FORM S-1

General form of registration statement for all companies including face-amount certificate companies

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SMARTDISK CORP
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As filed with the Securities and Exchange Commission on July 14, 1999
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SMARTDISK CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	3577	65-0733580
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3506 MERCANTILE AVENUE
NAPLES, FLORIDA 34104
(941) 436-2500
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

MICHAEL S. BATTAGLIA
PRESIDENT AND CHIEF EXECUTIVE OFFICER
3506 MERCANTILE AVENUE
NAPLES, FLORIDA 34104
(941) 436-2500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES OF COMMUNICATIONS TO:

BRUCE E. MACDONOUGH, ESQ. MICHAEL G. TAYLOR, ESQ. GREENBERG TRAURIG, P.A. 1221 BRICKELL AVENUE MIAMI, FLORIDA 33131 (305) 579-0500	TIMOTHY TOMLINSON, ESQ. TOMLINSON ZISKO MOROSOLI & MASER LLP 200 PAGE MILL ROAD PALO ALTO, CALIFORNIA 94306 (650) 325-8666	ALAN K. AUSTIN, ESQ. TREVOR J. CHAPLICK, ESQ. WILSON SONSINI GOODRICH & ROSATI, PROFESSIONAL CORPORATION 650 PAGE MILL ROAD PALO ALTO, CALIFORNIA 94303 (650) 493-9300

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 (the "Securities Act"), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [_]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act

registration statement number of the earlier effective registration statement for the same offering. [_] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_] _____

CALCULATION OF REGISTRATION FEE

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TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE(2)
<S>	<C>	<C>
Common Stock, $0.001 par value.....	$40,000,000	$11,120

<FN>
(1) Includes shares that the Underwriters have the option to purchase from the Company to cover over-allotments, if any.
(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
</FN>
</TABLE>

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the securities and exchange commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 14, 1999

[SMARTDISK LOGO]

_____ SHARES

COMMON STOCK

SmartDisk Corporation is offering _____ shares of its common stock. This is our initial public offering and no public market currently exists for our shares. We have filed an application for the common stock to be quoted on The Nasdaq National Market under the symbol "SMDK." We anticipate that the initial public offering price will be between $____ and $____ per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS.
SEE "RISK FACTORS" BEGINNING ON PAGE 4.

	PER SHARE	TOTAL
Public Offering Price.....	$	$
Underwriting Discounts and Commissions.....	$	$
Proceeds to SmartDisk.....	$	$

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We have granted the underwriters a 30-day option to purchase up to an additional _____ shares of common stock to cover over-allotments.

BANCBOSTON ROBERTSON STEPHENS

HAMBRECHT & QUIST

U.S. BANCORP PIPER JAFFRAY

The undersigned is facilitating internet distribution

E*TRADE SECURITIES

The date of this prospectus is , 1999

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF THE COMMON STOCK. IN THIS PROSPECTUS, REFERENCES TO "SMARTDISK," "WE," "OUR" AND "US" REFER TO SMARTDISK CORPORATION.

UNTIL _____, 1999, ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS REQUIREMENT IS IN addition TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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We own or have rights to the product names, tradenames and trademarks that we use in conjunction with the sale of our products. This prospectus also contains product names, tradenames and trademarks of other companies.

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY IS NOT COMPLETE AND DOES NOT CONTAIN ALL OF THE INFORMATION THAT YOU SHOULD CONSIDER BEFORE BUYING SHARES IN THE OFFERING. YOU SHOULD READ THIS ENTIRE PROSPECTUS CAREFULLY.

OUR BUSINESS

SmartDisk is a market leader in the design and development of products that enable consumers to easily share digital data among advanced consumer electronic products, PCs and the Internet. Consumers are increasingly relying on the transfer of digital information as an important part of their daily lifestyles. We believe that our products provide an easy-to-use, cost-effective and versatile solution for the exchange of digital data. Our patented products, FlashPath and Smarty, allow consumers to use the familiar 3.5 inch floppy drive - found on most PCs worldwide - to simplify the exchange of images, music, voice and other digital data.

Our current FlashPath product is used primarily to transfer images to PCs from digital cameras using the Toshiba SmartMedia flash memory card. SmartMedia cards are used in cameras made by a number of leading camera manufacturers, including Agfa, FujiFilm, Olympus, Polaroid, Ricoh, Sanyo, Sharp and Toshiba. FlashPath also enables consumers to transfer voice between digital voice recorders and PCs, and digital music between PCs. During the 12-month period ended June 30, 1999, we sold over 700,000 FlashPaths.

We are currently developing, with Sony and SanDisk, additional FlashPath products to support their flash memory cards - the Memory Stick and the MultiMediaCard. These flash memory cards are expected to have applications in "smart" cellular phones, digital cameras and camcorders, digital audio players and video game devices. In addition to our product development efforts with Sony and SanDisk, we also have strategic relationships with a number of key industry players, including Hitachi, NEC and Toshiba. Our strategic partners actively participate in the development of our products, provide us with access to leading-edge manufacturing capabilities, and market and distribute our products globally.

Our objective is to establish our FlashPath products as the industry-standard solution for the transfer of data between digital appliances and PCs by strengthening our position as a technological and market leader. Key elements of our business strategy include:

- Capitalizing on our technology expertise and technology platform to expand our product offerings;
- Expanding our customer and strategic industry relationships to take advantage of the significant marketing clout of our OEM customers and the new product insights that result from our cooperative development activities;
- Supporting different flash memory card standards in order to address the data transfer needs of purchasers of emerging digital appliances that use different flash memory card formats;
- Promoting market awareness of our FlashPath and Smarty brand names; and
- Continuing our focus on easy-to-use products that do not require hardware installation, cables or the use of PC ports.

We were incorporated in Delaware on March 5, 1997 as "Fintos, Inc." and changed our name to "SmartDisk Corporation" on September 26, 1997. Our executive

offices are located at 3506 Mercantile Avenue, Naples, Florida 34104, and our telephone number is (941) 436-2500.

THE OFFERING

Common stock offered by SmartDisk.....	_____ shares
Common stock to be outstanding after this offering.....	_____ shares
Use of proceeds.....	We intend to use the estimated $____ million net proceeds from this offering for working capital, potential acquisitions of technology or businesses and other general corporate purposes.
Proposed Nasdaq National Market symbol..	SMDK

Except as otherwise indicated, information in this prospectus is based on the following assumptions:

- The number of shares of our common stock to be outstanding after the offering is based on shares outstanding as of July 1, 1999.
- The number of shares excludes:
  - (a) _____ shares of common stock available for issuance if the underwriters' over-allotment option is exercised in full;
  - (b) 3,425,135 shares of common stock available for issuance under our 1998 Employee Stock Option Plan, 3,148,875 of which were subject to outstanding options at a weighted average exercise price of $1.55 per share at July 1, 1999;
  - (c) 726,000 shares of common stock available for issuance under our 1998 Directors and Consultants Stock Option Plan, 417,125 of which were subject to outstanding options at a weighted average exercise price of $1.83 per share at July 1, 1999;
  - (d) _____ shares of common stock available for issuance under our 1999 Incentive Compensation Plan, none of which was subject to outstanding options at July 1, 1999; and
  - (e) _____ shares of common stock available for issuance under our 1999 Employee Stock Purchase Plan, none of which had been issued at July 1, 1999.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

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	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1997	1998	1998	1999
	(UNAUDITED)					(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:							
Revenues:							
Product sales.....	$102	$316	$500	$893	$15,038	$421	$5,430

Royalties	--	--	--	--	285	111	77
Total revenues	102	316	500	893	15,323	532	5,507
Cost of revenues	68	486	367	301	12,600	441	4,647
Gross profit (loss)	34	(170)	133	592	2,723	91	860
Operating expenses:							
Research and development	499	163	720	1,412	1,608	302	925
Sales and marketing	47	48	6	12	2,547	253	726
General and administrative	546	1,933	3,418	3,184	4,049	742	1,015
Impairment loss	--	--	7,807	--	--	--	--
Total operating expenses	1,092	2,144	11,951	4,608	8,204	1,297	2,666
Operating loss	(1,058)	(2,314)	(11,818)	(4,016)	(5,481)	(1,206)	(1,806)
Gain (loss) on translation	--	--	--	--	(48)	--	63
Interest and other income	--	38	--	8	76	13	26
Interest expense	--	--	--	(1)	(52)	(15)	(9)
Net loss before income taxes	(1,058)	(2,276)	(11,818)	(4,009)	(5,505)	(1,208)	(1,726)
Income tax benefit	--	--	(2,348)	(45)	(77)	(19)	(19)
Net loss	$(1,058)	$(2,276)	$(9,470)	$(3,964)	$(5,428)	$(1,189)	$(1,707)
Net loss per share(1)	$(0.04)	$(0.08)	$(0.31)	$(0.13)	$(0.14)	$(0.04)	$(0.04)
Shares used in computing net loss per share (2)(3)	29,400	29,400	30,496	31,262	38,351	31,306	45,938

</TABLE>

	MARCH 31, 1999	
	ACTUAL	AS ADJUSTED(4)
	(UNAUDITED)	
BALANCE SHEET DATA:		
Cash and cash equivalents	$1,807	
Working capital	1,069	
Total assets	12,113	
Long-term debt (including current portion)	631	
Total stockholders' deficit	7,101	

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(1) Basic and diluted net loss per share are the same for all periods presented.

(2) Redeemable common stock shares are included in shares used in computing net loss per share for all 1998 and 1999 periods.

(3) Shares used in computing net loss per share reflect the retroactive adjustment of outstanding shares related to the mergers of SmartDiskette Limited and SmartDisk Security Corporation into SmartDisk.

(4) Adjusted to give effect to our sale of the _____ shares of common stock at an assumed public offering price of $_____ per share (after deduction of the estimated underwriting discount and offering expenses) and the receipt and application of the net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

BEFORE YOU INVEST IN OUR COMMON STOCK, YOU SHOULD BE AWARE OF VARIOUS RISKS, INCLUDING THOSE DESCRIBED BELOW. YOU SHOULD CAREFULLY CONSIDER THESE RISK FACTORS, TOGETHER WITH ALL OF THE OTHER INFORMATION INCLUDED IN THIS PROSPECTUS, BEFORE YOU DECIDE WHETHER TO PURCHASE SHARES OF OUR COMMON STOCK.

THIS PROSPECTUS ALSO CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF MANY FACTORS, INCLUDING THE RISKS FACED BY US WHICH ARE DESCRIBED BELOW AND ELSEWHERE IN THIS PROSPECTUS.

WE HAVE INCURRED OPERATING LOSSES AND CANNOT GUARANTEE THAT WE WILL EVER BE PROFITABLE.

We have incurred operating losses on a quarterly basis since inception. We had operating losses of $5.5 million and $1.8 million during 1998 and the first three months of 1999, respectively. In addition, as of March 31, 1999, we had an accumulated deficit of $24.3 million. In light of our loss history, we cannot assure you when, if ever, SmartDisk will be able to achieve or sustain profitability on an annual or quarterly basis in the future.

WE HAVE A LIMITED OPERATING HISTORY ON WHICH TO BASE AN INVESTMENT DECISION.

We were incorporated in March 1997 and commenced operations in January 1998. Our predecessor corporation only conducted limited operations. Further, commercial sales of our primary product, FlashPath, only commenced in mid-1998. As a result of our limited operating history, we have limited financial data that can be used in evaluating our business and prospects and in projecting future operating results. In addition, our management team has worked together only for a short time. Our Chief Financial Officer, Senior Vice President, Research and Development, Vice President, Asian Operations, and Vice President, Corporate Development and Legal Affairs all joined SmartDisk during the last year.

OUR BUSINESS DEPENDS UPON THE DEVELOPMENT OF THE FLASH MEMORY MARKET AND OUR ABILITY TO DEVELOP PRODUCTS FOR THAT MARKET.

Although we are investing significantly in research and development to diversify our product lines, our business is heavily dependent on sales from our primary product, FlashPath. Our current and planned FlashPath products are designed to provide connectivity between personal computers and digital appliances that use flash memory cards. Accordingly, our prospects depend upon the continued development of the market for flash memory data storage systems. The flash memory market is in the early stage of development and is still evolving. Our current dependence on sales of FlashPath and lack of product diversification exposes us to a substantial risk of loss in the event that the flash memory market does not develop or if a competing technology replaces flash memory cards. Alternate technologies may displace the market for flash memory products. If a competing memory storage device replaces or takes significant market share from the flash memory cards which our products support, our business, financial condition and results of operations would suffer.

We believe that demand for our flash memory connectivity products is driven, to a large extent, by the absence of a single standard for flash memory cards. There are currently four major flash memory cards, none of which has emerged as the industry standard. Should one of these cards or a new technology emerge as an industry standard, flash memory card readers could be built in to PCs, eliminating the need for our current flash memory connectivity products.

WE CURRENTLY DEPEND ON THE 3.5 INCH FLOPPY DISK DRIVE AND ARE TECHNOLOGICALLY CONSTRAINED BY THAT DEPENDENCE.

Our current products only work in conjunction with the standard 3.5 inch floppy disk drive. While the 3.5 inch floppy disk drive is today found in most PCs, new industry standards may emerge that render obsolete the 3.5 inch floppy disk drive. Advances in input devices such as CD-ROM and removable data storage disk drives, such as Zip drives, may reduce or eliminate the need for the 3.5 floppy diskette. Any reduction in the use or availability of 3.5 inch floppy disk drives will lead to a corresponding reduction in demand for our products. We would then have to develop new products that use a different interface between personal computers and digital appliances. We may not be able to redesign our products to fit the new interface and demonstrate technological feasibility of those

products on a timely basis, if at all, or in a cost effective manner. Consequently, our business, financial condition and results of operation could suffer.

In addition, there are technological constraints inherent in the 3.5 inch disk drive. The time needed to transfer information using a 3.5 inch disk drive increases as more data is transferred. As more memory is condensed on to flash memory cards, the time necessary to transfer all of the data from a single card will increase. As technological advances make it possible and feasible to produce higher density cards, our ability to create products which quickly transfer all of the stored information on a single card will be constrained by our use of the 3.5 inch disk drive. While our products currently are capable of quickly transferring information from existing memory devices to personal

computers, memory density may increase to such a degree that the time needed to transfer the data using a 3.5 inch disk drive becomes excessively long. In such case, our products would be less attractive to consumers and our sales would decline.

WE CURRENTLY DEPEND ON ONLY ONE PRODUCT AND DO NOT HAVE MULTIPLE SOURCES OF REVENUE.

