditor Agreement with Petrus, and (iii) the Pledgors entered into the Stockholder Pledge Agreements with the Investors. The Company may also sell additional notes of similar tenor to the Notes to the New Investors or other investors, on or before August 28, 2007, provided that the aggregate principal amount of such notes together with the Notes does not exceed $1,800,000. The proceeds are necessary for the development and continuance of the business of the Company and each of its subsidiaries.

Certain Definitions :

" Common Stock " shall mean stock of the Company of any class (however designated) whether now or hereafter authorized, which generally has the right to participate in the voting and in the distribution of earnings and assets of the Company without limit as to amount or percentage, including the Company's Common Stock, $.01 par value per share.

" Company " includes the Company and any Person which shall succeed to or assume, directly or indirectly, the obligations of the Company hereunder.

" Company Disclosure " means the disclosure materials in the form attached as Exhibit 6 to this Agreement.

" Governmental Body " shall mean any: (a) nation, state, commonwealth, province, municipality or district; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

" Guaranties " means the respective guaranties, dated February 28, 2006, delivered to the Investors identified on Exhibit A of the Stockholder Pledge Agreements, respectively.

" Guarantors " means each of Thomas Erickson, Magnus Goertz and Per Bystedt, each as a party to its respective Guaranty.

" Intercreditor Agreement " means the Intercreditor Agreement, dated February 28, 2006, between AIGH and Petrus.

" Material Adverse Change " shall mean any change in the facts represented by the Company in the Agreement or the business, financial condition, results of operation, prospects, properties or operations of the Company and its subsidiaries taken as a whole which may have a material adverse effect on the value of the Common Stock of the Company.

" Material Adverse Effect " shall mean a material adverse effect on the operations, assets, liabilities, financial condition, prospects or business of the Company.

" Neonode AB " means Neonode AB, a Swedish corporation.

" Own " shall mean own beneficially, as that term is defined in the rules and regulations of the SEC.

" Petrus " means Petrus Holdings, SA, a corporation organized under the laws of Luxembourg.

" Person " means any individual, sole proprietorship, partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity, any university or similar institution, or any government or any agency or instrumentality or political subdivision thereof.

" Pledgors " means Rector AB, Iwo Jima Sarl and Wirelesstoys sweden AB, each as a party to its respective Stockholder Pledge Agreement.

" Proprietary Assets " shall mean any: (i) patent, patent application, trademark (whether registered or unregistered), trademark application, trade name, fictitious business name, service mark (whether registered or unregistered), service mark application, copyright (whether registered or unregistered), copyright application, maskwork, maskwork application, trade secret, know-how, customer list, franchise, system, computer software, computer program, invention, design, blueprint, engineering drawing, proprietary product, technology, proprietary right or other intellectual property right or intangible asset relating to the foregoing; or (ii) right to use or exploit any of the foregoing.

" SEC " means the Securities and Exchange Commission. "Securities Act" means the Securities Act of 1933, as amended.

" Security Agreement " means the Security Agreement, dated February 28, 2006, between the Company and AIGH, as agent for the Investors.

" Stockholder Pledge Agreements " means the Stockholder Pledge and Security Agreements, dated February 28, 2006, between the Investors and each of the Pledgors, respectively.

" Subsidiary " shall mean, immediately prior to the Closing, any corporation of which stock or other interest having ordinary power to elect a majority of the board of directors (or other governing body) of such entity (regardless of whether or not at the time stock or interests of any other class or classes of such corporation shall have or may have voting power by reason of the happening of any contingency) is, immediately prior to the Closing, directly or indirectly Owned by the Company or by one or more of its Subsidiaries.

In consideration of the mutual covenants contained herein, the parties agree as follows:

1. Purchase and Sale of Notes .

1.1 Sale and Issuance of Notes . The Company shall sell to the New Investors and the New Investors shall purchase from the Company, an aggregate principal amount of $1,000,000 of Notes at par. The principal amount of Notes to be purchased by each of the New Investors from the Company at the Closing (as defined herein) is set forth opposite the name of each New Investor on the signature page hereof, subject to acceptance, in whole or in part, by the Company.

1.2 Closing . The closing of the purchase and sale of $1,000,000 principal amount of Notes hereunder (the " Closing ") shall take place within three business days after the date hereof; provided the Company has not suffered any Material Adverse Change since the date hereof. The date on which the Closing occurs is referred to herein as the " Closing Date ." The Closing shall take place at the offices of Hahn & Hessen LLP, the New Investors' counsel, in New York, New York, or at such other location as is mutually acceptable to the New Investors and the Company.

1.3 Conditions of the Closing . The obligation of the New Investors to complete the purchase of the Notes at the Closing is subject to fulfillment of the following conditions:

(a) the Company and AIGH shall execute and deliver Amendment 1 to the Security Agreement, dated the Closing Date, in the form attached as Exhibit 2 (the " Security Agreement Amendment ");

(b) each Pledgor and AIGH shall execute and deliver Amendment 1 to such Pledgor's respective Stockholder Pledge Agreement, dated the Closing Date, each in substantially the form attached as Exhibit 3 (the " Stockholder Pledge Amendment ");

(c) each Guarantor and AIGH shall execute and deliver Amendment 1 to such Guarantor's respective Gua ranty, dated the Closing Date, each in substantially the form attached as Exhibit 4 (the " Guaranty Amendment ");

(d) Petrus, the Investors, the New Investors and AIGH shall enter into Amendment 1 to the Intercreditor Agreement, dated the Closing Date, in the form attached hereto as Exhibit 5 (the " Intercreditor Agreement Amendment ", and with the Agreement, the Notes, the Security Agreement Amendments, the Stockholder Pledge Amendments, the Guaranty Amendments and other documents required in connection with the transactions contemplated in the Agreement, the " Transaction Documents ");

(e) the Company shall have executed and delivered all documents, such as financing statements and assignments, reasonably requested by counsel for the New Investors;

(f) the absence of any Material Adverse Change since the date hereof;

(g) the Company shall pay the New Investors' expenses to the extent set forth in Section 6.9 hereof.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each of the New Investors as follows:

2.1 Corporate Organization; Authority; Due Authorization.

(a) The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has the corporate power and authority to own or lease its properties as and in the places where such business is now conducted and to carry on its business as now conducted and (iii) is duly qualified and in good standing as a foreign corporation authorized to do business in every jurisdiction where the failure to so qualify, individually or in the aggregate, would have a Material Adverse Effect. Set forth in the Company Disclosure is a complete and correct list of all Subsidiaries. Each Subsidiary is duly incorporated, and validly existing under the laws of its jurisdiction of incorporation and is qualified to do business as a foreign corporation in each jurisdiction in which qualification is required, except where failure to so qualify would not have a Material Adverse Effect.

(b) The Company (i) has the requisite corporate power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) has been authorized by all necessary corporate action to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to consummate the transactions contemplated hereby and thereby (the "Contemplated Transactions"). Each of this Agreement and the other Transaction Documents is a valid and binding obligation of the Company enforceable in accordance with its terms except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

2.2 Capitalization. As of the date hereof, the authorized capital stock of the Company is 6,500,000 shares of Common Stock, $.01 par value per share. Except as contemplated by this Agreement and as set forth in the capitalization table included in the Company Disclosure, there are (i) no outstanding subscriptions, warrants, options, conversion privileges or other rights or agreements obligating the Company or Neonode AB to purchase or otherwise acquire or issue any shares of capital stock of the Company or Neonode AB (or shares reserved for such purpose), (ii) no preemptive rights contained in the Company's Certificate of Incorporation, as amended (the " Certificate of Incorporation "), By-Laws of the Company or contracts to which the Company is a party or rights of first refusal with respect to the issuance of additional shares of capital stock of the Company, and (iii) no commitments or understandings (oral or written) of the Company or Neonode AB to issue any shares, warrants, options or other rights. Except as disclosed in the Company Disclosure with respect to each Subsidiary, (x) all the issued and outstanding shares of the Subsidiary's capital stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in compliance with applicable federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, (y) except as disclosed in the Company Disclosure, there are no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Subsidiary's capital stock or any such options, rights, convertible securities or obligations, and (z) the Company owns 100% of the outstanding equity of each Subsidiary.

2.3 Validity of Notes. The issuance of the Notes has been duly authorized and the Notes are valid and binding and upon Closing will be in full force and effect and enforceable in accordance with their respective terms.

2.4 Private Offering. Neither the Company nor anyone acting on its behalf has within the last 12 months issued, sold or offered any security of the Company (including, without limitation, any Notes) to any Person under circumstances that would cause the issuance and sale of the Notes, as contemplated by this Agreement, to be subject to the registration requirements of the Securities Act.

2.5 Brokers and Finders. The Company has not retained any investment banker, broker or finder in connection with the Contemplated Transactions.

2.6 Financial Statements; Absence of Certain Changes. Each of (a) the unaudited statement of liabilities of the Company as of September 30, 2006, (b) the unaudited statements of income, retained earnings and cash flows of the Company for the period ended on September 30, 2006, and (c) the unaudited statements of income, retained earnings and cash flows of the Company for the period ended on September, 2006, included in the Company Disclosure (including any related notes and schedules, if any), (the " Financial Statements ") fairly presents, in all material respects, the financial position of the Company, or the results of operations, retained earnings or cash flows, as the case may be, of the Company as of the referenced date or for the periods set forth therein (subject to normal year-end audit adjustments which would not be material in amount or effect), in each case (other than the statement of liabilities) in accordance with generally accepted accounting principles consistently applied during the periods involved, except as may be noted therein and that the unaudited statements may not contain all footnotes required by generally accepted accounting principles. Neither the Company nor any Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise), including for taxes, that would be required to be reflected on, or reserved against in, Financial Statements, except for (i) liabilities or obligations that were so reserved on, or reflected in (including the notes to), the Financial Statements; and (ii) liabilities or obligations which would not, individually or in the aggregate, have a Material Adverse Effect. Other than the indebtedness as set forth in the Financial Statements or the Company Disclosure, neither the Company nor any Subsidiary has indebtedness as of the date hereof. Except as specifically contemplated by this Agreement or as set forth in the Company Disclosure and the Financial Statements, there has not been any Material Adverse Change since September 30, 2006.

2.7 Litigation. Except as set forth in the Company Disclosure, there are no claims, actions, suits, investigations, inquiries or proceedings (" Actions ") pending against the Company or its Subsidiaries or, to the knowledge of the Company, threatened against the Company or its Subsidiaries, or any officer, director, employee or agent thereof in his or her capacity as such, at l aw or in equity, or before or by any court, tribunal, arbitrator, mediator or any federal or state commission, board, bureau, agency or instrumentality that would reasonably be expected to have, either individually or in the aggregate, a material adverse effect. To the Company's knowledge, there is no factual or legal basis for any such Action. The Company and each Subsidiary is not a party to or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality and there is no Action by the Company or any Subsidiary currently pending or which the Company or any Subsidiary intends to initiate.

2.8 Propriet ary Assets.

(a) The Company Disclosure sets forth, with respect to each Proprietary Asset of the Company and any Subsidiary registered with or issued by any Governmental Body or for which an application has been filed with any Governmental Body, (i) a brief description of such Proprietary Asset and (ii) the names of the jurisdictions covered by the applicable registration or application . The Company Disclosure identifies and provides a brief description of all other Proprietary Assets owned by the Company and any Subsidiary, and identifies and provides a brief description of each Proprietary Asset licensed to the Company and any Subsidiary by any person (except for any Proprietary Asset that is licensed to the Company or any Subsidiary under any third party license generally available to the public at a cost of less than $10,000), and identifies the license agreement under which such Proprietary Asset is being licensed to the Company or Subsidiary, as appropriate . Except as set forth in the Company Disclosure, the Company and its Subsidiaries, as a whole, have good, valid and marketable title to, or have a valid right to use, all of the Proprietary Assets used in the Company's business (including without limitation all Proprietary Assets identified in the Company Disclosure), free and clear of all liens and other encumbrances to the knowledge of the Company; and are not obligated to make any payment to any person for the use of any Proprietary Asset . The Company and each Subsidiary has not developed jointly with any other person any Proprietary Asset with respect to which such other person has any rights . Except as set forth in the Company Disclosure, none of which shall have a Material Adverse Effect, the Company has no knowledge that any other person has any right, title or interest in any of the Proprietary Assets of the Company or its Subsidiaries.

(b) The Company and its Subsidiaries, as appropriate, have taken reasonable and customary measures and precautions to protect and maintain the confidentiality and secrecy of all Proprietary Assets of the Company and its Subsidiaries (except Proprietary Assets whose value would be unimpaired by public disclosure) and otherwise to maintain and protect the value of all Proprietary Assets of the Company and its Subsidiaries . Each employee, officer, director, consultant and contractor (not including contractors without access to confidential information of the Company) of the Company and its Subsidiaries (each, an " Employee ") has entered into and executed an agreement providing for (i) the assignment to the Company (or to any of its Subsidiaries) of personal rights or claims to Proprietary Assets for which such Employee's personal rights or claims arose out of the scope of his/her employment or retainer by the Company or its Subsidiaries and (ii) the nondisclosure of confidential information acquired by the Employee with respect to the Proprietary Assets of the Company and its Subsidiaries or an employment or consulting agreement containing substantially similar terms . Except as set forth in the Company Disclosure, the Company and each Subsidiary has not (other than pursuant to license agreements identified in the Company Disclosure) disclosed or delivered to any person, or permitted the disclosure or delivery to any person of, (i) the source code, or any portion or aspect of the source code, of any Proprietary Asset of the Company or its Subsidiaries, (ii) the object code, or any portion or aspect of the object code, of any Proprietary Asset of the Company or its Subsidiaries or (iii) any patent applications (except as required by law).

(c) (i) To the knowledge of the Company, none of the Proprietary Assets of the Company or its Subsidiaries necessary for the conduct of their businesses infringes or conflicts with any Proprietary Asset owned or used by any other Person, (ii) to the knowledge of the Company, the Company and each Subsidiary is not infringing, misappropriating or making any unlawful use of, and the Company and each Subsidiary has not at any time infringed, misappropriated or made any unlawful use of, or received any notice or other communication (in writing or otherwise) of any actual, alleged, possible or potential infringement, misappropriation or unlawful use of, any Proprietary Asset owned or used by any other person, and (iii) to the knowledge of the Company, no other person is infringing, misappropriating or making any unlawful use of, and no Proprietary Asset owned or used by any other person infringes or conflicts with, any Proprietary Asset of the Company or its Subsidiaries.

(d) There has not been any claim by any customer or other person alleging that any Proprietary Asset of the Company or its Subsidiaries (including each version thereof that has ever been licensed or otherwise made available by the Company or its Subsidiaries to any person) does not conform in all material respects with any specification, documentation, performance standard, representation or statement made or provided by or on behalf of the Company or its Subsidiaries, and, to the knowledge of the Company, there is no basis for any such claim.

(e) The Company is not knowledgeable of any Proprietary Asset owned or used by any other person (except for any Proprietary Asset that is licensed to the Company or any Subsidiary under any third party license set forth in the Company Disclosure or would otherwise be commercially available) necessary to enable the Company and each Subsidiary to conduct its businesses in the manner in which such businesses have been and are being conducted or are expected to be conducted pursuant to the Company Disclosure . Neither the Company nor any Subsidiary has licensed, or agreed to license, any of its Proprietary Assets to any person on an exclusive, semi-exclusive or royalty-free basis . Neither the Company nor any Subsidiary has entered into any covenant not to compete or contract limiting its ability to exploit fully any of its Proprietary Assets or to transact business in any market or geographical area or with any person . Without limitation on the foregoing, except as set forth in the Company Disclosure, no officer, director or Stakeholder, either as an individual or through an affiliate, has any claim to own or any other rights to use any of the Proprietary Assets.

(f) Except as set forth in the Company Disclosure, the Company is not aware that any Employee is obligated under any agreement (including licenses, covenants or commitments of any nature) or subject to any judgment, decree or order of any court or administrative agency, or any other restriction that would interfere with the use of his or her best efforts to carry out his or her duties for the Company and its Subsidiaries, as appropriate, or to promote the interests of the Company and its Subsidiaries, as appropriate, or that would conflict with the Company's or its Subsidiaries' business as proposed to be conducted . The Company does not believe it is or will be necessary to utilize any inventions of any Employees (or persons the Company or its Subsidiaries currently intend to hire) made prior to their employment or retainer by the Company or its Subsidiaries, as appropriate, which have not been assigned to the Company . To the Company's knowledge, after due inquiry, at no time during the conception of, or reduction to practice, or development of, any of the Company's or its Subsidiaries' Proprietary Assets was any developer, inventor or other contributor to such Proprietary Assets operating under any grants from any governmental entity or agency or private source, performing research sponsored by any governmental entity or agency or private source or subject to any employment agreement or invention assignment or nondisclosure agreement or other obligation with any third party that could adversely affect the Company's or its Subsidiaries' rights in such Proprietary Assets.

(g) The Company believes that the exceptions, qualifications and other disclosures relating to the Proprietary Assets set forth in the Company Disclosure shall not have a Material Adverse Effect in the aggregate.

2.9 Company Disclosure . No representation or warranty of the Company herein, no exhibit or schedule hereto, and no information contained or referenced in the Company Disclosure, when read together, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

3. Representations and Warranties of the New Investors. Each New Investor represents and warrants to the Company as follows:

3.1 Authorization. Such New Investor (i) has full power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) if applicable has been authorized by all necessary corporate or equivalent action to execute, deliver and perform this Agreement and the other Transaction Documents and to consummate the Contemplated Transactions . Each of this Agreement and the other Transaction Documents to which the New Investors are parties is a valid and binding obligation of such New Investor enforceable in accordance with its terms, except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

3.2 Brokers and Finders. Such New Investor has not retained any investment banker, broker or finder in connection with the Contemplated Transactions.

4. Securities Laws; Certain Covenants of New Investors.

4.1 This Agreement is made with each New Investor in reliance upon such New Investor's representation to the Company, which by such New Investor's execution of this Agreement such New Investor hereby confirms, that the Notes to be received by such New Investor will be acquired for investment for such New Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof such that such New Investors would constitute an "underwriter" under the Securities Act.

4.2 Each New Investor understands and acknowledges that the offering of the Notes pursuant to this Agreement will not be registered under the Securities Act or qualified under any state securities laws on the grounds that the offering and sale of the Notes are exempt from registration and qualification, respectively, under the Securities Act and the Blue Sky Laws.

4.3 Each New Investor represents that (i) such New Investor is able to fend for itself in the Contemplated Transactions; (ii) such New Investor has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of such New Investor's prospective investment in the Notes; and (iii) such New Investor has the ability to bear the economic risks of such New Investor's prospective investment and can afford the complete loss of such investment.

4.4 Each New Investor further represents by execution of this Agreement that such New Investor qualifies as an "accredited investor" as such term is defined under Rule 501 promulgated under the Securities Act . Any New Investor that is a corporation, a partnership, a limited liability company, a trust or other business entity further represents by execution of this Agreement that it has not been organized for the purpose of purchasing the Notes.

4.5 Each New Investor agrees that the Notes and any shares of capital stock of the Company received in respect of the foregoing held by it may not be sold by such New Investor without registration under the Securities Act or an exemption therefrom, and therefore such New Investor may be required to hold such securities for an indeterminate period.

4.6 Each New Investor agrees that the obligations under the Notes shall be subject to the Security Agreement, Stockholder Pledge Agreement and Intercreditor Agreement, each as amended as contemplated herein, and further authorizes AIGH as such New Investor's agent to enter into the Security Agreement Amendment, Stockholder Pledge Amendment, Intercreditor Agreement Amendment and Guaranty Amendment on such Investor's behalf . AIGH shall have no duty to any New Investor arising out of its actions or failure to act under the Security Agreement, Stockholder Pledge Agreement, Intercreditor Agreement or Guaranties, each as amended as contemplated herein, provided that AIGH shall apply the same standard of care as it would use in determining whether to act under such agreements in its capacity as a New Investor.

4.7 Each New Investor agrees to indemnify AIGH from and against any and all reasonable claims, losses, and liabilities (including, without limitation, reasonable attorney fees) arising out of or resulting from the Security Agreement, Stockholder Pledge Agreement, Intercreditor Agreement or Guaranties, each as amended as contemplated herein, except claims, losses, or liabilities resulting from the gross negligence or willful misconduct of AIGH.

4.8 Each New Investor will upon demand pay the amount of any and all reasonable expenses, including, without limitation, the reasonable fees and expenses of counsel and of any experts and agents, which AIGH may incur in connection with (i) the preparation and administration of the Security Agreement, Stockholder Pledge Agreement, Intercreditor Agreement or Guaranties, each as amended as contemplated herein; (ii) the exercise or enforcement of any of the rights of AIGH or the New Investors thereunder; or (iii) the failure by any New Investor to perform or observe any of the provisions hereof or thereof.

5. Additional Covenants of the Company .

5.1 Reports and Information . Until the sooner of repayment or conversion of all the Notes, the Company shall deliver to such New Investor (or the successor or assign of such New Investor), contemporaneously with delivery to Petrus or its affiliates, a copy of each report of the Company delivered to any such person.

5.2 Form D . As soon as is practicable following the Closing, the Company shall prepare and file with the SEC a Form D concerning the sale of the Notes.

5.3 Financial Reports and Tax Returns . Until the Company is a public company required to file financial reports with the U.S . Securities and Exchange Commission, the Company will furnish or will cause to be furnished to each New Investor:

(a) within 90 days after the end of each fiscal quarter and fiscal year of the Company, respectively, financial statements (including income statement and balance sheet) in accordance with generally accepted accounting standards (except that interim financial statements need not contain footnotes or normal year-end adjustments); and

(b) within 90 days after the end of each fiscal year of the Company, an independent certified audit of financial statements for such fiscal year.

6. Miscellaneous .

6.1 Entire Agreement; Successors and Assigns . This Agreement and the other Transaction Documents constitute the entire contract between the parties relative to the subject matter hereof and thereof, and no party shall be liable or bound to the other in any manner by any warranties, representations or covenants except as specifically set forth herein or therein . This Agreement and the other Transaction Documents supersede any previous agreement among the parties with respect to the Notes . The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective executors, administrators, heirs, successors and assigns of the parties . Except as expressly provided herein, nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

6.2 Survival of Representations and Warranties . All representations and warranties of the Company shall survive the execution and delivery of this Agreement and the Closing hereunder and shall continue in full force and effect for one year after the Closing . The covenants of the Company set forth in Section 5 shall remain in effect as set forth therein.

6.3 Governing Law; Jurisdiction . This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law . Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Agreement and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at its address specified in Section 6.6 (or as otherwise noticed to the other party) . Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of forum non conveniens . Each party also waives any right to trial by jury.

6.4 Counterparts . This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.5 Headings . The headings of the sections of this Agreement are for convenience and shall not by themselves determine the interpretation of this Agreement.

6.6 Notices . Any notice required or permitted hereunder shall be given in writing and shall be deemed effect ively given upon (i) personal delivery, (ii) delivery by fax (with answer back confirmed) or (iii) delivery by electronic mail (with reception confirmed), addressed to a party at its address or sent to the fax number or e-mail address shown below or at such other address, fax number or e-mail address as such party may designate by three days advance notice to the other party.

Any notice to New Investors shall be sent to the addresses set forth on the signature pages hereof, with a copy to:

Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: James Kardon, Esq.
Fax Number: (212) 478-7400
e-mail: jkardon@hahnhessen.com

Any notice to the Company shall be sent to:

Neonode, Inc.
Biblioteksgatan 11
S111 46 Stockholm, Sweden
Attention: President
Fax Number: 01146-8-678 18 51

with a copy to:

Reed Smith LLP
435 Sixth Avenue
Pittsburgh, PA 15219
Attention: Daniel Gallagher, Esq.
Fax Number: 412-288-3063

6.7 Rights of Transferees . Any and all rights and obligations of the New Investor herein incident to the ownership of Notes shall pass successively to all subsequent transferees of such securities until extinguished pursuant to the terms hereof.

6.8 Severability . Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be deemed prohibited or invalid under such applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, and such prohibition or invalidity shall not invalidate the remainder of such provision or any other provision of this Agreement.

6.9 Expenses . Irrespective of whether the Closing is effected, the Company shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of this Agreement . Each New Investor shall be responsible for all costs incurred by such New Investor in connection with the negotiation, execution, delivery and performance of this Agreement including, but not limited to, legal fees and expenses, except that, at the Closing, the Company shall pay legal fees and expenses to Hahn & Hessen LLP, as counsel to the New Investors.

6.10 Amendments and Waivers . Unless a particular provision or section of this Agreement requires otherwise explicitly in a particular instance, any provision of this Agreement may be amended and the observance of any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of a majority of the principal amount of the Notes . Any amendment or waiver effected in accordance with this Section 6.10 shall be binding upon each holder of any Notes at the time outstanding (including securities into which such Notes are convertible), each future holder of all such Notes, and the Company.

[signature page follows]

EXHIBITS
TO THE NOTE PURCHASE AGREEMENT

Exhibit 1: Form of Notes
Exhibit 2: Form of Security Agreement Amendment
Exhibit 3: Form of Stockholder Pledge Amendment
Exhibit 4: Form of Guaranty Amendment
Exhibit 5: Form of Intercreditor Agreement Amendment
Exhibit 6: Company Disclosure, including Capitalization Table, Financial Statements, etc.

EXECUTION COPY

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE WHICH OTHER COUNSEL IS SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

SENIOR SECURED NOTE

$ 800,000.00

New York, New York
November 20, 2006

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as the "Company"), a Delaware corporation having an address at Biblioteksgatan 11, S111 46 Stockholm, Sweden, hereby promises to pay to the order of AIGH Investment Partners, LLC, or assigns ("Lender"), at its offices located at 6006 Berkeley Avenue, Baltimore, MD 21209 or at such other place as the Lender may from time to time designate to the undersigned in writing, on August 28, 2007 subject to the conversion rights set forth herein, or such earlier date as required hereunder, the sum of EIGHT HUNDRED THOUSAND DOLLARS ($ 800,000.00) at a rate per annum equal to four percent (4%). In no event, however, shall interest hereunder be in excess of the maximum interest rate permitted by law.

The obligations of the undersigned are secured in accordance with the terms of (i) certain Stockholder Pledge and Security Agreements, dated February 28, 2006 (as amended, restated, modified and supplemented from time to time, the "Stockholder Pledge Agreements") between certain stockholders of the Company and Lender, by the pledge of certain Collateral, as defined in such Stockholder Pledge Agreements, respectively, and (ii) a Security Agreement, dated February 28, 2006 (as amended, restated, modified and supplemented from time to time, the "Security Agreement") between the Company and Lender, by the pledge of certain Collateral, as defined in such Security Agreement. This Note is one of the Senior Secured Notes (the "Notes") issued pursuant to a certain Note Purchase Agreement dated the date hereof between the Company and each Lender (the "Note Purchase Agreement") in connection with a financing of the undersigned up to an aggregate principal amount of ONE MILLION DOLLARS ($1,000,000).

A. Prepayment; Conversion :

1. This Note may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert this Note into common stock of the Company at a price based on the pre money valuation set forth in Section A.2 below.

2. In the event the undersigned completes a registered public offering with gross proceeds in excess of $5,500,000 on or before August 28, 2007, this Note, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under this Note, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of the undersigned, including for this purpose as equity all debt held by stockholders or their affiliates, of FIFTEEN MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($15,500,000) (determined based on the Capitalization Table attached as an exhibit to the Note Purchase Agreement); and provided further the undersigned has not suffered any material adverse change since the date hereof.

3. In the event the undersigned fails to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007 due to circumstances beyond the undersigned's control, this Note, including without limitation all accrued interest and other obligations under this Note, shall be converted into common stock of the undersigned at a price per share equal to the fair market value of such shares as determined by negotiations between the undersigned and the holder of this Note and in the aggregate amount of all such obligations, subject to compliance with applicable securities law; provided that (i) the pre-money valuation of the fully-diluted equity of the undersigned in the event and at the time of such conversion, including for this purpose as equity all debt held by stockholders or their affiliates, does not exceed US $15,500,000, (ii) the undersigned has not suffered any material adverse changes since the date hereof and (iii) the Lender and the undersigned enter into an investor rights agreement which provides the Lender with demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of the undersigned, rights to Company information and a bar on issuance of toxic preferreds or other death spiral convertible securities. During the term of the Notes, the undersigned shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of Notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of notes of similar tenor to this Note then outstanding divided by (B) the sum of $15,500,000 and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

B. Default; Remedy . If any one or more of the following events of default (each, an "Event of Default") shall occur, that is to say:

1. default shall be made in the payment of any principal or interest of this Note when the same shall become due and payable, whether at maturity, by acceleration, by notice of intention to prepay or otherwise;

2. the undersigned shall become unable to pay its debts as they mature, seek to auction all or a substantial portion of its assets, make a general assignment for the benefit of creditors, commence or cause to be commenced a meeting of his creditors or take advantage of any of the insolvency laws, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code (i) is filed against the undersigned, or (ii) is filed by the undersigned, or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of the undersigned's assets or affairs, or an order for relief in a case commenced under the Federal Bankruptcy Code is entered;

3. any judgment or judgments against the undersigned or its property for any amount remains unpaid, undischarged, unsatisfied, unbonded or undismissed for a period of ten (10) days, or a levy, sequestration or attachment against the undersigned or his property for any amount remains unpaid, undischarged, unstayed, unsatisfied or undismissed for a period of ten (10) days;

4. any guaranty of the obligations of the undersigned to Lender is terminated or breached, or if any guarantor of the obligations of the undersigned to the Lender attempts to terminate, challenge the validity of, or its liability under, any such guaranty or similar agreement, or the undersigned terminates any guaranty which he has given to Lender to secure the indebtedness of any third party; or

5. any event of default shall occur under any agreement between Lender and the undersigned, including without limitation the Security Agreement, any Stockholder Pledge Agreement or any guaranty related thereto, which is not cured within any applicable grace period,

then this Note (x)(i) upon the occurrence of an Event of Default pursuant to subsection 2 of this Section (B) shall immediately become due and payable, without notice; and (ii) upon the occurrence of any other Event of Default, shall become due and payable, upon delivery of written notice of such Event of Default by Lender to the undersigned, in each case together with reasonable attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof; and (y) shall bear interest at a rate of interest per annum equal to fifteen percent (15%). To the extent permitted by applicable law interest shall accrue with respect to interest that is due and not paid. In the event the Lender takes action under the Security Agreement or any Stockholder Pledge Agreement, the Lenders shall proceed first under the Security Agreement and thereafter only if the Company's obligations to the Lender are not satisfied, under such Stockholder Pledge Agreement.

C. Governing Law. This Note is being delivered in the State of New York, and shall be construed and enforced in accordance with the laws of such State. Any judicial proceeding by the undersigned against Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note, shall be brought only in federal or state court located in the City of New York, State of New York. Any judicial proceeding brought against the undersigned with respect to this Note may be brought in any court of competent jurisdiction in the City of New York, State of New York, United States of America, and, by execution and delivery of this Note, the undersigned accepts, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Note or any related agreement. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Lender to bring proceedings against the undersigned in the courts of any other jurisdiction. The undersigned waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens.

