Neonode, Inc
Form 424B5
December 09, 2011

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Registration No. 333-177726

PROSPECTUS SUPPLEMENT
(To the Prospectus dated November 16, 2011)

4,000,000 Shares

Common Stock

We are offering 3,000,000 shares of our common stock and the selling stockholders named herein are offering an additional 1,000,000 shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. We will not receive any proceeds from the sale of shares by the selling stockholders.

Our common stock is quoted on The Over-the-Counter Bulletin Board (the "OTCBB") under the symbol "NEON.OB." The last reported sale price of our common stock on December 7, 2011 was $4.39 per share.

Our business and an investment in our common stock include significant risks. See "Risk Factors" on page S-3 of this prospectus supplement and on page 4 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$ 4.00	$ 16,000,000
Underwriting discount (1)	$ 0.28	$ 1,120,000
Proceeds, before expenses, to us	$ 3.72	$ 11,160,000
Proceeds, before expenses, to the selling stockholders	$ 3.72	$ 3,720,000

(1) See "Underwriting" for a description of the compensation payable to the underwriter.

The underwriter may also purchase up to an additional 600,000 shares from the selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments, if any. We will not receive any proceeds from the sale of any shares by the selling stockholders upon the exercise by the underwriter of its over-allotment option.

The underwriter expects to deliver the shares against payment on or about December 13, 2011.

Cowen and Company

December 7, 2011.

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Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus dated November 16, 2011, including the documents incorporated by reference therein, provides more general information. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in any document incorporated by reference that was filed with the Securities and Exchange Commission, or SEC, before the date of this prospectus supplement, on the other hand, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date — for example, a document incorporated by reference in the accompanying prospectus — the statement in the document having the later date modifies or supersedes the earlier statement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus that we have authorized for use in connection with this offering. We have not, the selling stockholders have not, and the underwriter has not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, the selling stockholders are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the date of those respective documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus in their entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the sections of this prospectus supplement entitled “Where You Can Find More Information” and “Incorporation of Certain Information by Reference.”

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to “Neonode,” “we,” “our” or similar references mean Neonode Inc. and its subsidiary. References to “selling stockholders” refer to those holders of our common stock listed in this prospectus supplement under “Selling Stockholders.”

This prospectus supplement, the accompanying prospectus and the information incorporated herein and therein by reference include trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus supplement or the accompanying prospectus are the property of their respective owners.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights certain information about us, this offering and selected information contained elsewhere in or incorporated by reference into this prospectus supplement or the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider before deciding whether to invest in our common stock. For a more complete understanding of our company and this offering, we encourage you to read and consider carefully the more detailed information in this prospectus supplement and the accompanying prospectus, including the information incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information under the heading “Risk Factors” in this prospectus supplement on page S-3 and on page 4 of the accompanying prospectus.

Neonode Inc.

Our Company

We provide optical infrared touch screen solutions for handheld and small to midsized consumer and industrial electronic devices. We license our touch screen technology to Original Equipment Manufacturers (“OEMs”) and Original Design Manufacturers (“ODMs”) who embed our touch screen technology into electronic devices that they develop and sell. The cornerstone of our solution is our innovative optical infrared touch screen technology, named zForce®. Our patented zForce® technology offers a number of benefits compared to other touch screen technologies currently on the market. Our optical infrared technology offers clients lower cost and more functional alternatives to other touch screen technologies. zForce® also consumes less power than our competitors’ solutions, is able to function in a wide temperature range, requires no screen overlay and thus offers a much clearer picture while at the same time accommodating multi-touch functionality. zForce® combines full finger touch capabilities and high resolution pen support in the same solution.

Our technology licensing model allows us to focus on the development of solutions for multi-touch enabled screens, and thus we do not have to contend with the financial and logistical burden of manufacturing products, which is handled by our ODM/OEM clients. We license the right to use zForce® and software that, together with standard components from partners, creates a complete optical touch screen solution. The zForce® multi-touch product is our latest release and is currently being integrated into products such as mobile phones, mobile internet devices, eReaders, digital picture frames, printers, GPS devices and tablet PCs.

Corporate Information

Neonode Inc., formerly known as SBE, Inc., was incorporated in the State of Delaware on September 4, 1997. Our headquarters are located at Linnegatan 89, SE-115 23 Stockholm, Sweden, and our telephone number at this address is + 46 8 667 17 17. Our office in the United States is located at 2700 Augustine Drive, Suite 100, Santa Clara, California, USA 95054, and our telephone number at this address is (408) 496-6722. Our website address is www.neonode.com. Information contained on our website, or that can be accessed through our website, is not a part of this prospectus supplement or the accompanying prospectus.