To date, substantially all of our revenue has been derived from the sale of our FlashPath product. While our long-term strategy is to derive revenue from multiple products, we anticipate that the sale of FlashPath products will continue to represent the most substantial portion of our revenues through at least 2000. A decline in the price of or demand for FlashPath products as a result of competition, technological change, the introduction of new products by us or others, a failure to manage product transitions successfully, or for other reasons, would cause our business, financial condition and results of operations to suffer. For the year ended December 31, 1998 and the three months ended March 31, 1999, we derived approximately 89.7% and 92.8%, respectively, of our product revenues from the sale of FlashPath.

Our current FlashPath product reads and writes only to the SmartMedia flash memory card produced by Toshiba and Samsung, and our future success will depend on the successful introduction and sale of products currently under development, particularly FlashPath for the Sony Memory Stick and FlashPath for the SanDisk MultiMediaCard. We have not yet demonstrated that we will be able to successfully develop these products on a timely basis and in a cost-effective manner, or at all. Even if we successfully develop these products, we cannot guarantee that they will achieve market acceptance. If we are unable to successfully develop and sell these new products, we will not be able to continue our strategy of maintaining media neutrality, and our target market will be limited to makers and consumers of products that use only one of the four leading flash memory cards.

OUR BUSINESS DEPENDS UPON OUR ABILITY TO SUCCESSFULLY INTRODUCE AND COMMERCIALIZE NEW PRODUCTS UNDER DEVELOPMENT.

We operate in an industry that is subject to evolving industry standards, rapid technological changes, rapid changes in consumer demands and the rapid introduction of new, higher performance products which shorten product life cycles. To be competitive in this demanding market, we must continually design, develop and introduce, in a timely manner, new data transfer products that meet both the performance and price demands of OEMs and consumers. We must also continue to refine current products so that they remain competitive. We must also continue to collaborate closely with our customers, flash memory manufacturers and our contract manufacturers to ensure that critical development projects proceed in a coordinated manner. This collaboration is more difficult because many of our partners are located overseas. Product development is inherently risky because it is difficult to foresee developments in technology, coordinate the technical personnel or various competing entities and identify and eliminate design flaws. Any significant delay in releasing new products would adversely affect our reputation, give a competitor a first-to-market advantage or cause a competitor to achieve greater market share. In addition, new products introduced by us may fail to achieve a significant degree of market acceptance or, once accepted, may fail to sustain acceptance for any significant period. These factors could cause our business, financial condition and results of operations to suffer.

We expect to spend a significant amount of time and resources to develop other products and refine existing products. In light of the long product development cycles present in our industry, these expenditures will be made well in advance of the prospect of deriving revenue from the sale of products. Our ability to commercially introduce and successfully market new products is subject to a wide variety of challenges during this development cycle, including start-up bugs, design defects and other matters that could delay launch of the product. In addition, since our customers are not obligated by long-term contracts to purchase our products, our anticipated product

orders may not materialize, or orders for products may be cancelled. As a result, we may not be able to realize volume sales of our products in order to recoup research and development expenditures.

We also must anticipate market trends and the price, performance and functionality requirements of flash memory manufacturers. Our ability to anticipate trends depends to a significant degree upon our continued access to information derived from the strategic relationships we currently have with flash memory card manufacturers and, to a lesser extent, consumer product OEMs.

If any of our current relationships deteriorates or is terminated, or if we are unable to enter into future alliances that provide us with comparable insight into market trends, we will be hindered in our ability to produce commercially successful products.

OUR OPERATING RESULTS HAVE FLUCTUATED SIGNIFICANTLY AND MAY FLUCTUATE SIGNIFICANTLY IN THE FUTURE.

Our operating results have fluctuated significantly in the past and we expect that they will continue to fluctuate in the future. Future fluctuations may result from a variety of factors including the following:

- The timing and amount of orders we receive from our customers, which may be tied to seasonal demand for the consumer products manufactured and sold by these OEMs;
- Cancellations or delays of customer product orders, or the loss of a significant customer;
- Reductions in consumer demand for our customers' products generally or for our products in particular;
- A reduction in the average selling price for our products as a result of competitive factors;
- The timing and amount of research and development expenditures;
- The availability of manufacturing capacity necessary to make our products;
- General business conditions in our markets, particularly Japan, as well as global economic uncertainty;
- Any new product introductions, or delays in product introductions, by us or our competitors;
- Increased costs charged by our suppliers or changes in the delivery of products to us;
- Increased competition or reductions in the prices that we are able to charge;
- Fluctuations in the value of foreign currencies, particularly the Japanese yen, against the U.S. dollar; and
- Changes in our product mix as well as possible seasonal demand for our products.

As a result of these and other factors, we believe that period-to-period comparisons of our historical results or operations are not a good predictor of our future performance. If our future operating results are below the expectations of stock market analysts, our stock price would likely decline.

OUR SUCCESS DEPENDS UPON PROTECTING OUR INTELLECTUAL PROPERTY.

Our proprietary technology with respect to 3.5 inch floppy disk drive interfaces is critical to our future success. We rely in part on patent, trade secret, trademark and copyright law to protect our intellectual property. However, the patents issued to us may not be adequate to protect our proprietary rights, to deter misappropriation or to prevent an unauthorized third party from copying our technology, designing around the patents we own or otherwise obtaining and using our products, designs or other information. Thus, despite efforts to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or obtain and use information and software that we regard as proprietary. Those parties may have substantially greater financial resources than us, and we may not have the resources available to successfully challenge their use of our proprietary technology.

Intel Corporation was issued a patent in 1997 disclosing and claiming technology substantially similar to that disclosed in one of our key patents. Intel's patent was filed four years after our effective filing date. In view of Intel's late filing date, we do not believe that the Intel patent can be validly applied to any of the technology disclosed in our patent. We have communicated these facts to Intel. Nevertheless, given the substantial resources available to

Intel, our business, financial condition and results of operations could suffer if we engage in a dispute with Intel or if Intel's patent is determined to be valid and Intel or any licensee of Intel decides to sue our customers or develop and commercialize products based on its patent.

From time to time we may receive communications from third parties asserting that our products infringe, or may infringe, the proprietary rights of these third parties. For instance, we received a letter from SanDisk stating that SanDisk held two patents which might apply to our products. Although we subsequently obtained a non-exclusive worldwide license for all of SanDisk's intellectual property rights in connection with multimedia floppy disk adapters for a 10-year period, if the license terminates or expires, we could face a potential conflict with SanDisk regarding the scope of such patents. In another instance, we received correspondence alleging that our SafeBoot product violated a third party's intellectual property rights. We reviewed the patent and concluded that our products do not infringe upon the third party's patent rights. While neither claim has resulted in litigation, these or similar future claims of infringement may result in protracted and costly litigation which could require us to pay substantial damages or have sales of our products stopped by an injunction. Such infringement claims could also cause product shipment delays, require us to redesign our products or enter into royalty or licensing agreements, any of which could cause our business, financial condition and results of operation to suffer. In addition, we license a portion of the intellectual property included in our products from third parties, which may increase our exposure to infringement actions because we rely upon those third parties for information about the origin and ownership of the licensed intellectual property. We may also lose our license rights with respect to the intellectual property for which infringement is claimed. Further, if our customers are required to obtain a license on other than commercially reasonable terms, our business could be jeopardized.

In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States, and many U.S. companies have encountered substantial infringement problems in some foreign countries. Because most of our business is conducted overseas, our exposure to intellectual property risks may be higher.

We also claim copyright protection for certain proprietary software and documentation. We attempt to protect our trade secrets and other proprietary information through agreements with our customers, employees and consultants, and through other security measures. However, our efforts may not be successful.

If we fail to adequately protect our intellectual property, it will be easier for our competitors to sell competing products.

BECAUSE MOST OF OUR SALES ARE TO A RELATIVELY SMALL NUMBER OF CUSTOMERS, THE LOSS OF ANY KEY CUSTOMERS WOULD SERIOUSLY HARM OUR BUSINESS.

Our current strategy is principally based on sales to OEMs, which results and will continue to result in sales to only a limited number of customers. Olympus and FujiFilm accounted for approximately 32.0% and 38.0% of our revenues in fiscal 1998 and our top five customers collectively accounted for approximately 86.4% of our revenues during that period. In the three months ended March 31, 1999, Olympus and FujiFilm accounted for approximately 39.0% and 32.0% of our revenues and our top five customers collectively accounted for approximately 90.6% of our revenues during that period. We do not have purchase contracts with any of our customers that obligate them to continue to purchase our products and these customers could cease purchasing our products at any time. Furthermore, we expect to continue to depend on sales of our products to relatively few customers, which will continue to account for a significant portion of our net revenues for the foreseeable future. Our business will be seriously harmed if we lose any of our significant customers, particularly Olympus or FujiFilm, or suffer a substantial reduction in or cancellation of orders from these customers.

WE DEPEND ON SALES TO ORIGINAL EQUIPMENT MANUFACTURERS.

We currently rely on digital camera manufacturers, such as Olympus and FujiFilm, to purchase our products for use with their digital cameras. Our products are sold as standalone products by OEMs and, to a lesser extent, are bundled together and sold with systems manufactured by third party OEMs. We rely on those OEMs'

products to be successful, and if they are not, we will not sell our products in volume quantities. In 1998, almost all of our sales were to OEMs and we expect this dependence on OEM sales to continue. We currently sell to seven OEMs, sales

to which collectively accounted for 80.8% and 78.8% of our revenues for 1998 and the first three months of 1999, respectively. No OEM is obligated to purchase products from us. Even if we are able to demonstrate that our products are superior, OEMs may still choose not to bundle our products with theirs or market and distribute our products on an unbundled basis. OEMs may also change their business strategies and manufacturing practices, which could cause them to purchase fewer of our products, find other sources for products we currently manufacture or manufacture these products internally. Further, there are a limited number of OEMs to which we can sell our products. Failure of OEMs' products to achieve market acceptance, the failure of OEMs to bundle our products with theirs, or any other event causing a decline in our sales to OEMs could cause our business, financial condition and results of operations to suffer. Even if consumers buy OEMs' products, their ultimate decision to buy our products depends on OEM packaging, distribution and sales efforts, which may not be sufficient to maintain or increase sales of our products. If we cannot achieve or maintain a sufficient consumer acceptance rate of our products concurrent with their purchases of OEM products, our future sales to OEM customers will be adversely affected.

A NEW OR COMPETING DATA TRANSFER SOLUTION THAT ACHIEVES SIGNIFICANT MARKET SHARE OR SIGNIFICANT SUPPORT OF FLASH CARD MANUFACTURERS WOULD JEOPARDIZE OUR BUSINESS.

Our products currently compete with a number of cable and non-cable interfaces between personal computers and digital appliances, including ports, USBs, PCMCIA slots and infrared interfaces. It is possible that one of these competing data transfer solutions, or another existing or new technology, could achieve a significant market presence or become supported by a number of significant flash memory card or digital appliance manufacturers. Regardless of the relative benefits of our products, if a competing product gains significant market share or significant support of flash card manufacturers, this product would likely emerge as the industry standard and thereby achieve a dominant market position that would jeopardize our survival.

WE EXPECT THAT OEM DEMANDS WILL REDUCE OUR GROSS MARGINS IN THE FUTURE.

Our reliance on sales to a limited number of large customers exposes us to pressure for price concessions. We expect that our OEM customers may seek price concessions from us, which would reduce our average selling prices and our gross margins. Since we do not manufacture our own products, we may be unable to reduce our manufacturing costs in response to declining average per unit selling prices. Many of our current and potential competitors are larger with greater resources and therefore may be able to achieve greater economies of scale and would be less vulnerable to price competition.

WE DEPEND ON OUR STRATEGIC RELATIONSHIPS, AND THE DIFFICULTIES OF MAINTAINING THESE RELATIONSHIPS IS EXACERBATED BY GEOGRAPHIC AND CULTURAL DIFFERENCES.

We have formed strategic relationships with a number of significant industry participants, including FujiFilm, Hitachi, Olympus, Rohm, SanDisk, Sony, Toshiba, Visa and Yamaichi. Our strategic relationships provide access to valuable information regarding trends in our industry, which allows us to better plan our product development activities. In addition, we depend upon these corporations to provide technical assistance and perform key manufacturing, marketing, distribution and other functions. For example, Yamaichi is currently the sole manufacturer of our FlashPath products, Toshiba provides technological assistance in the development of our products, and Olympus and FujiFilm market our products. We expect that these and similar types of relationships will be critical to our success because our business model calls for the continued outsourcing of many key operational functions and we do not currently have the resources to perform these functions ourselves.

There are inherent difficulties in developing and maintaining relationships with foreign entities. Language and cultural differences often impair relationships, and geographical distance, at times, is also an impediment. We must overcome these difficulties in order to be successful. If any of our current relationships is impaired, or if we are unable to develop additional strategic relationships in the future, our product development costs would significantly increase and our business would be materially and adversely affected.

OUR SALES AND EXPENSES ARE GEOGRAPHICALLY CONCENTRATED IN JAPAN.

Approximately 84.4% of our revenues for 1998 were attributable to sales to Japanese customers, and we expect that sales to Japanese customers will continue to account for a significant portion of our total revenues for the

foreseeable future. All of such Japanese sales, as well as most of the related expenses, are denominated in yen. Accordingly, we are also subject to the risks associated with fluctuations in exchange rates between the yen and the U.S. dollar, particularly in the event that yen-denominated receivables remain outstanding for extended periods. Our operating results may fluctuate because of currency rate fluctuations. We cannot guarantee that the value of the yen will not deteriorate against the dollar, which would impair the value of stockholders' investment in us. Deterioration of the yen against the dollar has occurred in recent years. Further, we do not currently hedge against foreign currency exposure. In the future, we could be required to denominate our product sales in other currencies, which would make the management of currency fluctuations more difficult and expose us to greater currency risks.

We are also subject to risks associated with a significant amount of sales being made to one geographical area. An economic downturn in Asia generally, and Japan in particular, could lead to a reduced demand for our products. In recent years, Japan has been subject to political and economic instability and, if it continues, sales of our products in Japan may be adversely affected.

Given our dependence on sales to Japanese customers, we must develop and maintain alliances in Japan to help with the promotion and distribution of our products. We cannot guarantee that we will be able to develop or maintain these alliances.

OUR OEM CUSTOMERS MAY CHOOSE TO WORK WITH A LOCAL COMPETITOR.

Our OEM customers, most of which are based in Japan, may choose to work with, and purchase products from, a local competitor if one were able to provide a substitute product. This may occur because of geographic distance, time differences, or for other reasons. Our business, financial condition and results of operations could suffer if this happens.