D. Waiver of Jury Trial. THE UNDERSIGNED EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THIS WAIVER OF THE RIGHT TO TRIAL BY JURY.

E. Notices. All notices required hereunder shall be given in the manner set forth in the Note Pur chase Agreement.

F. Tran sfer to Comply with the Securities Act of 1933.

1. The holder of this Note, each transferee hereof and any holder and transferee of any shares issued upon conversion hereof other than in a registered public offering, by his acceptance thereof, agrees that (i) no public distribution of Notes or such shares will be made in violation of the Act, and (ii) during such period as the delivery of a prospectus with respect to such shares may be required by the Act, no public distribution of such shares will be made in a manner or on terms different from those set forth in, or without delivery of, a prospectus then meeting the requirements of Section 10 of the Act and in compliance with applicable state securities laws. The holder of this Note and each transferee hereof further agrees that if any distribution of any shares issued upon conversion hereof other than in a registered public offering is proposed to be made by them otherwise than by delivery of a prospectus meeting the requirements of Section 10 of the Act, such action shall be taken only after submission to the undersigned of an opinion of counsel, reasonably satisfactory in form and substance to the undersigned's counsel, to the effect that the proposed distribution will not be in violation of the Act or of applicable state law. Furthermore, it shall be a condition to the transfer of this Note that any transferee thereof be bound by all of the terms and conditions contained in this Note.

2. Each certificate for shares issued upon conversion hereof shall bear a legend relating to the non-registered status of such shares under the Act, unless at the time of conversion of this Note such shares are subject to a currently effective registration statement under the Act.

G. Certain Representations and Covenants .

1. No information provide by the undersigned to the Lender contains or will on the Closing Date contain any untrue statement of a material fact or omits or will on the Closing Date omit to state any material fact necessary to make the statements contained herein or therein not misleading. During the term of this Note, the Company shall provide the Lender upon its request with any and all information about the Company reasonably deemed necessary for the Lender to evaluate this Note or a possible conversion thereof.

2. While this Note is outstanding, the Company (a) shall not issue (i) any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to the Lender and all other holders of notes of similar tenor rights to purchase an aggregate of up to the Percentage of such issue or (ii) any toxic convertibles or death spiral preferreds, and (b) shall not permit its 100% owned subsidiary Neonode AB, a Swedish corporation, to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

3. The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Notes are convertible) so that the Notes may be converted or exercised to purchase Common Stock (or such other securities) at any time.

4. If any event occurs as to which the provisions of this Note are strictly applicable and the application thereof would not fairly protect the rights of the Lenders in accordance with the essential intent and principles of such provisions, including but not limited to protection from dilution, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid.

H. The undersigned expressly waives any presentment, demand, protest, notice of protest, or notice of any kind.

[Signature page follows]

NEONODE, INC.

By:________________________________

_________________, Authorized Signatory

EXECUTION COPY

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE WHICH OTHER COUNSEL IS SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

SENIOR SECURED NOTE

$ 150,000.00

New York, New York
November 20, 2006

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as the "Company"), a Delaware corporation having an address at Biblioteksgatan 11, S111 46 Stockholm, Sweden, hereby promises to pay to the order of Hershel P. Berkowitz, or assigns ("Lender"), at 441 Yeshiva Lane, Apt. 1A, Baltimore, MD 21208 or at such other place as the Lender may from time to time designate to the undersigned in writing, on August 28, 2007 subject to the conversion rights set forth herein, or such earlier date as required hereunder, the sum of ONE HUNDRED FIFTY THOUSAND DOLLARS ($ 150,000.00) at a rate per annum equal to four percent (4%). In no event, however, shall interest hereunder be in excess of the maximum interest rate permitted by law.

The obligations of the undersigned are secured in accordance with the terms of (i) certain Stockholder Pledge and Security Agreements, dated February 28, 2006 (as amended, restated, modified and supplemented from time to time, the "Stockholder Pledge Agreements") between certain stockholders of the Company and Lender, by the pledge of certain Collateral, as defined in such Stockholder Pledge Agreements, respectively, and (ii) a Security Agreement, dated February 28, 2006 (as amended, restated, modified and supplemented from time to time, the "Security Agreement") between the Company and Lender, by the pledge of certain Collateral, as defined in such Security Agreement. This Note is one of the Senior Secured Notes (the "Notes") issued pursuant to a certain Note Purchase Agreement dated the date hereof between the Company and each Lender (the "Note Purchase Agreement") in connection with a financing of the undersigned up to an aggregate principal amount of ONE MILLION DOLLARS ($1,000,000).

A. Prepayment; Conversion :

1. This Note may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert this Note into common stock of the Company at a price based on the pre money valuation set forth in Section A.2 below.

2. In the event the undersigned completes a registered public offering with gross proceeds in excess of $5,500,000 on or before August 28, 2007, this Note, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under this Note, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of the undersigned, including for this purpose as equity all debt held by stockholders or their affiliates, of FIFTEEN MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($15,500,000) (determined based on the Capitalization Table attached as an exhibit to the Note Purchase Agreement); and provided further the undersigned has not suffered any material adverse change since the date hereof.

3. In the event the undersigned fails to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007 due to circumstances beyond the undersigned's control, this Note, including without limitation all accrued interest and other obligations under this Note, shall be converted into common stock of the undersigned at a price per share equal to the fair market value of such shares as determined by negotiations between the undersigned and the holder of this Note and in the aggregate amount of all such obligations, subject to compliance with applicable securities law; provided that (i) the pre-money valuation of the fully-diluted equity of the undersigned in the event and at the time of such conversion, including for this purpose as equity all debt held by stockholders or their affiliates, does not exceed US $15,500,000, (ii) the undersigned has not suffered any material adverse changes since the date hereof and (iii) the Lender and the undersigned enter into an investor rights agreement which provides the Lender with demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of the undersigned, rights to Company information and a bar on issuance of toxic preferreds or other death spiral convertible securities. During the term of the Notes, the undersigned shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of Notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of notes of similar tenor to this Note then outstanding divided by (B) the sum of $15,500,000 and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

B. Default; Remedy . If any one or more of the following events of default (each, an "Event of Default") shall occur, that is to say:

1. default shall be made in the payment of any principal or interest of this Note when the same shall become due and payable, whether at maturity, by acceleration, by notice of intention to prepay or otherwise;

2. the undersigned shall become unable to pay its debts as they mature, seek to auction all or a substantial portion of its assets, make a general assignment for the benefit of creditors, commence or cause to be commenced a meeting of his creditors or take advantage of any of the insolvency laws, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code (i) is filed against the undersigned, or (ii) is filed by the undersigned, or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of the undersigned's assets or affairs, or an order for relief in a case commenced under the Federal Bankruptcy Code is entered;

3. any judgment or judgments against the undersigned or its property for any amount remains unpaid, undischarged, unsatisfied, unbonded or undismissed for a period of ten (10) days, or a levy, sequestration or attachment against the undersigned or his property for any amount remains unpaid, undischarged, unstayed, unsatisfied or undismissed for a period of ten (10) days;

4. any guaranty of the obligations of the undersigned to Lender is terminated or breached, or if any guarantor of the obligations of the undersigned to the Lender attempts to terminate, challenge the validity of, or its liability under, any such guaranty or similar agreement, or the undersigned terminates any guaranty which he has given to Lender to secure the indebtedness of any third party; or

5. any event of default shall occur under any agreement between Lender and the undersigned, including without limitation the Security Agreement, any Stockholder Pledge Agreement or any guaranty related thereto, which is not cured within any applicable grace period,

then this Note (x)(i) upon the occurrence of an Event of Default pursuant to subsection 2 of this Section (B) shall immediately become due and payable, without notice; and (ii) upon the occurrence of any other Event of Default, shall become due and payable, upon delivery of written notice of such Event of Default by Lender to the undersigned, in each case together with reasonable attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof; and (y) shall bear interest at a rate of interest per annum equal to fifteen percent (15%). To the extent permitted by applicable law interest shall accrue with respect to interest that is due and not paid. In the event the Lender takes action under the Security Agreement or any Stockholder Pledge Agreement, the Lenders shall proceed first under the Security Agreement and thereafter only if the Company's obligations to the Lender are not satisfied, under such Stockholder Pledge Agreement.

C. Governing Law. This Note is being delivered in the State of New York, and shall be construed and enforced in accordance with the laws of such State. Any judicial proceeding by the undersigned against Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note, shall be brought only in federal or state court located in the City of New York, State of New York. Any judicial proceeding brought against the undersigned with respect to this Note may be brought in any court of competent jurisdiction in the City of New York, State of New York, United States of America, and, by execution and delivery of this Note, the undersigned accepts, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Note or any related agreement. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Lender to bring proceedings against the undersigned in the courts of any other jurisdiction. The undersigned waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens.

D. Waiver of Jury Trial. THE UNDERSIGNED EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS W RITTEN EVIDENCE OF THIS WAIVER OF THE RIGHT TO TRIAL BY JURY.

E. Notices. All notices required hereunder shall be given in the manner set forth in the Note Purchase Agreement.

F. Trans fer to Comply with the Securities Act of 1933.

1. The holder of this Note, each transferee hereof and any holder and transferee of any shares issued upon conversion hereof other than in a registered public offering, by his acceptance thereof, agrees that (i) no public distribution of Notes or such shares will be made in violation of the Act, and (ii) during such period as the delivery of a prospectus with respect to such shares may be required by the Act, no public distribution of such shares will be made in a manner or on terms different from those set forth in, or without delivery of, a prospectus then meeting the requirements of Section 10 of the Act and in compliance with applicable state securities laws. The holder of this Note and each transferee hereof further agrees that if any distribution of any shares issued upon conversion hereof other than in a registered public offering is proposed to be made by them otherwise than by delivery of a prospectus meeting the requirements of Section 10 of the Act, such action shall be taken only after submission to the undersigned of an opinion of counsel, reasonably satisfactory in form and substance to the undersigned’s counsel, to the effect that the proposed distribution will not be in violation of the Act or of applicable state law. Furthermore, it shall be a condition to the transfer of this Note that any transferee thereof be bound by all of the terms and conditions contained in this Note.

2. Each certificate for shares issued upon conversion hereof shall bear a legend relating to the non-registered status of such shares under the Act, unless at the time of conversion of this Note such shares are subject to a currently effective registration statement under the Act.

G. Certain Representations and Covenants .

1. No information provide by the undersigned to the Lender contains or will on the Closing Date contain any untrue statement of a material fact or omits or will on the Closing Date omit to state any material fact necessary to make the statements contained herein or therein not misleading. During the term of this Note, the Company shall provide the Lender upon its request with any and all information about the Company reasonably deemed necessary for the Lender to evaluate this Note or a possible conversion thereof.

2. While this Note is outstanding, the Company (a) shall not issue (i) any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to the Lender and all other holders of notes of similar tenor rights to purchase an aggregate of up to the Percentage of such issue or (ii) any toxic convertibles or death spiral preferreds, and (b) shall not permit its 100% owned subsidiary Neonode AB, a Swedish corporation, to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

3. The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Notes are convertible) so that the Notes may be converted or exercised to purchase Common Stock (or such other securities) at any time.

4. If any event occurs as to which the provisions of this Note are strictly applicable and the application thereof would not fairly protect the rights of the Lenders in accordance with the essential intent and principles of such provisions, including but not limited to protection from dilution, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid.

H. The undersigned expressly waives any presentment, demand, protest, notice of protest, or notice of any kind.

[Signature page follows]

NEONODE, INC.

By: ______________________________

______________________________, Authorized Signatory

EXECUTION COPY

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE WHICH OTHER COUNSEL IS SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

SENIOR SECURED NOTE

$ 50,000.00

New York, New York
November 20, 2006

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as the "Company"), a Delaware corporation having an address at Biblioteksgatan 11, S111 46 Stockholm, Sweden, hereby promises to pay to the order of Joshua A. Hirsch, or assigns ("Lender"), at 1 Longfellow Place, Suite 3407, Boston, MA 12114 or at such other place as the Lender may from time to time designate to the undersigned in writing, on August 28, 2007 subject to the conversion rights set forth herein, or such earlier date as required hereunder, the sum of FIFTY THOUSAND DOLLARS ($ 50,000.00) at a rate per annum equal to four percent (4%). In no event, however, shall interest hereunder be in excess of the maximum interest rate permitted by law.

The obligations of the undersigned are secured in accordance with the terms of (i) certain Stockholder Pledge and Security Agreements, dated February 28, 2006 (as amended, restated, modified and supplemented from time to time, the "Stockholder Pledge Agreements") between certain stockholders of the Company and Lender, by the pledge of certain Collateral, as defined in such Stockholder Pledge Agreements, respectively, and (ii) a Security Agreement, dated February 28, 2006 (as amended, restated, modified and supplemented from time to time, the "Security Agreement") between the Company and Lender, by the pledge of certain Collateral, as defined in such Security Agreement. This Note is one of the Senior Secured Notes (the "Notes") issued pursuant to a certain Note Purchase Agreement dated the date hereof between the Company and each Lender (the "Note Purchase Agreement") in connection with a financing of the undersigned up to an aggregate principal amount of ONE MILLION DOLLARS ($1,000,000).

A. Prepayment; Conversion :

1. This Note may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert this Note into common stock of the Company at a price based on the pre money valuation set forth in Section A.2 below.

2. In the event the undersigned completes a registered public offering with gross proceeds in excess of $5,500,000 on or before August 28, 2007, this Note, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under this Note, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of the undersigned, including for this purpose as equity all debt held by stockholders or their affiliates, of FIFTEEN MILLION AND FIVE HUNDRED THOUSAND DOLLARS ($15,500,000) (determined based on the Capitalization Table attached as an exhibit to the Note Purchase Agreement); and provided further the undersigned has not suffered any material adverse change since the date hereof.

3. In the event the undersigned fails to complete a registered public offering with gross proceeds in excess of $5,500,000 by August 28, 2007 due to circumstances beyond the undersigned's control, this Note, including without limitation all accrued interest and other obligations under this Note, shall be converted into common stock of the undersigned at a price per share equal to the fair market value of such shares as determined by negotiations between the undersigned and the holder of this Note and in the aggregate amount of all such obligations, subject to compliance with applicable securities law; provided that (i) the pre-money valuation of the fully-diluted equity of the undersigned in the event and at the time of such conversion, including for this purpose as equity all debt held by stockholders or their affiliates, does not exceed US $15,500,000, (ii) the undersigned has not suffered any material adverse changes since the date hereof and (iii) the Lender and the undersigned enter into an investor rights agreement which provides the Lender with demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of the undersigned, rights to Company information and a bar on issuance of toxic preferreds or other death spiral convertible securities. During the term of the Notes, the undersigned shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of Notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of notes of similar tenor to this Note then outstanding divided by (B) the sum of $15,500,000 and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

B. Default; Remedy . If any one or more of the following events of default (each, an "Event of Default") shall occur, that is to say:

1. default shall be made in the payment of any principal or interest of this Note when the same shall become due and payable, whether at maturity, by acceleration, by notice of intention to prepay or otherwise;

2. the undersigned shall become unable to pay its debts as they mature, seek to auction all or a substantial portion of its assets, make a general assignment for the benefit of creditors, commence or cause to be commenced a meeting of his creditors or take advantage of any of the insolvency laws, or a case is commenced or a petition in bankruptcy or for an arrangement or reorganization under the Federal Bankruptcy Code (i) is filed against the undersigned, or (ii) is filed by the undersigned, or a custodian or receiver (or other court designee performing the functions of a receiver) is appointed for or takes possession of the undersigned's assets or affairs, or an order for relief in a case commenced under the Federal Bankruptcy Code is entered;

3. any judgment or judgments against the undersigned or its property for any amount remains unpaid, undischarged, unsatisfied, unbonded or undismissed for a period of ten (10) days, or a levy, sequestration or attachment against the undersigned or his property for any amount remains unpaid, undischarged, unstayed, unsatisfied or undismissed for a period of ten (10) days;

4. any guaranty of the obligations of the undersigned to Lender is terminated or breached, or if any guarantor of the obligations of the undersigned to the Lender attempts to terminate, challenge the validity of, or its liability under, any such guaranty or similar agreement, or the undersigned terminates any guaranty which he has given to Lender to secure the indebtedness of any third party; or

5. any event of default shall occur under any agreement between Lender and the undersigned, including without limitation the Security Agreement, any Stockholder Pledge Agreement or any guaranty related thereto, which is not cured within any applicable grace period,

then this Note (x)(i) upon the occurrence of an Event of Default pursuant to subsection 2 of this Section (B) shall immediately become due and payable, without notice; and (ii) upon the occurrence of any other Event of Default, shall become due and payable, upon delivery of written notice of such Event of Default by Lender to the undersigned, in each case together with reasonable attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof; and (y) shall bear interest at a rate of interest per annum equal to fifteen percent (15%). To the extent permitted by applicable law interest shall accrue with respect to interest that is due and not paid. In the event the Lender takes action under the Security Agreement or any Stockholder Pledge Agreement, the Lenders shall proceed first under the Security Agreement and thereafter only if the Company's obligations to the Lender are not satisfied, under such Stockholder Pledge Agreement.

C. Governing Law. This Note is being delivered in the State of New York, and shall be construed and enforced in accordance with the laws of such State. Any judicial proceeding by the undersigned against Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Note, shall be brought only in federal or state court located in the City of New York, State of New York. Any judicial proceeding brought against the undersigned with respect to this Note may be brought in any court of competent jurisdiction in the City of New York, State of New York, United States of America, and, by execution and delivery of this Note, the undersigned accepts, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Note or any related agreement. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Lender to bring proceedings against the undersigned in the courts of any other jurisdiction. The undersigned waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens.

D. Waiver of Jury Trial. THE UNDERSIGNED EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS W RITTEN EVIDENCE OF THIS WAIVER OF THE RIGHT TO TRIAL BY JURY.

E. Notices. All notices required hereunder shall be given in the manner set forth in the Note Purchase Agreement.

F. Trans fer to Comply with the Securities Act of 1933.

1. The holder of this Note, each transferee hereof and any holder and transferee of any shares issued upon conversion hereof other than in a registered public offering, by his acceptance thereof, agrees that (i) no public distribution of Notes or such shares will be made in violation of the Act, and (ii) during such period as the delivery of a prospectus with respect to such shares may be required by the Act, no public distribution of such shares will be made in a manner or on terms different from those set forth in, or without delivery of, a prospectus then meeting the requirements of Section 10 of the Act and in compliance with applicable state securities laws. The holder of this Note and each transferee hereof further agrees that if any distribution of any shares issued upon conversion hereof other than in a registered public offering is proposed to be made by them otherwise than by delivery of a prospectus meeting the requirements of Section 10 of the Act, such action shall be taken only after submission to the undersigned of an opinion of counsel, reasonably satisfactory in form and substance to the undersigned's counsel, to the effect that the proposed distribution will not be in violation of the Act or of applicable state law. Furthermore, it shall be a condition to the transfer of this Note that any transferee thereof be bound by all of the terms and conditions contained in this Note.

2. Each certificate for shares issued upon conversion hereof shall bear a legend relating to the non-registered status of such shares under the Act, unless at the time of conversion of this Note such shares are subject to a currently effective registration statement under the Act.

G. Certain Representations and Covenants .

1. No information provide by the undersigned to the Lender contains or will on the Closing Date contain any untrue statement of a material fact or omits or will on the Closing Date omit to state any material fact necessary to make the statements contained herein or therein not misleading. During the term of this Note, the Company shall provide the Lender upon its request with any and all information about the Company reasonably deemed necessary for the Lender to evaluate this Note or a possible conversion thereof.

2. While this Note is outstanding, the Company (a) shall not issue (i) any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to the Lender and all other holders of notes of similar tenor rights to purchase an aggregate of up to the Percentage of such issue or (ii) any toxic convertibles or death spiral preferreds, and (b) shall not permit its 100% owned subsidiary Neonode AB, a Swedish corporation, to issue any such securities or incur any indebtedness other than reasonable accounts payable and indebtedness from affiliates.

3. The Company shall keep reserved for issuance a sufficient number of authorized but unissued shares of Common Stock (or other securities into which the Notes are convertible) so that the Notes may be converted or exercised to purchase Common Stock (or such other securities) at any time.

4. If any event occurs as to which the provisions of this Note are strictly applicable and the application thereof would not fairly protect the rights of the Lenders in accordance with the essential intent and principles of such provisions, including but not limited to protection from dilution, then the Company shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as the Board of Directors, in good faith, determines to be reasonably necessary to protect such rights as aforesaid.

H. The undersigned expressly waives any presentment, demand, protest, notice of protest, or notice of any kind.

[Signature page follows]

NEONODE, INC.

By: ______________________________

______________________, Authorized Signatory

AMENDMENT NO. 1 TO SECURITY AGREEMENT

THIS AMENDMENT NO. 1 dated as of November 20, 2006 (this " Amendment ") to the Security Agreement dates as of February 28, 2006, as amended from time to time (the " Security Agreement "), by and between Neonode, Inc. A Delaware corporation (the " Grantor "), and AIGH Investment Partners, LLC, a Delaware limited liability company, or assigns, as agent for the Investors (as defined in the Security Agreement) (the " Secured Party ").

WITNESSETH:

WHEREAS, capitalized terms not otherwise defined in this Amendment shall have the meaning set forth in the Security Agreement;

WHEREAS, the Grantor (i) on February 28, 2006, borrowed an aggregate principal amount of $4,000,000 pursuant to senior secured notes (the " Existing Notes ") from the Secured Party and other investors and (ii) intends to borrow an additional aggregate amount of up to $1,800,000 from Investors, including the existing Investors, pursuant to notes of similar tenor to the Existing Notes (the " Additional Notes "); and

WHEREAS, the parties hereto wish to amend the Security Agreement to add as Obligations the obligations of the Grantor under the Additional Notes.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to the Security Agreement hereby agree as follows:

SECTION 1. Amendments to the Security Agreement . The Security Agreement is hereby amended, effective upon completion of the purchase from time to time of any Additional Notes as follow:

(a) Schedule I to the Security Agreement is hereby amended to be read in its entirety as Schedule I attached to this Amendment.

(b) The parties hereto agree to include the obligations of the Grantor under the Additional Notes as Obligations under the Security Agreement; provided that the aggregate principal amount of the Existing Notes together with the aggregate principal amount of the Additional Notes does not exceed $5,800,000.

(c) The parties hereto agree that the Additional Notes shall be pari passu with the Existing Notes.

SECTION 2. Effect of Amendment . Except as expressly provided in this Amendment, each of the terms and provisions of the Security Agreement shall remain in full force and effect.

SECTION 3. Counterparts . This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Grantor and the Secured Party have caused this Amendment to be duly executed and delivered by a duly authorized representative as of the date first above written.

[Signature Page Follows]

SIGNATURE PAGE
TO
AMENDMENT NO. 1 TO SECURITY AGREEMENT
Dated November 20, 2006

THE GRANTOR:

Neonode, Inc.
a Delaware corporation

By:_________________________________
Name:
Title:
Address for Notices:
Biblioteksgatan 22
S111 46 Stockholm, Sweden
Attention: President
Fax: 01146-8-678 18 51

SECURED PARTY:

AIGH INVESTMENT PARTNERS, LLC

By:_________________________________
Name: Orin Hirschman
Title: Manager

SCHEDULE I
INVESTORS

Name and Address	Principal Amount of Existing Notes	Principal Amount of Additional Notes
AIGH Investment Partners, LLC 6006 Berkeley Avenue Baltimore, MD 21209	$3,200,000	$800,000
Hershel P. Berkowitz 441 Yeshiva Lane Baltimore, MD 21208	$600,000	$150,000
Joshua A. Hirsch 1 Longfellow Place, Suite 3407 Boston, MA 12114	$200,000	$50,000

AMENDMENT NO. 1 TO STOCKHOLDER PLEDGE AND SECURITY AGREEMENT

THIS AMENDMENT NO. 1 TO STOCKHOLDER PLEDGE AND SECURITY AGREEMENT, dated as of November 20, 2006 (this " Amendment "), by and among Rector AB, a company organized under the laws of Sweden (" Pledgor ") and AIGH Investment Partners, LLC (" AIGH ") as the Pledgeholder for an on behalf of the Investors (as defined below) and as the Investors' agent

W I T N E S S E T H :

WHEREAS, the parties hereto wish to amend the Stockholder Pledge and Security Agreement, dated as of February 28, 2006 (the " Stock Pledge Agreement "), by and among the Pledgor and AIGH as the Pledgeholder and agent for the investors identified on Exhibit A thereto (the " Existing Investors ");

WHEREAS, capitalized terms not otherwise defined in this Amendment shall have the meaning set forth in the Stock Pledge Agreement;

WHEREAS, Neonode (i) on February 28, 2006 issued certain senior secured notes in an aggregate principal amount of $4,000,000 (the " Existing Notes ") to the Existing Investors and (ii) intends to issue additional notes of similar tenor to the Existing Notes in an aggregate principal amount of up to $1,800,000 (the " Additional Notes ") to certain of the investors signatory hereto, including Existing Investors (collectively, the " Investors "); and

WHEREAS, the Pledgor, the Pledgeholder and the Existing Investors wish to amend the Stock Pledge Agreement to grant to the Investors a security interest in the Pledged Collateral to secure Neonode's obligations to the Investors under the Additional Notes, which may from time to time, commencing on the date of this Amendment, be issued by Neonode to certain Investors.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to the Stock Pledge Agreement hereby agree as follows:

SECTION 1. Amendments to the Stock Pledge Agreement . The Stock Pledge Agreement is hereby amended as follows:

(a) Exhibit A to the Stock Pledge Agreement is hereby deleted in its entirety and replaced by Exhibit A attached to this Amendment.

(b) The term "Notes" as used in the Stock Pledge Agreement shall be deemed to include the Additional Notes.

(c) The signatories hereto shall be deemed to be signatories to the Stock Pledge Agreement.

SECTION 2. Effect of Amendment . Except as expressly provided in this Amendment, each of the terms and provisions of the Stock Pledge Agreement shall remain in full force and effect.

SECTION 3. Counterparts . This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

[balance of page intentionally left blank]

SIGNATURE PAGE
TO
AMENDMENT NO. 1 TO STOCKHOLDER PLEDGE AGREEMENT
November 20, 2007

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by a duly authorized representative as of the date first above written.

THE PLEDGOR:

RECTOR AB

By: /s/
Name: Magnus Goertz
Title: Chairman

THE PLEDGEHOLDER:

AIGH INVESTMENT PARTNERS, LLC

By: /s/
Name: Orin Hirschman
Title: Manager

AGENT FOR INVESTORS:

AIGH INVESTMENT PARTNERS, LLC

By: /s/
Name: Orin Hirschman
Title: Manager

/s/
Hershel P. Berkowitz

/s/
Joshua A. Hirsch

EXHIBIT A

INVESTORS

AIGH Investment Partners, LLC

Hershel P. Berkowitz

Dr. Joshua A. Hirsch

AMENDMENT NO. 2 TO SECURITY AGREEMENT

THIS AMENDMENT NO. 2 dated as of January ___, 2007 (this " Amendment ") to the Security Agreement dated as of February 28, 2006, as amended from time to time (the " Security Agreement "), by and between Neonode, Inc., a Delaware corporation (the " Grantor "), and AIGH Investment Partners, LLC, a Delaware limited liability company, or assigns, as agent for the Investors (as defined in the Security Agreement) (the " Secured Party ").

W I T N E S S E T H :

WHEREAS, capitalized terms not otherwise defined in this Amendment shall have the meaning set forth in the Security Agreement;

WHEREAS, the Grantor on February 28, 2006, borrowed an aggregate principal amount of $4,000,000 pursuant to senior secured notes (the " First Round Notes ") from the Secured Party and other Investors (collectively, in this capacity, the " First Round Investors ");

WHEREAS, the Grantor on November 20, 2006, borrowed an aggregate principal amount of $1,000,000 pursuant to senior secured notes on substantially the same terms as the First Round Notes (collectively, with the First Round Notes, the " Old Notes ") from the Secured Party and other Investors (collectively, in this capacity, the " Second Round Investors ") and together with the First Round Investors, the " Existing Investors ");

WHEREAS, the Grantor intends to sell additional senior secured notes to the Existing Investors and to other investors (the " New Notes ") in an aggregate principal amount of up to $5,000,000 (the " Offering "), in substantially the form attached as Exhibit 1 to that certain Note Purchase Agreement, dated January 22, 2007 (the " Note Purchase Agreement "), among the Grantor, the Secured Party and those persons who execute the Note Purchase Agreement from time to time as a purchaser of the New Notes (collectively, in this capacity, the " New Investors "); and

WHEREAS, the Existing Investors intend to exchange the Old Notes for amended and restated notes of similar tenor to the New Notes (the " Amended and Restated Notes ") pursuant to the terms of that certain Bridge Note Exchange Agreement, dated as of January 22, 2007, by and among the Grantor and the Existing Investors; and

WHEREAS, the parties hereto wish to amend the Security Agreement to add as Obligations the obligations of the Grantor under the Amended and Restated Notes and the New Notes.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to the Security Agreement hereby agree as follows:

SECTION 1. Amendments to the Security Agreement . The Security Agreement is hereby amended, effective upon completion of the purchase from time to time of any New Notes, as follows:

(a) Schedule I to the Security Agreement is hereby amended to be and read in its entirety as Schedule I attached to this Amendment.

(b) The parties hereto agree that the Obligations under the Security Agreement include the obligations of the Grantor under the Amended and Restated Notes and the New Notes; provided that the aggregate principal amount of the Amended and Restated Notes together with the aggregate principal amount of the New Notes does not exceed $10,000,000.

(c) The parties hereto agree that the New Notes shall be pari passu with the Amended and Restated Notes.

SECTION 2. Effect of Amendment . Except as expressly provided in this Amendment, each of the terms and provisions of the Security Agreement shall remain in full force and effect.

SECTION 3. Counterparts . This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Grantor and the Second Party have caused this Amendment to be duly executed and delivered by a duly authorized representative as of the date first above written.

