

Company Report

NEONODE INC.

Pure-Play Riding the Rise of the Touch Screen Market

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NEONODE, INC. (OTC: BB – NEON - \$0.033)

Price Target: \$0.20

Rating: Speculative Buy

COMPANY SNAPSHOT

Neonode Inc. is the leading provider of optical touch screen solutions for hand-held and small to midsize devices. Neonode licenses proprietary hardware design and software, and provides related engineering design services to OEMs, and third-party manufacturers, that enable companies to produce high functionality touch screens at a low cost. zForce™, proprietary patented touch screen technology, is the driving force behind the Company's success. Neonode Technologies AB, is a wholly owned subsidiary of Neonode, Inc., which is based in Stockholm, Sweden.

KEY STATISTICS

Price as of 5/21/10	\$0.033
52 Wk High – Low	\$0.04–.027
Est. FD Shares Out.	600M
Market Capitalization	\$19.8M
3 Mo Avg Vol	62,000
Exchange	OTC:BB

COMPANY INFORMATION

Neonode, Inc.

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INVESTMENT HIGHLIGHTS

According to industry research group iSuppli Corp., the global market for touch screen modules is expected to grow from 341M units in 2008 to 833M units in 2013, a roughly 20% CAGR. Revenue is slated to rise from \$3.4B to \$6.4B during the same timeframe.

Drivers of the touch screen market include mobile phones, laptops, tablet PCs, e-book readers, navigation screens, etc. The proliferation and mass market acceptance of touch screens have prompted new applications and uses for existing and new offerings, thus making the production and utilization of these modules one of the fastest growing tech segments.

With superior patent-protected technology, Neonode is the low-cost, high-performance small – medium sized touch screen solutions provider. Neonode has invested \$20M in its zForce™ touch screen technology and it has been in commercial use for five years. Plus, the Company has amassed one of the largest patent and intellectual property rights portfolios in the space.

Neonode is engaged in a highly profitable business model. As a licensor of proprietary hardware design and software to OEMs and ODMs, Neonode should generate 50-60% operating margins next year.

The Company's hit list includes some of the biggest names in consumer electronics and electronics manufacturing services. Given the inherent low cost, technology, and engineering advantages, and based on its penetration efforts, we believe that Neonode will be cash-flow positive by 4Q10 and could generate \$12M in revenue in 2011, based on sales to these global giants.

Neonode is a great inexpensive way to play the explosive growth of the touch screen market. We believe that Neonode will gain critical mass in sales next year and earn at least \$6M. We derive our price target of \$0.20 based on a 20x multiple to next year's \$6M in EBITDA. We note that our revenue and earnings forecasts could be too conservative. Also, as the Company signs new customers, we deem it likely that Neonode could be acquired for its IP at a significant premium. Thus, we rate NEON a Speculative Buy.

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Analyst: Robert Goldman

Rob Goldman has 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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