WE DEPEND ON CONTRACT AND OFFSHORE MANUFACTURING.

We contract with offshore manufacturers to produce our products and our dependence on a limited number of contract manufacturers exposes us to certain risks, including shortages of manufacturing capacity, reduced control over delivery schedules, quality assurance, production yield and costs. Yamaichi and Mitsumi are the sole manufacturers of our FlashPath products. We do not have contracts with either Yamaichi or Mitsumi. If Yamaichi or Mitsumi terminates production or cannot meet our production requirements, we may have to rely on other contract manufacturing sources or identify and qualify new contract manufacturers. The lead time required to qualify a new manufacturer could range from approximately three to six months. Yamaichi was introduced to us by Toshiba. If our relationship with Toshiba is impaired, we may not be able to retain the services of Yamaichi in manufacturing our products. Despite efforts to do so, we may not be able to identify or qualify new contract manufacturers in a timely manner and these new manufacturers may not allocate sufficient capacity to us in order to meet our requirements.

In addition, foreign manufacturing poses a number of risks, including the following:

- difficulties in monitoring production;
- transportation delays and interruptions;
- difficulties in staffing;
- currency fluctuations;
- potentially adverse tax consequences;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers; and

- political and economic instability.

Any significant delay in our ability to obtain adequate quantities of our products from our current or alternative contract manufacturers could cause our business, financial condition and results of operations to suffer.

WE HAVE A LIMITED NUMBER OF SUPPLIERS OF KEY COMPONENTS.

Rohm is our sole source provider of ASICs for our FlashPath products and we purchase ASICs for Smarty from Rohm and Atmel. Moreover, we do not have long-term contracts with our suppliers. Our dependence on sole source suppliers of components imposes several risks, including a potential inability to obtain an adequate supply of components, price increases, late deliveries and poor component quality. Disruption or termination of the supply of these components could delay shipments of our products. For example, in the past we faced temporary shortages of processors used in our products. The lead time required for orders of some of our components is as much as six months. In addition, the lead time required to qualify new suppliers for our components is as much as 12 months. If we are unable to accurately predict our component needs, or if our component supply is disrupted, we may miss market opportunities by not being able to meet the demand for our products. This may damage our relationships with current and prospective customers.

OUR MARKETS ARE HIGHLY COMPETITIVE.

The market for our products is intensely competitive and characterized by rapidly changing technology and rapid changes in consumer preference. We believe that competition in this market is likely to intensify as a result of increasing demand for digital appliances using both flash memory cards and smart cards. Future competition may also include flash memory card manufacturers and consumer product OEMs that are our current customers.

Several competitive developments would have a particularly significant impact on our business. First, new competing data storage devices may replace the flash memory cards which our products support. Second, the market for flash memory connectivity and digital data security products may ultimately require technological solutions that are not based on floppy disk drive interface technology that is the basis for our current products. Third, it is possible that a new or existing competing data transfer solution that achieves a significant market presence or establishes a number of significant relationships with flash memory card manufacturers will emerge as an industry standard and achieve a dominant market position. Any of such events would have a material adverse effect on our business and prospects.

Many of our current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies or standards and to changes in customer requirements. Our competitors may also be able to devote greater resources to the development, promotion and sale of products, and may be able to deliver competitive products at a lower end-user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Therefore, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share. Any of these factors could have a material adverse effect on our business and operating results. See the discussion in "Business --Competition" for a more complete discussion of competitive factors in our industry.

WE NEED TO SUCCESSFULLY MANAGE OUR GROWTH.

Our business has grown substantially in recent periods, with revenues increasing from $532,000 in the first quarter of 1998 to $5.5 million in the first quarter of 1999. The growth of our business has placed a strain on our management, operations and financial systems. In addition, the number of employees has increased from 16 at January 1, 1998 to 44 as of May 31, 1999. We expect to continue to increase the number of employees as our business grows, and may expand operations to locations other than those in which we currently operate.

If we are successful in achieving our growth plans, our growth is likely to place a significant burden on our operating and financial systems and increased responsibility for senior management and other personnel. Existing management or any new members of management may not be able to improve existing systems and controls or

implement new systems and controls in response to anticipated growth. Management of our operations in diverse locations may also prove to be difficult. Our failure to effectively manage our growth could cause our business, financial condition and results of operations to suffer.

WE FACE RISKS RELATED TO INTERNATIONAL SALES AND CURRENCY FLUCTUATIONS.

SmartDisk conducts a substantial portion of its business overseas. Approximately 89.9% and 85.0% of our revenues in 1998 and the first three months of 1999, respectively, were derived from customers located outside the United States, substantially all of which were derived from customers located in Japan. We also anticipate future increased sales to Europe and Latin America. Because a significant number of our principal customers are located in other countries, we anticipate that international sales will continue to account for a significant portion of our revenues. As a result, a significant portion of our sales and operations may continue to be subject to certain risks, including:

- currency exchange risks;
- tariffs and other trade barriers, including import and export restrictions;
- difficulties in staffing and managing disparate branch operations;
- political or economic instability;
- compliance with foreign laws;
- difficulties in protecting intellectual property rights in foreign countries;
- exchange controls; and
- potential adverse tax consequences, including with respect to repatriation of earnings.

These factors could cause our business, financial condition and results of operations to suffer.

OUR BUSINESS DEPENDS ON THE DEVELOPMENT OF THE SMART CARD MARKET.

SmartDisk's future growth and operating results will depend, in part, on whether our Smarty family of smart card readers is commercially successful. The current primary use for Smarty is as a smart card token-based security application designed to provide protection from unauthorized access to digital information. However, the market for network and electronic commerce security applications is still emerging and the smart card may not become the industry standard for these applications. Similarly, the market for other smart card applications may not develop, or may develop more slowly than we expect.

If the market for the Smarty family of products fails to develop or develops more slowly than expected, or if any of the standards supported by us do not achieve or sustain market acceptance, our business and operating results would be materially and adversely affected.

WE CURRENTLY HAVE INDEMNIFICATION OBLIGATIONS TO OTHERS.

Our agreements with strategic partners often require us to indemnify them for any damages they may suffer if a third party claims that we are violating their intellectual property rights. While, to date, we have not received indemnification claims from any of our strategic partners, we cannot guarantee that there will not be future claims. Any such claim may require us to pay substantial damages, which could cause our business, financial condition and results of operations to suffer.

WE FACE PRODUCT RETURN, PRODUCT LIABILITY AND PRODUCT DEFECT RISKS.

Lack of consumer demand for our products may result in efforts by OEMs to return products to us. In addition, complex products such as ours frequently contain errors, defects and bugs when first introduced or as new versions are released. We have discovered such errors, defects and bugs in the past. Delivery of products with production defects or reliability, quality or compatibility problems could hinder market acceptance of our products.

This could damage our reputation and harm our ability to attract and retain customers. Errors, defects or bugs could also cause interruption, delays or a cessation of sales to our customers, and could subject us to warranty claims from our customers. We would have to expend significant capital and resources to remedy these problems. Errors, defects or bugs could be discovered in our new products after we begin commercial production of them, despite testing by us and our suppliers and customers. This could result in additional development costs,

loss of, or delays in, market acceptance, diversion of technical and other resources from our other development efforts, claims by our customers or others against us or the loss of credibility with our current and prospective customers. Any such event would cause our business, financial condition and results of operations to suffer.

OUR EXECUTIVE OFFICERS AND KEY PERSONNEL ARE CRITICAL TO OUR BUSINESS, AND THESE OFFICERS AND PERSONNEL MAY NOT REMAIN WITH US IN THE FUTURE.

We depend upon the continuing contributions of our key management, sales and product development personnel. The loss of such personnel could seriously harm us. Although some of our officers are subject to employment agreements, we cannot be sure that we will retain their services. In addition, we have not obtained key-person life insurance on any of our executive officers or key employees. Because our technology is specialized and complex, we need to recruit and train qualified technical personnel. However, there are many employers competing to hire qualified technical personnel and we may have difficulty attracting and retaining such personnel.

We are further hindered in our recruiting efforts by the lack of a readily available pool of candidates in Naples, Florida, where we are headquartered. The inability to attract and retain qualified personnel could cause our business, financial condition and results of operations to suffer.

WE ARE CONTROLLED BY A PRINCIPAL STOCKHOLDER THAT MAY PREVENT OR DELAY A CHANGE OF CONTROL AND WHOSE INTERESTS MAY BE DIFFERENT FROM THOSE OF OUR OTHER STOCKHOLDERS.

Phoenix House Investments, L.L.C. and persons affiliated with Phoenix House will own approximately ____% of SmartDisk after the offering. Accordingly, Phoenix House will be able to control SmartDisk, subject to the fiduciary duties of its representatives on the board of directors under Delaware law. The interests of Phoenix House may not always coincide with our interests or the interests of other stockholders. Phoenix House, through its representatives on the board of directors, could cause us to enter into transactions or agreements which we would not otherwise consider absent Phoenix House's influence.

Upon completion of this offering, executive officers and directors and their affiliates will own, in the aggregate, approximately _____% of our outstanding common stock. The purchasers of common stock in this offering will not have sufficient voting power to elect any members of our board of directors. As a result, our current stockholders will be able to exercise control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could have the effect of delaying or preventing a change of control of SmartDisk.

OUR BUSINESS COULD BE AFFECTED BY YEAR 2000 ISSUES.

The "Year 2000 Issue" refers generally to the problems that some software may have in determining the correct century of the year. Many existing electronic systems, including computer systems, use only the last two digits to refer to a year. Therefore, these systems may recognize a date using "00" as 1900 rather than the year 2000. If not corrected, these electronic systems could fail or create erroneous results when addressing dates on and after January 1, 2000. The Year 2000 Issue could cause our business, financial condition and results of operations to suffer. For a more complete discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Issues."

WE HAVE ANTITAKEOVER DEFENSES THAT COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY.

Certain provisions of our certificate of incorporation and bylaws and the provisions of Delaware law could have the effect of delaying, deferring or preventing an acquisition of SmartDisk. For example, we have a staggered board of directors, the members of which may only be removed for cause, authorized but unissued shares of preferred stock which could be used to fend off a takeover attempt, our stockholders may not take actions by written consent and our stockholders are limited in their ability to make proposals at stockholder meetings.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL WHICH MIGHT NOT BE AVAILABLE OR WHICH, IF AVAILABLE, MIGHT ONLY BE AVAILABLE ON TERMS ADVERSE TO PERSONS BUYING SHARES IN THIS OFFERING.

We expect the net proceeds from this offering, our current cash and

cash equivalents and cash from commercial borrowing availability under credit facilities will meet our working capital and capital expenditure needs for at least one year. After that, we may need to raise additional funds, and we cannot be certain that we will be able to obtain additional financing on favorable terms, if at all. We may also require additional capital for the acquisition of businesses, products and technologies that are complementary to ours. Further, if we issue equity securities, the ownership percentage of our stockholders would be reduced, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise needed funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could seriously harm our business, operating results and financial condition.

OUR STOCK MAY BE VOLATILE OR THINLY TRADED, WHICH MIGHT MAKE IT HARD FOR INVESTORS TO SELL THEIR SHARES.

Prior to this offering, you could not buy or sell our common stock on a public market. An active public market for our common stock may not develop or be sustained after this offering. We negotiated and determined the initial public offering price with the representatives of the underwriters based upon several factors. This price will likely vary from the market price after this offering. The market price of our common stock will likely fluctuate significantly in response to the following factors, some of which are beyond our control:

- Variations in our quarterly operating results;
- Changes in financial estimates of our revenues and operating results by securities analysts;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Loss of or decrease in sales to a major customer or failure to complete significant transactions;
- Additions or departures of key personnel;
- Future sales of our common stock, including sales which dilute existing investors;
- Stock market price and volume fluctuations attributable to inconsistent trading volume levels of our stock;
- General stock market conditions;
- Commencement of or involvement in litigation; and
- Announcements by us or our competitors of key innovations or product introductions.

WE COULD BE SUBJECT TO CLASS ACTION LITIGATION DUE TO STOCK PRICE VOLATILITY, WHICH, IF IT OCCURS, WILL DISTRACT MANAGEMENT, RESULT IN SUBSTANTIAL COSTS AND HARM OUR BUSINESS.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources, which could cause serious harm to our business, financial condition and results of operations.

FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE.

After this offering, we will have _____ shares of common stock outstanding. Of these shares, the _____ sold in this offering will be freely tradable without restriction under the Securities Act except for any shares held by "affiliates" of SmartDisk as that term is defined in Rule 144 of the Securities Act. As of July 1, 1999, the remaining 50,094,045 shares of common stock held by existing stockholders are "restricted shares" as that

term is defined in Rule 144, and will be available for sale in the public market 180 days after the date of this prospectus or afterwards.

The above assumes the effectiveness of certain lock-up arrangements with the underwriters under which the stockholders have agreed not to sell or otherwise dispose of their shares of common stock. Most of the shares that will be available for sale after the 180th day after the date of this prospectus or afterwards will be subject to certain volume limitations because they are held by affiliates of SmartDisk. In addition, we cannot assure you that these lock-up restrictions will not be removed prior to 180 days after the offering without prior notice by the underwriters.

As of July 1, 1999, there were options to purchase 3,566,000 shares of our common stock outstanding. Should the holders of these options exercise their options, there will be additional shares eligible for sale 180 days after the date of this prospectus.

Three of our principal stockholders have the right to require us to file a registration statement to enable them to sell their shares. These and another stockholder also have the right to require us to include their shares in subsequently filed registration statements.

If our stockholders sell substantial amounts of the common stock, including shares issued upon the exercise of outstanding options, in the public market, the market price of our common stock could fall. For more detailed information regarding future sales of our common stock, please see "Shares Eligible for Future Sale" and "Underwriting."

OUR CURRENT STOCKHOLDERS WILL BENEFIT FROM THIS OFFERING, AND YOU WILL EXPERIENCE IMMEDIATE DILUTION.

The initial public offering price is expected to be substantially higher than the current book value per share of our outstanding common stock. Stockholders existing as of March 31, 1999 have paid an average of $0.57 per share for their common stock which is considerably less than the amount to be paid for such common stock in this offering. As a result, investors purchasing common stock in this offering will incur immediate and substantial dilution. In addition, we have issued options to acquire common stock at prices significantly below the initial public offering price. To the extent such outstanding options are ultimately exercised, there will be further dilution to investors in this offering.