[Signature Page Follows]

SIGNATURE PAGE
TO
AMENDMENT NO. 2 TO SECURITY AGREEMENT
Dated January ____, 2007

THE GRANTOR:

Neonode, Inc.
a Delaware corporation

By:_________________________________
Name:
Title:
Address for Notices:
Biblioteksgatan 11
S111 46 Stockholm, Sweden
Attention: President
Fax: 01146-8-678 18 51

SECURED PARTY:

AIGH INVESTMENT PARTNERS, LLC
By:_________________________________
Name: Orin Hirschman
Title: Manager

SCHEDULE I

EXISTING INVESTORS

Name and Address	Principal Amount of Amended and Restated Notes
AIGH Investment Partners, LLC 6006 Berkeley Avenue Baltimore, MD 21209	$4,000,000
Hershel P. Berkowitz 441 Yeshiva Lane Baltimore, MD 21208	$750,000
Joshua A. Hirsch 1 Longfellow Place, Suite 3407 Boston, MA 12114	$250,000

NEW INVESTORS

Name and Address	Principal Amount of New Notes

AMENDMENT NO. 2 TO STOCKHOLDER PLEDGE AND SECURITY AGREEMENT

THIS AMENDMENT NO. 2 TO STOCKHOLDER PLEDGE AND SECURITY AGREEMENT, dated as of January ___, 2007 (this " Agreement "), by and among [Pledgor], a company organized under the laws of Sweden (" Pledgor ") and AIGH Investment Partners, LLC (" AIGH ") as the Pledgeholder for an on behalf of the Investors (as defined below) and as the Investors' agent

W I T N E S S E T H :

WHEREAS, the parties hereto wish to amend the Stockholder Pledge and Security Agreement, dated as of February 28, 2006, as amended from time to time (the " Stock Pledge Agreement "), by and among the Pledgor and AIGH as the Pledgeholder and agent for the investors identified on Exhibit A thereto;

WHEREAS, capitalized terms not otherwise defined in this Amendment shall have the meaning set forth in the Stock Pledge Agreement;

WHEREAS, Neonode (i) on February 28, 2006 issued certain senior secured notes in an aggregate principal amount of $4,000,000 (the " First Round Notes ") to AIGH and other investors (collectively in this capacity, the " First Round Investors ") and (ii) on November 20, 2006 issued an additional $1,000,000 principal amount of senior secured notes on substantially the same terms as the First Round Notes (collectively, with the First Round Notes, the " Old Notes ") to AIGH and other investors (collectively in this capacity, the " Second Round Investors " and together with the First Round Investors, the " Existing Investors ");

WHEREAS, Neonode intends to issue additional senior secured notes to the Existing Investors and to other investors (the " New Notes ") in an aggregate principal amount of up to $5,000,000 (the " Offering "), in substantially the form attached as Exhibit 1 to that certain Note Purchase Agreement, dated January 22, 2007 (the " Note Purchase Agreement "), among Neonode, AIGH and those persons who execute the Note Purchase Agreement from time to time as a purchaser of the New Notes (collectively, in this capacity, the " New Investors " and together with the Existing Investors, the " Investors ");

WHEREAS, the Existing Investors intend to change the Old Notes for amended and restated notes of similar tenor to the New Notes (the " Amended and Restated Notes "), pursuant to the terms of that certain Bridge Note Exchange Agreement, dated as of January 22, 2007, by and among Neonode and the Existing Investors; and

WHEREAS, the Pledgor, the Pledgeholder and the Existing Investors wish to amend the Stock Pledge Agreement to grant to the Investors a security interest in the Pledged Collateral to secure Neonode's obligations to the Investors under the Amended and Restated Notes and the New Notes, which may from time to time, commencing on the date of this Amendment, be issued by Neonode to certain Investors.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to the Stock Pledge Agreement hereby agree as follows:

SECTION 1. Amendments to the Stock Pledge Agreement. The Stock Pledge Agreement is hereby amended as follows:

(a) Exhibit A to the Stock Pledge Agreement is hereby deleted in its entirety and replaced by Exhibit A attached to this Amendment.

(b) The parties hereto agree that the New Notes shall be pari passu with the Amended and Restated Notes.

(c) The term “Notes” as used in the Stock Pledge Agreement shall be deemed to include the Amended and Restated Notes and the New Notes.

(d) The reference to Hahn & Hessen LLP shall be deleted from Section 11 (Notices, Etc.) of the Stock Pledge Agreement.

SECTION 2. Effect of Amendment. Except as expressly provided in this Amendment, each of the terms and provisions of the Stock Pledge Agreement shall remain in full force and effect.

SECTION 3. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

[balance of page intentionally left blank]

SIGNATURE PAGE
TO
AMENDMENT NO. 2 TO STOCKHOLDER PLEDGE AGREEMENT
January ___, 2007

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by a duly authorized representative as of the date first above written.

THE PLEDGOR:

[Pledgor]

By: ______________________________
Name:
Title:

THE PLEDGEHOLDER:

AIGH INVESTMENT PARTNERS, LLC

By: ______________________________
Name: Orin Hirschman
Title: Manager

AGENT FOR INVESTORS:

AIGH INVESTMENT PARTNERS, LLC

By: ______________________________
Name: Orin Hirschman
Title: Manager

EXHIBIT A

INVESTORS

AIGH Investment Partners, LLC

Hershel P. Berkowitz

Dr. Joshua A. Hirsch

[Additional 3 rd Round Investors]

AMENDMENT TO SENIOR SECURED NOTES

Dated May 22, 2007

AMENDMENT TO SENIOR SECURED NOTE, DATED AS OF May 22, 2007 (the " Amendment "), made by and between NEONODE INC., a Delaware corporation, with its principal offices located at Biblioteksgatan 11, S111 44 Stockholm, Sweden (the " Company ") and the Bridge Investors (as defined below).

Background : On February 28, 2006, November 20, 2006 and January 22, 2007, the Company sold senior secured notes in aggregate principal amount of $10,000,000 (the " Senior Secured Notes ") to accredited and non-US investors (collectively in this capacity, the " Bridge Investors "). The Senior Secured Notes provide for amendment by action of the Required Holders (defined in the Senior Secured Notes as "the holders of at least 50.1% of the aggregate principal amount of Senior Secured Notes"), and this Amendment effects such an amendment.

The Company sold senior secured notes, due September 30, 2007, in aggregate principal amount of $1,000,000 to SBE, Inc., a Delaware corporation (" SBE "), pursuant to a note purchase agreement, dated as of May 18, 2007, of which one note in the principal amount of $500,000 is outstanding (the " SBE Notes "). The Company does not expect the SBE Notes to be extended, so there is a risk to Bridge Investors that the SBE Notes may be paid prior to the Senior Secured Notes.

The Company plans to sell to new investors (the " New Investors ") up to $3,000,000 in principal amount of Senior Secured Notes, in substantially similar form to the Senior Secured Notes as amended by this Amendment (the " New Notes ").

The Company has entered into an Agreement and Plan of Merger and Reorganization, dated January 19, 2007, as amended (the " Merger Agreement "), by and among the Company, SBE and Cold Winter Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of SBE (" Merger Sub "), which provides for a merger (the " Merger ") of the Company with and into Merger Sub. The parties to this Amendment wish to extend the maturity date of the Senior Secured Notes and SBE Note in order to provide the Company with additional time to complete the

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and in accordance with the terms and conditions of the Senior Secured Notes, the Company and the Holder hereby approve the amendment of the Existing Note as set forth herein the parties agree as follows:

1. By their respective execution of this Amendment, the Company and the undersigned Bridge Investors agree that the Senior Secured Notes shall be extended and shall be due and payable on December 31, 2007.

2. The term Required Holders is hereby redefined, effective after the date hereof, to include all of New Notes, if any are issued, as Senior Secured Notes; accordingly, actions that can be taken by the Required Holders under the Senior Secured Notes will, after the effective date hereof, require the action of holders of at least 50.1% of the aggregate principal amount of Senior Secured Notes and New Notes.

3. The Amendment shall be effective to extend the term of all Senior Secured Notes and shall bind all the Bridge Investors when executed and delivered by the Company and the Required Holders.

4. Except as expressly provided herein, the Senior Secured Notes and SBE Notes shall continue in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Amendment to Senior Secured Notes, dated May 22, 2007.

Company :	NEONODE INC.
	By: ______________________________________
	Name: Mikael Hagman Title: CEO & President
Bridge Investors :	
Date: May 22, 2007	[____]
	By:______________________________________
	Name: AIGH Investment Partners LLC Title: Manager, GP
Date: May 22, 2007	[____]
	By:______________________________________
	Name: Hirshcel Berkowitz Title:
Date: May 22, 2007	[____]
	By:______________________________________
	Name: Joshua Hirsch Title:
Date: May 25, 2007	Iwojima Sarl [____] By:______________________________________
	Name: Oliver Kuchly Title: Manager

AMENDMENT NO. 4 TO SECURITY AGREEMENT

THIS AMENDMENT NO. 4 dated as of July 31, 2007 (this " Amendment ") to the Security Agreement dated as of February 28, 2006, as amended from time to time (the " Security Agreement "), by and between Neonode Inc., a Delaware corporation (the " Grantor "), and AIGH Investment Partners, LLC, a Delaware limited liability company, or assigns, as agent for the Investors (as defined in the Security Agreement) (the " Secured Party ")

WITNESSETH:

WHEREAS, capitalized terms not otherwise defined in this Amendment shall have the meaning set forth in the Security Agreement;

WHEREAS, the Grantor has entered into that certain Agreement and Plan of Merger and Reorganization, dated as of January 19, 2007, as amended (the " Merger Agreement "), by and among the Grantor, SBE, Inc. (" SBE "), a Delaware corporation and Cold Winter Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of SBE (" Merger Sub "), which provides for a merger (the " Merger ") of the Grantor with and into Merger Sub;

WHEREAS, the Grantor has borrowed an aggregate of $13,000,000 principal amount of senior secured notes (the " Bridge Notes ") from the Secured Party and other investors (collectively, in this capacity, the " Bridge Note Investors ") in offerings on February 28, 2006, November 20, 2006, January 22, 2007 and June 4, 2007;

WHEREAS, the Grantor sold additional senior secured notes to SBE, Inc. (the " SBE Note ") in the aggregate principal amount of $1,000,000 (the " Offering "), in the substantially the form attached as Exhibit 1 to that certain Note Purchase Agreement, dated May 18, 2007 (the " Note Purchase Agreement "), between the Grantor and SBE, Inc. (" SBE " and together with the Investors previously identified in the Security Agreement as the Old Investors, as " Investor ");

WHEREAS, the Grantor intends to sell additional Senior Secured Notes, substantially similar to the Bridge Notes (except that (i) they are not automatically converted in the Merger, (ii) bear interest at 8% and (iii) may be converted on different terms) (the "July 2007 Notes") in the principal amount of up to $4,000,000; and

WHEREAS, the parties hereto wish to amend the Security Agreement to add as Obligations the obligations of the Grantor under the July 2007 Notes;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to the Security Agreement hereby agree as follows:

Section 1. Amendments to the Security Agreement . The Security Agreement is hereby amended, effective upon completion of the purchase from time to time of the New Note, as follows:

(a) Schedule I to the Security Agreement is hereby amended to be and read in its entirety as Schedule I attached to this Amendment.

(b) That the Obligations under the Security Agreement include the obligations of the Grantor under the Amended and Restated Notes, the New Notes, the SBE Note, the May 2007 Note, and the July 2007 Notes; provided that the aggregate principal amounts of the Amended and Restated Notes, the New Notes, the SBE Note, the May 2007 Notes, and the July 2007 Notes do not exceed $18,000,000.

(c) The July 2007 Notes shall be pari passu with the Amended and Restated Notes, the New Notes, the SBE Note and the May 2007 Notes.

Section 2. Effect of Amendment . Except as expressly provided in this Amendment, each of the terms and provisions of the Security Agreement shall remain in full force and effect.

Section 3. Counterparts . This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Grantor and the Secured Party have caused this Amendment to be duly executed and delivered by a duly authorized representative as of the date first above written.

[Signature Page Follows]

SIGNATURE PAGE
TO
AMENDMENT NO. 4 TO SECURITY AGREEMENT
Dated as of the date first written above

THE GRANTOR:

Neonode Inc.
a Delaware corporation

By:___________________________________
Name: Mikael Halman
Title: President & CEO
Address for Notices:
Biblioteksgatan 11
S111 46 Stockholm, Sweden
Attention: President
Fax: 01146-8-678-18 51

SECURED PARTY:

AIGH INVESTMENT PARTNERS, LLC

By:___________________________________
Name: Orin Hirschman
Title: Manager

Schedule I

[To Be Updated]

AMENDMENT NO. 4 TO STOCKHOLDER PLEDGE AND SECURITY AGREEMENT

THIS AMENDMENT NO. 4 TO STOCKHOLDER PLEDGE AND SECURITY AGREEMENT, dated as of July 31, 2007 (this " Amendment "), by and among Wirelesstoys Sweden AB, a company organized under the laws of Sweden (" Pledgor ") and AIGH Investment Partners, LLC (" AIGH ") as the Pledgeholder for and on behalf of the Investors (as defined below) and as the Investors' agent.

W I T N E S S E T H:

WHEREAS, the parties hereto wish to amend the Stockholder Pledge and Security Agreement, dated as of February 28, 2006, as amended from time to time (the " Stockholder Pledge Agreement "), by and among the Pledgor and AIGH as the Pledgeholder and agent for the investors identified on Exhibit A thereto;

WHEREAS, capitalized terms not otherwise defined in this Agreement shall have the meaning set forth in the Stockholder Pledge Agreement;

WHEREAS, Neonode issued an aggregate of $13,000,000 in principal amount of senior secured notes to certain investors, and issued an aggregate of $1,000,000 in principal amount of senior secured notes to SBE (collectively the "Existing Notes") of each of the above investors and SBE collectively defined as Investors");

WHEREAS, Neonode intends to sell additional Senior Secured Notes substantially similar to the New Notes (except that (i) they are not automatically converted in the Merger, (ii) bear interest at 8% and (iii) may be converted on different terms) (the "July 2007 Notes") in the principal amount of up to $4,000,000 to certain additional investors (together with the Investors previously identified above, each an "Investor");

WHEREAS, the Pledgor, the Pledgeholder and the Investors wish to amend the Stockholder Pledge Agreement to grant to the Investors a security interest in the Pledged Collateral to secure Neonode's obligations to the additional investors under the July 2007 Notes;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to the Stockholder Pledge Agreement hereby agree as follows:

Section 1. Amendments to the Stockholder Pledge Agreement . The Stockholder Pledge Agreement is hereby amended as follows:

(a) Exhibit A to the Stockholder Pledge Agreement is hereby deleted in its entirety and replaced by Exhibit A attached to this Amendment.

(b) The parties hereto agree that the July 2007 Notes shall be pari passu with the Existing Notes (except that (i) they are not automatically converted in the Merger, (ii) bear interest at 8% and (iii) may be converted on different terms).

(c) The term “Notes” as used in the Stockholder Pledge Agreement shall be deemed to include the Amended and Restated Notes, the New Notes, the SBE Note, the May 2007 Notes and the July 2007 Notes.

(d) The Stockholder Pledge Agreement shall terminate upon conversion into equity (whether upon the Merger or otherwise) or payment of the Existing Notes.

Section 2. Effect of Amendment . Except as expressly provided in this Amendment, each of the terms and provisions of the Stockholder Pledge Agreement shall remain in full force and effect.

Section 3. Counterparts . This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

[balance of page intentionally left blank]

SIGNATURE PAGE
TO
AMENDMENT NO. 4 TO STOCKHOLDER PLEDGE AGREEMENT
Dated as of the date first written above

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by a duly authorized representative as of the date first above written.

THE PLEDGOR:	WIRELESSTOYS SWEDEN AB By:______________________________________ Name: Thomas Eriksson Title: Board member
THE PLEDGEHOLDER:	AIGH INVESTMENT PARTNERS, LLC By:______________________________________ Name: Orin Hirschman Title: Manager
AGENT FOR INVESTORS	AIGH INVESTMENT PARTNERS, LLC By:______________________________________ Name: Orin Hirschman Title: Manager

EXHIBIT A

INVESTORS [to update with new investors]

AIGH Investment Partners, LLC

Hershel P. Berkowitz

Dr. Joshua A. Hirsch

Goran Andersson

Johan Hogberg Livs AB

Lombard International Assurance SA

Sten Wranne

Iwo Jima Sarl

Petrus Holdings S.A.

Robert Pettersson

Runstone B.V.

Annahoj Investment B.V.

Deseven Fund 1

Airstream Enterprise AB

Petter Lundgren

Sontagh E. Larsson Investment Strategy AB (Solaris)

Spray AB

Staffan Gustafsson

Jan Nylander (f/k/a Glaser AB)

Tommy Hallberg

Mikael Hagman

Serwello AB

Asia Marketing Ltd.

Ganot Corporation

Arthur Kohn

Stephen Spira

Ellis International L.P.

Camco

James Kardon

Joseph Kardon

Joseph Bronner

AME Capital Group LLC

Cam-Elm Company LLC

Richard Grossman

Kevin J. McCaffrey

AIGH Investment Partners, LLC

Hershel P. Berkowitz

Joshua A. Hirsch

LaPlace Group LLC

Moshe Shuchatowitz

Morris Wolfson

Abraham Wolfson

Aaron Wolfson

El Equities, LLC

Wolfson Equities

Globis Overseas Fund, Ltd.

Globis Capital Partners, L.P.

Fame Associates

Execution Copy

NEONODE INC.

NOTE PURCHASE AGREEMENT

NOTE PURCHASE AGREEMENT (the " Agreement ") dated as of July 31, 2007 among NEONODE INC., a Delaware corporation (" Company ") and any person who executes this agreement from time to time as a purchaser of Notes (the " New Investors ").

Background : The Company desires to sell to the New Investors, and the New Investors desire to purchase, up to $3,000,000 in principal amount of Senior Secured Notes, in substantially the form attached hereto as Exhibit 1 . (the " Notes ").

The Company has entered into an Agreement and Plan of Merger and Reorganization, dated January 19, 2007, as amended (the " Merger Agreement "), by and among the Company, SBE and Cold Winter Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of SBE (" Merger Sub "), which provides for a merger (the " Merger ") of the Company with and into Merger Sub.

The Company sold 6% senior secured notes, due December 31, 2007, in aggregate principal amount of $1,000,000 to SBE (the " SBE Notes "), pursuant to a note purchase agreement, dated as of May 18, 2007, and the SBE Notes will be deemed paid in the event the Merger occurs;

On February 28, 2006, November 20, 2006, January 22, 2007 and May 22, 2007, the Company sold to certain investors (the " Bridge Investors ") senior secured notes, all due (after amendment) on December 31, 2007, in aggregate principal amount of $13,000,000, as described in the Proxy Statement (the " Bridge Notes "), and in connection therewith (i) the Company entered into the Security Agreement with the Lenders and AIGH (as agent for the Bridge Investors), (ii) the Bridge Investors and certain other creditors of the Company entered into the Intercreditor Agreement, and (iii) the Pledgors entered into the Stockholder Pledge Agreements with the AIGH (as agent for the Bridge Investors).

The proceeds from the Notes are necessary for the development and continuance of the business of the Company and each of its Subsidiaries.

Certain Definitions:

" AIGH " means AIGH Investment Partners, LLC, a Delaware limited liability company.

" Capitalization Table " means the Capitalization Table attached as Exhibit 7 to this Agreement.

" Certificate of Incorporation " has the meaning set forth in Section 2.2. " Closing " has the meaning set forth in Section 1.2. " Closing Date " has the meaning set forth in Section 1.2.

" Collateral " has the meaning set forth in the Security Agreement, as amended, a copy of which is included with Exhibit 2 hereto.

" Common Stock " shall mean stock of the Company of any class (however designated) whether now or hereafter authorized, which generally has the right to participate in the voting and in the distribution of earnings and assets of the Company without limit as to amount or percentage, including the Company's Common Stock, $.01 par value per share.

" Company " includes the Company and any Person which shall succeed to or assume, directly or indirectly, the obligations of the Company hereunder.

" Governmental Body " shall mean any: (a) nation, state, commonwealth, province, municipality or district; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

" Guaranties " means the respective guaranties, dated February 28, 2006, as amended, delivered to the investors identified on Exhibit A of the Stockholder Pledge Agreements, respectively, copies of which are included with Exhibit 4 hereto.

" Guarantors " means each of Thomas Erickson, Magnus Goertz and Per Bystedt, each as a party to his respective Guaranty.

" Intercreditor Agreement " means the Intercreditor Agreement, dated February 28, 2006, as amended, between the Bridge Investors and Petrus.

" Material Adverse Change " shall mean any change in the facts represented by the Company in the Agreement or the business, financial condition, results of operation, prospects, properties or operations of the Company and its Subsidiaries taken as a whole which may have a material adverse effect on the value of the Common Stock of the Company.

" Material Adverse Effect " shall mean a material adverse effect on the operations, assets, liabilities, financial condition, prospects or business of the Company.

" Merger " has the meaning set forth in the recitals.

" Merger Agreement " has the meaning set forth in the recitals. " Neonode AB " means Neonode AB, a Swedish corporation. " Notes " has the meaning set forth in the recitals.

" Own " shall mean own beneficially, as that term is defined in the rules and regulations of the SEC.

" Petrus " means Petrus Holdings, SA, a corporation organized under the laws of Luxembourg.

" Person " means any individual, sole proprietorship, partnership, corporation, limited liability company, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity, any university or similar institution, or any government or any agency or instrumentality or political subdivision thereof.

" Pledged Collateral " has the meaning set forth in the Stockholder Pledge Agreements, as amended, copies of which are included with Exhibit 3 hereto.

" Pledgors " means Rector AB (or its successor in interest, Athemis Limited), Iwo Jima Sari and Wirelesstoys Sweden AB, each as a party to its respective Stockholder Pledge Agreement.

" Proprietary Assets " shall mean any: (i) patent, patent application, trademark (whether registered or unregistered), trademark application, trade name, fictitious business name, service mark (whether registered or unregistered), service mark application, copyright (whether registered or unregistered), copyright application, maskwork, maskwork application, trade secret, know-how, customer list, franchise, system, computer software, computer program, invention, design, blueprint, engineering drawing, proprietary product, technology, proprietary right or other intellectual property right or intangible asset relating to the foregoing; or (ii) right to use or exploit any of the foregoing.

" Proxy Statement " means the SBE Notice of Special Meeting of Stockholders, dated July 3, 2007, as amended.

" Required Holders " means the holders of a majority of the principal amount of the Notes. " SSE " has the meaning set forth in the recitals.

" SBE Notes " has the meaning set forth in the recitals.

" SEC " means the Securities and Exchange Commission.

" Securities Act " means the Securities Act of 1933, as amended.

" Security Agreement " means the Security Agreement, dated February 28, 2006, as amended, between the Company and AIGH, as agent for the Bridge Investors, a copy of which is included with Exhibit 2 hereto.

" Stockholder Pledge Agreements " means the Stockholder Pledge and Security Agreements, dated February 28, 2006, as amended, between the Bridge Investors and each of the Pledgors, respectively, copies of which are included with Exhibit 3 hereto.

" Subsidiary " shall mean, immediately prior to the Closing, any corporation of which stock or other interest having ordinary power to elect a majority of the board of directors (or other governing body) of such entity (regardless of whether or not at the time stock or interests of any other class or classes of such corporation shall have or may have voting power by reason of the happening of any contingency) is, immediately prior to the Closing, directly or indirectly Owned by the Company or by one or more of its Subsidiaries.

" Transaction Documents " means the Agreement, the Notes, the Security Agreement, the Stockholder Pledge Agreement, the Guaranties, the Intercreditor Agreement and the other documents required in connection with the transactions contemplated in the Agreement (in each case as amended through the Closing).

" U.S. person " shall have the meaning set forth in Regulation S of the SEC.

In consideration of the mutual covenants contained herein, the parties agree as follows:

1. Purchase and Sale of Notes .

1.1 Sale and Issuance of Notes . The Company shall sell to the New Investors and the New Investors shall purchase from the Company, an aggregate principal amount of up to $3,000,000 of Notes at par. The principal amount of Notes to be purchased by each of the New Investors from the Company at the Closing (as defined herein) is set forth opposite the name of each New Investor on the signature page hereof, subject to acceptance, in whole or in part, by the Company.

1.2 Closing . The closing of the purchase and sale of up to $3,000,000 principal amount of Notes hereunder (the " Closing ") shall take place within one business day after the date hereof; provided the Company has not suffered any Material Adverse Change since the date hereof The date on which the Closing occurs is referred to herein as the " Closing Date. " The Closing shall take place at the offices of Hahn & Hessen LLP, the Company's counsel, in New York, New York, or at such other location as is mutually acceptable to the New Investors and the Company.

1.3 Conditions of the Closing. The obligation of the New Investors to complete the purchase of the Notes at the Closing is subject to fulfillment of the following conditions:

(a) the Company shall have executed and delivered all documents, such as financing statements and assignments, reasonably requested by counsel for the New Investors;

(b) the parties to the Transaction Documents shall have executed and delivered amendments thereto substantially in the forms included on the exhibits to this Agreement; and

(c) the absence of any Material Adverse Change since the date hereof.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each of the New Investors as follows:

2.1 Corporate Organization; Authority; Due Authorization.

(a) The Company (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has the corporate power and authority to own or lease its properties as and in the places where such business is now conducted and to carry on its business as now conducted and (iii) is duly qualified and in good standing as a foreign corporation authorized to do business in every jurisdiction where the failure to so qualify, individually or in the aggregate, would have a Material Adverse Effect. Each Subsidiary is duly incorporated, and validly existing under the laws of its jurisdiction of incorporation and is qualified to do business as a foreign corporation in each jurisdiction in which qualification is required, except where failure to so qualify would not have a Material Adverse Effect.

(b) The Company (i) has the requisite corporate power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) has been authorized by all necessary corporate action to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to consummate the transactions contemplated hereby and thereby (the " Contemplated Transactions "). Each of this Agreement and the other Transaction Documents is a valid and binding obligation of the Company enforceable in accordance with its terms except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

2.2 Capitalization. The authorized capital stock of the Company is 10,000,000 shares of Common Stock, $.01 par value per share. Except as contemplated by this Agreement and as set forth in the Proxy Statement, there are (i) no outstanding subscriptions, warrants, options, conversion privileges or other rights or agreements obligating the Company or Neonode AB to purchase or otherwise acquire or issue any shares of capital stock of the Company or Neonode AB (or shares reserved for such purpose), (ii) no preemptive rights contained in the Company's Certificate of Incorporation, as amended (the " Certificate of Incorporation "), By-Laws of the Company or contracts to which the Company is a party (other than preemptive rights under the Bridge Notes, which have been waived) or rights of first refusal with respect to the issuance of additional shares of capital stock of the Company, and (iii) no commitments or understandings (oral or written) of the Company or Neonode AB to issue any shares, warrants, options or other rights. Except as disclosed in the Proxy Statement, (x) all the issued and outstanding shares of the Subsidiary's capital stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in compliance with applicable federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, (y) except as disclosed in the Proxy Statement or this Agreement, there are no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of the Subsidiary's capital stock or any such options, rights, convertible securities or obligations, and (z) the Company owns 100% of the outstanding equity of each Subsidiary. The Proxy Statement sets forth accurately and completely the capitalization of the Company as of the date hereof and the anticipated capitalization of SBE after giving effect to the Merger, but without giving effect to the Notes.

2.3 Validity of Notes . The issuance of the Notes has been duly authorized, and the Notes, when issued, will be valid and binding obligations of the Company and upon Closing will be in full force and effect and enforceable in accordance with their respective terms.

2.4 Private Offering . Neither the Company nor anyone acting on its behalf has within the last 12 months issued, sold or offered any security of the Company (including, without limitation, any Notes) to any Person under circumstances that would cause the issuance and sale of the Notes, as contemplated by this Agreement, to be subject to the registration requirements of the Securities Act.

2.5 Brokers and Finders . The Company has not retained any investment banker, broker or finder in connection with the Contemplated Transactions. As set forth in the Proxy Statement, the Company has retained and will compensate Griffin Securities, Inc., as an advisor in connection with the Merger.

2.6 Financial Statements; Absence of Certain Changes . Each of (a) the unaudited balance sheet of the Company as of March 31, 2007, (b) the unaudited statements of income, retained earnings and cash flows of the Company for the period ended on March 31, 2007, and (c) the unaudited statements of income, retained earnings and cash flows of the Company for the period ended on March 31, 2007, included in the Proxy Statement (including any related notes and schedules, if any), (the " Financial Statements ") fairly presents, in all material respects, the financial position of the Company, or the results of operations, retained earnings or cash flows, as the case may be, of the Company as of the referenced date or for the periods set forth therein (subject to normal year-end audit adjustments which would not be material in amount or effect), in each case in accordance with generally accepted accounting principles consistently applied during the periods involved, except as may he noted therein and that the unaudited statements may not contain all footnotes required by generally accepted accounting principles. Neither the Company nor any Subsidiary has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise), including for taxes, that would be required to be reflected on, or reserved against in, Financial Statements, except for (i) liabilities or obligations that were so reserved on, or reflected in (including the notes to), the Financial Statements; and (ii) liabilities or obligations which would not, individually or in the aggregate, have a Material Adverse Effect. Other than the indebtedness as set forth in the Financial Statements or the Proxy Statement, neither the Company nor any Subsidiary has any indebtedness other than reasonable accounts payable. Except as specifically contemplated by this Agreement or as set forth in the Proxy Statement (including without limitation continuing losses of the Company) and the Financial Statements, there has not been any Material Adverse Change since March 31, 2007.

2.7 Company Disclosure . No representation or warranty of the Company herein, no exhibit or schedule hereto, and no information about the Company contained or referenced in the Proxy Statement, when read together, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

3. Representations and Warranties of the New Investors. Each New Investor represents and warrants to the Company as follows:

3.1 Authorization. Such New Investor (i) has full power and authority to execute, deliver and perform this Agreement and the other Transaction Documents to which it is a party and to incur the obligations herein and therein and (ii) if applicable has been authorized by all necessary corporate or equivalent action to execute, deliver and perform this Agreement and the other Transaction Documents and to consummate the Contemplated Transactions. Each of this Agreement and the other Transaction Documents to which the New Investors are parties is a valid and binding obligation of such New Investor enforceable in accordance with its terms, except as limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights and the availability of equitable remedies (regardless of whether such enforceability is considered in a proceeding at law or equity).

3.2 Brokers and Finders. Such New Investor has not retained any investment banker, broker or finder in connection with the Contemplated Transactions.

3.3 The Notes to be received by such New Investor will be acquired for investment for such New Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof such that such New Investors would constitute an "underwriter" under the Securities Act.

3.4 Such New Investor understands and acknowledges that the offering of the Notes pursuant to this Agreement will not be registered under the Securities Act or qualified under any state securities laws on the grounds that the offering and sale of the Notes are exempt from registration and qualification, respectively, under the Securities Act and the Blue Sky Laws.

3.5 Such New Investor represents that (i) such New Investor is able to fend for itself in the Contemplated Transactions; (ii) such New Investor has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of such New Investor's prospective investment in the Notes; (iii) such New Investor recognizes that its investment in the Notes involves a high degree of risk which may result in the loss of the total amount of its investment and can afford the complete loss of such investment (iv) such New Investor recognizes that the Company has a very limited operating history upon which an evaluation of its business and prospects can be based; (v) such New Investor recognizes that the Company's prospects must be considered in light of its limited operating history, together with the expenses, difficulties, uncertainties and delays frequently encountered in connection with the early phases of a new business; and (vi) such New Investor recognizes that there can be no assurance that the Company will ever achieve any time soon or sustain profitability.

3.6 Such New Investor received a copy of the Proxy Statement prior to the date hereof. Such New Investor has read and had the opportunity to discuss with management of the Company: (i) this Agreement, (ii) the Merger and (iii) the Proxy Statement, including without limitation the risk factors set forth therein.