The Offering

Common stock offered by us	3,000,000 shares
Common stock offered by the selling stockholders	1,000,000 shares
Overallotment option	600,000 shares
Common stock to be outstanding immediately after this offering	32,851,721 shares
Use of proceeds	We intend to use the net proceeds from this offering primarily for general corporate purposes, including capital expenditures and working capital. See "Use of Proceeds" on page S-5 of this prospectus supplement.
Risk factors	Investing in our common stock involves significant risks. See "Risk Factors" on page S-3 of this prospectus supplement and on page 4 of the accompanying prospectus.
OTCBB symbol	NEON.OB

In March 2011, we entered into new convertible loan agreements with investors who participated in our 2009 and 2010 financing transactions. We refer to the loans made pursuant to these convertible loan agreements as the 2011 convertible notes. The convertible loan agreements provide that the 2011 convertible notes will automatically be converted into shares of our common stock in the event that on or before the loan due date we consummate a financing in the amount of at least $5 million. The proceeds to be received by the Company from the offering pursuant to this prospectus supplement and accompanying prospectus are more than $5 million. Assuming full conversion of the outstanding 2011 convertible notes plus accrued interest, approximately 1,685,425 additional shares of our common stock will be issued and become outstanding.

The number of shares of our common stock to be outstanding immediately after this offering as shown above is based on 28,166,296 shares outstanding as of December 5, 2011, assumes the full conversion of the outstanding loans under the convertible loan agreements, and excludes:

- full exercise of the unexercised warrants to acquire 5,405,606 shares of common stock;

- full exercise of options to acquire 19,324 share of common stock; and

- full conversion of the Series A and Series B Preferred Stock to acquire 54,948 shares of common stock.

Except as otherwise indicated, all information in the prospectus supplement assumes no exercise by the underwriter of its overallotment option.

RISK FACTORS

An investment in our common stock involves a high degree of risk. Before deciding whether to invest in our common stock, you should consider carefully the risks described below and discussed under the section captioned “Risk Factors” contained on page 4 of the accompanying prospectus in its entirety, together with other information in this prospectus supplement, the accompanying prospectus, and the information and documents incorporated by reference that we have authorized for use in connection with this offering. If any of these risks actually occur, our business, financial condition, results of operations or cash flows could be seriously harmed. This could cause the trading price of our common stock to decline, resulting in a loss of all or part of your investment.

Risks Related to This Offering

Sales of our common stock through this offering or other equity issuances could trigger a limitation on our ability to use our net operating losses and tax credits in the future.

The Tax Reform Act of 1986 limits the annual use of net operating loss and tax credit carryforwards in certain situations where changes occur in stock ownership of a company. In the event we have a change in ownership, as defined in the Internal Revenue Code of 1986, as amended, the annual utilization of such carryforwards could be limited. This offering or other equity issuances could trigger a limitation on our ability to use our net operating losses and tax credits in the future under Sections 382 and 383 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986.

If you purchase the common stock sold in this offering, you will experience immediate and substantial dilution in your investment. You will experience further dilution if we issue additional equity securities in future fundraising transactions.

Because the price per share of our common stock being offered is substantially higher than the net tangible book value per share of our common stock, you will suffer substantial dilution with respect to the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of $4.00 per share and our net tangible book value as of September 30, 2011, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $0.38 per share with respect to the net tangible book value of the common stock. See the section entitled “Dilution” on page S-6 of this prospectus supplement for a more detailed discussion of the dilution you will incur if you purchase common stock in this offering.

If we issue additional common stock, or securities convertible into or exchangeable or exercisable for common stock following the expiration of the lock-up agreement we entered into with the underwriters as described in the section entitled “Underwriting,” our stockholders, including investors who purchase shares of common stock in this offering, could experience additional dilution, and any such issuances may result in downward pressure on the price of our common stock.

We will have broad discretion as to the use of the proceeds from this offering, and we may not use the proceeds effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business or the development of our product candidates and cause the price of our common stock to decline.

FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Exchange Act. Forward-looking statements reflect the current view about future events.

When used, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms a similar expressions, as they relate to us or our management, identify forward-looking statements. Such statements, include, but are not limited to, statements relating to our business strategy, our future operating results, and liquidity and capital resources outlook. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward–looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees of assurance of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, a decline in general economic conditions nationally and internationally; decreased demand for our products and services; market acceptance of our products and services; our ability to protect our intellectual property rights; the impact of any infringement actions or other litigation brought against us; competition from other providers and products; our ability to develop and commercialize new and improved products and services; our ability to raise capital to fund continuing operations; changes in government regulation; our ability to complete customer transactions and capital raising transactions; and other factors (including the risks contained in the section of this prospectus supplement and the accompanying prospectus entitled “Risk Factors”) relating to our industry and to our operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

You should read this prospectus supplement, the accompanying prospectus, the documents we have filed with the SEC that are incorporated by reference and any free writing prospectus that we have authorized for use in connection with this offering completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in the foregoing documents by these cautionary statements.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 3,000,000 shares of common stock that we are offering will be approximately $10,585,000, after deducting the underwriting discount and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for general corporate purposes, including capital expenditures and working capital. We may also use a portion of the net proceeds to acquire or invest in complementary businesses, technologies, product candidates or other intellectual property, although we have no present commitments or agreements to do so.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders, which are estimated to be approximately $3,720,000, after deducting the estimated underwriting discount, and assuming no exercise by the underwriter of its overallotment option.