WE HAVE BROAD DISCRETION TO USE THE OFFERING PROCEEDS AND HOW WE INVEST THESE PROCEEDS MAY NOT YIELD A FAVORABLE RETURN.

The principal purposes of this offering are to increase our equity capital, to create a public market for our shares, to facilitate our future access to public equity markets and to provide increased visibility and credibility for us in a marketplace in which many of our current and potential competitors are or are expected to be publicly held companies. As of the date of this prospectus, we have no specific plans to use the net proceeds from the offering other than for general corporate purposes, including possible acquisitions, although none is as yet imminent, and plan to invest the net proceeds in short-term, investment-grade, interest-bearing securities. Accordingly, our management will retain broad discretion to allocate a substantial portion of the net proceeds from this offering to uses that the stockholders may not deem as desirable, and there can be no assurance that these proceeds can or will yield a significant return.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements, trend analyses and other information contained in this prospectus regarding markets for our products and trends in net revenues, gross margin and anticipated expense levels, and any statement that contains the words "anticipate," "believe," "plan," "estimate," "expect," "should," "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements are subject to business and economic risks, including those risks identified in "Risk Factors" and elsewhere in this prospectus and our actual results of operations may differ significantly from those contained in the forward-looking statements because of such risks. The cautionary statements made in this prospectus apply to all forward-looking statements wherever they appear in this prospectus.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the _____ shares of common stock that we are offering will be approximately $_____ million at an assumed initial public offering price of $_____ per share and after deducting estimated offering expenses of $_____ and underwriting discounts

and commissions payable by SmartDisk. We intend to use the net proceeds primarily for additional working capital and other general corporate purposes. Although we may use a portion of the net proceeds to acquire technology or businesses that are complementary to our business, we have no current plans in this regard. Pending such uses, we plan to invest the net proceeds in short-term, interest-bearing, investment grade securities. Another primary purpose of the offering is to create a public market for our common stock and facilitate our future access to public capital markets.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock or other securities and do not anticipate paying cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 1999:

- On an actual basis; and
- On an as adjusted basis to reflect the sale of the shares of common stock offered hereby (assuming an initial public offering price of $_____ per share) and the application of the net proceeds we will receive from the offering in the manner described in "Use of Proceeds."

<TABLE>
<CAPTION>

	MARCH 31, 1999	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
<S>	<C>	<C>
Cash and cash equivalents	$1,807,295	$
Redeemable common stock: 9,950,000 shares issued and outstanding, actual, and none issued and outstanding, as adjusted	$9,991,918	$
Stockholders' (deficit) equity:		
Common Stock, $0.001 par value; 60,000,000 shares authorized; 38,453,742 shares issued and 38,129,833 shares outstanding, actual; and _____ shares issued and _____ shares outstanding, as adjusted	$ 38,453	
Capital in excess of par value	17,213,556	
Treasury stock	(58,304)	
Accumulated other comprehensive income	455,501	
Notes receivable from officers/employees	(417,334)	
Accumulated deficit	(24,332,540)	
Total stockholders' deficit	(7,100,668)	
Total capitalization	$2,891,250	$

</TABLE>

The table does not reflect the issuance of 1,600,000 shares of common stock in July 1999.

The outstanding share information excludes the following:

- 1,561,500 shares of common stock issuable on exercise of outstanding options as of March 31, 1999 with a weighted average exercise price of $0.96 per share;
- 2,373,227 shares of common stock reserved for grant and issuance under our stock option plans as of March 31, 1999; and
- 323,909 shares of common stock held in treasury as of March 31, 1999.

This table should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and the Notes thereto included elsewhere in this prospectus. See "Use

of Proceeds" and "Management--Employee Benefit Plans."

DILUTION

Our net tangible book value as of March 31, 1999 was approximately $2.5 million, or approximately $0.05 per share. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the total number of shares of our common stock outstanding. Net tangible book value excludes the $3.2 million of proceeds we realized upon the sale of our common stock in July 1999, net of expenses.

Net tangible book value dilution per share to new investors 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 common stock immediately after completion of this offering. After giving effect to our sale of _____ shares of common stock in this offering at an assumed initial offering price of $_____ per share and after deducting the estimated underwriting discounts and commissions and estimated offering expenses and the application of the estimated net proceeds therefrom, our net tangible book value as of March 31, 1999 would have been $____ million or $____ per share. This represents an immediate increase in net tangible book value of $____ per share to existing stockholders and an immediate dilution of $____ per share to purchasers of common stock in the offering, as illustrated in the following table:

<TABLE>

<S>	<C>	<C>
Assumed initial public offering price per share.....		$
Net tangible book value per share as of March 31, 1999.....	$	
Increase in net tangible book value per share attributable to new investors.....		
Net tangible book value per share after the offering.....		
Dilution per share to new investors.....		$

</TABLE>

The following table summarizes, as of March 31, 1999, the differences between existing stockholders and the new investors with respect to the number of shares of common stock purchased from SmartDisk, the total consideration paid and the average price per share paid, before deducting the underwriting discounts and commissions and estimated offering expenses payable by SmartDisk.

<TABLE>
<CAPTION>

	SHARES PURCHASED		TOTAL CONSIDERATION	
	NUMBER	PERCENT	AMOUNT	PERCENT
<S>	<C>	<C>	<C>	<C>
Existing stockholders.....		%	$	%
New stockholders.....				
Totals.....		100%		100%

</TABLE>

The foregoing discussion and tables assume no exercise of any stock options outstanding as of March 31, 1999. As of March 31, 1999, there were options outstanding to purchase a total of 1,561,500 shares of common stock with a weighted average exercise price of $0.96 per share. To the extent that options with exercise prices below the price per share of this offering are exercised, there will be an additional $____ dilution to new investors. See "Risk Factors--Our current stockholders will benefit from this offering, and you will experience immediate dilution," "Management--Employee Benefit Plans," "Description of Capital Stock," and Note 8 of Notes to Financial Statements.

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected financial data of SmartDisk as of and for each of the three years in the period ended December 31, 1998, have been derived from

SmartDisk's audited consolidated financial statements as included herein. The selected financial data of SmartDisk as of and for each of the two years in the period ended December 31, 1995, have been derived from unaudited consolidated financial statements not included herein. The selected financial data of SmartDisk as of and for the three months ended March 31, 1998 and 1999, have been derived from unaudited consolidated financial statements included elsewhere in this prospectus and contain all adjustments, consisting only of normal recurring accruals, which SmartDisk believes are necessary for a fair statement of SmartDisk's financial position and results of operations for such periods. The financial information for the three months ended March 31, 1999 may not be indicative of the results that may be expected for the entire fiscal year ending December 31, 1999. The following selected financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes beginning on page F-1 of this prospectus.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1997	1998	1998	1999
	(UNAUDITED)	(UNAUDITED)				(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:							
Revenues:							
Product sales	$102	$316	$500	$893	$15,038	$421	$5,430
Royalties	--	--	--	--	285	111	77
Total revenues	102	316	500	893	15,323	532	5,507
Cost of revenues	68	486	367	301	12,600	441	4,647
Gross profit (loss)	34	(170)	133	592	2,723	91	860
Operating expenses:							
Research and development	499	163	720	1,412	1,608	302	925
Sales and marketing	47	48	6	12	2,547	253	726
General and administrative	546	1,933	3,418	3,184	4,049	742	1,015
Impairment loss	--	--	7,807	--	--	--	--
Total operating expenses	1,092	2,144	11,951	4,608	8,204	1,297	2,666
Operating loss	(1,058)	(2,314)	(11,818)	(4,016)	(5,481)	(1,206)	(1,806)
Gain (loss) on translation	--	--	--	--	(48)	--	63
Interest and other income	--	38	--	8	76	13	26
Interest expense	--	--	--	(1)	(52)	(15)	(9)
Net loss before income taxes	(1,058)	(2,276)	(11,818)	(4,009)	(5,505)	(1,208)	(1,726)
Income tax benefit	--	--	(2,348)	(45)	(77)	(19)	(19)
Net loss	$(1,058)	$(2,276)	$(9,470)	$(3,964)	$(5,428)	$(1,189)	$(1,707)
Net loss per share(1)	$(0.04)	$(0.08)	$(0.31)	$(0.13)	$(0.14)	$(0.04)	$(0.04)
Shares used in computing net loss per share (2)(3)	29,400	29,400	30,496	31,262	38,351	31,306	45,938

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31,					MARCH 31,
	1994	1995	1996	1997	1998	1999
						(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:						
Cash and cash equivalents	$76	$51	$8	$330	$2,920	$1,807
Working capital	(1,468)	(3,652)	(2,191)	(4,753)	2,869	1,069
Total assets	1,054	437	250	1,607	10,836	12,113
Long-term debt (including current portion)	--	--	93	645	643	631
Total stockholders' deficit	1,400	3,580	2,017	4,626	6,561	7,101

<FN>

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(1) Basic and diluted net loss per share are the same for all periods presented.

(2) Redeemable common stock shares are included in shares used in computing net loss per share for all 1998 and 1999 periods.

(3) Shares used in computing net loss per share reflect the retroactive adjustment of outstanding shares related to the mergers of SmartDiskette Limited and SmartDisk Security Corporation into SmartDisk.
</FN>
</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ TOGETHER WITH OUR FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS INCLUDED ELSEWHERE IN THIS PROSPECTUS. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO BUSINESS RISKS AND UNCERTAINTIES, AND OUR ACTUAL RESULTS OF OPERATIONS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN THE FORWARD-LOOKING STATEMENTS. FOR A MORE DETAILED DISCUSSION OF THESE BUSINESS RISKS AND UNCERTAINTIES, PLEASE SEE "RISK FACTORS."

COMPANY BACKGROUND

SmartDisk Corporation was incorporated in March 1997 and commenced operations in January 1998. From May 1993 until May 1998, we conducted operations primarily through our predecessor, SmartDisk Security Corporation, or SDSC. SDSC became a wholly owned subsidiary of SmartDisk in May 1998 and was merged into SmartDisk in June 1998. Moreover, during 1996 and 1997, Fischer International Systems Corporation, a company controlled by our principal stockholder and Chairman of the Board, conducted all of SDSC's operations and development activities pursuant to an operating agreement. Most of our 1996 expenses related to our acquisition and development activities with respect to a product that was eventually abandoned in late 1996. Moreover, in 1997, we were primarily a development stage company with limited revenues. We did not begin to recognize significant revenues from our Smarty and FlashPath products until mid-1998. Because of these significant fluctuations in our product mix and the development stage nature of our operations prior to mid-1998, we do not believe that period-to-period comparisons of our historical results are meaningful or predictive of future performance. For additional information, see "Certain Transactions" and note 1 of the notes to our financial statements.

OVERVIEW

SmartDisk is a market leader in the design and development of products that enable consumers to easily share digital data among advanced consumer electronic products, PCs and the Internet. Consumers are increasingly relying on the transfer of digital information as an important part of their daily lifestyles. We believe that our products provide an easy-to-use, cost-effective and versatile solution for the exchange of digital data. Our patented products, FlashPath and Smarty, allow consumers to use the familiar 3.5 inch floppy drive - found on most PCs worldwide - to simplify the exchange of images, music, voice and other digital data.

Our current FlashPath product is used primarily to transfer images to PCs from digital cameras using the Toshiba SmartMedia flash memory card. SmartMedia cards are used in cameras made by a number of leading camera manufacturers, including Agfa, FujiFilm, Olympus, Polaroid, Ricoh, Sanyo, Sharp and Toshiba. FlashPath also enables consumers to transfer voice between digital voice recorders and PCs, and digital music between PCs. During the 12-month period ended June 30, 1999, we sold over 700,000 FlashPaths.

We are currently developing, with Sony and SanDisk, additional FlashPath products to support their flash memory cards - the Memory Stick and the MultiMediaCard. These flash memory cards are expected to have applications in "smart" cellular phones, digital cameras and camcorders, digital audio players and video game devices. In addition to our product development efforts with Sony and SanDisk, we also have strategic relationships with a number of key industry players, including Hitachi, NEC and Toshiba. Our strategic partners actively participate in the development of our product pipeline, provide us with access to leading-edge manufacturing capabilities, and market and distribute our products globally.

RESULTS OF OPERATIONS

GENERAL

Today, substantially all of our revenues are derived from the sale of our FlashPath product that works with SmartMedia flash memory cards. Moreover, most of our revenues are derived from sales to relatively few OEM customers. FujiFilm and Olympus collectively accounted for approximately 70% of our 1998 revenues and our top five customers accounted for approximately 86% of our revenues. Our OEM customers generally package, market and distribute our products on a stand-alone basis, with approximately 25% of our sales being derived from the sale of bundled products. Although we work closely with the OEMs to forecast sales, we do not have purchase contracts

with any of our customers that obligate them to continue to purchase our products, and they could cease purchasing products from us at any time. Our operating results also fluctuate based on the timing and amount of orders we receive from our customers, which are dependent on the ability of OEMs to achieve consumer acceptance of our products and this acceptance rate may in turn be tied to seasonal demand for the consumer electronic products manufactured and sold by these OEMs. Because fluctuations in orders from our major customers could cause our net revenues to fluctuate significantly in any given quarter or annual period, we do not believe that period-to-period comparisons of our financial results are necessarily meaningful and should not be relied upon as an indication of future performance. In addition, historically the average selling prices of our products have declined and we expect that our OEM customers may seek price concessions, which would reduce our average selling prices and our gross margins in the future.

Our net losses have resulted from our significant investment in our research and development and in building sales and marketing and general and administrative infrastructure. These expenses have exceeded our gross profits. We expect to continue to invest significantly in research and development related to new and refined FlashPath products, as well as marketing and sales activities to support such products, in each case in advance of realizing revenues associated with such expenses. No assurance can be given that the introduction or market acceptance of new products will be successful.

We purchase our products from contract manufacturers located in Asia. As a result, a substantial portion of our costs and expenses are denominated in currencies other than the U.S. dollar. In addition, approximately 90% of our 1998 revenues were derived from customers located outside the United States. See note 11 of the notes to our financial statements for additional information with respect to our foreign operations.

Our backlog at March 31, 1999 was approximately $6.0 million compared to approximately $3.0 million at March 31, 1998. However, a substantial portion of our backlog is typically scheduled for delivery within 60 days. Moreover, variations in the size and delivery schedules of purchase orders received by us, as well as changes in customers' delivery requirements, may result in substantial fluctuations in backlog from period to period. Accordingly, we believe that backlog cannot be considered a meaningful indicator of future financial results.