3.7 If the New Investor is a U.S. person, (i) such New Investor qualifies as an "accredited investor" as such term is defined under Rule 501 promulgated under the Securities Act, and (ii) such New Investor, if it is a corporation, a partnership, a limited liability company, a trust or other business entity, has not been organized for the purpose of purchasing the Notes.

3.8 If the New Investor is a non U.S. person (each, a " Non-U.S. Purchaser "), (i) such Non-U.S. Purchaser is not a U.S. person; (ii) such Non-U.S. Purchaser was outside the United States at the time the offer to sell the Notes was made and at the time the buy order for the Notes was originated; (iii) such Non-U.S. Purchaser will not offer or sell the Notes, or any securities of the Company received in respect thereof, to a U.S. person or for the account or benefit of a U.S. person (other than a distributor), for a period of one year commencing on the Closing.

3.9 Such New Investor acknowledges that (i) the SBE Notes maybe paid prior to the Notes and (ii) the Bridge Notes, which are generally on a par with the Notes, bear interest at 4% per annum, will be converted in event the Merger occurs on different terms than the Notes may be converted and have different conversion rights in the event the Merger is not completed.

4. Securities Laws; Certain Covenants of New Investors .

4.1 Each New Investor agrees that the Notes and any securities of the Company received in respect of the foregoing held by it may not be sold by such New Investor without registration under the Securities Act or an exemption therefrom, and therefore such New Investor may be required to hold such securities for an indeterminate period.

4.2 Each New Investor agrees that the obligations under the Notes shall be subject to the Security Agreement, Stockholder Pledge Agreement and the Intercreditor Agreement, each as amended as contemplated herein. AIGH shall have no duty to the New Investor arising out of its actions or failure to act under the Security Agreement, Stockholder Pledge Agreement, the Intercreditor Agreement or Guaranties, each as amended as contemplated herein, provided that AIGH shall apply the same standard of care as it would use in determining whether to act under such agreements in its capacity as a Bridge Investor.

4.3 Each New Investor agrees to indemnify AIGH from and against any and all reasonable claims, losses, and liabilities (including, without limitation, reasonable attorney fees) arising out of or resulting from the Notes, Security Agreement, Stockholder Pledge Agreement, the Intercreditor Agreement or Guaranties, except claims, losses, or liabilities resulting from the gross negligence or willful misconduct of AIGH.

4.4 Each New Investor will upon demand pay the amount of any and all reasonable expenses, including, without limitation, the reasonable fees and expenses of counsel and of any experts and agents, which AIGH may incur in connection with (i) the preparation and administration of the Security Agreement, Stockholder Pledge Agreement, the Intercreditor Agreement or Guaranties, each as amended as contemplated herein; (ii) the exercise or enforcement of any of the rights of AIGH or the New Investor thereunder; or (iii) the failure by the New Investor to perform or observe any of the provisions hereof or thereof.

4.5 Each New Investor hereby waives any and all preemptive rights or other rights to acquire any securities of the Company or any of its Subsidiaries relating to or in connection with the offering or sale of the Notes or the Merger.

4.6 Each New Investor hereby appoints AIGH as its agent under the Security Agreement with respect to the Collateral and the creation, perfection, priority, preservation, protection and enforcement of a security interest therein in accordance with the terms of the Security Agreement. Each New Investor hereby authorizes AIGH to take such actions with respect to the Collateral, for the pro-rata benefit of the New Investors and the Bridge Investors in accordance with Section 9 of the Security Agreement, as AIGH determines to take in its sole discretion, and each New Investor agrees to indemnify and hold harmless AIGH for all costs, claims or expenses (including without limitation attorneys' fees and expenses) in connection with such actions taken or omitted to be taken, except to the extent resulting from the gross negligence or willful misconduct of AIGH. AIGH shall provide prompt notice of any material action under the Security Agreement to the New Investors.

4.7 Each New Investor hereby appoints AIGH as its agent under the Stockholder Pledge Agreements with respect to the Pledged Collateral and the creation, perfection, priority, preservation, protection and enforcement of a security interest therein in accordance with the terms of the Stockholder Pledge Agreements. Each New Investor hereby authorizes AIGH to take such actions with respect to the Pledged Collateral, for the pro-rata benefit of the New Investors and the Bridge Investors in accordance with Section 9 of the Stockholder Pledge Agreements, as AIGH determines to take in its sole discretion, and each New Investor agrees to indemnify and hold harmless AIGH for all costs, claims or expenses (including without limitation attorneys' fees and expenses) in connection with such actions taken or omitted to be taken, except to the extent resulting from the gross negligence or willful misconduct of AIGH. AIGH shall provide prompt notice of any material action under the Stockholder Pledge Agreements to the New Investors.

5. Additional Covenants of the Company.

5.1 Form D. As soon as is practicable following the Closing, the Company shall prepare and file with the SEC a Form D concerning the sale of the Notes.

5.2 Financial Reports and Tax Returns. Until the Company is a public company required to file financial reports with the U.S. Securities and Exchange Commission, the Company will furnish or will cause to be furnished to each New Investor:

(a) within 90 days after the end of each fiscal quarter and fiscal year of the Company, respectively, financial statements (including income statement and balance sheet) in accordance with generally accepted accounting standards (except that interim financial statements need not contain footnotes or normal year-end adjustments); and

(b) within 90 days after the end of each fiscal year of the Company, an independent certified audit of financial statements for such fiscal year.

6. Miscellaneous.

6.1 Entire Agreement; Successors and Assigns. This Agreement and the other Transaction Documents constitute the entire contract between the parties relative to the subject matter hereof and thereof, and no party shall be liable or bound to the other in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. This Agreement and the other Transaction Documents supersede any previous agreement among the parties with respect to the Notes. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective executors, administrators, heirs, successors and assigns of the parties. Except as expressly provided herein, nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

6.2 Survival of Representations and Warranties. All representations and warranties of the Company shall survive the execution and delivery of this Agreement and the Closing hereunder and shall continue in full force and effect for one year after the Closing. The covenants of the Company set forth in Section 5 shall remain in effect as set forth therein.

6.3 Governing Law; Jurisdiction . This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of law. Each party hereby irrevocably consents and submits to the jurisdiction of any New York State or United States Federal Court sitting in the State of New York, County of New York, over any action or proceeding arising out of or relating to this Agreement and irrevocably consents to the service of any and all process in any such action or proceeding by registered mail addressed to such party at its address specified in Section 6.6 (or as otherwise noticed to the other party). Each party further waives any objection to venue in New York and any objection to an action or proceeding in such state and county on the basis of forum non conveniens. Each party also waives any right to trial by jury.

6.4 Counterparts . This Agreement maybe executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6.5 Headings . The headings of the sections of this Agreement are for convenience and shall not by themselves determine the interpretation of this Agreement.

6.6 Notices . Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon (i) personal delivery, (ii) delivery by fax (with answer back confirmed) or (iii) delivery by electronic mail (with reception confirmed), addressed to a party at its address or sent to the fax number or e-mail address shown below or at such other address, fax number or e-mail address as such party may designate by three days advance notice to the other party.

Any notice to New Investors shall be sent to the addresses set forth on the signature pages hereof.

Any notice to the Company shall be sent to:

Neonode Inc.
Biblioteksgatan 11
S 111 46 Stockholm, Sweden
Attention: President
Fax Number: +46-8-678 1 S 51

with a copy to:

Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: James Kardon, Esq.
Fax Number: (212) 478-7400

6.7 Rights of Transferees . Any and all rights and obligations of the New Investor herein incident to the ownership of Notes shall pass successively to all subsequent transferees of such securities until extinguished pursuant to the terms hereof.

6.8 Severability . Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be deemed prohibited or invalid under such applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, and such prohibition or invalidity shall not invalidate the remainder of such provision or any other provision of this Agreement.

6.9 Expenses . Irrespective of whether the Closing is effected, the Company shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of this Agreement. Each New Investor shall he responsible for all costs incurred by such New Investor in connection with the negotiation, execution, delivery and performance of this Agreement including, but not limited to, legal fees and expenses.

6.10 Amendments and Waivers . Unless a particular provision or section of this Agreement requires otherwise explicitly in a particular instance, any provision of this Agreement maybe amended and the observance of any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Required Holders. Any amendment or waiver effected in accordance with this Section 6.10 shall be binding upon each holder of any Notes at the time outstanding (including securities into which such Notes are convertible), each future holder of all such Notes, and the Company.

6.11 Conflicts . The Company and each New Investor (i) acknowledge that Hahn & Hessen LLP, counsel to the Company in the Contemplated Transactions and the Merger, has acted, and from time to time continues to act, as counsel to (A) certain of the Bridge Investors, or affiliates thereof, in connection with the Notes, and (B) AIGH in connection with the Notes, the Security Agreement, the Pledge Agreements, investments in SBE, and in unrelated matters, (ii) consent to the representation of the Company and such other representation of certain of the Bridge Investors, or affiliates thereof, by Hahn & Hessen LLP, (iii) acknowledge that partners of Hahn & Hessen LLP own securities of SBE constituting less than 0.2% of outstanding stock of SBE and $15,000 in principal amount of Bridge Notes, and (iv) waive any conflicts of interest claim which may arise from any or all of the foregoing.

[signature page follows]

SIGNATURE PAGE
TO
NEONODE INC.
NOTE PURCHASE AGREEMENT
Dated July 31, 2007

IF the PURCHASER is an INDIVIDUAL, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the ____ day of July, 2007, and execution of this Agreement shall constitute consent to joinder as a party to, subject to, or beneficiary of the applicable Stockholder Pledge Agreement, Guaranties, and Security Agreement, each as amended.

Amount of Subscription:
$ __________________principal amount of Notes

Print Name

Signature of New Investor

Social Security Number

Address and Fax Number

E-mail Address

ACCEPTED AND AGREED:

NEONODE INC.

By:

Dated:

SIGNATURE PAGE
TO
NEONODE INC.
NOTE PURCHASE AGREEMENT
Dated July 31, 2007

IF the PURCHASER is a PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY, TRUST or OTHER ENTITY, please complete the following:

IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the _____ day of July, 2007, and execution of this Agreement shall constitute consent to joinder as a party to, subject to or beneficiary of the applicable Stockholder Pledge Agreement, Guaranties, Intercreditor Agreement and Security Agreement, each as amended.

Amount of Subscription:
$ __________________principal amount of Notes

Print Full Legal Name of Partnership, Company,
Limited Liability Company, Trust or Other Entity

By: ______________________________
(Authorized Signatory)

Name: ______________________________
Title: ______________________________
Address and Fax Number: ______________________________
____
____

Taxpayer Identification Number: ______________________________

Date and State of Incorporation or Organization: ______________________________
Date on which Taxable Year Ends: ______________________________

E-mail Address: ______________________________

ACCEPTED AND AGREED:

NEONODE INC.

By: ______________________________
Name: ______________________________
Title: ______________________________
Dated: ______________________________

EXHIBITS
TO THE NOTE PURCHASE AGREEMENT

Exhibit 1: Form of Notes

Exhibit 2: Form of Amendment No. 4 to Security Agreement, Amendment No. 3 to Security Agreement, Amendment No. 2 to Security Agreement, Amendment No. 1 to Security Agreement, and Security Agreement

Exhibit 3: Form of Amendment No. 4 to Stockholder Pledge Agreement, Amendment No. 3 to Stockholder Pledge Agreement, Amendment No. 2 to Stockholder Pledge Agreement, Amendment No. 1 to Stockholder Pledge Agreement, and Stockholder Pledge Agreement for each of:

Iwojima Sari
Athemis Limited
Wirelesstoys Sweden AB

Exhibit 4: Form of Amendment No. 4 to Guaranty, Amendment No. 3 to Guaranty, Amendment No. 2 to Guaranty, Amendment No. 1 to Guaranty, and Guaranty for each of:

Per Bystedt
Thomas Eriksson
Magnus Goertz

NEONODE INC.

AMENDMENT TO NOTE PURCHASE AGREEMENT

AMENDMENT TO NOTE PURCHASE AGREEMENT, dated as of the 1 st day of August, 2007 by and among the New Investors (as defined below) and NEONODE INC., a Delaware corporation (together with its successors by merger or otherwise, referred to herein as the " Company ").

Background : Pursuant to a Note Purchase Agreement, dates as of July 31, 2007 (the " Note Purchase Agreement "), the Company made an offering (the " Offering ") of notes, due December 31, 2007, bearing 8% interest and convertible into equity of the Company or its successors, in aggregate principal amount of $3,000,000 (the " New Notes ") to accredited and non-US investors (collectively in this capacity, the " New Investors "). Capitalized terms no otherwise defined herein have the same meaning as in the Note Purchase Agreement.

In order to induce Ellis International LP (" Ellis ") to act as a lead investor in connection with the offering of New Notes, the Company and the New Investors with to provide Ellis with an opportunity to increase its participation in the New Notes in the future.

In order to induce the parties to the Stockholder Pledge Agreements to extend their pledges, the Stock Pledge Agreements have been further amended.

NOW THEREFORE, in order to induce Ellis to participate in the Offering and to obtain necessary amendments to the Stockholder Pledge Agreements, and in consideration of the mutual promises, representation and warranties made each to the other, the parties agree that the Note Purchase Agreement is hereby amended and supplemented as follows:

1. The aggregate principal amount of New Notes is hereby increased to $4,000,000, and each of the forms of Amendment No. 4 to Security Agreement, Amendment No. 4 to Stockholder Pledge Agreement and Amendment No 4 to Guaranties shall be amended to reflect the increase in the aggregate principal amount of the New Notes.

2. The Investors and the Company hereby agree that Ellis shall have the right at its option, exercisable at any time prior to December 31, 2007, to purchase up to $750,000 of New Notes at a price equal to the principal amount thereof with the right to convert such New Notes into equity of the Company on the same terms as the other New Notes previously purchased pursuant to the Note Purchase Agreement, regardless whether the other New Notes were already converted. Without limitation on the foregoing, the New Investors waive any right to participate in the offering of New Notes to Ellis as provided in the previous sentence. The option granted to Ellis hereunder may be effected by notice to the company accompanied by payment.

3. The Stockholder Pledge Agreements attached as an exhibit to the Note Purchase Agreement have been amended in accordance with the form of Amendment no. 4 to Stockholder Pledge Agreement attached hereto as Annex 1, which supersedes the previous form of Amendment No. 4 supplied for each of the three Stockholder Pledge Agreements as exhibits to the Note Purchase Agreement.

4. Except as explicitly amended as set forth in the Amendment, the terms and provisions of the Note Purchase Agreements and Bridge Notes shall continue in full force and effect. This Amendment and Waiver shall be effective when duly executed by the Company and Participating Investors who constitute the Required Majority.

5. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute a single instrument.

[balance of page intentionally left blank – signature page follows]

Signature Page
to
Neonode Inc.
Amendment to Note Purchase Agreement
dated August 1, 2007

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals on the day and year first above written.

THE COMPANY:

NEONODE INC.

By: ______________________________

NEW INVESTORS

[______________________________]

By: ______________________________
Name

[______________________________]

By: ______________________________
Name

[______________________________]

By: ______________________________
Name

[______________________________]

By: ______________________________
Name

[______________________________]

By: ______________________________
Name

[______________________________]

By: ______________________________
Name

NEONODE INC.

AMENDMENT NO. 2 TO NOTE PURCHASE AGREEMENT

AMENDMENT NO. 2 TO NOTE PURCHASE AGREEMENT, dated as of the 21st day of December, 2007 by and among the New Investors (as defined below) and NEONODE INC., a Delaware corporation (together with its successors by merger or otherwise, referred to herein as the " Company ").

Background: Pursuant to a Note Purchase Agreement, dated as of July 31, 2007 (the " Note Purchase Agreement "), the Company made an offering (the " Offering ") of notes, due December 31, 2007, bearing 8% interest and convertible into equity of the Company or its successors, in aggregate principal amount of $3,000,000 (the " New Notes ") to accredited and non-US investors (collectively in this capacity, the " New Investors "). Capitalized terms not otherwise defined herein have the same meaning as in the Note Purchase Agreement.

Pursuant to the Amendment to Note Purchase Agreement, dated as of August 1, 2007, the New Investors and the Company, among other things, granted Ellis International LP (" Ellis ") an option, exercisable at any time prior to December 31, 2007, to purchase up to $750,000 of New Notes at a price equal to the principal amount thereof with the right to convert such New Notes into equity of the Company on the same terms as the other New Notes previously purchased pursuant to the Note Purchase Agreement, regardless whether the other New Notes were converted (the " Option ").

In order to induce Ellis to assist the Company obtain stockholder consents necessary to consummate a proposed securities offering, the Company and the New Investors wish to extend the expiration date of the Option from December 31, 2007 to March 31, 2008.

NOW THEREFORE, in order to induce Ellis to assist the Company obtain stockholder consents necessary to consummate a proposed securities offering, and in consideration of the mutual promises, representations and warranties made each to the other, the parties agree that the Note Purchase Agreement is hereby amended and supplemented as follows:

1. The Investors and the Company hereby agree that the expiration date of the Option is hereby extended from December 31, 2007 to March 31, 2008. Without limitation on the foregoing, the New Investors waive any right to participate in the offering of New Notes to Ellis as provided in the Option. The option granted to Ellis hereunder may be effected by notice to the Company accompanied by payment.

2. Except as explicitly amended as set forth in this Amendment, the terms and provisions of the Note Purchase Agreements and Bridge Notes shall continue in full force and effect. This Amendment and Waiver shall be effective when duly executed by the Company and Participating Investors who constitute the Required Majority.

3. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute a single instrument.

Signature Page
to
Neonode Inc.
Amendment to Note Purchase Agreement
dated December 21, 2007

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals on the day and year first above written.

THE COMPANY:

NEONODE INC.

By: ______________________________

NEW INVESTORS:

[________________________]

By: ______________________________
Name:

[________________________]

By: ______________________________
Name:

[ ]

By: ______________________________
Name:

[________________________________]

By: ______________________________
Name:

____
Name:

____
Name:

NEONODE INC.

AMENDMENT NO. 3 TO NOTE PURCHASE AGREEMENT

AMENDMENT NO. 3 TO NOTE PURCHASE AGREEMENT, dated as of the 24th day of March, 2008 by and among the New Investors (as defined below) and NEONODE INC., a Delaware corporation (together with its successors by merger or otherwise, referred to herein as the " Company ").

Background: Pursuant to a Note Purchase Agreement, dated as of July 31, 2007 (the " Note Purchase Agreement "), the Company made an offering (the " Offering ") of notes, due December 31, 2007, bearing 8% interest and convertible into equity of the Company or its successors, in aggregate principal amount of $3,000,000 (the " New Notes ") to accredited and non-US investors (collectively in this capacity, the " New Investors "). Capitalized terms not otherwise defined herein have the same meaning as in the Note Purchase Agreement.

Pursuant to the Amendment to Note Purchase Agreement, dated as of August 1, 2007, the New Investors and the Company, among other things, granted Ellis International LP (" Ellis ") an option, exercisable at any time prior to December 31, 2007, to purchase up to $750,000 of New Notes at a price equal to the principal amount thereof with the right to convert such New Notes into equity of the Company on the same terms as the other New Notes previously purchased pursuant to the Note Purchase Agreement, regardless whether the other New Notes were converted (the " Option ").

Pursuant to Amendment No. 2 to Note Purchase Agreement, dated as of December 21, 2007, the New Investors and the Company, among other things, extended the expiration date of the Option from December 31, 2007 to March 31, 2008.

In order to induce Ellis to exercise a portion of the Option, the Company and the New Investors wish to extend the expiration date of the Option from March 31, 2008 to June 30, 2008.

NOW THEREFORE, in order to induce Ellis to exercise a portion of the Option, and in consideration of the mutual promises, representations and warranties made each to the other, the parties agree that the Note Purchase Agreement is hereby amended and supplemented as follows:

1. The Investors and the Company hereby agree that the expiration date of the Option is hereby extended from March 31, 2008 to June 30, 2008. Without limitation on the foregoing, the New Investors waive any right to participate in the offering of New Notes to Ellis as provided in the Option. The option granted to Ellis hereunder may be effected by notice to the Company accompanied by payment.

2. Except as explicitly amended as set forth in this Amendment, the terms and provisions of the Note Purchase Agreements and Bridge Notes shall continue in full force and effect. This Amendment and Waiver shall be effective when duly executed by the Company and Participating Investors who constitute the Required Majority.

3. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute a single instrument.

Signature Page
to
Neonode Inc.
Amendment No. 3 to Note Purchase Agreement
dated March 24, 2008

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals on the day and year first above written.

THE COMPANY:

NEONODE INC.

By: ______________________________

NEW INVESTORS:

[______________________________]

By: ______________________________
Name:

[______________________________]

By: ______________________________
Name:

[ ]

By: ______________________________
Name:

[______________________________]

By: ______________________________
Name:

____
Name:

____
Name:

EXECUTION ORIGINAL

BISHOP RANCH BUSINESS PARK
BUILDING LEASE

Sunset Development Company
One Annabel Lane, Suite 201, San Ramon, CA 94583
Tel: 925 886 0100 Fax: 925 856 1330

SBE, INC.

BISHOP RANCH BUSINESS PARK - BUILDING LEASE

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BISHOP RANCH BUSINESS PARK

BUILDING LEASE

This Lease is made and entered into this 27th day of July , 2005, by and between **ALEXANDER PROPERTIES COMPANY** , a California' partnership, (hereinafter "Landlord") and **SBE, INC.** (hereinafter "Tenant"). For and in consideration of the rental and of the covenants and agreements hereinafter set forth to be kept and performed by Tenant, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises herein described for the term, at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

1. PREMISES

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises (the "Premises") crosshatched on Exhibit A containing 22,308 rentable square feet (20,097 usable square feet) known as Suite 200, located on the Second floor of 4000 Executive Parkway, Building P (including all tenant improvements thereto, the "Building"), located at San Ramon, California 94583. The Building is part of a Complex containing the Building and Two (2) other buildings (the "Complex"). The Complex, which contains 631,578 rentable square feet, the land on which the Complex is situated (the "Land"), the common areas of the Complex, any other improvements in the Complex and the personal property used by Landlord in the operation of the Complex (the "Personal Property") are herein collectively called the "Project." Landlord shall provide Tenant with a Suite Improvement Allowance (the "Suite Improvement Allowance") up to an amount equal to ONE HUNDRED FIFTY THOUSAND SEVEN HUNDRED TWENTY-SEVEN AND 50/100 DOLLARS ($150,727.50) (or $7.50 per usable square foot of Premises Leased), which may be used by Tenant at any time during the Term of this Lease for alterations or additions to the Premises. Any costs in excess of the Suite Improvement Allowance shall be paid for by Tenant prior to the commencement of construction.

2. TERM

2.1 Term . The term of this Lease shall commence on September 1, 2005 (the "Commencement Date") and shall end Five (5) years thereafter (the "Expiration Date"), unless sooner terminated pursuant to this Lease.

2.2 Delay in Commencement . (Intentionally Deleted)

2.3 Acknowledgment of Commencement Date . (Intentionally Deleted)

3. RENT

3.1 Base Rent . Tenant shall pay to Landlord monthly as base rent ("Base Rent") for the Premises in advance on the Commencement Date and on the first day of each calendar month thereafter during the term of this Lease without deduction, offset, prior notice or demand, in lawful money of the United States of America, the sum of FORTY-EIGHT THOUSAND THREE HUNDRED THIRTY-FOUR AND NO/100 DOLLARS ($48,334.00). For any prorations of Base Rent due to changes in the Premises on a day other than the first or last day of the month, the portion of Base Rent associated with the change in the Premises shall be calculated by multiplying the number of days that the space was part of the Premises by the daily Base Rent defined to be the monthly Base Rent for said space divided by 30. Notwithstanding the foregoing, Rent shall he abated for the months of September, October, November and December of 2005, and one-half of January 2006.

Please Initial

Tenant ( )
Landlord ( )

Concurrently with Tenant's execution of this Lease, Tenant shall pay to Landlord the sum of FORTY-EIGHT THOUSAND THREE HUNDRED THIRTY-FOUR AND NO/100 DOLLARS ($48,334.00) to be applied against Base Rent when it becomes due.

3.2 Adjustments to Base Rent. (Intentionally Deleted)

3.3 Amounts Constituting Rent. All amounts payable or reimbursable by Tenant under this Lease, including late charges and interest, "Operating Cost Payments" (as defined in Paragraph 5), and amounts payable or reimbursable under the Work Letter and the other Exhibits hereto, shall constitute "Rent" and be payable and recoverable as such. Base Rent is due and payable as provided in Paragraph 3.1 - "Base Rent", Operating Cost Payments are due and payable as provided in Paragraph 5.3 - "Notice and Payment", and all other Rent payable to Landlord on demand under the terms of this Lease, unless otherwise set forth herein, shall be payable within thirty (3D) days after written notice from Landlord of the amounts due. All Rent shall be paid to Landlord without deduction or offset in lawful money of the United States of America at the address for notices or at such other place as Landlord may from time to time designate in writing.

4. SECURITY DEPOSIT

Concurrently with Tenant's execution of this Lease, Tenant shall deposit with Landlord the sum of FORTY-EIGHT THOUSAND THREE HUNDRED THIRTY-FOUR AND NO/100 DOLLARS ($48,334.00) (the "Security Deposit"). The Security Deposit shall be held by Landlord as security for the faithful performance by Tenant of all of the terms, covenants and conditions of this Lease to be performed by Tenant during the term hereof. If Tenant defaults with respect to any provision of this Lease, including the provisions relating to the payment of any Rent, Landlord may (but shall not be required to) use, apply or retain all or any part of the Security Deposit to cure such default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount; Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit, If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) upon the expiration of the Lease term and Tenant's vacating the Premises; provided, however, that Landlord may elect, in its discretion, to retain a portion of the Security Deposit in an amount to be determined by Landlord in its reasonable judgment and Landlord shall, promptly upon determining the increases in Operating Costs for the calendar year in which this Lease terminates, pursuant to Paragraph 5.3 - "Notice and Payment," apply from such retained portion of the Security Deposit any sums underpaid by Tenant with respect to Operating Costs for the final year of the Lease term, and return the balance, if any, to Tenant or its assignee. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer the Security Deposit to Landlord's successor in interest whereupon Landlord shall be released from liability for the return of the Security Deposit or the accounting therefor. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, and all other provisions of any Regulations, now or hereafter in force, which restricts the amount or types of claim that a landlord may make upon a security deposit or imposes upon a landlord (or its successors) any obligation with respect to the handling or return of security deposits.

Please Initial

Tenant (   )
Landlord (   )

5. TAX AND OPERATING COST INCREASES

5.1 Definitions . For purposes of this paragraph, the following terms are herein defined:

(a) Base Year : The calendar year in which this Lease commences.

(b) Operating Costs : Operating Costs shall include all costs and expenses of ownership, operation, repair and maintenance of the Project (excluding depreciation of the improvements in the Project and all amounts paid on loans of Landlord) computed in accordance with accounting principles adopted by Landlord consistently applied, including by way of illustration but not limited to: real property taxes, taxes assessed on the Personal Property, any other governmental impositions imposed on or by reason of the ownership, operation or use of the Project, and any tax in addition to or in lieu thereof; other than taxes covered by Paragraph 5.4, whether assessed against Landlord or Tenant or collected by Landlord or both; parts; equipment; supplies; insurance premiums; license, permit and inspection fees; cost of services and materials (including property management fees); cost of compensation (including employment taxes and fringe benefits) of all persons who perform duties connected with the operation, maintenance and repair of the Project; costs of providing utilities and services, including water, gas, electricity, sewage disposal, rubbish removal, janitorial, gardening, security, parking, window washing, supplies and materials, and signing (but excluding services not uniformly available to substantially all of the Project tenants); costs of capital improvements (i) required to cause the Project to comply with all laws, statutes, ordinances, regulations, rules and requirements of any governmental or public authority, including, without limitation, the Americans with Disabilities Act of 1990 (the “ADA”) (collectively, “Legal Requirements”), except for costs, if any, of correcting any failure of the Project to comply, as of the Commencement Date, with any Legal Requirement as enacted as of the Commencement Date, or (ii) which reduce Operating Costs, such costs, together with interest on the unamortized balance at the rate of twelve percent (12%) per annum, to be amortized over such reasonable periods as Landlord shall determine; costs of maintenance and replacement of landscaping; legal, accounting and other professional services incurred in connection with the operation of the Project and the calculation of Operating Costs; and rental expense or a reasonable allowance for depreciation of personal property used in the maintenance, operation and repair of the Project. If the Project is not fully occupied for any calendar year during the term of this Lease, Operating Costs shall be adjusted to the amount which would have been incurred if the Project had been fully occupied for the year.

Please Initial

Tenant (   )
Landlord (   )

Notwithstanding the foregoing, Operating Costs shall not include the following:

(1) Depreciation and amortization, except as provided for above.

(2) Costs of capital repairs, replacements or improvements, except as provided for above.

(3) Costs to acquire sculpture, paintings or other objects of art.

(4) Costs incurred in connection with upgrading the Building to comply with disability, life, fire, safety codes, ordinances, statutes, or other laws in effect prior to the Commencement Date including, without limitation, the ADA, and penalties or damages incurred due to such non-compliance.

(5) Advertising and promotional expenses.

(6) Real estate broker's or other leasing commissions, attorneys' fees, architects' fees and other costs incurred in connection with negotiations or disputes with tenants or prospective tenants of the Building or Project, other than disputes as to the common areas.

(7) Costs incurred in renovating or otherwise improving or decorating or redecorating space for tenants or other occupants in the Project or vacant space in the Project.

(8) Repairs or other work occasioned by fire, windstorm, or other casualty and public liability claims, to the extent such are covered by insurance proceeds, the cost of which is included in Operating Costs, and costs incurred by Landlord in connection with or made necessary by the actual or threatened exercise by governmental authorities (or other entities with power of eminent domain) of the power of eminent domain.

(9) Costs, other than Operating Costs, specially billed to Tenant or any other specific tenants, such as (but not limited to) above Building Standard janitor service, or electrical usage or other services or benefits above Building Standard.

(10) Costs incurred to remedy or monitor any Hazardous Materials condition except if caused by Tenant.

(11) Interest on penalties resulting from (a) late payment of any operating expense by Landlord due to Landlord's negligence or willful misconduct (unless Landlord in good faith disputes a charge and subsequently loses or settles that dispute); or (b) any amount payable by Landlord to any tenant resulting solely from Landlord's default in its obligations to that tenant.

Please Initial

Tenant (   )
Landlord (   )

(12) Costs incurred in installing, operating and maintaining any specialty service that is not necessary for Landlord's provision, management, maintenance and repair of the Project. The following are examples of these specialty services:

observatory; broadcasting facilities (other than the life-support and security system for the Project); luncheon club, cafeteria, or other dining facility; newsstand; flower services; shoeshine service; carwash; and athletic or recreational club.

(13) Any compensation paid to clerks, attendants, or other persons in commercial concessions in the Project that are operated by Landlord.

(14) Debt service, interest or other financing.

(15) Rental payments to any ground Lessor.