DIVIDEND POLICY

Since becoming a public company, we have not declared or paid any cash dividends on our common stock and do not expect to do so in the foreseeable future. We currently intend to retain all available funds for use in the operation and expansion of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend principally upon our results of operations, financial conditions, capital requirements, contractual and legal restrictions and other factors the board deems relevant.

DILUTION

Our net negative tangible book value (unaudited) as of September 30, 2011 was approximately $5.9 million, or $(0.21) per share. Net negative tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of shares of our common stock outstanding as of September 30, 2011. Dilution with respect to net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately after this offering.

After giving effect to the sale of 3,000,000 shares of our common stock in this offering at the public offering price of $4.00 per share and after deducting the underwriting discount and estimated offering expenses payable by us and the conversion of the outstanding 2011 convertible notes plus interest into approximately 1,685,425 shares of our common stock, our as adjusted net tangible book value as of September 30, 2011 would have been approximately $12.3 million, or $0.38 per share. This represents an immediate increase in net tangible book value of $0.59 per share to existing stockholders and immediate dilution of $3.62 per share to investors purchasing our common stock in this offering at the public offering price.

The following table illustrates this dilution on a per share basis:

Public offering price per share		$4.00
Net negative tangible book value per share of as September 30, 2011	$(0.21)	
Increase in net tangible book value per share attributable to investors purchasing our common stock in this offering	$0.53	
Increase in net tangible book value per share attributable to the extinguishment of debt upon conversion of the outstanding 2011 convertible notes into shares of our common stock pursuant to the convertible loan agreements	$0.06	
As adjusted net tangible book value per share after this offering		$0.38
Dilution per share to investors purchasing our common stock in this offering		$3.62

The above discussion and table are based on 27,934,179 shares outstanding as of September 30, 2011, and excludes:

- full exercise of the unexercised warrants to acquire 5,405,606 shares of common stock;
- full exercise of options to acquire 19,324 share of common stock; and
- full conversion of the Series A and Series B Preferred Stock to acquire 54,948 shares of common stock.

To the extent that the warrants outstanding as of September 30, 2011 have been or may be exercised, investors purchasing our common stock in this offering may experience further dilution.

In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

SELLING STOCKHOLDERS

The following table sets forth information as of December 5, 2011, regarding beneficial ownership of each selling stockholder that is offering shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. When we refer to the "selling stockholders" in this prospectus supplement, we mean those persons listed in the table below.

We have determined beneficial ownership in accordance with SEC rules. The information does not necessarily indicate beneficial ownership for any other purpose. Except as indicated in the footnotes to this table and pursuant to state community property laws, we believe, based on the information furnished to us, that the persons named in the table have sole voting and investment power with respect to all shares reflected as beneficially owned by them. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock that could be issued upon the exercise of outstanding options held by that person that are currently exercisable or exercisable within 60 days of December 5, 2011 are considered outstanding. These shares, however, are not considered outstanding when computing the percentage ownership of any other person.

Selling Stockholder name and address	Number of shares before the Offering	Percentage beneficially owned before the offering	Number of shares offered hereby (1)	Number of shares after the Offering	Percentage beneficially owned after the offering (2)
Per Bystedt Chairman of the Board c/o Neonode Inc. Linnégatan 89 SE-115 23 Stockholm Sweden	4,658,017(3)(4)(5)	16.54 %	500,000	4,158,017	12.66 %
Thomas Eriksson CEO and Director c/o Neonode Inc. Linnégatan 89 SE-115 23 Stockholm Sweden	3,199,755(6)	11.36 %	500,000	2,699,755	8.22 %

(1) Assumes no exercise of the underwriter's overallotment option. In the event the underwriter overallotment option is fully exercised with the purchase by the underwriter of an additional 120,000 shares from Mr. Bystedt and 480,000 shares from Mr. Eriksson, Mr. Bystedt will own 4,038,017 shares of common stock after the offering, representing 12.29% of our common stock and Mr. Eriksson will own 2,219,755 shares of common stock after the offering, representing 6.76% of our common stock.

(2) Percentage of ownership is based on 32,851,721 shares of our common stock outstanding on December 5, 2011, which assumes the full conversion of the outstanding 2011 convertible notes plus accrued interest into approximately 1,685,425 newly issued and outstanding shares of our common stock. The convertible loan agreements provide that the 2011 convertible notes will automatically be converted into shares of our common stock in the event that on or before the loan due date, the Company consummates a financing in the amount of at least $5 million. The proceeds to

be received by the Company from the offering pursuant to this prospectus supplement and accompanying prospectus are more than $5 million. Assuming full conversion of such 2011 convertible notes, Mr. Bystedt's share ownership after the offering will represent 12.66% of our common stock and Mr. Eriksson's ownership after the offering will represent 8.22% of our common stock.

(3) Includes 1,600 shares of common stock that Mr. Bystedt has the right to acquire within 60 days after the date of this table under outstanding stock options. These shares are not being offered pursuant to this prospectus supplement.