THREE MONTHS ENDED MARCH 31, 1999 AND 1998

REVENUES. Our revenues from the sale of our FlashPath and Smarty products are recognized at the time of shipment to customers. Our royalty revenue consists of royalties earned on the sales of our first product, SafeBoot, which is licensed to and sold by Fischer International, an affiliate. Our total revenues were approximately $5.5 million in the first quarter of 1999, compared to approximately $532,000 in the first quarter of 1998. This increase was primarily attributable to our commercial introduction of FlashPath in mid-1998, partially offset by an approximately $100,000 decrease in our Smarty sales. As a result of the growth of our FlashPath revenues and the decrease in Smarty sales, Smarty revenues represented less than 6.0% of total revenues in the first quarter of 1999.

COST OF REVENUES. Cost of revenues increased to approximately $4.6 million in the first quarter of 1999 from $441,000 in the first quarter of 1998, primarily due to the increase in FlashPath sales.

GROSS PROFIT. Our gross profit increased to approximately $860,000 in the first quarter of 1999 from $91,000 in the comparable 1998 period, resulting from FlashPath revenue growth.

RESEARCH AND DEVELOPMENT EXPENSES. Our research and development expenses consist primarily of salaries and payroll-related expenses for our design and development engineers, as well as prototype supplies and contract or professional services. These expenses increased to approximately $925,000 in the

first quarter of 1999 from $302,000 in the first quarter of 1998. This increase was primarily due to our hiring of additional technical personnel and the outsourcing of certain functions to support our development of enhanced versions of our existing FlashPath and Smarty products, as well as our development of a new FlashPath product designed to work with the Sony Memory Stick. We expect that our research and development expenses will continue to increase to support the development of new FlashPath and other products.

SALES AND MARKETING EXPENSES. Sales and marketing expenses include salaries, benefits and travel expenses for our marketing and product management personnel in the United States and Japan. These expenses also include other selling and marketing expenses, such as trade show expenses, marketing programs and promotional

expenses. Sales and marketing expenses increased to approximately $726,000 in the first quarter of 1999 from $253,000 in the comparable 1998 period. This increase was due primarily to an increase in our sales and marketing personnel and related expenses at our headquarters office in Florida and to staff our Tokyo, Japan office which we established in April 1998. We expect sales and marketing expenses to increase as we increase promotional efforts for our product brands and as sales of our products grow and we develop additional distribution channels for our products.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses include the salaries and related expenses of our executive management, finance, information systems, human resources, legal and administrative functions, as well as lease rental expense, utilities, maintenance expenses, taxes, insurance, legal and accounting professional fees, depreciation and amortization. General and administrative expenses increased to approximately $1.0 million in the first quarter of 1999 from $743,000 in the first quarter of 1998 as we hired new executives and established the corporate infrastructure needed to support future growth.

GAIN (LOSS) ON TRANSLATION. Most of our revenues, as well as related expenses, are denominated in Japanese yen. Gain (loss) on translation generally reflects the translation of inter-company transactions that are denominated in different currencies. We had a gain on translation of approximately $63,000 in the first quarter of 1999 compared to a slight loss in the first quarter of 1998. See note 2 of the notes to our financial statements for additional information.

PROVISION FOR INCOME TAXES. We are subject to tax in Japan and a number of other jurisdictions where we do business, including the United States and United Kingdom. These jurisdictions have different marginal tax rates. We incurred a loss during the quarters ended March 31, 1998 and 1999 and therefore did not incur income tax obligations in either period. Income tax benefits of approximately $19,000 were realized in each period due to amortization of intangible assets. As of March 31, 1999 we had a net operating loss carry forward of $532,000 for Japanese income tax purposes and approximately $6.1 million for U. S. Federal income tax purposes. However, we have provided a valuation allowance to reduce the related deferred tax asset to zero. See note 10 of the notes to our financial statements for additional information.

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

REVENUES. Our revenues increased to approximately $15.0 million in 1998 from $893,000 in 1997 and $500,000 in 1996. The increase from 1997 to 1998 was primarily due to an approximately $13.4 million increase in sales of our FlashPath product and a $1.0 million increase in sales of Smarty. Substantial shipments of these products did not occur until the first quarter of 1998 for Smarty and the second quarter of 1998 for FlashPath. The only product shipped all three years was SafeBoot. During 1996 approximately $277,000 of our Crypto-SmartDisk product was shipped. This product was specifically developed and produced for the United States General Services Administration and was expected to be a high volume product, but significant orders never developed and the product was abandoned in late 1996. Because of these significant fluctuations in our product mix and the development stage nature of our operations prior to mid-1998, we do not believe that period-to-period comparisons of our historical results are meaningful or predictive of future performance.

GROSS PROFIT. Gross profit increased to approximately $2.7 million in 1998 from $592,000 in 1997 and $134,000 in 1996. The increase in gross profit was primarily due to increasing revenues and especially to the market introduction of the Smarty product in late 1997 and the FlashPath product in mid-1998.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased to $1.6 million in 1998 from $1.4 million in 1997 and $720,000 in 1996. The increases were primarily attributable to the hiring of additional technical personnel to support the development of our FlashPath and Smarty products.

SALES AND MARKETING EXPENSES. Sales and marketing expenses increased to $2.5 million in 1998 from $12,000 in 1997 and $6,000 in 1996. These increases were due primarily to the hiring of sales, marketing and product management personnel to support our FlashPath and Smarty products, particularly the opening of our Tokyo, Japan office in April 1998.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased to approximately $4.0 million in 1998 from $3.2 million in 1997 and $3.4 million in 1996. The increase from 1997 to 1998 was

primarily attributable to our hiring of additional executives to support our growth, as well as the April 1998 opening of our Tokyo office. The decrease from 1996 to 1997 was primarily attributable to the abandonment of our Crypto-SmartDisk business.

IMPAIRMENT LOSS. As discussed in more detail in note 5 of the notes to our financial statements, in 1996 we incurred an approximately $7.8 million impairment loss. The loss related to the acquisition by one of our affiliates of a business that was primarily based on the future potential of one product, Crypto-SmartDisk. This product was specifically being developed and produced for the United States General Services Administration and was expected to be a high volume product. However, significant orders never developed and the product was eventually abandoned in late 1996.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly operating data for each of the five quarters ended March 31, 1999. In the opinion of management, these data have been prepared substantially on the same basis as the audited financial statements appearing elsewhere in this prospectus, and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such data. However, our operating results have fluctuated significantly in the past and we expect that they will continue to fluctuate in the future. Future fluctuations may be a result of a variety of factors, including the timing and amount of orders we receive from our customers, reductions in average selling prices, the timing and level of our research and development expenditures, and the availability of manufacturing capacity necessary to make our products. Accordingly, we believe that period-to-period comparisons of our historical results are neither meaningful nor predictive of our future performance. The quarterly data should be read together with the financial statements and the notes to those statements appearing elsewhere in this prospectus.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED				
	MARCH 31, 1998	JUNE 30, 1998	SEPTEMBER 30, 1998	DECEMBER 31, 1998	MARCH 31, 1999
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 532	$ 3,408	$ 4,921	$ 6,462	$ 5,507
Gross profit	91	511	1,638	482	860
Gross profit margin	17%	15%	33%	7%	16%
Total operating expenses	1,297	2,206	2,135	2,565	2,666
Operating loss	1,206	1,695	497	2,082	1,806
Net loss	$ 1,189	$ 1,705	$ 488	$ 2,046	$ 1,707

</TABLE>

Our revenues fluctuated on a quarter-to-quarter basis during the periods presented primarily because we were in the early stages of our development. Substantial shipments of our FlashPath product did not commence until the second quarter of 1998, and our operating expenses in that quarter increased significantly primarily as a result of our hiring additional personnel to support our growth. We increased the price of our FlashPath product during the third quarter of 1998, which resulted in significantly higher gross profit and gross profit margin for that quarter. The improvement in gross profit and gross profit margin resulted in significantly improved operating and net losses

for the third quarter. We reduced the price of our FlashPath product in the fourth quarter of 1998 in an effort to gain market share. Even though our revenues increased in that quarter because of increased unit sales of our product, our gross profit and gross profit margins were reduced because of lower selling prices and increases in the cost of revenues associated with the increased product sales. The reductions in gross profit and gross profit margin were further exacerbated by the write down of certain inventory and the write off of certain production equipment relating to FlashPath I.

As a result of our extremely limited operating history, we do not have historical financial data for a significant number of periods on which to base planned operating expenses. Our expense levels are based in part upon our expectations concerning future revenue and, to a certain extent, are fixed. Quarterly revenues and operating results depend substantially upon the timing and amount of orders we receive from our relatively small number of customers, which may be tied to seasonal demand for the consumer electronic products manufactured and sold by these OEMs. Accordingly, the cancellation or delay of customer orders, or the loss of a significant customer, could have a material adverse effect on our business. We may be unable to adjust spending for our

research and development or other activities in a timely manner to compensate for any unexpected revenue shortfall, and any significant shortfall in revenue in relation to our expectations would have an immediate adverse effect on our business, results of operations and financial condition.

Due to the foregoing factors, quarterly revenues and results of operations are difficult to forecast, and we believe that period-to-period comparisons of our operating results is neither meaningful nor predictive of future performance. In one or more future quarters our results of operations may fall below the expectations of securities analysts and investors. In such event, the trading price of our common stock would likely be materially adversely affected.

LIQUIDITY AND CAPITAL RESOURCES

In 1996 and 1997, we financed our operations principally through loans payable to related parties. During 1998 and 1999, we financed our operations and repaid loans outstanding through short-term borrowings and the sale of equity securities in private placements with several strategic investors including Hitachi, NEC, Rohm, Toshiba and Yamaichi. At March 31, 1999, we had working capital of approximately $1.1 million and approximately $1.8 million of cash and cash equivalents.

To date, we have experienced negative cash flows from operating activities. Net cash used in operating activities was approximately $6.0 million in 1998 and $1.5 million in the first quarter of 1999. Cash used in operating activities in 1998 was primarily attributable to a net loss of $5.4 million, a $3.7 million increase in accounts receivables and a $1.4 million increase in inventories, partially offset by a $3.5 million increase in accounts payable. Cash used in operating activities for the first three months of 1999 primarily resulted from a $1.7 million net loss and a $2.2 million increase in accounts receivable, partially offset by a $1.3 million decrease in inventories.

Net cash used in investing activities of $2.1 million in 1998 was attributable to approximately $1.0 million of capital expenditures (primarily production equipment for the manufacture of our products) and our approximately $1.1 million time deposit that collateralizes our credit facility. Net cash used in investing activities in the first quarter of 1999 was $1.5 million, all of which was attributable to our purchases of property and equipment (primarily production equipment for an enhanced version of our FlashPath for SmartMedia product). Although we have no commitments, we expect that we will continue to make significant capital expenditures to acquire the production equipment for the products we are currently developing, particularly the FlashPaths that will support the Sony Memory Stick and the SanDisk MultiMediaCard.

Net cash provided by financing activities totalled approximately $10.4 million in 1998 and consisted primarily of proceeds from our issuance of common stock and short-term borrowings under our credit facility, partially offset by the repayment of certain loans to affiliates. Net cash provided by financing activities was $1.8 million in the first quarter of 1999 and consisted primarily of proceeds from our issuance of common stock and short-term borrowings. We have an approximately $2.6 million credit facility with a Japanese bank that permits borrowings based upon our time deposits and the accounts receivable of specified customers. Borrowings under the facility bear interest at 1.375% per year and mature December 1999.

We believe that the net proceeds of this offering, along with cash on hand, will be sufficient to meet our working capital and anticipated capital expenditure needs for at least the next 12 months. Thereafter, we may require additional sources of funds to continue to support our business. We cannot guarantee that such capital, if needed, will be available or will be available on terms acceptable to us.

YEAR 2000 ISSUES

The "Year 2000 Issue" refers generally to the problems that some software may have in determining the correct century of the year. Many existing electronic systems, including computer systems, use only the last two digits to refer to a year. Therefore, these systems may recognize a date using "00" as 1900 rather than the year 2000. If not corrected, these electronic systems could fail or create erroneous results when addressing dates on and after January 1, 2000.

In assessing the effect of the Year 2000 Issue on SmartDisk, we determined that we need to evaluate four general areas:

- Supplier relationships;

- Internal infrastructure;
- Products sold to customers; and
- Other third-party relationships.

MANUFACTURER AND SUPPLIER RELATIONSHIPS. We outsource the manufacturing of our products to a number of subcontractors. If our subcontractors are affected by the Year 2000 Issue, our supply of products could be delayed or eliminated. Any disruption in our supply of products from our subcontractors would seriously harm our business, financial condition and results of operations. We are currently seeking assurances from our subcontractors that their manufacturing of our products will be unaffected by the Year 2000 Issue but have not received such assurances to date.

INTERNAL INFRASTRUCTURE. The Year 2000 Issue could also affect our internal systems, including both our information technology and non-information technology systems. We have initiated an assessment of our material internal information technology systems, including third-party software and hardware technology. Based upon representations received from these third-party software and hardware suppliers, we do not believe that our material internal information technology systems will be affected by the Year 2000 Issue. We have also initiated an assessment of our non-information technology internal systems, such as our test facility. Based on our preliminary assessment, we do not believe that our material non-information technology internal systems will be affected by the Year 2000 Issue. However, we may experience serious unanticipated problems and costs caused by undetected errors or defects in the technology used in our internal information technology and non-information technology systems.

PRODUCTS SOLD TO CUSTOMERS. Our FlashPath and Smarty products do not contain two digit date codes and therefore are generally unaffected by the Year 2000 Issue. However, once shipped, our products are used in conjunction with products, which we do not develop. The performance of our products could be affected if a Year 2000 Issue exists in a different component of a customer's product. We have not, and will not, assess the existence of these potential problems in our customers' products.

We do not currently have any information concerning the Year 2000 compliance status of our customers. Our current or future customers may incur significant expenses to achieve Year 2000 compliance. If our customers are not Year 2000 compliant, they may experience significant costs to remedy problems, or they may face litigation costs. In either case, Year 2000 issues could reduce or eliminate the budgets that current or potential customers could have for purchases of our products and services. As a result, our business, results of operations or financial condition could be materially adversely affected.

OTHER THIRD-PARTY RELATIONSHIPS. We rely on outside vendors for utilities and telecommunication services as well as climate control, building access and other infrastructure services. We are not capable of independently evaluating the Year 2000 compliance of the systems utilized to supply these services. We cannot assure you that these suppliers will resolve any or all Year 2000 Issues with these systems before the occurrence of a material disruption to our business. Any failure of these third parties to resolve Year 2000 Issues with their systems in a timely manner could have a material adverse effect on

our business, financial condition or results of operations.