5.2 Tenant's Share . If Operating Costs during any calendar year following the Base Year exceed the rentable square footage of the Complex multiplied by $9.75 (the "Expense Stop"), Tenant shall pay to Landlord "Tenant's Share" multiplied by such excess ("Operating Cost Payments"). "Tenant's Share" means 3.53%, which is calculated by dividing the rentable square footage of the Premises by the rentable square footage of the Complex as such rentable square footages are set forth in Paragraph I, and multiplying such number by 100.

5.3 Notice and Payment . As soon as reasonably practical after the end of each calendar year following the Base Year, Landlord shall furnish Tenant a written statement showing in reasonable detail the Operating Costs for the preceding calendar year, and the amount of any payment due from Tenant to Landlord or from Landlord to Tenant, taking into account prier Operating Cost Payments made by Tenant for such preceding calendar year. Tenant shall have one hundred eighty (180) days after receipt of Landlord's statement to notify Landlord of any objections they have to such statement, or of their intention to review supporting documentation for such statement. If Tenant does not so notify Landlord, such statement shall conclusively be deemed correct and Tenant shall have no right thereafter to dispute or review support for such statement, any item therein, or the computation of Operating Costs. If Tenant does so notify the Landlord within the one hundred eighty (180) day period, Tenant shall have one (1) year from the date of receipt of Landlord's statement to complete their review of the supporting documentation and notify Landlord of all objections, if any, to such statement. Landlord and Tenant hereby agree that Tenant will submit in writing to Landlord on or before the end of said one (1) year period, all objections to Landlord's statement, and Tenant's only rights after said one (1) year period shall be nonreversible removals or reductions of the said objections submitted to Landlord. Landlord and Tenant hereby agree that after said one (1) year period, Tenant has no further rights to review any supporting documentation to Landlord's statement. Any notifications to Landlord will be done in accordance with Paragraph 25.14.

Please Initial

Tenant ( )
Landlord ( )

Coincidentally with the monthly Base Rent next due following Tenant's receipt of such statement, Tenant shall pay to Landlord (in the case of an underpayment) or Landlord shall credit against the next Base Rent due from Tenant (in the case of an overpayment) the difference between (i) Tenant's Share of any excess of Operating Costs for the preceding calendar year over the Expense Stop (the "Prior Year's Increase"), and (ii) the Operating Cost Payments made by Tenant for such preceding calendar year. In addition, Tenant shall pay to Landlord coincidentally with such next due Base Rent an amount equal to (A) one-twelfth (112th) of the Prior Year's Increase, if any, multiplied by (B) the number of months or partial months (including the then current month) then elapsed in the current calendar year, less (C) the aggregate of any Operating Cost Payments made by Tenant for such current calendar year. Monthly thereafter until adjustment is made the following year pursuant to this paragraph, Tenant shall pay together with the monthly Base Rent one-twelfth (1/12) of any such Prior Year's Increase. In no event will Tenant be entitled to receive the benefit of a reduction in Operating Costs below the Expense Stop.

For any partial calendar year at the termination of this Lease, Tenant's Share of any increases in Operating Costs for such year over the Expense Stop shall be prorated on the basis of a 365-day year by computing Tenant's Share of the increases in Operating Costs for the entire year and then prorating such amount for the number of days this Lease was in effect during such year. Notwithstanding the termination of this Lease, and within ten (10) days after Tenant's receipt of Landlord's statement regarding the determination of increases in Operating Costs for the calendar year in which this Lease terminates, Tenant shall pay to Landlord or Landlord shall pay to Tenant, as the case may he, an amount equal to the difference between Tenant's Share of the increases in Operating Costs for such year (as prorated) and the amount previously paid by Tenant toward such increases.

5.4 Additional Taxes . Tenant shall reimburse to Landlord, within thirty (30) days after receipt of a demand therefor, Tenant's Share of any and all taxes payable by Landlord (other than net income taxes or any taxes included within Operating Costs), whether or not now customary or within the contemplation of the parties hereto (i) upon, allocable to or measured by the area of the Building, (ii) upon all or any portion of the Rent payable hereunder and under other leases of space in the Building, including any gross receipts tax or excise tax levied with respect to the receipt of such Rent, or (iii) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Building or any portion thereof. Tenant shall not be required to reimburse Landlord for taxes under this Paragraph 5.4 to the extent Tenant has paid Tenant's Share of such taxes through Operating Cost Payments under Paragraph 5.2.

5.5 Tenant's Taxes . Tenant shall pay before delinquency (whether levied on Landlord or Tenant), any and all taxes assessed upon or measured by (i) Tenant's equipment, furniture, fixtures and other personal property located in the Premises, (ii) any improvements or alterations made to the Premises prior to or during the term of this Lease paid for by Tenant ("Above-Standard Improvements"), or (iii) this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises. For the purpose of determining said amounts, figures supplied by the County Assessor as to the amount so assessed shall be conclusive. Tenant shall comply with the provisions of any law, ordinance or rule of the taxing authorities which require Tenant to file a report of Tenant's property located in the Premises.

Please Initial

Tenant ( )
Landlord ( )

6. USE

6.1 Use. The Premises shall be used and occupied by Tenant for general office purposes and for no other purpose without the prior written consent of Landlord.

6.2 Suitability. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or the Building or with respect to the suitability of either for the conduct of Tenant's business, nor has Landlord agreed to undertake any modification, alteration or improvement to the Premises except as provided in the Work Letter. The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Building were at such time in satisfactory condition unless within ten (10) days after such date Tenant shall give Landlord written notice specifying in reasonable detail the respects in which the Premises or the Building were not in satisfactory condition.

6.3 Uses Prohibited.

(a) Tenant shall not do nor permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate or affect any fire or other insurance upon the Building or any of its contents, or cause a cancellation of any insurance policy covering said Building or any part thereof or any of its contents, nor shall Tenant sell or permit to be kept, used or sold in or about said Premises any articles which may be prohibited by a standard form policy of fire insurance.

(b) Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the tights of other tenants or occupants of the Building, or injure or annoy them, or use or allow the Premises to be used for any unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in or about the Premises. Tenant shall not commit or suffer to be committed any waste in or upon the Premises. Tenant shall not bring onto the Premises any apparatus, equipment or supplies that may overload the Premises or the Building or any utility or elevator systems or jeopardize the structural integrity of the Building or any part thereof.

(c) Tenant shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with, and at its sole cost and expense shall promptly comply with, any Legal Requirement now in force or which may hereafter be enacted or promulgated relating to the condition, use or occupancy of the Premises, excluding structural changes not relating to or affecting the condition, use or occupancy of the Premises or Tenant's improvements or acts. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any Legal Requirement, shall be conclusive of the fact as between Landlord and Tenant.

7. SERVICE AND UTILITIES

7.1 Landlord's Obligations. Provided Tenant is not in default hereunder, Landlord shall furnish to the Premises during reasonable hours of generally recognized business days, to be determined by Landlord, and subject to the rules and regulations of the Building, water, gas and electricity suitable for the intended use of the Premises, heat and air conditioning required in Landlord's judgment for the comfortable use and occupancy of the Premises, scavenger, janitorial services as described in Exhibit E attached hereto, window washing service and elevator service customary in similar buildings in the competing geographical areas. Landlord shall also maintain and keep lighted the common lobbies, hallways, stairs and toilet rooms in the Building.

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Landlord ( )

(a) Landlord's current hours of operation in Bishop Ranch (hereinafter "Hours of Operation") are 7 a.m. to 7 p.m., Monday through Friday, excepting holidays (New Year's Day, President's Day, Memorial Day, July 4th (Independence Day), Labor Day, Thanksgiving, and Christmas Day). In the event the holiday falls on a weekend, the business day closest to the holiday will be considered to be the holiday. The building and its services are available to Tenant 24 hours a day, seven (7) days a week, 365 days a year. The after hours rate for air conditioning and heating service after Landlord's Hours of Operation is currently $75.00 per hour, per floor. This rate is subject to adjustment based upon the decrease or increase in utilities as charged by Landlord's utility provider.

7.2 Tenant's Obligation . Tenant shall pay for, prior to delinquency, all telephone and all other materials and services, not expressly required to be paid by Landlord, which may be furnished to or used in, on or about the Premises during the term of this Lease.

7.3 Tenant's Additional Requirements

(a) Tenant shall pay for heat and air-conditioning furnished at Tenant's request during non-business hours and/or on non-business days on an hourly basis at a reasonable rate established by Landlord. Tenant shall not use in excess of Building Standard amounts (as determined by Landlord) of electricity, water or any other utility without Landlord's prior written consent, which consent Landlord may refuse. Landlord may cause a water meter or electric current meter to be installed in the Premises so as to measure the amount of water and electric current consumed for any such excess use, The cost of such meters and of installation, maintenance and repair thereof shall be paid by Tenant and Tenant agrees to pay Landlord promptly upon demand by Landlord for all such water and electric current consumed as shown by said meters, at the rates charged for such services by the city in which the Building is located or by the local public utility furnishing the same, plus any additional expense incurred in keeping account of the water and electric current so consumed. If a separate meter is not installed to measure any such excess use, Landlord shall have the right to estimate the amount of such use through qualified personnel. In addition, Landlord may impose a reasonable charge for the use of any additional or unusual janitorial services required by Tenant because of any Suite Improvements different from or above Building Standard, carelessness of Tenant or the nature of Tenant's business (including hours of operation). Notwithstanding the foregoing, Tenant's Server Room has been submetered and there shall be no additional charge to Tenant for the installation of said meter.

(b) If any lights other than Building Standard or equipment are used in the Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord may install supplementary air conditioning units in the Premises and the cost thereof; including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord. In addition, if any lights other than Building Standard are used in the Premises, Tenant shall pay the cost to replace any worn or dead bulbs or tubes.

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Landlord ( )

(c) In no event shall Tenant (i) connect any apparatus, machine or device through electrical outlets except in the manner for which such outlets are designed and without the use of any device intended to increase the plug capacity of any electrical outlet or (ii) maintain at any time an electrical demand load in excess of four (4) watts per square foot of usable area of the Premises

7.4 Nonliability . Landlord shall not be liable for, and Tenant shall not be entitled to any abatement or reduction of Rent, by reason of Landlord's failure to furnish any of the foregoing when due to "Force Majeure Events" (as defined in Paragraph 25.9). If failure to furnish the foregoing is within Landlord's reasonable control and Tenant is unable to occupy the Premises due to such failure, Tenant shall be entitled to an abatement of Base Rent commencing with the fifteenth consecutive day of such failure unless prior thereto Landlord commences to cure such failure and thereafter diligently proceeds with such cure. Any failure to furnish any of the foregoing shall not constitute an eviction of Tenant, constructive or otherwise and, notwithstanding any law to the contrary that may now or hereafter exist, Tenant shall not be entitled to terminate this Lease on account of such failure. Landlord shall not be liable under any circumstances for loss of or injury to property or business or consequential damages, however occurring, through or in connection with failure to furnish any of the foregoing.

8. MAINTENANCE AND REPAIRS: ALTERATIONS AND ADDITIONS

8.1 Maintenance and Repairs

(a) Landlord's Obligations . Landlord shall maintain in good order, condition and repair the structural and common areas of the Building, and the basic heating, ventilating, air conditioning, electrical, plumbing, fire protection, life safety, security and mechanical systems of the Building (the "Building Systems"), and shall cause the common areas of the Building to comply with all Legal Requirements (including, without limitation, the ADA), provided that any maintenance and repair caused by the acts or omissions of Tenant or Tenant's agents, employees, invitees, visitors (collectively "Tenant's Representatives") shall be paid for by Tenant. Notwithstanding any law to the contrary that may now or hereafter exist, Tenant shall not have the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the foregoing in good order, condition and repair, nor shall Landlord be liable under any circumstances for any consequential damages or loss of business, however occurring, through or in connection with any such failure.

(b) Tenant's Obligations

(1) Tenant, at Tenant's sole cost and expense, except for services furnished by Landlord pursuant to Paragraph 7 hereof, shall maintain the Premises in good order, condition and repair including the interior surfaces of the ceilings, walls and floors, all doors, interior windows, and all plumbing pipes, electrical wiring, switches, fixtures, nonbuilding standard lights, and equipment installed for the use of the Premises, and shall cause the Premises to comply with all Legal Requirements (including, without limitation, the ADA). Notwithstanding any law to the contrary that may now or hereafter exist, Tenant shall not have the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

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Tenant ( )
Landlord ( )

(2) In the event Tenant fails to maintain the Premises in good order, condition and repair, Landlord shall give Tenant notice to do such acts as are reasonably required to so maintain the Premises. In the event Tenant fails to promptly commence such work and diligently prosecute it to completion, Landlord shall have the right to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest from the date expended by Landlord until paid by Tenant at the "Default Rate," as defined below. Landlord shall have no liability to Tenant for any damage, inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work. As used in this Lease, "Default Rate" shall mean the lesser of twelve percent per annum (12%) or the maximum rate permitted by law.

(c) Compliance with Law . Landlord and Tenant shall each do all acts required to comply with all applicable Legal Requirements relating to their respective maintenance and repair obligations as set forth herein.

8.2 Alterations and Additions

(a) Tenant shall make no alterations, additions or improvements to the Premises or any part thereof without obtaining the prior written consent of Landlord.

(b) Landlord may impose as a condition to the aforesaid consent such requirements as Landlord may deem necessary in its sole discretion, including without limitation thereto, performing the work itself, specifying the manner in which the work is done, and selecting the contractor by whom the work is to be performed and the limes during which it is to be accomplished. Tenant shall pay to Landlord upon demand an amount equal to the reasonable costs and expenses for time spent by Landlord's employees or contractors in supervising, approving and administering such alterations.

(c) All such alterations, additions or improvements, all other Above-Standard Improvements, and all work performed under the Work Letter shall be the property of Landlord and shall remain upon and be surrendered with the Premises, unless Landlord upon or prior to the termination or expiration of the Lease requests in writing that Tenant remove all or any part of same. Notwithstanding the foregoing, as of the date of this Lease Landlord has reviewed and approved Tenant's Plans attached hereto as Exhibit C for the Suite Improvements and Tenant, except as provided in Subsection 23.1 of this Lease, shall have no obligation to Landlord to remove any of the Improvements shown on Tenant's Plans.

(d) All articles of personal property and all business and trade fixtures, machinery and equipment, cabinetwork, furniture and movable partitions owned by Tenant or installed by Tenant at its expense in the Premises shall be and remain the property of Tenant and may be removed by Tenant at any time during the Lease term when Tenant is not in default hereunder.

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Landlord ( )

9. ENTRY BY LANDLORD

Landlord and Landlord's agents shall at any and all times have the right to enter the Premises to inspect the same, to supply janitorial service and any other service to be provided by Landlord to Tenant hereunder, to show the Premises to prospective purchasers or tenants, to post notices of non-responsibility and "for lease" signs, and to alter, improve or repair the Premises and any portion of the Building, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, always providing the entrance to the Premises shall not be blocked thereby. Landlord shall conduct its activities under this Paragraph 9 in a manner that will minimize inconvenience to Tenant without incurring additional expense to Landlord. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes, and Landlord and Landlord's agents shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency, in order to obtain entry to the Premises, and any entry to the Premises obtained by Landlord or Landlord's agents by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction of Tenant from the Premises or any portion thereof. Tenant shall not be released from its obligations under this Lease nor be entitled to any abatement of Rent on account of Landlord's entry under this Paragraph, and Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby.

10. LIENS

Tenant shall keep the Premises and the Building free from any liens arising out of work performed, materials furnished, or obligations incurred by Tenant and shall indemnify, hold harmless and defend Landlord from any liens and encumbrances arising out of any work performed, materials furnished or obligations incurred by or at the direction of Tenant. In the event that Tenant shall not, within twenty (20) days following the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but no obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith, including attorneys' fees and costs, shall be payable to Landlord by Tenant on demand with interest at the Default Rate until paid. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord and the Premises, and any other party having an interest therein, from mechanics' and material men's liens, and Tenant shall give to Landlord at least three (3) business days prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

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Landlord ( )

11. INDEMNITY

11.1 Indemnity .

(a) Tenant agrees to indemnify Landlord against and save Landlord harmless from any and all loss, cost, liability, penalties, fines and reasonable attorneys' fees and disbursements arising from (i) any default or breach by Tenant in the observance or performance of any of the material terms, covenants or conditions of this Lease by Tenant or (ii) any negligence or willful misconduct of Tenant, its agents, servants, employees invitees or licensees of Tenant in, on, or about the Premises, or any part of the Complex, either during or prior to occupancy or during the Term of this Lease. Notwithstanding the foregoing, in no event shall Tenant be liable for indirect or consequential damages of Landlord (including lost profits) however occurring.

(b) Landlord agrees to indemnify Tenant against and save Tenant harmless from any and all loss, cost liability, damage, and expense, including without limitation penalties, fines and reasonable attorneys' fees and disbursements, incurred in connection with or arising from any gross negligence or willful misconduct of Landlord, or its contractors, agents, servants, employees, invitees, or licensees in, on, or about the Premises, or any part of the Complex, either during prior occupancy or during the Term of this Lease. Notwithstanding the foregoing, in no event shall Landlord be liable for indirect or consequential damages of Tenant (including lost profits) however occurring.

11.2 Exemption of Landlord from Liability . Landlord shall not be liable for injury or damage which may be sustained by the person or property of Tenant, its employees, invitees or customers, or any other person in or about the Premises caused by or resulting from fire, steam, electricity, gas, water or rain, which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, telephone cabling or wiring, or lighting fixtures of the same, whether the damage or injury results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant of the Building.

12. INSURANCE

12.1 Coverage . Tenant shall, at all times during the term of this Lease, and at its own cost and expense, procure and continue in force the following insurance coverage:

(a) Commercial General Liability Insurance with a combined single limit for personal or bodily injury and property damage of not less than $3,000,000 or such other level of coverage that Landlord may require in its reasonable judgment.

(b) Fire and Extended Coverage Insurance, including vandalism and malicious mischief coverage, covering and in an amount equal to the full replacement value of all fixtures, furniture and improvements installed in the Premises by or at the expense of Tenant.

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Tenant ( )
Landlord ( )

12.2 Insurance Policies. The aforementioned minimum limits of policies shall in no event limit the liability of Tenant hereunder. The aforesaid insurance shall name Landlord and its partners, property manager, and mortgagees as an additional insured. Said insurance shall be with companies having a rating of not less than A+, XI in "Best's Insurance Guide". Tenant shall furnish from the insurance companies or cause the insurance companies to flattish certificates of coverage. No such policy shall be cancelable or subject to reduction of coverage or other modification or cancellation except after thirty (30) days prior written notice to Landlord by the insurer. All such policies shall be written as primary policies, not contributing with and not in excess of the coverage which Landlord may carry. Tenant shall, at least twenty (20) days prior to the expiration of such policies, furnish Landlord with evidence of renewals or binders. Tenant agrees that if Tenant does not take out and maintain such insurance, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge Tenant the premiums together with a reasonable handling charge and Default Interest from the date paid by Landlord, payable upon demand. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Tenant, provided such blanket policies expressly afford coverage to the Premises and to Tenant as required by this Lease.

12.3 Landlord's Insurance. During the term of this Lease Landlord shall maintain in effect insurance on the Building against fire, extended coverage perils and vandalism and malicious mischief (to the extent such coverages are available), with responsible insurers licensed to do business in California, insuring the Building in an amount equal to at least ninety-five percent (95%) of the replacement cost thereof, excluding foundations, footings and underground installations. Landlord may, but shall not be obligated to, carry insurance against additional perils and/or in greater amounts.

12.4 Waiver of Subrogation. Tenant and Landlord hereby waive and release any and all right of recovery, whether arising in contract or tort, against the other, including employees and agents, arising during the Term for any and all loss or damage to any property located within or constituting a part of the Building or Complex, which loss or damage arises from the perils that could be insured against under the ISO Causes of Loss-Special Form Coverage including any deductible thereunder (whether or not the party suffering the loss or damage actually carries such insurance, recovers under such insurance or self insures the loss or damage) or which right of recovery arises from loss of earnings or rents resulting from loss or damage caused by such a peril. This mutual waiver is in addition to any other waiver or release contained in this Lease. Landlord and Tenant shall each have their insurance policies issued in such form as to waive any right of subrogation which might otherwise exist.

13. DAMAGE OR DESTRUCTION.

13.1 Landlord's Duty to Repair. If all or a substantial part of the Premises are rendered untenantable or inaccessible by damage to all or any part of the Project from fire or other casualty then, unless either party elects to terminate this Lease pursuant to Paragraphs 13.2 or 13.3, Landlord shall, at its expense, use its commercially reasonable efforts to repair and restore the Premises and/or access thereto, as the case may be, to substantially their former condition to the extent permitted by the then applicable codes, laws and regulations; provided, however, that Tenant rather than Landlord shall be obligated at Tenant's expense to repair or replace Tenant's personal property, trade fixtures and any items or improvements that are required to be covered by Tenant's insurance under Paragraph 12.1(b).

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If Landlord is required or elects to repair damage to the Premises and/or access thereto, this Lease shall continue in effect but Tenant's Base Rent and Operating Cost Payments from the date of the casualty through the date of substantial completion of the repair shall be abated by a proportionate amount based on the portion of the Premises that Tenant is prevented from using by reason of such damage or its repair; provided, however, that if the casualty is the result of the willful misconduct or negligence of Tenant or Tenant's Representatives, there will be no such rental abatement. In no event shall Landlord be liable to Tenant by reason of any injury to or interference with Tenant's business or property arising from fire or other casualty or by reason of any repairs to any part of the Project made necessary by such casualty.

13.2 Landlords Right to Terminate . Landlord may elect to terminate this Lease, effective as of the last day of the calendar month in which such election is made, under the following circumstances:

(a) Where, in the reasonable judgment of Landlord, the damage cannot be substantially repaired and restored under applicable laws and governmental regulations within one (1) year after the date of the casualty;

(b) Where, in the reasonable judgment of Landlord, adequate proceeds are not, for any reason, made available to Landlord from Landlord's insurance policies to make the required repairs;

(c) Where the Project is damaged or destroyed to the extent that the cost to repair and restore the Project exceeds twenty-five percent (25%) of the full replacement cost of the Project, whether or not the Premises are damaged or destroyed; or

(d) Where the damage occurs within the last twelve (12) months of the term of the Lease.

If any of the circumstances described in this Paragraph 13.2 arise, Landlord must notify Tenant in writing of that fact within one hundred and twenty (120) days after such circumstances arise and in such notice Landlord must also advise Tenant whether Landlord has elected to terminate the Lease.

13.3 Tenant's Right to Terminate . Tenant shall have the right to terminate this Lease if all or a substantial part of the Premises are rendered untenantable or inaccessible by damage to all or any part of the Project from fire or other casualty, provided that such casualty is not the result of the willful misconduct or negligence of Tenant or Tenant's Representatives, but only under the following circumstances:

(a) Tenant may elect to terminate this Lease if Landlord had the right under Paragraph 13.2 to terminate this Lease but did not elect to so terminate and Landlord failed to commence the required repair within ninety (90) days after the date it received proceeds to commence such repair. In such event, Tenant may terminate this Lease as of the date of the casualty by notice to Landlord given before the earlier of the date on which Landlord commences such repair or ten (10) days after the expiration of such ninety (90)-day period; or

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Landlord ( )

(b) Tenant may elect to terminate this Lease in the circumstance described in Subparagraph 13.2(a). In such event, Tenant may terminate this Lease as of the date of the casualty by notice to Landlord given within thirty (30) days after Landlord's notice to Tenant pursuant to Paragraph 13.2.

13.4 Exclusive Rights . Landlord and Tenant each hereby agree that, notwithstanding any law to the contrary that may now or hereafter exist, neither party shall have any right to terminate this Lease in the event of any damage or destruction under any circumstances other than as provided in Paragraphs 13.2 and 13.3.

14. CONDEMNATION

If all or a material portion of the Premises shall be taken or appropriated for public or quasi-public use by right of eminent domain with or without litigation or transferred by agreement in connection with such public or quasi-public use, either party hereto shall have the right at its option, exercisable within thirty (30) days of receipt of notice of such taking, to terminate this Lease as of the date possession is taken by the condemning authority, provided, however, that before Tenant may terminate this Lease by reason of taking or appropriation as provided hereinabove, such taking or appropriation shall be of such an extent and nature as to substantially handicap, impede or impair Tenant's use of the Premises. If any part of the Building other than the Premises shall be so taken or appropriated, Landlord shall have the right at its option to terminate this Lease. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for the taking of personal property and fixtures belonging to Tenant and/or for Tenant's unamortized cost of leasehold improvements, so long as such award to Tenant does not decrease the value of the award that would otherwise be made to Landlord in such taking or condemnation. In the event of a partial taking which does not result in a termination of this Lease, rent shall be abated in the proportion which the part of Premises so made unusable bears to the rented area of the Premises immediately prior to the taking, and Landlord, at Landlord's cost, shall restore the Premises remaining to an architectural whole with the Base Rent reduced in proportion to what the area taken bears to the Premises prior to the taking. No temporary taking of the Premises and/or of Tenant's rights therein or under this Lease shall give Tenant the right to terminate this Lease or to any abatement of Rent thereunder. Any award made to Tenant by reason of any such temporary taking where Landlord does not terminate this Lease shall belong entirely to Tenant so long as said award does not diminish Landlord's award.

15. ASSIGNMENT AND SUBLETTING

15.1 Landlord's Consent Required . Tenant shall not assign, transfer, mortgage, pledge, hypothecate or encumber this Lease or any interest therein (each a "Transfer"), and shall not sublet the Premises or any part thereof, without the prior written consent of Landlord and any attempt to do so without such consent being first had and obtained shall be wholly void and shall constitute a breach of this Lease.

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Landlord (   )

15.2 Reasonable Consent.

(a) If Tenant complies with the following conditions, Landlord sail not unreasonably withhold its consent to the subletting of the Premises or any portion thereof or the assignment of this Lease. Tenant shall submit in writing to Landlord (i) the name and legal composition of the proposed subtenant or assignee; (ii) the nature of the business proposed to be carried on in the Premises; (iii) the terms and provisions of the proposed sublease; (iv) such reasonable financial information as Landlord may request concerning the proposed subtenant or assignee; and (v) the form of the proposed sublease or assignment. Within ten (10) business days after Landlord receives all such information it shall notify Tenant whether it approves such assignment or subletting or if it elects to proceed under Paragraph 15.8 below.

(b) The parties hereto agree and acknowledge that, among other circumstances for which Landlord could reasonably withhold its consent to a sublease or assignment, it shall be reasonable for Landlord to withhold its consent where (i) Landlord reasonably disapproves of the Transferee's reputation or creditworthiness or the character of the business to be conducted by the Transferee at the Premises, (ii) the assignment or subletting would increase the burden on the Building services or the number of people occupying the Premises, or (iii) Landlord otherwise determines that the assignment or sublease would have the effect of decreasing the value of the Project or increasing the expenses associated with operating the Project. In no event may Tenant publicly advertise or offer all or any portion of the Premises for assignment or sublease at a rental less than that then sought by Landlord for comparable space in the Project.

15.3 Excess Consideration. If Landlord consents to the assignment or sublease, Landlord shall be entitled to receive as additional Rent hereunder 50% of any consideration paid by the Transferee for the assignment or sublease and, in the case of a sublease, 50% of the excess of the rent and other consideration payable by the subtenant over the amount of Base Rent and Operating Cost Payments payable hereunder applicable to the subleased space.

15.4 No Release of Tenant. No consent by Landlord to any assignment or subletting by Tenant shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether occurring before or after such consent, assignment or subletting, and the Transferee shall be jointly and severally liable with Tenant for the payment of Rent (or that portion applicable to the subleased space in the case of a sublease) and for the performance of all other terms and provisions of the Lease. The consent by Landlord to any assignment or subletting shall not relieve Tenant and any such Transferee from the obligation to obtain Landlord's express written consent to any subsequent assignment or subletting. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer.

15.5 Attorneys' Fees. Tenant shall pay Landlord's reasonable attorneys' fees (not to exceed $500.00) incurred in connection with reviewing any proposed assignment or sublease.

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Landlord ( )

15.6 Transfer of Ownership Interest. If Tenant is a business entity, any direct or indirect transfer of 50 percent or more of the ownership interest of the entity (whether all at one time or over the term of the Lease) shall be deemed a Transfer.

15.7 Effectiveness of Transfer. No permitted assignment by Tenant shall be effective until Landlord has received a counterpart of the assignment and an instrument in which the assignee assumes all of Tenant's obligations under this Lease arising on or after the date of assignment. The voluntary, involuntary or other surrender of this Lease by Tenant, or a mutual cancellation by Landlord and Tenant, shall not work a merger, and any such surrender or cancellation shall, at the option of Landlord, either terminate all or any existing subleases or operate as an assignment to Landlord of any or all of such subleases.

15.8 Landlord's Right to Space. Notwithstanding any of the above provisions of this Paragraph 15 to the contrary, if Tenant notifies Landlord that it desires to assign this Lease or sublet all or any part of the Premises, Landlord, in lieu of consenting to such assignment or sublease, may elect to terminate this Lease (in the case of an assignment or a sublease of the entire Premises), or to terminate this Lease as it relates to the space proposed to be subleased by Tenant (in the case of a sublease of less than the entire Premises). In such event, this Lease (or portion thereof) will terminate on the date the assignment or sublease was to be effective, and Landlord may lease such space to any party, including the prospective Transferee identified by Tenant.

15.9 No Net Profits Leases. Anything contained in the foregoing provisions of this Paragraph 15 to the contrary notwithstanding, neither Tenant, nor any other person having an interest in the possession, use, occupancy or utilization of the Premises, shall enter into any lease, sublease, license, concession or other agreement for the use, occupancy or utilization of space in the Premises which provides for rental or other payment for such use, occupancy or utilization based in whole or in part on the net income or profits derived by any person from the premises leased, used, occupied or utilized (other than an amount based on a fixed percentage or percentages of receipts or sales), and any such purported lease, sublease, license, concession or other agreement shall be void and ineffective as a conveyance of any right or interest in the possession, use, occupancy or utilization of any part of the Premises.

16. SUBORDINATION

16.1 Subordination. Except as provided in the next sentence, or as the Tenant and the mortgagee or trustee of any "First Mortgage" (as defined below) may otherwise agree, this Lease, at Landlord's option, shall be subject and subordinate to all ground or underlying leases which now exist or may hereafter be executed affecting all or any part of the Project, and to the lien of any first mortgages or first deeds of trust (each a "First Mortgage") in any amount or amounts whatsoever now or hereafter placed on or against the Land or Building, Landlord's interest or estate therein, or any ground or underlying lease, without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination, If any mortgagee or trustee of a First Mortgage or ground lessor shall elect to have this Lease prior to the lien of its First Mortgage or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such First Mortgage or ground lease, whether this Lease is dated prior to or subsequent to the date of said First Mortgage or ground lease or the date of the recording thereof.