We have not developed a contingency plan to address situations that may result if we are unable to achieve Year 2000 readiness of our critical operations, and we do not plan to do so in the future. Any investigations we have undertaken with respect to Year 2000 Issues have been funded from available cash, and these costs have not been separately accounted for. To date, these costs have not been significant.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement Number 133, Accounting for Derivative Instruments and Hedging Activities. We expect to adopt the new statement effective January 1, 2001. The statement will require us to recognize all derivatives on our balance sheet at fair value. We do not anticipate that the adoption of the statement will have a significant effect on our results of operations or financial position.

BUSINESS

OVERVIEW

SmartDisk is a market leader in the design and development of products that enable consumers to easily share digital data among advanced consumer electronic products, PCs and the Internet. Consumers are increasingly relying on the transfer of digital information as an important part of their daily lifestyles. We believe that our products provide an easy-to-use, cost-effective and versatile solution for the exchange of digital data. Our patented products, FlashPath and Smarty, allow consumers to use the familiar 3.5 inch floppy drive - found on most PCs worldwide - to simplify the exchange of images, music, voice and other digital data.

Our current FlashPath product is used primarily to transfer images to PCs from digital cameras using the Toshiba SmartMedia flash memory card. SmartMedia cards are used in cameras made by a number of leading camera manufacturers, including Agfa, FujiFilm, Olympus, Polaroid, Ricoh, Sanyo, Sharp and Toshiba. FlashPath also enables consumers to transfer voice between digital voice recorders and PCs, and digital music between PCs. During the 12-month period ended June 30, 1999, we sold over 700,000 FlashPaths.

We are currently developing, with Sony and SanDisk, additional FlashPath products to support their flash memory cards - the Memory Stick and the MultiMediaCard. These flash memory cards are expected to have applications in "smart" cellular phones, digital cameras and camcorders, digital audio players and video game devices. In addition to our product development efforts with Sony and SanDisk, we also have strategic relationships with a number of key industry players, including Hitachi, NEC and Toshiba. Our strategic partners actively participate in the development of our product pipeline, provide us with access to leading-edge manufacturing capabilities, and market and distribute our products globally.

INDUSTRY OVERVIEW

Consumer lifestyles are being transformed by the increasing use of digital information in the home and workplace. Individuals increasingly rely upon PCs, computer networks and the Internet to access digital information for entertainment and productivity purposes. The proliferation of PCs in both the home and office, as well as the explosive growth of Internet use, has led to widespread consumer familiarity with the storage, manipulation, transfer and management of digital data.

In recent years, digital computing and processing have expanded beyond the boundaries of desktop computer systems to include a broader array of sophisticated, consumer electronic products. These new digital appliances include digital cameras, personal digital assistants such as the PalmPilot, highly portable computers, digital audio recorders and "smart" cellular telephones. The market for these advanced electronic products is growing rapidly as a result of consumers' increased familiarity with these products and increased dependence on expanding digital applications. According to International Data Corporation, or IDC, 18 million digital appliances were shipped worldwide in 1998. IDC expects this number to increase to more than 75 million by 2002.

The convergence of advanced consumer electronic products, PCs and the Internet offers consumers the opportunity to personalize and exchange digital data generated from a wide range of sources. This convergence has precipitated

greater demand for connectivity. While significant resources have focused on increasing the speed and capacity of the connection between PCs and the Internet, the connection between digital appliances and PCs has yet to achieve the compatibility, simplicity and convenience sought by consumers.

One of the principal barriers to connectivity is the variety of non-standardized flash memory cards available in the market today. Flash memory cards are the miniature devices used by many of the emerging consumer electronic products to store digital data. There are currently four major removable flash memory cards, none of which has emerged as an industry standard and none of which is compatible or operable with any of the others:

- the Toshiba SmartMedia card;
- the SanDisk CompactFlash card;
- the SanDisk/Siemens MultiMediaCard; and

- the Sony Memory Stick.

A second major barrier is the current lack of convenient connection methods. While many consumers have increased their use of digital appliances, there is still a large group of potential users that has not ventured beyond desktop PCs because they are intimidated by the inherent difficulty of connecting digital appliances that have non-conforming interfaces and difficult-to-master connections. As a result, we believe that the continued growth of the consumer-oriented digital appliance market will depend in large part upon the ability of users to conveniently transfer stored digital data which is captured by digital appliances. For example, the rapid growth of the digital camera market was based, to a large degree, upon consumers' desire to both transfer images to family members and others through the Internet and manipulate the captured images with their PCs. The popularity of the PalmPilot was also largely fueled by the ability of consumers to easily connect and transfer data to and from their PCs. Accordingly, one of the principal challenges faced by manufacturers of consumer digital appliances is the interface between their appliances and PCs or other digital appliances.

There are currently a number of interfaces used to transfer data from digital appliances to personal computers:

- cable interfaces such as serial ports, the Universal Serial Bus, or USB, and parallel ports; and
- non-cable interfaces such as infrared interfaces and PCMCIA and floppy disk drive slots.

We believe that most interfaces have disadvantages that make them impractical for use with consumer-oriented digital appliances. Consumers typically do not like to use cable connections, such as serial ports, USBs and parallel ports. Such interfaces require the use of limited PC ports, which are frequently dedicated to connecting the PC to devices such as printers, modems, PalmPilots and other peripherals. In addition, the need to connect a cable to the back of the PC is inconvenient and often resisted. Other disadvantages of cable interfaces include desktop clutter and the fact that the newer interfaces such as USB are not present on most installed PCs. Certain of the non-cable interfaces also have inherent limitations. For example, while virtually all portable PCs being sold today contain a PCMCIA slot or infrared interface as a standardized feature, neither the PCMCIA standard nor the infrared interface has generally been adopted for desktop computers. In addition, infrared interfaces have achieved limited market acceptance, primarily because of current reliability concerns.

THE SMARTDISK SOLUTION

We design, develop, manufacture and distribute easy-to-use, portable and low cost devices that facilitate data exchange between digital appliances, PCs and the Internet. Our patented products connect through the most widely-accepted and user-friendly PC interface, the 3.5 inch floppy disk drive, allowing the OEMs that market their and our consumer products to reach a large installed base of potential users.

Our current and planned FlashPath and Smarty products are designed to offer the following principal benefits:

EASE OF USE. Our products are easy to use and install. FlashPath transfers digital data to the PC without cables or hardware installation and

without using limited desktop space or personal computer ports. A consumer using a digital camera removes the flash memory card that serves as the camera's digital film, places that flash memory card into our FlashPath product, and then inserts the FlashPath into the PC's 3.5 inch floppy disk drive. FlashPath easily transfers to the PC the images that are captured by the digital camera and stored on the flash memory card. The consumer can then use the PC to edit and print the image, add sound or text, transmit the image over the Internet or incorporate the image in advertisements, newsletters, reports or other documents produced using the PC.

PRODUCTS COMPATIBLE WITH MULTIPLE MEDIA. We believe that our established ability to design products that support competing flash memory cards is critical because of the lack of flash memory industry standards. Our initial FlashPath product was designed to transfer digital photographs from the Toshiba SmartMedia card to the PC for transmission over the Internet. Other flash memory products under development are designed to be compatible with the Sony Memory Stick and the SanDisk/Siemens MultiMediaCard. Our ability to design products compatible with multiple media is enhanced by our strategic relationships with the three leading manufacturers of flash memory

storage cards - SanDisk, Sony and Toshiba. By supporting various media, we will be able to address the data transfer needs of purchasers of existing and emerging digital appliances that use different flash memory cards. In addition, our Smarty reader/writer product supports various smart card formats.

FAMILIAR FORM. Our products are shaped like a 3.5 inch floppy disk and use the floppy disk drive slot familiar to most PC users. This widely recognized format reduces consumer intimidation frequently created by new technologies, facilitating the adoption of our products and various consumer-oriented digital appliances.

VERSATILE. Our FlashPath and Smarty products can be used with a variety of PC hardware platforms and software environments. Our driver software is included with our products and can also be downloaded free of charge from the Internet. The software enables our products to operate with Windows 95, Windows 98, Windows NT, NEC Windows and Macintosh operating systems. As a result, the same FlashPath that is used by an advertising executive to transfer images from his Olympus digital camera to his Microsoft-based office PC can be used by his daughter to transfer images from her FujiFilm camera to her Apple computer. Similarly, the same FlashPath that is used to transfer images may also be used to transfer voice and other digital data from a variety of digital appliances that use the same flash memory card. The versatility of our products will become more important as consumers increase their reliance on flash memory cards to store and transfer digital data where traditional memory storage devices such as floppy disks are inadequate due to capacity or form factor constraints.

INDEPENDENT POWER SOURCE. Unlike cables, our FlashPath and Smarty products do not rely upon a digital appliance's power source to transfer digital data from a flash memory card to a PC. Each of our products runs on two replaceable batteries. This is important because digital appliances, such as digital cameras, consume significant amounts of power and require frequent battery replacement or recharging. The use of cable interfaces quickly drains power from digital appliances, making those competing products less attractive.

BUSINESS STRATEGY

Our objective is to establish our FlashPath products as the industry-standard solution for the transfer of data between digital appliances and PCs by strengthening our position as a technological and market leader. We also intend to capitalize on the anticipated growth of smart card applications through our Smarty product line. Key elements of our business strategy include the following:

CAPITALIZE ON TECHNOLOGY EXPERTISE TO EXPAND OUR PRODUCT OFFERINGS. We have developed extensive expertise, intellectual property and core competencies in flash memory data transfer and smart card technologies. Each of our products is based on our core leverageable technology platform. Our leverageable technology platform allows us to quickly respond to industry developments, providing first-to-market advantages and reducing development costs for future products. We expect to capitalize on our technology base and patent portfolio to design, develop and manufacture a broad range of data transfer devices that can operate across a variety of flash memory products, hardware platforms and software environments. In the short-term, we are developing products to transfer digital data between PCs and different flash memory cards and are expanding our applications to support digital audio players. In addition, we are using our technology expertise, patents and trade secrets to develop application-specific,

non-PC-based devices that will permit flash memory cards to be used with other existing technologies. We also will strive to capitalize on our core product design competencies to develop products that support computer interfaces other than the 3.5 inch floppy disk drive.

EXPAND CUSTOMER AND STRATEGIC INDUSTRY RELATIONSHIPS. We have formed strategic relationships with a number of leading consumer product OEMs and other key industry players, including FujiFilm, Hitachi, NEC, Olympus, SanDisk, Sony and Toshiba. We intend to continue to develop long-term alliances with a diversified base of OEMs and other industry participants in additional consumer electronics segments. We believe that these relationships provide significant operating leverage and a number of other important benefits:

- Our OEM customers advertise, promote, package, sell and distribute our products under some of the world's most recognized brand names. These include FujiFilm, Hitachi, Olympus, Polaroid, Sharp and Toshiba. As a result, we have access to extraordinary market clout without the need to invest heavily in our own marketing infrastructure and programs.

- Our cooperative development alliances frequently provide access to flash memory card manufacturers early in the design phase of their product development process. This allows us to anticipate these manufacturers' future technological requirements and to develop long-term relationships across a number of products and through multiple product generations. In addition, these partners often assist with engineering and design for manufacturability, which helps assure that mechanical and electrical considerations are integrated into a total systems approach to achieve a high quality and cost-effective product.

MAINTAIN MEDIA NEUTRALITY. We are using our leverageable technology architecture and core competencies to create products that enable consumers to use most leading flash memory cards. There is a rapidly growing number of digital appliances that use competing flash memory technologies, none of which we currently expect to become an industry standard. We are committed to maintaining media neutrality to enable users of various leading flash memory technologies to transfer data quickly and easily among devices that use different flash memory card formats.

PROMOTE BRAND AWARENESS OF OUR PRODUCTS. Most of our products are packaged, marketed and distributed by OEMs on a stand-alone basis, with approximately 25% of our sales being derived from the sale of bundled products. Accordingly, it is critical that we obtain ultimate consumer acceptance of and demand for our products independent of bundled sales. To this end, we intend to build upon our initial success by promoting the FlashPath and Smarty brand names. Our brands are often displayed on the packaging of the OEM products and, as a result, we are able to benefit from the powerful advertising and promotion of our products by the OEMs while simultaneously building our brand identity. In addition, we intend to expand our use of advertising and other marketing programs designed to promote our brand and enhance brand awareness. We also intend to increase distribution channels for our products by promoting direct sales via the Internet and through retailers.

EMPHASIZE USER-FRIENDLY PRODUCTS. We are committed to capitalizing on our patent portfolio to enable consumers to conveniently transfer images, music, voice and other types of digital data between consumer electronic devices, the Internet and PCs without hardware installation, cables or the use of personal computer ports.

TECHNOLOGY

Since our inception, we have focused our research and development efforts on designing and developing products that facilitate the transfer of data from digital appliances using flash memory cards and smart cards to PCs. We have been actively involved in all aspects of this development process, including the development of a highly leverageable, proprietary technology architecture that supports all of our FlashPath and Smarty products. We believe that our core technological competencies encompass research, product design and product development.

SmartDisk products are compatible with a broad range of hardware platforms and software environments. Our leverageable floppy disk drive interface architecture has also allowed us to develop products that support

different flash memory and smart cards. In addition, we believe that this leverageable architecture improves reliability, decreases time to market and lowers new product development costs. For example, the development of our FlashPath product for SmartMedia flash memory cards took approximately 18 months from determining product feasibility to commencing commercial production, and we expect the time for the development of our products for the MultiMediaCard and Sony Memory Stick will be shortened to less than 12 months. We believe that we will take advantage of similar opportunities to leverage our core technological competencies as we continue our efforts to develop products to conveniently transfer digital data from competing flash memory cards to existing, non-PC technologies and, in the future, products that support computer interfaces other than the 3.5 inch floppy disk drive.

During the remainder of 1999 and 2000, we expect that our development efforts will be primarily focused on the following initiatives:

- expanding our FlashPath product line to support the Sony Memory Stick and the MultiMediaCard;
- further reducing our production costs;
- enhancing product performance; and

- developing new, application-specific products that will allow flash memory cards to be used with existing non-PC technologies.