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Tenant ( )
Landlord ( )

16.2 Junior Liens. Tenant hereby agrees that this Lease shall be superior to the lien of any present or future mortgages or deeds of trust that are junior to any First Mortgage.

16.3 Subordination Agreements. Tenant will execute and deliver upon demand without charge therefor, such further instruments evidencing the subordination of this Lease to any First Mortgage or ground lease, or the subordination of any First Mortgage or ground lease to such Lease, pursuant to Section 1 6,1, as the case maybe, as may be required by Landlord. Tenant's failure to comply with its obligations under this Paragraph 16.3 within fifteen (15) days of demand shall constitute an Event of Default and Landlord shall have the right, in such event, to impose upon Tenant a monetary penalty of $1,000.00 for such non-compliance, in addition to all other remedies available to Landlord under this Lease and by law. Tenant hereby appoints Landlord as Tenant's attorney-in-fact, irrevocably, to execute and deliver any such agreements, instruments, releases or other documents.

16.4 Attornment. If this Project is transferred to any purchaser pursuant to or in lieu of proceedings to enforce any mortgage, deed of trust or ground lease (collectively, "Encumbrance"), and this Lease is either prior to such Encumbrance or the mortgagee or trustee of a First Mortgage or ground lessor of the Project elects to have this Lease survive such transfer, Tenant shall attorn to such purchaser and recognize such purchaser as the landlord under this Lease, and this Lease shall continue as a direct lease between such purchaser and Tenant.

17. QUIET ENJOYMENT

Landlord covenants and agrees with Tenant that upon Tenant paying the Rent and performing its other covenants and conditions under this Lease, Tenant shall have the quiet possession of the Premises for the term of this Lease as against any persons or entities lawfully claiming by, through or under Landlord, subject, however, to the terms of this Lease and of any Encumbrance.

18. DEFAULT REMEDIES

18.1 Default. The occurrence of any of the following shall constitute an "Event of Default" by Tenant:

(a) Tenant fails to pay Rent when due and such failure continues for five (5) days after the same is due;

(b) Tenant fails to deliver any subordination agreement requested by Landlord within the period described in Paragraph 16;

(c) Tenant fails to deliver any estoppel certificate requested by Landlord within the period described in Paragraph 22;

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Tenant (   )
Landlord (   )

(d) Tenant Transfers or attempts to Transfer this Lease without complying with the provisions of Paragraph 15;

(e) Tenant fails to observe and perform any other provision of this Lease to be observed or performed by Tenant, where such failure continues for twenty (20) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of the default is such that the same cannot reasonably be cured within said twenty (20) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion;

(f) Tenant abandons the Premises; or

(g) The making by Tenant of any general assignment or general arrangement for the benefit of creditors; the filing by or against Tenant of a petition seeking relief under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

18.2 Remedies. Upon the occurrence of an Event of Default, Landlord may, at any time thereafter exercise the following remedies, which shall be in addition to any other rights or remedies now or hereafter available to Landlord at law or in equity:

(a) Maintain this Lease in full force and effect and recover Rent as it becomes due, without terminating Tenant's right to possession irrespective of whether Tenant shall have abandoned the Premises. In the event Landlord elects not to terminate the Lease, Landlord shall have the right to attempt to relet the Premises at such rent and upon such conditions and for such a term, and to do all acts necessary to maintain or preserve the Premises as Landlord deems reasonable and necessary without being deemed to have elected to terminate the Lease, including removal of all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. In the event any such reletting occurs, rents received by Landlord from such subletting shall be applied (i) first, to the payment of the costs of maintaining, preserving, altering and preparing the Premises for subletting and other costs of subletting, including but not limited to brokers' commissions, attorneys' fees and expenses of removal of Tenant's personal property, trade fixtures, alterations and leasehold improvements; (ii) second, to the payment of Rent then due and payable; (iii) third, to the payment of future Rent as the same may become due and payable hereunder; and (iv) fourth, the balance, if any, shall be paid to Tenant upon (but not before) expiration of the term of this Lease. If the rents received by Landlord from such subletting, after application as provided above, are insufficient in any month to pay the Rent due and payable hereunder for such month, Tenant shall pay such deficiency to Landlord monthly upon demand. Notwithstanding any such subletting for Tenant's account without termination, Landlord may at any time thereafter, by written notice to Tenant, elect to terminate this Lease by virtue of a previous Event of Default. During the continuance of an Event of Default, for so long as Landlord does not terminate Tenant's right to possession of the Premises, Landlord shall not unreasonably withhold its consent to an assignment of this Lease or a sublease of the Premises as set forth in Paragraph 15.2 - "Reasonable Consent".

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Tenant ( )
Landlord ( )

(b) Terminate Tenant's right to possession of the Premises at any time by written notice to Tenant, in which case Tenant shall immediately surrender possession of the Premises to Landlord. Tenant expressly acknowledges that in the absence of such written notice from Landlord, no other act of Landlord, including, but not limited to, its re-entry into the Premises, its efforts to relet the Premises, its reletting of the Premises for Tenant's account, its storage of Tenant's personal property and trade fixtures, its acceptance of keys to the Premises from Tenant or its exercise of any other rights and remedies under this Paragraph 18.2, shall constitute an acceptance of Tenant's surrender of the Premises or constitute a termination of this Lease or of Tenant's right to possession of the Premises. If Landlord terminates Tenant's right to possession in writing, Landlord shall be entitled to recover from Tenant all damages as provided in California Civil Code Section 1951.2 or any other applicable existing or future law, ordinance or regulation providing for recovery of damages for such breach, including but not limited to the following:

(1) The reasonable cost of recovering the Premises; plus

(2) The reasonable cost of removing Tenant's alterations, trade fixtures and Above-Standard Improvements; plus

(3) All unpaid Rent due or earned hereunder prior to the date of termination, less the proceeds of any resetting or any rental received from subtenants prior to the date of termination applied as provided in subsection (a) above, together with interest at the Default Rate, on such sums from the date such Rent is due and payable until the date of the award of damages; plus

(4) The amount by which the Rent which would be payable by Tenant hereunder, including Operating Cost Payments as reasonably estimated by Landlord, from the date of termination until the date of the award of damages exceeds the amount of such rental loss Tenant proves could have been reasonably avoided, together with interest at the Default Rate on such sums from the date such Rent is due and payable until the date of the award of damages; plus

(5) The amount by which the Rent which would be payable by Tenant hereunder, including Operating Cost Payments, as reasonably estimated by Landlord, for the remainder of the then term, after the date of the award of damages exceeds the amount of such rental loss as Tenant proves could have been reasonably avoided, discounted at the discount rate published by the Federal Reserve Bank of San Francisco for member banks at the time of the award plus one percent (1%); plus

(6) Such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

Please Initial

Tenant ( )
Landlord ( )

(c) During the continuance of an Event of Default, Landlord may enter the Premises without terminating this Lease and remove all Tenant's personal property, and trade fixtures from the Premises. If Landlord removes such property from the Premises and stores it at Tenant's risk and expense, and if Tenant fails to pay the cost of such removal and storage after written demand therefor and/or to pay any Rent then due, after the property has been stored for a period of thirty (30) days or more Landlord may sell such property at public or private sale, in the manner and at such times and places as Landlord in its sole discretion deems commercially reasonable following reasonable notice to Tenant of the time and place of such sale. The proceeds of any such sale shall be applied first to the payment of the expenses for removal and storage of the property, preparation for and conducting such sale, and attorneys' fees and other legal expenses incurred by Landlord in connection therewith, and the balance shall be applied as provided in subsection (a) above.

Tenant hereby waives all claims for damages that may be caused by Landlord's reentering and taking possession of the Premises or removing and storing Tenant's personal property pursuant to this Paragraph, and Tenant shall hold Landlord harmless from and against any loss, cost or damage resulting from any such act. No reentry by Landlord shall constitute or be construed as a forcible entry by Landlord.

(d) Landlord may cure the Event of Default at Tenant's expense. If Landlord pays any sum or incurs any expense in curing the Event of Default, Tenant shall reimburse Landlord upon demand for the amount of such payment or expense with interest at the Default Rate from the date the sum is paid or the expense is incurred until Landlord is reimbursed by Tenant.

18.3 Late Charges . Tenant hereby acknowledges that late payment by Tenant to Landlord of Rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges. Accordingly, if any installment of Base Rent or Operating Costs Payments is not received by Landlord or Landlord's designee within five (5) days of the date such amount shall be due, or if any installment of other Rent is not received by Landlord or Landlord's designee on or before the date such amount shall be due, Tenant shall pay to Landlord a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

18.4 Interest . In addition to the late charges referred to above which are intended to defray Landlord's costs resulting from late payments, any late payment of Rent shall, at Landlord's option, bear interest from the due date of any such payment to the date the same is paid at the Default Rate, provided, however, that if Landlord imposes a late charge on any overdue payment, such overdue payment shall not begin to bear interest under this Paragraph 18.4 until thirty (30) days after the due date thereof.

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Tenant (   )
Landlord (   )

18.5 Default by Landlord. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord and to any mortgagee, trustee or ground lessor of the Project (each a "Holder") whose name and address shall have theretofore been furnished to Tenant in writing, specifying that Landlord has failed to perform such obligations; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

19. PARKING

Tenant and Tenant's employees, invitees and customers shall have the right to use the parking areas of the Building subject to such regulations and charges as Landlord shall adopt from time to time, and subject to the right of Landlord to restrict the use by Tenant and Tenant's Representatives when in the sole judgment of Landlord such use is excessive for the parking area in relationship to the reasonable use required by other Tenants. If Landlord becomes obligated under applicable laws or regulations or any other directive of any governmental or quasi-governmental authority to pay or assess fees or charges for parking in the Building's parking area, Tenant shall pay such amounts to Landlord as additional Rent.

20. RELOCATION OF PREMISES

20.1 Conditions. For the purpose of maintaining an economical and proper distribution of Tenants throughout Bishop Ranch acceptable to Landlord, Landlord shall have the right from time to time during the term of this Lease to relocate the Premises within another Class A, five-story building in Bishop Ranch, subject to the following terms and conditions;

(a) The rented and usable areas of the new Premises must be of equal size to the existing Premises (subject to a variation of up to ten percent (10%) provided the amount of Base Rent payable under this Lease is not increased);

(b) Landlord shall pay the cost of providing tenant improvements in the new Premises comparable to the tenant improvements in the existing Premises;

(c) Landlord shall pay the expenses reasonably incurred by Tenant in connection with such substitution of Premises, including but not limited to costs of moving, door lettering, telephone and telephone cabling relocation and reasonable quantities of new stationery;

20.2 Notice. Landlord shall deliver to Tenant written notice of Landlord's election to relocate the Premises, specifying the new location and the amount of rent payable therefore at least sixty (60) days prior to the date the relocation is to be effective. If the relocation of the Premises is not acceptable to Tenant, Tenant for a period of ten (10) days after receipt of Landlord's notice to relocate shall have the right (by delivering written notice to Landlord) to terminate this Lease. If Tenant so notifies Landlord, Landlord at its option may withdraw its relocation notice, in which event this Lease shall continue and Tenant shell not be relocated, or accept Tenant's termination notice, in which event this Lease shall terminate effective as of the date the relocation was to be effective,

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Tenant (   )
Landlord (   )

21. MORTGAGEE PROTECTION.

Tenant agrees to give any Holder, by registered mail, a copy of any notice of default served upon the Landlord, provided that prior to such notice Tenant has been notified in writing (by way of notice of assignment of rents and leases, or otherwise) of the address of such Holder. If Landlord shall have failed to cure such default within the time period set forth in Paragraph 18.5 the Holder shall have an additional thirty (30) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary to cure such default (including the time necessary to foreclose or otherwise terminate its Encumbrance, if necessary to effect such cure), and this Lease shall not be terminated so long as such remedies are being diligently pursued.

22. ESTOPPEL CERTIFICATES.

(a) Upon thirty (30) days' notice from Landlord, Tenant shall execute and deliver to Landlord, in form provided by or satisfactory to Landlord, a certificate stating that this Lease is in full force and effect, describing any amendments or modifications hereto, acknowledging that this Lease is subordinate or prior, as the case may be, to any Encumbrance and stating any other information Landlord may reasonably request, including the term of this Lease, the monthly Base Rent, the estimated Operating Cost Payments, the date to which Rent has been paid, the amount of any security deposit or prepaid Rent, whether either party hereto is in default under the terms of the Lease, whether Landlord has completed its construction obligations hereunder and any other information reasonably requested by Landlord. Any person or entity purchasing, acquiring an interest in or extending financing with respect to the Project shall be entitled to rely upon any such certificate. Tenant shall be liable to Landlord for any reasonable damages incurred by Landlord including any profits or other benefits from any financing of the Project or any interest therein which are lost or made unavailable as a result, directly or indirectly, of Tenant's failure or refusal to timely execute or deliver such estoppel certificates.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant:

(1) That this Lease is in full force and effect, without modification except as may be represented by Landlord;

(2) That there are no uncured defaults in Landlord's performance; and

(3) That not more than one month's Rent has been paid in advance; and

(4) That Landlord has completed its construction obligations.

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Tenant ( )
Landlord ( )

(c) If Landlord desires to finance or refinance the Building, or any part thereof, Tenant hereby agrees to deliver to any lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender. Such statements shall include the past three years' financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth.

23. SURRENDER, HOLDING OVER

23.1 Surrender . Upon the expiration or termination of this Lease, Tenant shall surrender the Premises to Landlord in its original condition, except for reasonable wear and tear and damage from casualty or condemnation; provided, however, that prior to the expiration or termination of this Lease Tenant shall remove from the Premises all Tenant's personal property, trade fixtures, alterations and other Above-Standard Improvements that Tenant has the right or is required by Landlord to remove under the provisions of this Lease. Tenant shall also be responsible for removal of all telephone cables and wires, CRT, data and telephone equipment, and any other form of cabling that exists in Tenant's space. If any of such removal is not completed at the expiration or termination of this Lease, Landlord may remove the same at Tenant's expense. Any damage to the Premises or the Building caused by such removal shall be repaired promptly by Tenant or, if Tenant fails to do so, Landlord may do so at Tenant's expense, in which event Tenant shall immediately reimburse Landlord for such expenses together with interest at the Default rate until so paid. Tenant's obligations under this Paragraph shall survive the expiration or termination of this Lease. Upon expiration or termination of this Lease or of Tenant's possession, Tenant shall surrender all keys to the Premises or any other part of the Building and shall make known to Landlord the combination of locks on all safes, cabinets and vaults that may be located in the Premises.

23.2 Holding Over . If Tenant remains in possession of the Premises after the expiration or termination of this Lease, Tenant's continued possession shall be on the basis of a tenancy at the sufferance of Landlord, and Tenant shall continue to comply with or perform all the terms and obligations of the Tenant under this Lease, except that the Base Rent during Tenant's holding over shall be one hundred fifty percent (150%) of the monthly Base Rent payable in the last month prior to the termination or expiration hereof.

24. HAZARDOUS MATERIALS

Tenant shall not (either with or without negligence) cause or permit the escape, disposal or release of any biologically or chemically active or other hazardous substances or materials. Tenant shall not allow the storage or use of such substances or materials in any manner not sanctioned by law or by the highest standards prevailing in the industry for the storage and use of such substances or materials, nor allow to be brought into the Project any such materials or substances except to use in the ordinary course of Tenant's business, and then only after written notice is given to Landlord of the identity of such substances or materials. Without limitation, hazardous substances and materials shall include those described in the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq., any applicable state or local laws and the regulations adopted under these acts. If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of hazardous materials, then Tenant shall promptly notify Landlord of the same, and the reasonable costs thereof shall be reimbursed by Tenant to Landlord upon demand as additional charges if such requirement applies to the Premises. Landlord shall have the right, but not the obligation, to enter the Premises at any reasonable time to perform any required testing, to confirm Tenant's compliance with the provisions of this Paragraph, and to perform Tenant's obligations under this Paragraph if Tenant has failed to do so. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of hazardous substances or materials on the Premises. In all events, Tenant shall indemnify Landlord in the manner elsewhere provided in this Lease from any release of hazardous materials on the Premises occurring while Tenant is in possession, or elsewhere if caused by Tenant or persons acting under Tenant. The within covenants shall survive the expiration or earlier termination of the lease term.

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Tenant ( )
Landlord ( )

25. MISCELLANEOUS

25.1 Attornment. Upon any transfer by Landlord of Landlord's interest in the Premises or the Building (other than a transfer for security purposes only), Tenant agrees to attorn to any transferee or assignee of Landlord,

25.2 Captions: Attachments: Defined Terms

(a) The captions of the paragraphs of this Lease are for convenience only and shall not be deemed to be relevant in resolving any question of interpretation or construction of any paragraph of this Lease. The provisions of this Lease shall be construed in accordance with the fair meaning of the language used and shall not be strictly construed against either party. When required by the contents of this Lease, the singular includes the plural. Wherever the term "including' is used in this Lease, it shall be interpreted as meaning "including, but not limited to," the matter or matters thereafter enumerated.

(b) Exhibits attached hereto, and addenda and schedules initialed by the parties, are deemed to constitute part of this Lease and are incorporated herein.

(c) The words "Landlord" and "Tenant" as used herein, shall include the plural as well as the singular. Words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. The obligations of this Lease as to a Tenant which consists of husband and wife shall extend individually to their sole and separate property as well as community property.

25.3 Entire Agreement. This Lease along with any exhibits and attachments hereto constitutes the entire agreement between Landlord and Tenant relative to the Premises, and this Lease and the exhibits and attachments may be altered, amended or revoked only by instrument in writing signed by both Landlord and Tenant. Landlord and Tenant agree hereby that all prior or contemporaneous oral agreements between and among themselves and their agents or representatives relative to the leasing of the Premises are merged in or revoked by this Lease.

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Tenant (   )
Landlord (   )

25.4 Severability. If any term or provision of this Lease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforceable to the fullest extent permitted by law.

25.5 Costs of Suit

(a) If Tenant or Landlord brings any action for the enforcement or interpretation of this Lease, including any suit by Landlord for the recovery of Rent or possession of the Premises, the losing party shall pay to the prevailing party a reasonable sum for attorneys' fees. The "prevailing party" will be determined by the court before whom the action was brought based upon an assessment of which party's major arguments or positions taken in the suit or proceeding could fairly be said to have prevailed over the other party's major arguments or positions on major disputed issues in the court's decision.

(b) Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding under or using the Premises by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including reasonable attorneys' fees, incurred by Landlord in or in connection with such litigation.

25.6 Time: Joint and Several Liability. Time is of the essence of this Lease and each and every provision hereof, except as to the conditions relating to the delivery of possession of the Premises to Tenant. All the terms, covenants and conditions contained in this Lease to he performed by either party, if such party shall consist of more than one person or organization, shall be deemed to be joint and several, and all rights and remedies of the parties shall be cumulative and nonexclusive of any other remedy at law or in equity.

25.7 Binding Effect: Choice of Law. The parties hereto agree that all provisions hereof are to be construed as both covenants and conditions as though the words imparting such covenants and conditions were used in each separate paragraph hereof. Subject to any provisions hereof restricting assignment or subletting by Tenant, all of the provisions hereof shall bind and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Lease shall be governed by the laws of the State of California.

25.8 Waiver. No covenant, term or condition or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, and any waiver or breach of any covenant, term or condition shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, term or condition. Acceptance by Landlord of any performance by Tenant after the time the same shall have become due shall not constitute a waiver by Landlord of the breach or default of any covenant, term or condition unless otherwise expressly agreed to by Landlord in writing.

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Tenant (   )
Landlord (   )

25.9 Force Majeure. In the event Landlord is delayed, interrupted or prevented from performing any of its obligations under this Lease, including its obligations under the Work Letter, and such delay, interruption or prevention is due to fire, act of God, governmental act, strike, labor dispute, unavailability of materials or any other cause outside the reasonable control of Landlord, then the time for performance of the affected obligations of Landlord shall be extended for a period equivalent to the period of such delay, interruption or prevention. Each day of delay under this Subsection shall result in one (1) Scheduled Commencement Adjustment Day.

25.10 Landlord's Liability. The term "Landlord", as used in this Lease, shall mean only the owner or owners of the Project at the time in question. Notwithstanding any other term or provision of this Lease, the liability of Landlord for its obligations under this Lease is limited solely to Landlord's interest in the Project as the same may from time to time be encumbered, and no personal liability shall at any time be asserted or enforceable against any other assets of Landlord or against Landlord's stockholders, directors, officers or partners on account of any of Landlord's obligations or actions under this Lease, In addition, in the event of any conveyance of title to the Building or the Project, then from and after the date of such conveyance, Landlord shall be relieved of all liability with respect to Landlord's obligations to be performed under this Lease after the date of such conveyance. Upon any conveyance of title to the Building or the Project, the grantee or transferee, by accepting such conveyance, shall be deemed to have assumed Landlord's obligations to be performed under this Lease from and after the date of transfer subject to the limitations on liability set forth above in this Paragraph 25.10. In no event will Landlord be liable under this Lease for consequential or indirect damages or loss of profits.

25.11 Consents and Approvals. Wherever the consent, approval, judgment or determination of Landlord is required or permitted under this Lease, Landlord may exercise its good faith business judgment in granting or withholding such consent or approval or in making such judgment or determination without reference to any extrinsic standard of reasonableness, unless the provision providing for such consent, approval, judgment or determination specifies that Landlord's consent or approval is not to be unreasonably withheld, or that such judgment or determination is to be reasonable, or otherwise specifies the standards under which Landlord may withhold its consent. If it is determined that Landlord failed to give its consent where it was required to do so under this Lease, Tenant shall be entitled to specific performance but not to monetary damages for such failure, unless Landlord withheld its consent maliciously and in bad faith.

The review and/or approval by Landlord of any item to be reviewed or approved by Landlord under the terms of this Lease or any Exhibits hereto shall not impose upon Landlord any liability for accuracy or sufficiency of any such item or the quality or suitability of such item for its intended use. Any such review or approval is for the sole purpose of protecting Landlord's interest in the Project under this Lease, and no third parties, including Tenant or Tenant's Representatives or any person or entity claiming by, through or under Tenant, shall have any rights hereunder.

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Tenant ( )
Landlord ( )

25.12 Signs. Tenant shall not place or permit to be placed in or upon the Premises where visible from outside the Premises or any part of the Building, any signs, notices, drapes, shutters, blinds or displays of any type without the prior consent of Landlord. Landlord shall include Tenant in the Building directories located in the Building. Landlord reserves the right in Landlord's sole discretion to place and locate on the roof, exterior of the Building, and in any area of the Building not leased to Tenant such signs, notices, displays and similar items as Landlord deems appropriate in the proper operation of the Building.

25.13 Rules and Regulations. Tenant and Tenant's Representatives shall observe and comply fully and faithfully with all reasonable and nondiscriminatory rules and regulations adopted by Landlord for the care, protection, cleanliness and operation of the Building and its tenants including those annexed to this Lease as Exhibit D and any modification or addition thereto adopted by Landlord, provided Landlord shall give written notice thereof to Tenant. Landlord shall not be responsible to Tenant for the nonperformance by any other tenant or occupant of the Building of any of said rules and regulations.

25.14 Notices. All notices or demands of any kind required or desired to be given by Landlord or Tenant hereunder shall be in writing and shall be personally delivered, sent in the United States mail, certified or registered, postage prepaid, or sent by private messenger, addressed to the Landlord or Tenant respectively at the addresses set forth below:

Landlord:	**Tenant:**
ALEXANDER PROPERTIES COMPANY	**Mr. Dave Brunton**
One Annabel Lane	**SBE, INC.**
Suite 201	**4000 Executive Parkway, Suite 200**
San Ramon, CA 94583	**San Ramon, CA 94583**

or such other address as shall be established by notice to the other pursuant to this paragraph. Notices personally delivered or delivered by private messenger shall be deemed delivered when received at the address for such party designated pursuant to this paragraph. Notices sent by mail shall be deemed delivered on the earlier of the third business day following deposit thereof with the United States Postal Service or the delivery date shown on the return receipt prepared in connection therewith. Notwithstanding the foregoing, Landlord shall have the right, upon notice to Tenant thereof, to eliminate personal delivery as an effective means of notice hereunder.

25.15 Authority. If Tenant is a corporation or a partnership, each individual executing this Lease on behalf of Tenant represents and warrants that Tenant is a duly organized and validly existing entity, the persons signing on behalf of Tenant, are duly authorized to execute and deliver this Lease on behalf of Tenant and this Lease is binding upon Tenant in accordance with its terms. If Tenant is a corporation, Tenant shall, within thirty (30) days after execution of this Lease, deliver to Landlord a certified copy of a resolution of the board of directors of said corporation authorizing or ratifying the execution of this Lease.

25.16 Lease Guaranty. INTENTIONALLY DELETED.

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Tenant ( )
Landlord ( )

25.17 Brokers. Tenant warrants and represents to Landlord that in the negotiating or making of this Lease neither Tenant nor anyone acting on its behalf has dealt with any real estate broker or finder who might be entitled to a fee or commission for this Lease other than Jeff Well of Colliers International, whose commission is to be paid by Tenant. Tenant agrees to indemnify and hold Landlord harmless from any claim or claims, including costs, expenses and attorney's fees incurred by Landlord asserted by any other broker or finder for a fee or commission based upon any dealings with or statements made by Tenant or its agents, employees or representatives.

25.18 Reserved Rights. Landlord retains and shall have the rights set forth below, exercisable without notice and without liability to Tenant for damage or injury to property, person or business and without effecting an eviction, constructive or actual, or disturbance of Tenant's use or possession of the Premises or giving rise to any claim for set-off or abatement of Rent, to reduce, increase, enclose or otherwise change at any time and from time to time the size, number, location, layout and nature of the common areas and facilities and other tenancies and premises in the Project and to create additional rentable areas through use or enclosure of common areas.

25.19 Right of First Refusal. Landlord hereby grants Tenant with a Right of First Refusal to lease any space on the Second Floor of Building that Tenant does not initially lease (the "Right of First Refusal Premises"). In order for Tenant to exercise its Right of First Refusal, Tenant agrees that, within five (5) business days from Tenant's receipt of Landlord's written notice of Landlord's intent to lease said Right of First Refusal Premises to another party, Tenant shall notify Landlord whether it will or will not exercise said Right of First Refusal. In the event Tenant exercises its Right of First Refusal, the terms and conditions applicable to the Right of First Refusal Premises shall be the same as in the proposed lease with another party for the Right of Refusal Premises and Tenant and Landlord shall, within fifteen (15) days from the date of Tenant's notice, execute a Lease Addendum which shall incorporate the terms and conditions of the Right of Refusal Premises into this Lease..

If Tenant does not notify Landlord within the aforementioned time frame of its intent to exercise its Right of First Refusal, Tenant shall be deemed to have waived its Right of First Refusal and Landlord shall be free to lease the space to another party.

25.20 Option to Extend. Subject to the provisions of this Subsection 25.20, Landlord hereby grants Tenant one (1) Option to Extend the Term of this Lease for a period of five (5) years. Tenant's notice of its election to exercise the Option to Extend must be given to Landlord in writing no sooner than twelve (12) months and no later than ten (10) months prior to the expiration date of the Term.

(a) Rent. Base Rent for the Option period shall be set at Fair Market Value, but not less than $26.00 per rentable square foot. Fair Market Value is described in (b) below.

Please Initial

Tenant ( )
Landlord ( )

(b) Fair Market Value . The Term "Fair Market Value" used in this Lease shall mean the annual rental rate being charged in the general area of the buildings in San Ramon, Pleasanton and Dublin for space in like size buildings and comparable to the space for which Fair Market Value is to be determined, taking into consideration use, location and floor level within the applicable building, the location, size of tenancy, quality and age of the building, the definition of rentable area or net rentable area, as the case may be, rental concessions for renewal tenants, the date the particular rate under consideration became effective, the term of the lease under consideration, the extent of services provided thereunder, applicable distinctions between "gross" leases and "net" leases, expense stop figures for escalation purposes, and other adjustments to base rental, with respect to which such rental rates are computed for renewal tenants.

(c) Within thirty (30) days following Tenant's notice to Landlord to extend the term of this Lease, Landlord shall notify Tenant of the proposed Fair Market Value. Tenant shall have thirty (30) days following receipt of Landlord's notice in which to:

(1) accept such determination; or

(2) elect to have such determination made by arbitration as described below; or

(3) withdraw its notice of exercise of Option to Extend.

If Tenant fails to notify Landlord of its election within said thirty (30) day period, Tenant shall be deemed conclusively to have withdrawn its notice of exercise of Option to Extend the Lease and the Lease shall terminate on the Term Expiration Date as if such notice was never given. If Tenant elects to have such determination made by arbitration, then:

(i) Within ten (10) days after Landlord receives Tenant's notice of its election to have such determination made by arbitration, Landlord and Tenant shall each appoint and employ, at its cost, a real estate appraiser (who shall be licensed in the state where the Premises are located and be a member of the American Institute of Real Estate Appraisers (MAI) with at least ten (10) years of full time commercial appraisal and real estate marketing experience in the immediate area where the Premises are located) to appraise and establish the pair Market Value.

(ii) The two appraisers, thus appointed, shall meet promptly and attempt to agree upon and designate a third appraiser meeting the qualifications set forth above within ten (10) days after the date of appointment of the last of the two appraisers.

(iii) If the two appraisers are unable to agree on the third appraiser, either of the parties, after giving five (5) days' notice to the other, shall request the American Arbitration Association in the county in which the Premises are located to appoint such independent third appraiser who shall be of similar affiliation or background of the appraisers aforementioned. Each of the parties shall bear one-half of the cost of the appointment of the third appraiser and of the third appraiser's fee.

Please Initial

Tenant ( )
Landlord ( )

(iv) Within thirty (30) days after the selection of the third appraiser, a majority of the appraisers shall agree upon the Fair Market Value. If a majority of the appraisers are unable to agree within the stipulated time, then each appraiser shall render his/her separate appraisal within such time, and the three appraisals shall be averaged in order to establish such rate; provided, however, if the low appraisal and/or the high appraisal are more than ten (10%) percent lower and/or higher than the middle appraisal, the low appraisal and/or high appraisal shall he disregarded. If only one appraisal is disregarded, the remaining two appraisals shall be averaged in order to establish such Fair Market Value. If both the low appraisal and the high appraisal are disregarded, the middle appraisal shall establish the Fair Market Value. After the Fair Market Value has been established, the appraisers shall immediately notify the parties in writing.

(d) Notice . In the event Tenant does not provide Landlord with written notice of its intent to exercise this Option to Extend within the aforementioned time frame, Tenant shall be deemed to have waived its Option to Extend.

(e) Option is Personal . Except as permitted in Section 15 of this Lease, the Option to Extend is Personal to the Tenant executing this Lease and is otherwise not assignable or transferable, except to an affiliate of Tenant.