We believe that our patents provide substantial proprietary protection relating to the transfer of digital data through floppy disk emulation. Accordingly, a key element of our intellectual property strategy is to enter into strategic alliances without licensing our technology to OEMs. Our strategic alliances with Hitachi, NEC, Sony and Toshiba began with their initial inquiries to license our FlashPath technology. Those preliminary overtures developed into more extensive dialogues and the exchange of information that permitted us to better demonstrate our technology platform, proprietary rights and research, design and development expertise. We believe that the broad scope of our strategic alliances with these leading industry participants demonstrates the appeal and strength of our proprietary technology. Many of these alliances have led to equity investments and cooperative development arrangements.

The technology comprised in our product offerings consists of five key components:

- FLASH MEMORY READ/WRITE SYSTEM. This proprietary system uses the central processing logic to write and read data to and from the flash memory card in the product. These tasks are performed under the control of the processor and by the use of a direct memory access controller and a buffer to store the contents while the read/write operations are taking place.
- DIGITAL ASIC. Our proprietary digital ASIC prepares the digital data read from the flash memory, encodes it and sends it to the analog ASIC. The digital ASIC also decodes data from the analog ASIC for use with the flash memory read/write system.
- ANALOG ASIC. Our proprietary analog ASIC converts the digital data to analog signals for reading from the flash memory card.
- CENTRAL PROCESSING UNIT. This unit consists of an industry standard microprocessor, memory and other processing logic to control the functions of the digital and analog ASICs and the flash read/write system.
- DRIVER SOFTWARE. Our proprietary driver software enables our products to operate with a variety of commonly installed personal computer operating systems such as Microsoft Windows.

MARKETING, CUSTOMERS AND STRATEGIC RELATIONSHIPS

SALES AND MARKETING. We market and sell our current FlashPath product primarily to OEMs, including Agfa, FujiFilm, Olympus, Polaroid, Ricoh, Sanyo, Sharp and Toshiba. These OEMs compete in some of the fastest growing segments of the electronics industry, including digital cameras, digital audio players, digital camcorders and personal digital assistants.

OEMs generally provide or sell our products on a stand-alone basis, with approximately 25% of our sales being derived from the sale of bundled products. Often, both the OEM's brand name and our FlashPath or Smarty tradename appear on the product packaging. As a result, we benefit from the powerful advertising and promotion of our products by the OEMs without having to incur significant additional marketing expenses. For example, our products have been featured in OEM advertisements in major publications, including THE WALL STREET JOURNAL, TIME MAGAZINE and USA TODAY.

The packaging of our FlashPath product with FujiFilm's and Olympus' digital cameras illustrates the synergistic relationships we have with some of our customers. Their marketing campaigns emphasize the convenience of using the FlashPath product to transfer digital photographs to the PC. We believe that our FlashPath adapter is one of the key reasons that many of the top selling digital cameras in the world use Toshiba's SmartMedia card. We shipped approximately 700,000 FlashPath units during the 12-month period ended June 30, 1999 largely as a result of our customers' extensive market penetration.

We support the marketing activities of our customers with a dedicated product manager for each of our product lines. In addition, we support their sales efforts through sales training courses, public relations activities,

trade shows and industry education programs. We also employ marketing communications personnel to develop packaging, brochures and other collateral materials.

We market and sell our Smarty product to financial institutions and other service providers who promote Smarty to their customers as part of their smart card-based programs. Our Smarty customers include ABN Amro Bank (The Netherlands), Bally Gaming, Bank of America, la Caixa Bank (Spain) and Visa.

As of June 30, 1999, we had nine full-time employees engaged in sales and marketing activities. We also use the services of Japan-based dealers to serve as our agents in connection with sales to OEMs based in that country. Such intermediaries generally mark up the selling price to the OEM purchaser by approximately 3%. Our customers generally place orders for our products on an as-needed basis, with no long-term commitments.

STRATEGIC RELATIONSHIPS. An important element of our business strategy is to develop strategic relationships with industry players that can assist us in the development of new products, provide us with access to leading-edge manufacturing capabilities and market and distribute our products globally. This approach allows us to concentrate our resources on our core competencies of product design and development, reduces our capital requirements and generally provides a high degree of operating leverage. In addition, our close relationships with flash memory card manufacturers and consumer product OEMs frequently provide insight into the current and future needs of these companies, enabling us to design specific products to meet these needs. OEMs frequently distribute our FlashPath product in connection with the distribution of their consumer electronic products. As a result, we believe that these strategic relationships allow us to take advantage of OEMs' direct sales organization, distributors and manufacturers' representatives. We evaluate potential collaborative arrangements on an ongoing basis and intend to continue to pursue additional strategic relationships.

Set forth below are brief descriptions of certain of our strategic relationships:

TOSHIBA. Toshiba Corporation, a leading electronics company, played a critical role in our early development stage. Toshiba made an equity investment of approximately $10.0 million in SmartDisk and introduced us to most of the key technical personnel that now constitute our Tokyo-based applied engineering and production engineering team. Toshiba also assisted us in the development and engineering of FlashPath, helped guide our selection of manufacturing techniques, aided our introduction into mass production and introduced our management to other potential strategic partners. Toshiba continues to provide cooperative support in several areas. For example, four of their engineers continue to reside in and provide full-time support to our Tokyo office on a contract basis. In addition, we expect to receive technical engineering and manufacturing assistance that will aid our product development activities on an ongoing basis.

SONY. Under our co-development agreement with Sony, we are developing a FlashPath product for use with the Sony Memory Stick. We expect that we will manufacture, and that Sony will distribute, the

co-developed product.

SANDISK. We also have a co-development agreement with SanDisk, a leading developer and marketer of flash memory storage products, including CompactFlash and the MultiMediaCard. Under this arrangement, we are jointly developing with SanDisk a floppy disk adapter that will use our FlashPath technology to support the SanDisk MultiMediaCard.

VISA. We have an arrangement with VISA International, a leading issuer of credit cards, to test our Smarty product. Under the pilot program, Smarty is used in conjunction with the Visa Platinum card to permit controlled access to the Visa website, allowing card holders to access account information and other ancillary services. Since inception of the program, Visa has purchased and distributed approximately 15,000 Smarty units.

The following table illustrates the nature of our strategic relationships:

<TABLE>
<CAPTION>

	TYPE OF STRATEGIC RELATIONSHIP					
STRATEGIC PARTNER	INVESTOR	COOPERATIVE DEVELOPMENT	TECHNOLOGY LICENSOR	SUPPLIER	MANUFACTURER	CUSTOMER
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Hitachi	X	X			X	X
Mitsumi		X			X	
NEC	X				X	X
Rohm	X	X		X		
SanDisk	X	X	X			X
Sony		X	X			
Toshiba	X	X	X			X
Yamaichi	X	X			X	

</TABLE>

PRODUCTS

Each of our products is based upon our core, patented technology and is designed to easily transfer digital data between PCs, the Internet and various types of digital appliances.

FLASHPATH. FlashPath is a solid state electronic device in the shape of a 3.5 inch floppy diskette. It works in any standard 3.5 inch floppy drive - the type found in most PCs today. The current principal use of our FlashPath product is to transfer images from digital cameras to PCs. Digital cameras use flash memory cards as film. After the flash memory card captures and stores images, the flash memory card is removed from the camera and is placed into FlashPath. FlashPath is then inserted into the PC's floppy disk drive and the images are transferred to the PC to edit, to add text, graphics or sound, or to mail over the Internet. Because FlashPath transfers images from the camera to the PC without using cables or PC ports and without any hardware installation, the consumer has a device that is familiar, easy to use, not intimidating and transportable among multiple PCs. FlashPath uses our proprietary driver software provided with our products and available free of charge from the Internet. Our driver software enables our products to operate with Windows 95, Windows 98, Windows NT, NEC Windows and Macintosh operating systems.

Our current FlashPath product transfers images from digital cameras using the SmartMedia flash memory card manufactured by Toshiba and Samsung. A number of manufacturers use the SmartMedia card in their digital cameras, including Agfa, FujiFilm, Olympus, Polaroid, Ricoh, Sanyo, Sharp and Toshiba. During the 12-month period ended June 30, 1999, we sold over 700,000 FlashPath adapters for SmartMedia cards.

We are also developing two other FlashPath products that use different flash memory media. One is designed to work with the Sony Memory Stick, which initially will have applications in digital cameras, and the other is designed

to work with the SanDisk MultiMediaCard, which initially will be used in conjunction with "smart" cellular telephones being developed by Nokia and camcorders by JVC. In addition, we expect that these new FlashPath adapters will support other applications, including digital audio players. We expect to commercially introduce FlashPath for the Sony Memory Stick in the fourth quarter of 1999 and FlashPath for the SanDisk MultiMediaCard in the first quarter of 2000. These new products are expected to enable us to reach new markets and new customers. In addition, we are developing a new consumer-oriented product that is designed to allow flash memory cards to be used with an existing, non-PC technology.

SMARTY. Our Smarty products enable smart cards to be read and written through a PC's floppy disk drive, thereby eliminating the need for special purpose smart card reader peripherals. Like our FlashPath products, the Smarty smart card reader/writer is a solid state electronic device the size of a 3.5 inch floppy disk, is powered by two replaceable batteries and requires no external power source or wire connections. Smart cards are inserted into our Smarty product, which accesses information on the smart card from the card's embedded microprocessing chip.

A user simply places the smart card into Smarty, inserts Smarty into the 3.5 inch floppy disk drive and connects with the smart card application. Smarty reads and writes to any standard smart card without cable connections, without any hardware installation and without consuming PC ports.

Smart cards are typically used to store information such as medical information, digital money and security codes. Accordingly, smart cards can serve as personal identification, a credit card, a mass transit pass and as a cash substitute for purchases at stores or over the Internet.

Today, Smarty is primarily being used in pilot programs. The major users of Smarty are ABN Amro Bank (The Netherlands), Bally Gaming, Bank of America, la Caixa Bank (Spain) and Visa. Smarty is designed to work with Microsoft's Personal Computer/Smart Card (PC/SC) standard.

RESEARCH AND DEVELOPMENT

Our product design and development activities are conducted in both our Naples, Florida and Tokyo, Japan offices.

NAPLES. Our Naples team is primarily responsible for our core research and development activities, including product conceptualization, software and firmware development, technical writing, printed circuit board layouts and mechanical engineering. Core competencies of our Naples team include floppy disk emulation, flash memory media and smart card interfaces, driver, user and utility software interfaces, ASIC design and firmware. Our engineers and other research and development employees also develop design specifications based on customer requirements and supervise our quality assurance activities. This 25-person Naples team consists of executive management, line management, engineers, developers and quality assurance personnel.

TOKYO. Our Tokyo research and development team actively assists in the implementation of our product designs, with primary responsibility for applied engineering, production engineering and the supervision of our contract manufacturers. Our Tokyo team also plays a principal role in coordinating our development activities with the leading flash memory card manufacturers and refining the product requirements of our OEM customers. Other activities include the localization/translation of our products for the Japan market, debugging and quality assurance. Our Tokyo research and development team consists of our Japanese subsidiary's Vice President of Engineering and four Toshiba engineers who provide services on a contract basis.

For 1996, 1997, 1998 and the first three months of 1999, our research and development expenditures were approximately $720,000, $1.4 million, $1.6 million and $925,000, respectively.

In addition, since our inception we have endeavored to develop and maintain close relationships with key suppliers of components and technologies in order to enable us to quickly introduce new products that incorporate the latest technological advances. As a result, the substantial resources of strategic partners such as Hitachi, Mitsumi, NEC, Rohm, SanDisk, Sony, Toshiba and Yamaichi augment our internal research and development efforts. These cooperative development arrangements take many forms and provide a number of benefits. For example, SanDisk, Sony and Toshiba have licensed certain technology to us that allows our products to interface with their flash memory cards and provide extensive engineering support. We believe that our close

relationships with flash card manufacturers and consumer product OEMs also provide insight into their current and future needs, enabling us to design specific products that meet those requirements.

MANUFACTURING AND SOURCES OF SUPPLY

We currently outsource our manufacturing and plan to continue to outsource manufacturing for the foreseeable future. This strategy allows us to focus on our core technological competencies of research, product design and development, and to reduce the substantial capital investment required to manufacture our products. We also believe that our use of experienced, high-volume manufacturers provides greater manufacturing specialization and expertise, higher levels of flexibility and responsiveness, and faster delivery of product than in-house manufacturing. In addition, we frequently seek the advice of our experienced manufacturers with respect to design changes that reduce manufacturing costs or lead times or increase the manufacturing yields and the quality of our finished products.

Our products are currently manufactured in the Philippines at facilities operated by Yamaichi and Mitsumi. Under our manufacturing arrangements, we receive fully assembled and tested products based upon our proprietary designs and specifications. We selected our ISO-certified contract manufacturers based upon their reputations for quality, their cost structures, their production capacities and their support of state-of-the-art manufacturing processes and systems. However, our current dependence on a limited number of manufacturers exposes us to certain risks, including shortages of manufacturing capacity, reduced control over delivery schedules, quality assurance, production yields and costs. See "Risk Factors--We depend on contract and offshore manufacturing." Accordingly, we intend to seek additional manufacturing capacity and, in particular, at least two manufacturers for each of our products. To that end, in January 1999, we signed an agreement with Hitachi to have it manufacture our Smarty product. We expect production by Hitachi to begin by the end of 1999. We do not have contracts in place with any of our current manufacturers.

To ensure that products manufactured by others meet our standards, our Tokyo production and engineering team works closely with our contract manufacturers in all key aspects of the production process. We establish product specifications, select the components to be used to produce our products, select the suppliers, and negotiate the prices for most of these components. We also work with our contract manufacturers to improve process control and product design, and conduct periodic, on-site inspections of our manufacturers. In addition, our Tokyo team conducts monthly review meetings with our manufacturers to discuss sales forecasts and the procurement of long lead-time parts, production capacities and facilities.

We rely upon a limited number of suppliers of several key components used in our products. In particular, Rohm manufactures our proprietary ASICs used in our FlashPath products and our proprietary analog ASICs used in our Smarty products, and Atmel manufactures our proprietary digital ASICs used in our Smarty products. Moreover, we purchase ASICs and other components pursuant to purchase orders placed from time to time and have no guaranteed supply arrangements. Our reliance on limited source suppliers involves several risks, including a potential inability to obtain an adequate supply of required components, price increases, timely delivery and component quality. See "Risk Factors--We have a limited number of suppliers of key components."

COMPETITION

There are no competitors known to us that offer a digital data transfer solution for flash memory or smart cards using a 3.5 inch floppy drive. However, we face competition from numerous providers of cable and other non-cable interfaces, including ports, USBs and infrared interfaces. These competing products are offered by a number of companies, including:

- in the case of flash memory card interfaces, Hagiwara, SanDisk and SCM Microsystems; and

- in the case of smart card interfaces, Gemplus, Hitachi, SCM Microsystems and Toshiba.