Please Initial

Tenant ( )
Landlord ( )

Landlord and Tenant have executed this Lease on the date and year set forth at the beginning of this Lease,

Landlord:	Tenant:
ALEXANDER PROPERTIES COMPANY, a California partnership	SBE, INC.
By: ______________________	By: ______________________
Title: ______________________	Title: ______________________
By: ______________________	By: ______________________
Title: ______________________	Title: ______________________

[Map of property]

EXHIBIT B

WORK LETTER

INTENTIONALLY DELETED

EXHIBIT C

SPACE PLAN

TO BE PROVIDED

EXHIBIT D

RULES AND REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed, printed, affixed or otherwise displayed by Tenant on or to any part of the outside or inside of the Building or the Premises without the prior written consent of Landlord and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant. All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved by Landlord. Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises; provided, however that Tenant may request Landlord to furnish and install a building standard window covering at all exterior windows at Tenant's cost. Tenant shall not install any radio or television antenna, loud speaker, or other device on or about the roof area or exterior walls of the Building.

2. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by Tenant or used by it for any purpose other than for ingress to and egress from the Premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to the common areas by persons with whom Tenant normally deals in the ordinary course of its business unless such persons are engaged in illegal activities. In no event may Tenant go upon the roof of the Building.

3. Landlord will furnish Tenant with 50 keys to the Premises, free of charge. Additional keys shall be obtained only from Landlord and Landlord may make a reasonable charge for such additional keys. No additional locking devices shall be installed in the Premises by Tenant, nor shall any locking devices be changed or altered in any respect without the prior written consent of Landlord. All locks installed in the Premises excluding Tenant's vaults and safes, or special security areas (which shall be designated by Tenant in a written notice to Landlord), shall be keyed to the Building master key system. Landlord may make reasonable charge for any additional lock or any bolt (including labor) installed on any door of the Premises. Tenant, upon the termination of its tenancy, shall deliver to Landlord all keys to doors in the Premises.

4. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be deposited therein and Tenant shall bear the expense of any breakage, stoppage or damage resulting from its violation of this rule.

5. Tenant shall not overload the floor of the Premises or mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part thereof. No boring, cutting or stringing of wires or laying of linoleum or other similar floor coverings or installation of wallpaper or paint shall be permitted except with the prior written consent of the Landlord and as the Landlord may direct.

6. Tenant may use the freight elevators in accordance with such reasonable scheduling as Landlord shall deem appropriate. Tenant shall schedule with Landlord, by written notice given no less than forty-eight (48) hours in advance, its move into or out of the Building which moving shall occur after 5:30 p.m. or on weekend days if required by Landlord; and Tenant shall reimburse Landlord upon demand for any additional security or other charges incurred by Landlord as a consequence of such moving. The persons employed by Tenant to move equipment or other items in or out of the Building must be acceptable to Landlord. The floors, corners and walls of elevators and corridors used for moving of equipment or other items in or out of the Project must be adequately covered, padded and protected and, Landlord may provide such padding and protection at Tenant's expense if Landlord determines that such measures undertaken by Tenant or Tenant's movers are inadequate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment or furnishings brought into the Building and also the times and manner of moving the same in or out of the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on wood strips of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant. There shall not be used in any space, or in the public halls of the Building, either by any Tenant or others, any hand trucks except those equipped with rubber tires and side guards.

7. Tenant shall not employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises unless otherwise agreed to by Landlord in writing. Except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning the same. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall in no way be responsible to any Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitor or any other employee or any other person. Janitor service will not be furnished on nights when rooms are occupied after 9:30 p.m. Window cleaning shall be done only by Landlord.

8. Tenant shall not use or keep in the Premises or the Building any kerosene, gasoline or flammable, combustible or noxious fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord. Tenant shall not use, keep or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building. Tenant shall not make or permit to be made any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring Buildings or premises or those having business with them whether by the use of any musical instrument, radio, phonograph, unusual noise, or in any other way.

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9. The Premises shall not be used for the storage of merchandise except as such storage may be incidental to the use of the Premises for general office purposes. Tenant shall not occupy or permit any portion of the Premises to be occupied for the manufacture or sale of liquor, narcotics, or tobacco in any form. The Premises shall not be used for lodging or sleeping or for any illegal purposes. No cooking shall be done or permitted by Tenant on the Premises, except that use by Tenant of Underwriters' Laboratory approved portable equipment for brewing coffee, tea and similar beverages and of microwave ovens approved by Landlord shall be permitted provided that such use is in accordance with all applicable federal, state and local laws, codes, ordinances, rules and regulations.

10. Landlord will direct electricians as to where and how telephone wires and any other cables or wires are to be installed. No boring or cutting for cables or wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

11. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by the Landlord. Tenant shall bear the expense of repairing any damage resulting from a violation of this rule or removal of any floor covering.

12. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours and in such elevators as shall be designated by Landlord. In its use of such, Tenant shall not obstruct or permit the obstruction of walkways, ingress and egress to the Building and tenant spaces and at no time shall Tenant park vehicles which will create traffic and safety hazards or create other obstructions.

13. On Saturdays, Sundays and legal holidays all day, and on other days between the hours of 7:00 p.m. and 7:00 a.m. the following day, access to the Building or to the halls, corridors, elevators, or stairways in the Building, or to the Premises may be refused unless the person seeking access is known to the person or employee of the Building in charge and has a pass or is properly identified. Landlord shall in no case he liable for damages for any error with regard to the admission to or exclusion from the Building of any person. Tenant assumes all responsibility for protecting its Premises from theft, robbery and pilferage, In case of invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Building during the continuance of the same by closing the doors or otherwise, for the safety of the Tenants and protection of property in the Building and the Building. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building on Saturdays, Sundays and legal holidays all day, and on other days between the hours of 7:00 p.m. and 7:00 a.m. and during such further hours as Landlord may deem advisable for the adequate protection of said Building and the property of its tenants, and to implement such additional security measures as Landlord deems appropriate for such purposes. The cost of such additional security measures, as reasonably allocated by Landlord to Tenant, shall be reimbursed by Tenant within thirty (30) days after receipt of Landlord's demand therefor.

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14. Tenant shall see that the doors of the Premises are closed and securely locked before leaving the Building and must observe strict care and caution that all water faucets, water apparatus and utilities are entirely shut off before Tenant or Tenant's employees leave the Building, and that all electricity shall likewise be carefully shut off, so as to prevent waste or damage and for any default or carelessness Tenant shall make good all injuries sustained by other tenants or occupants of the Building or Landlord. On multiple-tenancy floors, all tenants shall keep the doors to the Building corridors closed at all times except for ingress and egress, and all tenants shall at all times comply with any rules and orders of the fire department with respect to ingress and egress.

15. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

16. Landlord shall attend to the requests of Tenant after notice thereof from Tenant by telephone, in writing or in person at the Office of the Landlord. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from the Landlord.

17. No vending machine or machines (except for Tenant's sole use) of any description shall be installed, maintained or operated upon the Premises without the written consent of the Landlord. In the event Tenant installs vending machines for the use of their employees, the vending machines shall have no exposure to the exterior of the Building.

18. Tenant agrees that it shall comply with all fire and security regulations that may be issued from time-to-time by Landlord and Tenant also shall provide Landlord with the name of a designated responsible employee to represent Tenant in all matters pertaining to such fire or security regulations.

19. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of those Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Project.

20. Canvassing, soliciting, peddling or distribution of handbills or other written material in the Building and Project is prohibited and Tenant shall cooperate to prevent same.

21. Landlord reserves the right to (i) select the name of the Project and Building and to make such change or changes of name, street address or suite numbers as it may deem appropriate from time to time, (ii) grant to anyone the exclusive right to conduct any business or render any service in or to the Building and its tenants, provided such exclusive right shall not operate to require Tenant to use or patronize such business or service or to exclude Tenant from its use of the Premises expressly permitted in the Lease, and (iii) reduce, increase, enclose or otherwise change at any time and from time to time the size, number, location, layout and nature of the common areas and facilities and other tenancies and premises in the Project and to create additional rentable areas through use or enclosure of common areas. Tenant shall not refer to the Project by any name other than the name as selected by Landlord (as same may be changed from time to time), or the postal address, approved by the United States Post Office. Without the written consent of Landlord, Tenant shall not use the name of the Building or Bishop Ranch Business Park in connection with or in promoting or advertising the business of Tenant or in any respect except as Tenant's address.

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22. Tenant shall store all its trash and garbage within the Premises until removal of same to such location in the Project as may be designated from time to time by Landlord. No material shall be placed in the Project trash boxes or receptacle if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the City of San Ramon without being in violation of any law or ordinance governing such disposal.

23. Landlord shall furnish heating and air conditioning during the hours of 7:00 a.m. and 7:00 p.m., Monday through Friday, except for holidays. In the event Tenant requires heating and air conditioning during off hours, Saturdays, Sundays or holidays, Landlord shall on notice provide such services at the rate established by Landlord from time-to-time. Landlord shall have the right to control and operate the public portions of the Building and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the Tenants, in such manner as it deems best for the benefit of the Tenants generally.

24. The directory of the Building will be provided for the display of the name and location of tenants and Landlord reserves the right to exclude any other names therefrom. Any additional name that Tenant shall desire to place upon the directory must first be approved by Landlord and, if so approved, a charge will be made for each such name.

25. Except with the prior written consent of Landlord, Tenant shall not sell, or permit the sale from the Premises of, or use or permit the use of any sidewalk or common area adjacent to the Premises for the sale of newspapers, magazines, periodicals, theater tickets or any other goods, merchandise or service, nor shall Tenant carry on, or permit or allow any employee or other person to carry on, business in or from the Premises for the service or accommodation of occupants of any other portion of the Building, nor shall the Premises be used for manufacturing of any kind, or for any business or activity other than that specifically provided for in Tenant's lease.

26. The word "Tenant" occurring in these Rules and Regulations shall mean Tenant and Tenant's Representatives. The word "Landlord" occurring in these Rules and Regulations shall mean Landlord's assigns, agents, clerks, employees and visitors.

ACKNOWLEDGED AND ACCEPTED:

Landlord:		Tenant:	
By:	______________________	By:	______________________
Title:	______________________	Title:	______________________

EXHIBIT E

JANITORIAL SPECIFICATIONS

The following specific janitorial services will be provided in accordance with provisions of Paragraph 7.1, Landlord's Obligations:

OFFICE AREAS (DAILY)

1. Empty all waste baskets and disposal cans, if liners used, replace as necessary.
2. Spot dust desks, chairs, file cabinets, counters and furniture.
3. Spot vacuum all carpets and walk-off mats; spot as necessary.
4. Sweep all hard surface floors with treated dust mop.

OFFICE AREAS (WEEKLY)

1. Vacuum carpets completely, including around base boards, etc.
2. Perform low dusting of furniture.
3. Dust window sills and ledges.

OFFICE AREAS (QUARTERLY)

1. Perform all high dusting of doors, sashes, moldings, etc.
2. Dust mini blinds as needed.

OFFICE AREA CORRIDORS AND LOBBIES (DAILY SERVICE)

1. Vacuum carpets and dust mop any hard floors.
2. Spot clean carpets of all spillage.
3. Clean all thresholds.

OFFICE AREA CORRIDORS AND LOBBIES (WEEKLY)

1. Perform all high dusting of doors, sashes, moldings, etc.
2. Vacuum and clean all ceiling vents.
3. Polish any metal railings, placards, etc.

STAIRWAYS (DAILY)

1. Sweep all hard surface steps.
2. Dust banisters.

STAIRWAYS (WEEKLY)

1. Sweep all hard surfaces.
2. Spot mop all spills as needed.

RESTROOMS COMMON AREA (DAILY SERVICE)

1. Empty all waste containers and replace liners as needed.
2. Clean all metal, mirrors, and fixtures.
3. Sinks, toilet bowls and urinals are to be kept free of scale.
4. Clean all lavatory fixtures using disinfectant cleaners.
5. Wash and disinfect underside and tops of toilet seats,
6. Wipe down walls around urinals.
7. Refill soap, towel, and tissue dispensers.
8. Wet mop tile floors with disinfectant solution.
9. Refill sanitary napkin machines as necessary.

RESTROOMS COMMON AREA (WEEKLY)

1. Perform high dusting and vacuum vents.
2. Use germicidal solution in urinal traps, lavatory traps, and floor drains.

RESTROOMS COMMON AREA (MONTHLY)

1. Scrub floors with power machine.
2. Wash down all ceramic tile and toilet compartments.

ELEVATORS (DAILY)

1. Vacuum floors.
2. Clean thresholds.
3. Spot walls and polish surfaces.

GENERAL

All glass entry doors to offices, corridors, or lunch rooms are to be cleaned as necessary.

EXHIBIT F

DOOR SIGN, DIRECTORY STRIP AND MAIL BOX REQUEST,

1. I, the undersigned, hereby authorize Landlord to order one door sign of ( ) wood, ( ) vinyl, (x) chrome. The business name on it shall be:

____

2. The directory strip shall read:

____

3. The mail box strip shall read:

____

______________________________	______________________________
Signature	Date

Street Address: 4000 Executive Parkway

Suite Number: 200

Complex: Bishop Rauch 8, Building P

EXHIBIT G

COMMENCEMENT OF LEASE

INTENTIONALLY DELETED

LEASE AGREEMENT
FOR NON-RESIDENTIAL PREMISES No. 995 1006

The undersigned have this day entered into the following Lease Agreement

An X in a box means that the text following thereafter applies

Landlord: NCC Property G AB

Tenant: Neonode AB

National ID/company registration no.

Premises Address, ect

Municipality: Stockholm

Property designation: Lustgarden 10

Street: Warfuingesväg 41

Floor/Building: Plan 4

Apartment no.: Hus 1

Billing Address:

Condition and use of premises: Unless otherwise stated, the premises and appurtenant storage areas are let in their existing condition for use as: Office for Neonode AB

Size and extent of premises

Retail Space Floor	Sq. m.	Office Space Floor	Sq. m.	Floor	Sq. m.	Storage Space Floor	Sq. m.	Other Space Floor	Sq. m.
		4	appx. 887						

The Designated Areas

£ have £ have not been measured jointly prior to the execution of the Agreement.

Should the area shown in the Agreement deviate from that actually measured, this does not entitle the Tenant to any repayment of rent no entitle the Landlord to any increased rent

T The extent of the leased premises is marked on appended plan(s) 2007-10-16

Appendix 2

£0 access for cars loading/ unloading £ place for sign £ place for display cabinet/ vending machine £ parking space (s) for car(s) £ garage space(s) for car(s) £

Furnishings/ Fixtures/Fittings: The premises are let:

T without furnishings/fixtures/fittings specific to the specific Tenants

£ without furnishings/fixtures/fittings specific to the specific Tenants of the premises according to appendix

Appendix

Unless otherwise agreed upon, at the termination of the tenancy, the Tenant shall remove all property belonging to him and surrender the premises in acceptable condition.

The parties agree to carry out a joint inspection of the premises not later than the last day of the tenancy. If, as a result of the Tenant's actions - carried out with or without the Landlord's consent - the premises upon surrender should contain material, which it had not previously been agreed that the Landlord should be responsible for, the Tenant shall remove such material or pay the Landlord's expenses in so doing., including but not limited to, transportation costs, waste disposal taxes and storage charges.

Telephone Lines

£ The Tenant shall pay for the installation of the necessary telephone lines from a connection point designated by the service provider to those points in the premises chosen by the Tenant in consultation with the Landlord.

£ The Landlord shall pay for corresponding installation of lines to the premises. The installation of lines inside the premises shall be carried out by the Tenant in consultation with the Landlord; the cost, however, to be borne by the Tenant.

Data Communication lines

£ The Tenant shall pay for the installation of the necessary data communication lines from a connection point designated by the service provider to those points in the premises chosen by the Tenant in consultation with the Landlord.

£ The Landlord shall pay for corresponding installation of lines to the premises. The installation of lines inside the premises shall be carried out by the Tenant in consultation with the Landlord; cost, however, to be borne by the Tenant,

Terms of Lease: Commencing — Up to and including

2008-04-01 Appendix 1 2013-03-31

Termination/ Extensions	Notice of termination of this Agreement must be given in writing at lease 9 months prior to the expiry of this Agreement.
	In the absence thereof, this Agreement is extended by a term of 3 years at a time.
Heating and hot water	Requites heating of the premises is provided by T the Landlord £ the Tenant
	Hot water is provided £ throughout the year £ not provided £

Notice
Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example. With respect to an index clause, a property tax clause and the Tenants rights to a reduction of rent in conjunction with customary maintenance. In addition, see Instructions prepared by the organisations.

Swedish Property Federation from no. 12B, prepared in 1998 in consultation with the Swedish Federation of Trade and the
Swedish Hotels - and Restaurants Association (SHR), Copying prohibited.
Notice: This is a translation into English of for no. 12B.
License number: 2057-9686-221855. Vernr: 6.01. Registered to: NCC Property Development AB.

Initial Initial

LEASE AGREEMENT
FOR NON-RESIDENTIAL PREMISES No. 995 1006

The undersigned have this day entered into the following Lease Agreement An X in a box means that the text following thereafter applies

Rent SEK
1 863 000 Appendix 1 Per annum comprising £ total rent T rent excluding supplements marked below

Index clause
T Changes to the above-stated rent shall be effected pursuant to the appended index clause Appendix 1

Heating and hot water costs
T Fuel/heating supplement payable in accordance with appended clause Appendix 1

Water and sewerage costs
T Water and sewerage supplement payable in accordance with appended clause Appendix 1

Cooling Ventilation
T Costs for the operation of special cooling and ventilation appliances shall be reimbursed in accordance with appended clause Appendix 1

Electricity
£ included in rent £ Tenant has own contact with the provider Appendix 1

Cleaning of stairwell
T included in rent £ Tenant has own contact with the provider

Refuse and waster removal
Insofar as the Landlord is responsible for the provision of storage space for refuse/waste, and arranging for the removal of such refuse/waste, it is the Tenant's responsibility to sort and deposit refuse/waste in the appropriate containers as directed, in their designated place, as well as without recompense contribute towards further and/or additional sorting, as directed by the Landlord

Refuse/Waste

£ included in rent

£ Arranged for and paid for by the Tenant (the Landlord however shall provide the necessary refuse/waste containers and the requisite storage space for such)

T Included in rent with respect to the types of refuse/waste indicated below. The tenant shall be responsible for, and pay for the costs of, collection, sorting, storage, and transportation of the categories of refuse/waste not indicated below which are to be found on the Tenants premises.

T Household waste £ Fluorescent tubes £ Hard plastic packaging
£ Heavy refuse £ Metal packaging £ Hazardous waste pursuant to the hazardous Waste Ordinance (1996.971)
£ Compostable waste £ clear class containers £ ___________________________
£ Newspapers £ Coloured class containers £ ___________________________
£ Batteries £ Cardboard packaging £ ___________________________

Snow clearance and gritting
T included in rent £ to be arranged for and paid for by the Tenant Appendix
£ as per appendix

Property taxes
£ included in rent T reimbursement payable as per special agreement Appendix

Unforeseen costs Where, following the execution of the Agreement, unforeseen increases in costs arise in relation to the property as a consequent of:

a) the introduction of, or increases in taxes, charges or duties levied specifically on the property as a result of decisions

take by Parliament, Government, municipalities, or other relevant authorities;

b) general rebuilding measures or suchlike in respect of the property which do not relate solely to the premises and which the Landlord is obliged to execute as a result of decisions of the Parliament, Government, municipalities, or other relevant authorise.

The Tenant shall, commencing at the time of the cost increase, reimburse the Landlord in relation to that proportion of the total annual increase in costs for the property represented by the premises.

The proportion represented by the premises is 4.5 per cent. Where the proportion has not been indicated. It shall be comprised of that proportion of the total rents for remises (excluding any value-added tax) represented by the Tenant's rent (excluding an value-added tax) at the time of the increase in costs, in respect of unlet premises, the market rent for the premises shall be estimated.

'Taxes' in accordance with a) above does not refer to value-added tax and property tax to the extent that reimbursement in respect of this is paid as per agreement. 'Unforeseen Costs' means such costs as were not decided upon by the authorities as set forth in sections a) and b) at the inception of the Agreement Reimbursement shall be paid in the same manner as set forth below for rental payments.

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Swedish Property Federation from no. 12B, prepared in 1998 in consultation with the Swedish Federation of Trade and the
Swedish Hotels - and Restaurants Association (SHR), Copying prohibited.

Initial Initial

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License number: 2057-9686-221855. Vernr: 6.01. Registered to: NCC Property Development AB.

The undersigned have this day entered into the following Lease Agreement An X in a box means that the text following thereafter applies

Value-added tax (VAT)	T The property owner/Landlord is liable to pay value-added tax for the letting of the premises. In addition to rent, the Tenant shall on each occasion pay the VAT currently applicable.
	£ Where, following a decision by the Tax Authorities, the property owner/Landlord become fiable to pay VAT for the letting of the premises, the Tenant shall on each occasion in addition to the rent pay the VAT concurrently applicable.
	The VAT paid together with rent shall be calculated on the stated rental amount and where applicable on supplemental charges and other reimbursements paid in accordance with the Agreement, pursuant to the rules applicable at the time in respect of VAT payable on rent.
	Where the Landlord become liable to pay VAT pursuant to the provisions of the Value Added Tax Act as a consequence of the Tenant's independent actions, such as a subletting of the premises (including subletting to its own company) or assignment, the Tenant shall reimburse the Landlord in full. In addition, the Tenant shall reimburse the Landlord in respect of the increased costs arising as a consequence of the Landlord's loss of the entitlement to deduct VAT on operating expenses incurred as a consequence of the Tenant's actions.

Payment of Rent	The rent shall be paid in advance without prior demand, not later than the last working day prior to the commencement of:	Postal giro no.	Banking no.
	£ each calendar month T each quarter £ By direct transfer to either of the following accounts	see bill	

Interest, Payment reminders	Upon delay in the payment of rent, the Tenant shall pay interest in accordance with the interest Act as well as compensation for written payment reminders in accordance with the Debt Recovery Act, ect. Compensation for payment reminders shall on each occasion be paid in an amount currently applicable pursuant to the Debt Recovery Ordinance, ect.

Maintenance, ect.	£	The landlord shall carry out and bear the cost of necessary maintenance of the premises and furnishings/fittings/fixtures supplied by him.	However, the Tenant shall be responsible for	Appendix
			In addition, the Tenant's maintenance obligations includes	Appendix
	T	The Tenant shall carry out and bear the cost of necessary maintenance of the surface of floors, walls and ceiling, as well as of furnishings/fittings/fixtures provided by the Landlord. Where the Tenant does not fulfil his maintenance obligations and does not within a reasonable time carry out rectification works following a written demand, then the Landlord shall be entitled to fulfil these obligations at the Tenant's expense.		
	T	The allocation of the maintenance obligations is set forth as per separate appendix.		Appendix 1 and 3

Management and Operation	Unless otherwise agreed, the Landlord shall, where applicable, manage, operate, and maintain the public and common areas. The Tenant shall not be entitled, without the Landlord's written consent, to carry out an fitting out and/or installation or alteration works within the premises or otherwise within the property, which directly effects the structural components of the building or installations important to the functioning of the property, such as water and sewerage, electricity, ventilation systems, ect., which are the property of the Landlord. Sprinkler heads and ventilation equipment may not be covered by any fixtures/fittings by the Tenant in such a manner as to reduce the functioning of such equipment in conjunction with the performance of fitting out works, the Tenant shall ensure that the functioning of radiators

	and other heating equipment is maintained in all significant respects.
Inspections	Where any defects and/or deficiencies are found subsequent to an inspection by a relevant authority, in the electrical and sprinkler equipment which is the property of the Tenant, the Tenant shall, at his own cost and within the period prescribed by the relevant authority, carry out any measures required. Where the Tenant has not rectified the defects and/or deficiencies within the stated time, the Landlord shall be entitled, at the Tenant's expense, to carry out such measure as are required by the relevant authority.
Access to certain spaces	The Tenant shall keep areas to which the maintenance personnel and personnel from the energy utilities, water and sewerage utilities, the telephone company, and any like organisation must have access to, easily accessible by keeping such areas free of cupboards, crates, goods, or any other obstructions.
Building material specifications	Whether, pursuant to the provisions of this Agreement or otherwise, the Tenant performs maintenance, improvement, or alteration works in respect of the premises, the Tenant shall provide the Landlord, in good time prior to the execution of such work, with specifications of the building materials - to the extent such have been prepared - for the products and materials to be used on the premises.
Planning and Building Code (PBL) fines	Where the Tenant undertakes alterations to the premises without the requisite construction permit and, as a consequence thereof the Landlord is compelled to pay construction fines or supplemental fees pursuant to the rules set forth in the Planning and Building Code (PBL), the Tenant shall reimburse the landlord in respect of this.
Reduction of rent	The Tenant shall not be entitled to a reduction in rent for the period during which the Landlord allows work to be carried out in order to place the premises in the agreed condition, or other works specifically set forth in the Agreement.

T		The Tenant's right to a reduction in rent during the Landlord's performance of customary maintenance of the leased premises or the property shall be governed by a separate appendix.	Appendix 1

Requirements imposed by relevant authorities, etc.	£ The Landlord The Tenant	T	shall be solely responsible for, and bear the cost of, undertaking measures which may be required for the intended use of the premises by insurance companies, building authorities, environmental or health authorities, fire departments, or other relevant authorities after the date of taking possession. The Tenant shall consult with the Landlord prior to undertaking any such measures.

Notice

Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example. With respect to an index clause, a property tax clause and the Tenants rights to a reduction of rent in conjunction with customary maintenance. In addition, see Instructions prepared by the organisations.

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Initial Initial

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Signs, awnings, windows, doors, etc.

Following consultation with the Landlord, the Tenant shall be entitled to display a customary business sign provided that the Landlord has not reasonably denied the same and that the Tenant has obtained the requisite permit from the relevant authority. Upon surrender of the premises, the Tenant shall restore the facade of the building to an acceptable condition.
In conjunction with more extensive property maintenance, such as the renovation of facades etc. the Tenant shall, at his own cost and without compensation, dismantle and reassemble signs, awnings, and antennas.
The Landlord undertakes not to fix vending machines and display cabinets on the exterior walls of the premises let to the Tenant without the Tenant's consent, and grants to the Tenant an option to fix vending machines and display cabinets on the walls in question.

£ The Landlord
T The Tenant
is liable for any damage due to negligence or malicious intent to
T windows
T signs
£ display/shop windows
£
T entrance doors

£ The Tenant shall purchase and maintain glass insurance with respect to all display/shop windows and entrance doors appurtenant to the premises.

Locks

£ The Landlord T The Tenant shall equip the premises with such locks and anti-theft devices as may be required to ensure the validity of the Tenant's business insurance.

Force majeure

The Landlord shall not be compelled to perform his obligations under this Agreement or pay any damages where, as a consequence of acts of war or riots, work stoppages, blockades, fires, explosions, or intervention by a public authority over which the Landlord has no control and which could not have been foreseen, and the Landlord is prevented entirely from performing his obligations or may only be able to do so at abnormally high cost.

Security

This Agreement is contingent upon the provision of security in the form of a Appendix 1

£ Bank guarantee £ Personal guarantee £ To be provided no later than: See Appendix

Special provisions

	Appendix
Special Provisions	1
Floor Plan	2
Delegation of Responsibilities, Investments, Maintenance	3
Room and Technical Description	4
Display Programme	5

Signature

This Agreement which may not be registered without specific consent has been prepared in two identical counterparts of which each party has received one. All prior agreements between the parties with respect to these premises shall cease to apply commencing on the date of execution of this Agreement.

Place/date Place/date
Landlord Tenant
Printed name Printed name

As a consequence of an agreement entered into on this day, the Agreement shall cease to apply commencing ________________________________, at which time the Tenant undertakes to surrender the premises.

Place/date Place/date
Landlord Tenant

Assignment

This Lease Agreement is hereby assigned to commencing

Assignor Assignee National ID/company registration no.

The above-

Place/date Landlord

referenced
assignment is
hereby approved

Notice
Note that in certain cases, in addition to marking a box with an X, an appendix must be appended to the Agreement in order for the agreement set forth in such appendix to be binding. This applies, for example. With respect to an index clause, a property tax clause and the Tenants rights to a reduction of rent in conjunction with customary maintenance. In addition, see Instructions prepared by the organisations.
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SPECIAL PROVISIONS
GOVERNING LEASING CONTRACT

Appendix 1
Leasing contract: 995 1 006
Landlord: NCC Property G AB
Tenant: Neonode AB
Premises address: Warfvingesväg 41, Stockholm

18-10-2007

1. The arrangement of the premises

Prior to the start of the lease term the Landlord shall put the premises into order in accordance with the attached room and technical description annexe 4 as well as arrange the premises in accordance with the drawing, annexe 2 and in accordance with the delimitation list for investment, annexe 3. The supplementary information that the Landlord requires from the Tenant in order to put the premises into order shall be provided in accordance with an Instruction Timetable that the Landlord draws up. However, the surface layer and the choice of colour for the surface layer shall be done no later than 15-11-2007.

Minor adjustments to the layout, annexe 2, that are initiated by the Tenant no later than by 26-10-2007, shall incur no additional cost for the Tenant. Minor adjustments are understood to mean that the office and conference rooms that are shown on the outline plan may be moved to elsewhere in the premises as well as a maximum of 2 office rooms may be added. The adjustments may only be effected if they are technically uncomplicated in respect of the property's technical installations. The Landlord and Tenant shall, in accord, find the most suitable solution.

Changes initiated by the Tenant that involve departures from annexes 2, 3 and 4 and that involve additional cost, shall be paid for by the Tenant. In the event of additional orders, the Tenant shall be charged the Landlord's prime costs against invoices from the contractor.

All changes shall be ordered in writing by the Tenant and ordered work may not be commenced until the parties have signed the order.

The Tenant pays for and draw up a detailed premises schedule as well as furnishing plans by no later than 26-10-2007 as a basis for the Landlord to undertake final planning of the premises. If the Tenant does not provide such a basis for final planning the Landlord shall undertake final planning and provide the premises with a point of departure taken in the basis that exists and in accordance with the documents that relate to this present leasing agreement.

Changes to the layout may be expected during the forthcoming detailed planning stage. Irrespective of the layout and state of the premises according to annexes 2 and 4, the Landlord is entitled to carry out such changes that are imperative for construction reasons or that are imposed by the appropriate authorities. In this respect reasonable consideration shall be given to the Tenant's wishes.

The Tenant shall participate in tenant meetings/planning meetings in order that the Instruction Timetable is adhered to.

Any furniture and fixtures & fittings entered in the drawings in annexe 2, are not included in the leasing contract.

2. The Tenant's own work

The Tenant is responsible for, and shall pay for, fixtures & fittings, equipment and installations that are associated with his own business. As examples mention may be made of telephone and computer systems (the Landlord is responsible for the wiring), furniture, reception desks, safes and other loose and fixed fixtures & fittings, special equipment for his own business, specially adapted security systems etc. The work that is to be carried out under the Tenant's own auspices and that is deemed by the Landlord to have an impact on the building construction or on the technical supply system, shall be carried out by the Landlord's organisation.

3. Rent discounts

Rent discounts shall apply as follows:

01-04-2008 to 30-04-2008 SEK 155 250. Rent supplement according to the agreement shall be charged during the period.

01-05-2008 to 31-05-2008 SEK 155 250. Rent supplement according to the agreement shall be charged during the period.

01-06-2008 to 30-11-2008 a discount of SEK 465 750 shall apply, evenly distributed over the period. Rent supplement according to the agreement shall be charged during the period.

4. Index clause

The annual rent stated in the leasing contract shall, during the lease term, be recalculated on the basis of the changes to the Statistics Sweden consumer price index (total index with 1980 as the base year) in accordance with the following bases.

The basic rent shall constitute 100 % of the rent amount stated in the contract. During the lease term a supplement to the rent amount shall be made, on the basis of the changes to the consumer price index (total index with 1980 as the base year), by a certain percent of the basic rent, in accordance with what is stated in the following.

The basic rent is regarded as being established in line with the index figure for October 2007 (the basic figure). This figure is currently unknown.

Should the index figure at any subsequent October have risen in relation to the basic figure, then a supplement shall be payable at the percentage figure by which the index figure has altered in relation to the basic figure. A supplement shall henceforth be payable in relation to the index changes, whereby the rent changes shall be calculated on the basis of the percentage change between the basic figure and the index figure for the respective October. In the event of the index figure for any October falling in relation to the index figure that applied at the last time that the rent was adjusted in accordance with this clause, the preceding index supplement shall be payable without change.

Payable rent shall never be set lower than the rent amount stated in the contract.

The rent change always takes place from and including 1 January following the October that has given rise to the recalculation.

5. Heating, ventilation, cooling plant, water

The Tenant shall, at the same time as the rent and in addition to it, effect payment corresponding to the Landlord's prime costs (consumption including network charges) for that part of the Landlord's fixed and variable costs for heating, cooling plant and ventilation of the property, that relate to the premises. The Landlord does not intend to install separate metering equipment for the premises whereupon the charging shall be based on the consumption in the building and a calculated apportionment between the relevant premises, when the apportionment shall be undertaken by the Landlord.

The Tenant shall effect payment quarterly on account in a sum that originally amounts to SEK 125 per m2/year. The amount on account shall be adjusted annually on the basis of the actual outcome. Settlement against actual calculated consumption shall be made no later than 1 July of the following year. The Tenant shall be entitled to install his own meters at his own cost.

Included in the rent is the cost of water for normal consumption for office premises. The Tenant shall pay the cost of water consumption over and above what is normal for the office space, such as for cooling plant, machinery belonging to the operation or other special apparatuses. Where appropriate the Tenant shall acquire and install water meters for measuring the consumption for which the Tenant is liable.

6. Electricity consumption

The Tenant shall pay to the Landlord, over and above the basic rent, the Tenant's cost of electricity consumption in respect of the premises. Payment shall be made in an amount corresponding to the Landlord's prime costs. The Landlord's prime costs are understood to be consumption including network charges. Separate metering of the Tenant's electricity consumption shall be undertaken. The Tenant may not choose the electricity provider.

7. Property tax

The Tenant shall, at the same time as the rent, and as a supplement to this, pay the portion of the payable property tax attributable to the premises that is payable at any given time in respect of the property. The premises' share (that shall remain unaltered during the lease term) shall be deemed to be, and the tenant shall pay, 4.5 % of the total payable property tax for the property.

8. Value Added Tax

The Tenant conducts VAT-liable business in the premises or activity that is comparable in terms of VAT, and is also notified that the property owner is registered as being VAT-liable in respect of the premises. The Tenant shall, in addition to the rent, pay the VAST that applies at any given time. If the Tenant, during the leasing relationship, ceases to conduct VAT-liable business in the premises, the Tenant shall pay to the property owner the amount that the property owner, in accordance with the law pertaining to VAT, is required to pay to the state. The Tenant shall additionally compensate for the increased operation VAR and investment VAT that becomes a consequence of the Tenant's action.

9. Garage places

The Tenant has the right to rent 10 garage places in the property. The rent shall be SEK 18 000 per place and year and shall also be index adjusted under the same conditions that are stated in this present agreement. A separate rent agreement shall be concluded. The Tenant shall notify within one month of the leasing agreement being concluded, whether he wishes to rent the places. If the Tenant chooses not to rent the places the Landlord has the right to rent them out to someone else.

10. Security for the rent

As security for the Tenant's fulfilment of all obligations in accordance with the leasing contract and in accordance with the law, the Tenant shall provide the Landlord with a bank guarantee for 6 months rent. The bank guarantee shall be provided no later than by 15-11-2007. In the event of the company's creditworthiness having a rating of 4 after 18 months according to Kreditfakta or UC, the requirement of a bank guarantee may be removed.

11. Lease term and taking possession

Lease term: From and including 01-04-2008 up to and including 31-03-2013.

The Tenant is entitled to take possession of the premises in order to commence moving in from 17.00 hrs. 28-03-2008. From that date the Tenant has full responsibility for the premises. No rent is payable for the period 28-03-2008 to 31-03-2008.

The above-stated Day of Taking Possession (28-03-2008) presupposes e.g. that the Tenant keeps to the times regarding his part of the programme work and instruction timetable in accordance with clause 1 "the arrangement of the premises".

The Tenant is aware about, and accepts, that there may be construction work in the premises that is not completed on The Day of Taking Possession. The Tenant shall, however, be able to conduct his business in an acceptable manner and also the work shall be concluded within two weeks of the time that the tenant has taken possession of the premises.

12. Operation and maintenance

The Landlord is responsible for exterior maintenance of the building as well as for maintenance of the property's basic installations regarding heating, cooling plant, electricity, ventilation and sanitation.

The Tenant is responsible for the maintenance of all surface layers, operation and maintenance of own installations, locks and access systems, alarm systems for fire (not requirements imposed by authorities and sprinklers) and burglary as well as for maintenance of his own fixtures & fittings and equipment, as well as those provided by the Landlord, in the leased premises and in accordance with annexe 3.

The Tenant shall arrange and pay for cleaning of the premises.

The property's basic installations regarding cooling plant and ventilation that the landlord provides are normally in operation from 07.00 to 18.00 on weekdays. At other times as well as on holidays, the tenant may himself extend the operating time via manual adjustment.

13. Assignment of leasing rights

The Tenant is not, without the Landlord's prior written consent, entitled to wholly or partly assign the leasing rights to the premises. Such consent shall not be refused if the Landlord does not have justified cause to oppose the assignment.

The Tenant is not, without the Landlord's prior written consent, entitled to wholly or partly give up the leasing rights to the premises as sub-letting.

The above stated restrictions to the Tenant's right to assign and/or give up the premises shall not apply to assignment/giving up to another company or another association within the Tenant's corporate group, or to such assignment in connection with the transfer of business as referred to in the land law (1990:994) chapter 12, § 36.

14. Environmental responsibility

If the Tenant conducts environmentally dangerous activity he shall be required to obtain the requisite permits for the conducting of the activity from the Landlord, authorities, courts or other determining instance. The Tenant is responsible for following the current environmental legislation and to conduct the environmentally dangerous activity in a manner that in all respects minimises any inconveniences for the Landlord, other tenants in the property as well as third parties. The Tenant is financially liable and, in all other respects, for the consequences of the conducted activity in relation to the Landlord, other tenants, third parties and the involved authorities or similar instances as well as, where appropriate, the courts.

In the event of the Landlord being subjected to financial liability for the environmentally dangerous activity that the Tenant conducts or has conducted, the Landlord is entitled to claim full compensation for this from the Tenant.

The Tenant shall consult with the Landlord in matters regarding choice of materials and technical equipment for fixed installations, reconstructions etc. that take place under the auspices of the Tenant, and shall also provide the Landlord with the requisite environmental information.

The Tenant is responsible for the cooling media installations that the Tenant employs at any given time in his activity, meeting all the requirements that are imposed in accordance with current environmental legislation.

15. Fire protection

The Tenant is responsible for maintaining equipment within the premises to a reasonable extent, for the extinguishing of fire and for rescuing lives in the event of fire or other accident. The Tenant is further responsible for otherwise taking the measures within the premises that are necessary in order to prevent fire and in order to prevent or restrict damage as a result of fire.

The Landlord has a responsibility for documenting the fire protection within the building. The Tenant is therefore obliged, no later than two months after the date of taking possession, as well as each year on 31 January, to hand over to the Landlord a written documentation of the Tenant's fire protection. The Tenant's documentation shall have the content as laid down by the Swedish Rescue Services Agency's general advice and comments on systematic fire protection work, SRVFS 2004:3.

The Tenant is responsible for providing the Landlord within two weeks of a written request, with the details that the Landlord requires in order to be able to discharge his obligation to provide a written account of the fire protection in the building to the municipality in accordance with the Act (2003:775) on Protection Against Accidents.

It is of particular importance for the Landlord that the Tenant discharges his obligations in accordance with the above.

16. Liability for damage to the property

The Tenant is liable for damage to the property that occurs as a result of, or as a consequence of, criminal attack against the Tenant, the Tenant's business or premises, e.g. attempted burglary, arson or causing explosions. It is, however, incumbent upon the Landlord to keep the property insured to the normal extent. The Tenant's payment obligation for damage of the type referred to in this paragraph is limited to what is not compensated through the Landlord's insurance, e.g. own risk.

17. Reconstructions and changes during the lease term

The Tenant is only entitled to cause reconstruction and fixtures & fittings work to be undertaken in the premises following written agreement with the Landlord. The Tenant shall thereupon obtain the requisite permits from the authorities. The Tenant shall, prior to undertaking such reconstruction and fixtures & fittings work, hand over drawings and descriptions to the Landlord for examination and approval. The Tenant shall appoint consultants and contractors approved by the Landlord. The Tenant is responsible for such reconstruction and fixtures & fittings work not damaging the building or giving rise to increased costs for the Landlord. The work shall be carried out professionally and in accordance with current standards and regulations.

The reconstruction and fixtures & fittings work within the premises carried out by the Landlord shall, upon completion, be inspected. The surveyor shall be appointed by the Landlord in consultation with the Tenant and shall be paid for by the Tenant. It is incumbent upon the Tenant to remedy the surveyor's criticisms in respect of the Tenant's work, without delay and at his own cost. Rectified criticisms shall be approved by the surveyor. The inspection shall be documented in a written record that shall be signed by both parties. The Tenant shall hand over the revised as-built documentation.

18. Signs

The Tenant has set up a sign programme for the property. The Tenant has the right to set up a sign by the entrance that is normal for the activity as well as one (1) sign on the facade in accordance with the outline in annexe 5, on condition that the Tenant follows the sign programme and has obtained the requisite permits from the authorities concerned. The sign proposal shall be approved by the Landlord before application for planning permission for the sign is submitted, whereupon it shall be noted that the Landlord shall have acceptable reasons for not approving the sign.

The Tenant shall be responsible for the operation and maintenance of the sign.

Upon the Landlord's maintenance of the facade the Tenant shall, if necessary, take down the sign during the requisite time. Upon moving out it is incumbent upon the Tenant to restore the house facade to an acceptable condition.

19. Right to reduction

The Tenant has no right to reduction of rent for obstacles or detriment in respect of the right of use as a consequence of the Landlord causing normal maintenance and normal reconstructions to be made in respect of the leased premises or the property in general. It is, however, incumbent upon the Landlord to notify the Tenant in good time with regard to the nature and scope of the work as well as when and for how long the work is to be carried out.

20. Interruptions in the property

The Tenant is aware, and accepts, that after moving in construction work may be undertaken in other premises in the building. The Landlord shall, however, give due consideration to the Tenant's activity and, as far as possible, limit any negative effect.

21. Reservation

The leasing contract is first binding when both parties have signed the contract and both parties have each received their copies of the signed contract.

22. Interpretation precedence

In the event of conflict between provisions in the Swedish Property Federation's form for leasing contracts and these special provisions, interpretation precedence applies to these special provisions.

Appendix 2
NCC Floor Plan

[Floor Plan diagram]

Exhibit 2 - NCC Floor Plan

Delegation of responsibilities
Investments, maintenance, exchanges, supervision and operations

Appendix 3
Leasing contract: 995 1 006
Leasor: NCC Property G AB
Leasee: Neonode AB
Address of premises: Warfvingesväg 41, Stockholm

2007-10-18

NCC Property G AB hereafter called the Landlord (U) and Neonode AB hereafter called the tennant (HG) have come to agreement on the following division of responsibility concerning the investment, replacements, maintenance, repairs, supervision and operations of fixtures and equipment.

The general principle for the acquisition costs is that U is responsible for all investments in the building (i.e. but not limited to, roof, floor, walls, water, sewer, heat, ventilation, electricity, fixed fixtures and fixed equipment) and HG is responsible for all loose furnishings (i.e. but not limited to, AV equipment, alarm, furniture, concept conforming shelving, office machines and all other property that is required by the operations).

The general principle for the maintenance is that the party which is responsible for the acquisition is also responsible for the maintenance and repairs. However, HG is responsible for the daily maintenance, cleaning and supervision in accordance with the manufacturer's recommendations. HG is responsible for damage exceeding normal wear and tear.

The list below is a guideline of the allocation of responsibility for the new acquisitions, replacements, maintenance, repairs, supervision and operations of equipment. In cases where a specific item is not listed on the list below, the general principles described above are enforced.

U = Landlord = NCC Property G AB
HG = Tennant = Neonode AB

	Investment	Maintenance, replacement	Supervision and operation	Note
Building				
Roof				
Guttors	U	U	U	
Drains	U	U	U	
Roofing	U	U	U	
Drain spouts	U	U	U	
Antennas	HG	HG	HG	
Fasad				
Signage/light fixtures	HG	HG	HG	Tennant
Signage/light fixtures	U	U	U	Landlords buildings
Entre door	U	U	U	
Garage door	U	U	U	
Window glass	U	U	HG	Openable, exept for towards essingleden
Window frames	U	U	U	
Interior				
Fixed fixtures and equipment				
Entre door to premisses	U	U	HG	
Door closer/opener, magnetic devices	HG	HG	HG	In addition to required from fire dept
Door closer/opener, magnetic devices	U	U	U	Required fire protection
Ceiling, floor, glass partitions, walls, surfaces	U	U	U	
Ceiling, floor, glass partitions, surfaces	U	HG	HG	
Inner doors	U	U	HG	
Toalet rooms	U	U	HG	
Pantry/kitchen incl white goods, microwaves and cupboards	U	HG	HG	
Buildings recyclying center/garbage rooms	U	U	U	
Other fixtures in common areas	U	U	U	
Sun protection	HG	HG	HG	
Loose fixtures and equipment				
Furniture	HG	HG	HG	
Shelving, Signs- and brocher stands	HG	HG	HG	
Bullitan boards, art etc.	HG	HG	HG	
Curtains, blinds	HG	HG	HG	

	Investment	Maintenance, replacement	Supervision and operation	Note
Office machines	HG	HG	HG	
Signs for the tennants purpose	HG	HG	HG	
Coffee machines, water dispensers	HG	HG	HG	
Konference room funishings	HG	HG	HG	
Cleaning equipment	HG	HG	HG	
Reception desks	HG	HG	HG	
Other loose furnishings and interior design details withing the premisis	HG	HG	HG	

Technical installations

	Investment	Maintenance, replacement	Supervision and operation	Note
Security and alarms				
Building fire protection (government requirements)	U	U	U	
Fire protection other	HG	HG	HG	
Wall barrier building, protection class 2 up to 4 meters	U	U	U	
Lock and enrtry systems	U	U	U	Entre fasad
Tennants own card and entry systems	HG	HG	HG	
Burglary alarm	HG	HG	HG	
Evacuation alarm RWC (building requirment)	U	U	HG	
Buildings operations alarm	U	U	U	
Tennants operations alarm	HG	HG	HG	
Telephone equipment				
Central equipment	HG	HG	HG	
Electrical network	U	HG	HG	
Equipment	HG	HG	HG	
Data communication				
Base netork, fiber, copper	U	U	U	Only to KK-room
Internal network, copper	U	HG	HG	
Poles	U	HG	HG	For 60 workstations + 12 st extra poles
Channalization	U	U	U	
Other communication equipement				
PA and AV-equipment	HG	HG	HG	
Internal-TV with the rented premises	HG	HG	HG	
Cabel TV	HG	HG	HG	
Antenna outlets	U	HG	HG	

Appendix 3
NCC Delegation of Responsibilities

	Investment	Maintenance, replacement	Supervision and operation	Note
Electrical installations				
Generella electrical equipment	U	U	U	
Lighting for common areas	U	U	HG	HG changes all light bulbs
Workstation lighting	HG	HG	HG	
Pipes-installations air conditioning				
Heating-, water- and ventilation equipment	U	U	U	
Sprinkler equipment	U	U	U	
Airconditioning KK-rum 3 kW	U	HG	HG	
Fire protection equipement				
Evacuation signs	U	U	HG	
Evacuation plans - maps	HG	HG	HG	
Fire extinguishers	HG	HG	HG	
Maintenance and operations				
Window washing, openable			HG	
Window washing, non-openable			U	End utsidan. 2 ggr per år
Cleaning, surfaces			U	
Snow removal, not outside areas			U	
Floor surfaces, walls and furnishings maintained by tennant		HG	HG	

ROOM AND TECHNICAL DESCRIPTION

Appendix 4 Lease Agreement:
Lessor: NCC Property G AB
Lessee: Neonode AB
Address of the premises: Warfvingesväg 41, Stockholm, Sweden

Room description

Office/ Open-plan layout/ Passageway
Flooring: Carpet standard 500 sek/square meter. Oak parquet floor, glued
Skirting: Wood
Ceiling: Level acoustic false ceiling with general pendant lighting
Walls: Painted
Installations: Airborne heating/cooling system
Other: Painted wood-framed glass partitions facing the corridor and wall systems between rooms.

Conference room
Flooring: Carpet standard 500 sek/square meter. Oak parquet floor, glued
Skirting: Wood
Ceiling: Level acoustic false ceiling with general pendant lighting
Walls: Painted
Installations: Airborne heating/cooling system
Other: Painted wood-framed glass partitions facing the corridor and wall systems between rooms. Folding partitions are not included. Furnishings and equipment are not included.

Photocopying room
Flooring: Carpet standard 500 sek/square meter. Oak parquet floor, glued
Skirting: Wood
Ceiling: Level acoustic false ceiling with general pendant lighting
Walls: Painted
Installations: Airborne heating/cooling system

Reception/ lobby/ waiting room/break
Flooring: Carpet standard 500 sek/square meter. Oak parquet floor, glued
Skirting: Wood
Ceiling: Level acoustic false ceiling with general pendant lighting
Walls: Painted
Installations: Airborne heating/cooling system
Other: All furnishings and special lighting for the reception area to be funded by the Lessee.

Pantry/Lunchroom (1 room) (food preparation not possible)
Flooring: Carpet standard 500 sek/square meter. Oak parquet floor, glued (plastic mat beneath and around cupboard)
Skirting: Wood
Ceiling: Level acoustic false ceiling with general pendant lighting
Walls: Painted, wall tiling between worktop and overhead cupboards
Installations: Airborne heating/cooling system. Water outlet for coffee machine/water cooler. Workplace lighting
Kitchen fittings and equipment: Worktop in laminat. Painted cupboard doors. Blender and sink fittings
Fridge, freezer, 2 dishwashers, 3 macrowave ovens. Fittings for microwave ovens and coffee-machine.

Appendix 4
NCC Room and Technical Description

WC
Flooring: Clinker
Walls: Tile
Other: Fully equipped WC, general lighting. All units are fixed to the wall. Handicap toilets include floor drain and shower fittings.

Cleaning cupboard

Flooring: Plastic mat
Skirting: Same as flooring
Walls: Painted
Ceiling: Level acoustic false ceiling
Other: General lighting. Slop basin

Storage room

Flooring: Linoleum
Skirting: Wood
Walls: Painted
Ceiling: Level acoustic false ceiling
Other: General lighting; furnishings and equipment are not included.

Laboratory

Flooring: Earthing plastic carpet, so called ESD-carpet
Skirting: Wood
Walls: Painted
Ceiling: Level acoustic false ceiling
Other: General lighting; furnishings and equipment are not included.

Server room/Cooling room

Flooring: Semiconducting carpet
Skirting: Wood
Walls: Painted
Other: General lighting. In cooling room: Fittings for 3 kW cooler. Cable TV outlet in star network.

Technical description

Building

Windows and French doors are constructed in the first instance with triple-glazed aluminium clad timber windows.
Window-frames are so-called triple windows offering the Lessee the opportunity to add their own Venetian blinds. Tinted glass for sun protection and Venetian blinds are installed in areas exposed to the sun.
Interior partitions facing the lift and stairwell in aluminium. Internal office partitions and partition wall panels between rooms are wall systems supplied by Eurowand, Flex or their equivalent.
False ceiling is constructed as a heavy acoustic false ceiling. Partition wall panels between rooms are attached to the false ceiling.
Office floor structure is designed to withstand a load of 2.5 kN/m2. Area designated to filing in the heart of the office can handle a load of 4 kN/m2.

Heating, cooling, ventilation

Inside temperature: Requirement level of The Swedish Indoor Climate Institute (Svenska Inneklimatinstitutet) is TQ2.
The temperature is regulated area-wise with a temperature sensor in each area. There are 8 areas per floor and building block in the open-plan office environment. Each office cubicle and conference room has its own temperature sensor.
Outdoor design temperature should be:

Summer: +22 º C +4/-2 º C (outdoor design temperature +27 º C 50 % RH)

Winter: +20 ^{o} C +/-2 ^{o} C (outdoor design temperature -20 ^{o} C 50 % RH)
Comfort cooling system should be designed to withstand an internal load of 30 W/m2 LOA
Sanitary airflow: 1.5 l/s/m2 for office/open-plan office environment and 4.5 l/s/m2 for conference/meeting room.
Air extraction occurs via fans placed in so-called "humid" areas and via a centrally placed device. Conference room (> 12 people) has an air extraction duct. The Lessee has the opportunity to initiate time-controlled ventilation and also regulate temperature for each area.

Sound, Acoustics
According to SIS 025268, the sound classification of spaces in buildings is class A/B. 35 dB between offices, 30 dB facing corridor, 44 dB between conference rooms, 35 dB facing corridor from conference room or 30 dB if walls are glazed. Within office areas, the sound level from installations is ≤ 35dBA.

Lighting
Lighting is designed according to AFS 2000:42 "Workplace Design" and NUTEK's design requirements "Office Lighting 1994-11 2 nd Edition", with the exception for the luminance requirement (up to 3500 cd/m2 is acceptable). Office areas are provided with workplace oriented lighting with an average illumination strength of 300 lux. Fluorescent tube fittings, mixed with uplights/downlights, individually controlled with light cord pull. The lighting is operated via centrally controlled time settings (on/off) and/or a switch.

Electricity
Electrical distribution box is located within the Lessee's allocated area. Above the false ceiling there are standard power sockets, computer power sockets and light sockets. Joined to these sockets are ceiling-to-floor cable rods that are to be funded by the Lessee.
Lightning protection system is installed in the property.

Safety and Security
According to SSF 2000:3 protection class 2, the property's perimeter protection is installed up to the 4 metre level above the ground. The Lessee is responsible for their own perimeter protection and for security on their own premises. The partition doors in the Lessee's lobby and the walls surrounding the premises to be in accordance with protection class 2. The doors to the main entrance shall be equipped with an empty conduit in which to mount the Lessee's electric strike plates and access systems.
The property is equipped with a sprinkler system. Evacuation alarm with detectors in the whole property according to public authority's demand.

Data/telecommunications
Fibre optics for data network and telephony are drawn out into cross connect systems in respective control rooms.

Appendix 5
NCC Display Programme

[Display Programme]

Exhibit 5 - Display Programme
Page 1

EMPLOYMENT AGREEMENT

This agreement has been made on the date set out below.

BETWEEN Neonode, Inc., hereafter “the Company” AND Mikael Hagman “the Employee”.

§ 1 Form of employment and position

The Employee is hereby employed as CEO.

The parties agree that the position entails duties and conditions of employment such that the employee shall be deemed to occupy a managerial or comparable position.

§ 2 Work duties

The Employee’s work duties shall accord with instruction, which may from time to time be given for the position of CEO. The Employee’s locality of employment is at present Sweden.

§ 3 Duration of the agreement and notice of termination

This agreement shall apply as of 2006-03-05 and indefinitely thereafter. The agreement may be terminated upon observance of a period of notice of termination of 12 months by the Company, and 6 months by the Employee. For the length of the employee’s seniority and service within the Company, the date of this agreement shall apply.

Upon termination by the Company, the Company is entitled to remove the Employee from the conduct of the Company’s affairs during the period of notice or part thereof.

In such a case, the Employee is entitled to assume other employment or to conduct his own business with no other restriction than that which appears in the provision of non-competition of this agreement.

If the Employee is removed from his conduct of the Company’s affairs, then all property which the Employee uses in connection with the employment shall be returned to the Company within five days, however in no case later than the date of the employment’s termination.

§ 4 Work hours and vacation

The Employee shall devote all of his work time to his post pursuant to this agreement, and according to the standard working hours of the Company.

Vacation shall consist of 30 vacation days per year pursuant to the provisions of law as may from time to time be applicable.

Vacations shall be planed in consultation with direct supervisor, and with respect to the business in the Company.

§ 5 Outside work

The Employee may not hold another employment or be engaged in another business without the expressed and written approval of the board, nor may the Employee otherwise he engaged in activities, which can detrimentally affect his employment under this agreement.

§ 6 Salary and Remuneration for board membership

Annual base salary applicable shall be 1.560.000 SEK.

A review of salary and benefits shall normally he made each year in connection with ordinary revision of the pay scale for the Company's other employees. The first review of salary shall be made after six months.

According to the policy applicable to the Company the Employee is not entitled to receive remuneration for hoard membership in companies of the Company group.

No salary for overtime work or travel time shall be payable.

§ 7 Bonus and options

The Employee is engaged into a separate bonus arrangement, annually established in discretion by the Company. Current bonus program in appendix 1.

The Employee is engaged into a separate stock options agreement with the Company. Appendix 2.

§ 8 Pension and sickness benefits etc

In addition to benefits required by the national insurance act the Employee is entitled to the insurance policy of Neonode Inc. as may front time to time be applicable.

The Employee is also entitled to a pension benefit of 12% of the annual base salary per year, which will substitute the current scheme between the relevant employer and employee associations with regard to supplementary pension for salaried employees. By choosing a pension benefit the employee will not have the option to join "ITP tjanstepension" at any point of his employment with the Company

§ 9 Business Trips and parking lot provided by the employer

In connection with business trips, the Employee shall receive compensation according to the Company's travel and subsistence allowance rules. In connection with such trips, the Employee shall comply with the provisions on travel and accommodation expenditures contained in those rules.

The Employee shall be provided a parking lot nearby the office in Stockholm

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§ 10 Summary dismissal

The Company is entitled to summary dismiss the Employee, effective immediately, if the Employee has grossly neglected his statutory or contractual obligations. In the event of such summary dismissal the Employee forfeits any right to severance pay as well as the right to salary another employment benefits during the period or notice, if any.

§ 11 Severance

The Employee is entitled to severance pay if

a) the Company dismisses the Employee; or

b) the Employee terminates the agreement due to the Company's breach of contract.

Severance pay shall he paid at the minimum amount based on the Employee's salary at the time of the agreement's termination, corresponding to 12 months base salary.

Severance pay shall be paid monthly following the termination of the employment contract. The Company will not pay social security fees on the severance pay or insurance premiums unless so required by statue or contract. Severance pay is not combined with vacation pay.

If the Employee during the period that severance pay is paid pursuant to the proceeding paragraph, assume employment with another employer or become engaged in his own business, then the Company shall be notified of such circumstance and in such a case deduction of the severance pay shall be made.

§ 12 Secrecy

The Employee agrees without any limitation in time not to disclose to third parties confidential information concerning the Company or any other company in the Company Group and their business activities.

"Confidential information", as used in this provision means any information – technical, commercial or of any other nature – regardless of whether or not the information is documented, with the exception of information which is, or becomes generally known or which has come, or will come, to general knowledge other than through the Employee's breach of this provision.

If the Employee commits a breach of the above secrecy undertaking the Employee shall, upon request by the Company pay a penalty of 250.000 SEK for each individual case. The Company is also entitled to damages above 250.000 SEK if the Employee's breach of the secrecy agreement damage the Company for more than 250.000 SEK.

§ 13 Non-competition

The Employee agrees that during the period of employment and for a period of 12 months after termination of the employment, not to, either directly or indirectly, conduct or in any manner further activities that competes with the business activities of the Company.

If the Employee commits a breach of the above prohibition against competition, the Employee shall upon request by the Company pay a penalty of 500.000 SEK for each individual breach. The Company is also entitled to damages above 500.000 SEK if the Employee's breach of the competition damage the Company for more than 500.000 SEK.

Payment of a penalty shall not prejudice the Company's right to remedies other than damages due to breach of contract.

§ 14 Amendments

Only those amendments and addition to this agreement that are made in writing and signed by the parties are valid.

§ 15 Entire agreement

The agreement and its appendixes constitute the parties complete regulation of all questions which the agreement concerns. All written or undertakings or understandings which have proceeded the agreement or superseded by the contents of this agreement and its appendixes

§ 16 Governing law

This agreement and any dispute in connection with this employment relationship is governed by Swedish law and Swedish courts.

This agreement has been executed in two copies of which the parties have taken one each.

Stockholm 2006-11-30
Neonode Inc

/s/ Per Bystedt
Per Bystedt
Chairman

/s/ Magnus Goertz
Magnus Goertz
Director

Place and date

/s/ Mikael Hagman
Mikael Hagman

Appendix 1, bonus program

The Company and the Employee shall in good faith work out the details for a bonus program, where the Employee is entitled to a yearly bonus of maximum twelve months salaries.

Appendix 2, stock option program

The Employee is entitled to participate in the employee stock option program. The allocation to the Employee is 100.000 employee stock options at points in time over a period of 4 years.

SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction
Neonode, AB	**Sweden**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Neonode Inc.
Stockholm, Sweden

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-132713, 333-63228, 333-114161) and Form S-3 (No. 333-147425) of Neonode Inc. of our report dated April 14, 2008, relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

April 14, 2008

BDO Feinstein International AB	BDO Feinstein International AB
/s/Johan Pharmanson	/s/Tommy Bergendahl
Authorized Public Accountant	Authorized Public Accountant

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mikael Hagman, certify that:

1. I have reviewed this annual report on Form 10-K of Neonode Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2008

/s/ Mikael Hagman
Mikael Hagman
President and Chief Executive

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David W. Brunton certify that:

1. I have reviewed this annual report on Form 10-K of Neonode Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2008

/s/ David W. Brunton

David W. Brunton
Chief Financial Officer, Vice President, Finance and
Secretary

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

In connection with the annual report of Neonode Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "report"), the undersigned, Mikael Hagman, the Chief Executive Officer of the Company, and David W. Brunton, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

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

Dated: April 14, 2008

/s/ Mikael Hagman	/s/ David W. Brunton
Mikael Hagman	David W. Brunton
Chief Executive Officer	Chief Financial Officer

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference to any filing of Neonode Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before of after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.