The market for data transfer products is intensely competitive and characterized by rapidly changing technology and rapid changes in consumer preference. We believe that competition is likely to intensify as a result of increasing demand for digital appliances using flash memory cards. Future competition may also include flash memory card manufacturers and the consumer product OEMs that are our current customers. In addition, it is possible that

third parties may design around our patents or license technology to develop competing products that use a 3.5 inch floppy drive interface.

Several competitive developments would have a particularly significant impact on our business. First, new competing data storage devices may replace the flash memory cards which our products support. Second, the market for flash memory connectivity and digital data security products may ultimately require technological solutions that are not based on the floppy disk drive interface technology that is the basis for our products. Third, it is possible that a new or existing competing data transfer solution that achieves a significant market presence or establishes a number of significant relationships with flash memory card manufacturers will emerge as an industry standard and achieve a dominant market position. Any of such events would have a material adverse effect on our business and prospects.

Many of our current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do. As a result, our competitors may be able to respond more quickly to

new or emerging technologies or standards or to changes in customer requirements. Our competitors may also be able to devote greater resources to the development, promotion and sale of products, and may be able to deliver competitive products at a lower end-user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Therefore, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share. Any of these factors could have a material adverse effect on our business and operating results.

We believe that the principal competitive factors affecting the market for flash memory connectivity and smart card reader products include:

- the extent to which products work with existing and will work with future digital appliances;
- ease of use;
- quality and reliability;
- rate of throughput, or data transfer speed;
- strength of distribution channels; and
- price.

We believe that our products compete successfully on most of these bases.

INTELLECTUAL PROPERTY

We currently do not intend to license our proprietary technology to flash memory card manufacturers, consumer product OEMs or other third parties, and the protection of our intellectual property rights is critical to our future success. We rely in part on patent, trade secret, trademark, maskwork and copyright law to protect our intellectual property. We own five United States patents and 55 foreign patents. We also have a number of pending patent applications in various countries. Our patents and patent applications cover various aspects of our technology.

Although we believe that our patent rights (when considered in conjunction with our allowed patent applications) and trade secret protection should prevent another party from manufacturing and selling competing data transfer products that use a floppy disk drive interface, there can be no assurance that the steps we have taken to protect our technology will be successful. The patents issued to us may not be adequate to protect our proprietary rights, to deter misappropriation or to prevent an unauthorized third party from copying our technology, designing around the patents we own or otherwise obtaining and using our products, designs or other information. In addition, patents may not issue under our current or future patent applications, and the patents issued under such patent applications could be invalidated, circumvented or challenged. It may also be particularly difficult to protect our products and intellectual property under the laws of certain countries in which our products are or may be manufactured or sold.

Moreover, third parties could develop technologies that are similar or superior to our technology or could make infringement claims against us. Regardless of the outcome, an infringement claim would likely result in substantial cost and diversion of our resources. In addition, we may not prevail in any such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms, if at all. Any infringement claim or other litigation against us or by us could therefore harm our business, financial condition and results of operations. See "Risk Factors - Our success depends upon protecting our intellectual property."

Our FlashPath and Smarty trademarks are registered in the United States and a variety of other countries in which we do business, and we will continue to evaluate the registration of additional trademarks as appropriate. However, we do not have the rights to the Smarty trade name in either Germany or The Netherlands. We also claim copyright protection for certain proprietary software and documentation. In addition, we generally enter into confidentiality and non-disclosure agreements with our employees and with key consultants, vendors and suppliers.

EMPLOYEES

As of May 31, 1999, we had 44 full-time employees, including 25 employees engaged in research and development, nine engaged in sales and marketing and ten engaged in general and administrative activities. Our employees are not represented by any collective bargaining agreements, and we have never experienced a work stoppage. We believe our employee relations are good.

PROPERTIES

Our corporate and technical headquarters are located in Naples, Florida. We lease approximately 15,000 square feet of space in Naples, Florida under a three-year lease which expires in December 2000. We also lease approximately 3,500 square feet of space in Tokyo for our Japanese operations. This lease expires in April 2000. We believe that our existing facilities are adequate to support our existing operations and that, if needed, we will be able to obtain suitable additional facilities on commercially reasonable terms.

LITIGATION

SmartDisk is not a party to any material legal proceedings.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors and their ages as of May 31, 1999, are as follows:

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Addison M. Fischer.....	50	Chairman of the Board of Directors
Michael S. Battaglia.....	54	President, Chief Executive Officer and Director
Michael R. Mattingly.....	50	Chief Financial Officer
Robert Protheroe.....	43	Senior Vice President, Research and Development
Daniel E. Reed.....	31	Vice President, Corporate Development and Legal Affairs
Quresh Sachee.....	36	Vice President, Marketing
Yoshiaki Uchida.....	56	Vice President and General Manager, Asian Operations
D. James Bidzos(1)(2).....	54	Director
Shigeki Morita.....	54	Director
Timothy Tomlinson(1)(2).....	49	Director

<FN>
(1) Member of the audit committee.
(2) Member of the compensation committee
</FN>
</TABLE>

ADDISON M. FISCHER has served as Chairman of the Board of Directors

since our inception in 1997. Mr. Fischer has been an investor in numerous emerging technology companies as his principal occupation for at least the past five years, many of which companies involve computer security and office automation. He also serves on the board of directors of a number of companies, including Fischer International Systems Corporation, a privately-held software company which he controls. He was also a long-time board member of and significant investor in RSA Data Security, Inc., a leader in cryptographic software, until its merger in 1996 with Security Dynamics, Inc. Mr. Fischer also controls Phoenix House Investments, L.L.C., our majority shareholder. In addition, Mr. Fischer was one of the founders of VeriSign, Inc., a publicly-held electronic credentials/digital certificate company. Mr. Fischer is a member of committees that set U.S. standards for computer security and electronic commerce. He has addressed the U.S. Congress, by invitation, on several topics, including digital signature standards, proposed FBI digital telephony legislation, and global U.S. competitiveness. Mr. Fischer holds numerous U.S. and international patents, and is a lifetime member of the Association of Former Intelligence Officers.

MICHAEL S. BATTAGLIA has served as our President and Chief Executive Officer since January 1998 and as a director since October 1998. From May 1995 to December 1998, Mr. Battaglia was President and Chief Executive Officer of Fischer International Systems Corporation, a company controlled by Addison Fischer, our Chairman of the board of directors and holder of a majority interest in Phoenix House Investments, L.L.C., our major shareholder. During 1998, Mr. Battaglia served as an officer of both SmartDisk and Fischer International. From August 1992 to December 1994, Mr. Battaglia was President of Mosler Inc., a provider of electronic security systems and security equipment. For the 25-year period prior to his Mosler tenure, Mr. Battaglia held various senior management positions in the computer and information systems industry. He spent most of his professional career at Sperry Corporation in New York City and Philadelphia. Mr. Battaglia also serves on the board of directors of Fischer International, which is privately-held.

MICHAEL R. MATTINGLY has served as our Chief Financial Officer since May 1999 and was our Corporate Controller from February 1999 to May 1999. Previously, Mr. Mattingly was employed by Mosler Inc., a provider of electronic security systems and security equipment. During a 20-year career at Mosler, Mr. Mattingly held various positions in finance and accounting, most recently Cost Controller and Company Controller. Prior to his service with Mosler, Mr. Mattingly served in various financial and accounting positions with American Standard,

Inc., a public company whose shares are traded on the New York Stock Exchange. His professional background includes 28 years of general accounting, cost accounting, planning and budgeting, as well as management of those functions.

ROBERT PROTHEROE has served as our Senior Vice President, Research and Development since March 1999. From November 1995 to March 1999, Mr. Protheroe held senior management positions, most recently Vice President of Engineering, at IVI/Checkmate Electronics, Inc., an Atlanta based designer and manufacturer of point-of-sale payment systems. Prior to joining IVI/Checkmate, Mr. Protheroe was employed by Electronic Power Technologies, Inc., AT&T Global Information Systems and by NCR Corporation in various engineering and engineering management positions.

DANIEL E. REED has served as our Vice President, Corporate Development and Legal Affairs since May 1999. From August 1994 to May 1999, Mr. Reed was an attorney with the law firm of Greenberg Traurig, P.A., Miami, Florida, where he concentrated his law practice in the areas of mergers and acquisitions, public offerings and private financings, representing both public and private companies. From August 1989 to April 1991, Mr. Reed served as a senior auditor with Ernst & Young, LLP, New York City, New York, concentrating his practice in the financial services and electronics industries.

QURESH SACHEE has served as our Vice President, Marketing, since May 1998. From 1993 to May 1998, Mr. Sachee was employed by IVI/Checkmate Electronics, Inc., a designer and manufacturer of point-of-sale systems, in various positions, including Executive Vice President, Senior Vice President of Product Management, and prior to that, Vice President, International Sales. Prior to that time, Mr. Sachee was employed by VeriFone Inc., a Hewlett Packard company, in various product development and marketing management positions, and by Unisys Corporation.

YOSHIAKI UCHIDA has served as our Vice President and General Manager, Asian Operations, since November 1998. Prior to that time, Mr. Uchida spent 33 years with Toshiba Corporation in various management positions. He served as

Deputy General Manager of Toshiba's OME manufacturing and development facility, and most recently was Senior Executive Vice President of MediaServe Corporation, a Toshiba affiliate.

D. JAMES BIDZOS has served as a director since May 1998. Mr. Bidzos is presently Vice Chairman of the Board of Directors of Security Dynamics Technologies, Inc., a network security company, and served as its Executive Vice President from July 1996 to February 1999. From 1986 to February 1999, Mr. Bidzos served as President, Chief Executive Officer and a director of RSA Data Security, Inc., an encryption software company that was acquired by Security Dynamics Technologies in July 1996. Mr. Bidzos is Chairman of the Board of Directors of VeriSign, Inc., an electronic credentials/digital certificate company, and was Chief Executive Officer of that company from April 1995 to July 1995.

SHIGEKI MORITA has served as a director since April 1999. Since April 1996, Mr. Morita has served in various capacities with Toshiba Corporation, including his current position as General Manager, Strategic Marketing Divisions, which he has held since November 1998.

TIMOTHY TOMLINSON has served as a director since SmartDisk's inception in 1997. He co-founded Tomlinson Zisko Morosoli & Maser LLP, a law firm, in 1983, and has been a partner there since that time. Mr. Tomlinson also serves on the board of directors of VeriSign, Inc., Oak Technology, Inc. and Portola Packaging, Inc., as well as other, privately held companies, including Fischer International where he has served since April 1999.

KEY EMPLOYEES

Other key personnel and their ages as of May 31, 1998, are as follows:

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
O. Lee Drennan.....	41	Director of Product Engineering
Kazuhiro Iwata.....	53	Vice President, Engineering of SmartDisk International
Jon Kaplan.....	41	Vice President, Software Development
Konosuke Nakamura.....	52	Vice President, Marketing of SmartDisk International

</TABLE>

O. LEE DRENNAN has served as our Director of Product Engineering since January 1998. From March 1991 to January 1998, he served in a number of positions for Fischer International and SmartDisk Security Corporation, most recently as Director of Product Engineering for Fischer International.

KAZUHIRO IWATA has served as Vice President, Engineering of SmartDisk International since April 1999. Prior to that time, Mr. Iwata spent almost 28 years with Toshiba Corporation where he held a number of management positions, most recently Chief Specialist, Engineering Administration.

JON KAPLAN has served as our Vice President, Software Development since January 1998. Prior to that time, he spent 8 years with Fischer International as Vice President, Product Development.

KONOSUKE NAKAMURA has served as Vice President, Marketing of SmartDisk International since March 1999. Prior to that time, Mr. Nakamura spent nearly 29 years with Toshiba Corporation in various management positions. Most recently, he served as a Senior Manager, International Sales & Marketing, Storage Device Division for Toshiba.

BOARD OF DIRECTORS AND COMMITTEES

Our certificate of incorporation provides for a board of directors consisting of three classes serving three-year staggered terms. Class I consists of _____, with the initial term of office of the Class I directors expiring at the annual meeting of stockholders in 2000. Class II consists of _____ and _____, with the initial term of office of Class II directors expiring at the annual meeting of stockholders in 2001. Class III consists of _____ and _____, with the initial term of office of Class III directors expiring at the annual meeting of stockholders in 2002.

The board of directors has a compensation committee and an audit committee.

COMPENSATION COMMITTEE. The compensation committee of the board of directors reviews and makes recommendations to the board regarding all forms of compensation provided to the executive officers and directors of SmartDisk and its subsidiaries including stock compensation and loans. In addition, the compensation committee reviews and makes recommendations on stock compensation arrangements for all employees of SmartDisk. As part of the foregoing, the compensation committee also administers our 1998 Employee Stock Option Plan, 1998 Directors and Consultants Stock Option Plan, 1999 Incentive Compensation Plan and 1999 Employee Stock Purchase Plan. The current members of the compensation committee are Timothy Tomlinson and D. James Bidzos, with Mr. Bidzos chairing the committee.

AUDIT COMMITTEE. The audit committee of the board of directors reviews and monitors the corporate financial reporting and the internal and external audits of SmartDisk, including, among other things, our internal audit and control functions, the results and scope of the annual audit and other services provided by our independent auditors and our compliance with legal requirements that have a significant impact on our financial reports. The audit committee also consults with our management and our independent auditors regarding the preparation of financial statements and, as appropriate, initiates inquiries into aspects of our financial affairs. In addition, the audit committee has the responsibility to consider and recommend the appointment of, and to review fee arrangements with, our independent auditors. The current members of the audit committee are Timothy Tomlinson and D. James Bidzos, with Mr. Tomlinson chairing the committee.

DIRECTOR COMPENSATION

Our 1999 Incentive Compensation Plan includes an automatic option grant program for non-employee directors of SmartDisk. Under the plan, non-employee directors are automatically granted options to purchase 60,000 shares of common stock upon their initial election to the board of directors and options to purchase 2,000 shares upon appointment to any committee of the board and 2,000 shares upon appointment as chairman of a committee. Thereafter, on January 1 of each year, the directors are granted options to purchase an additional 24,000 shares in January of each year that they serve on the board and 2,000 each year that they serve as a member, and 2,000 each year that they serve as chairman, of a committee. All options granted under the automatic grant program vest 2% a month for each month after the grant. Directors who were serving on the board on the date that the plan was passed are eligible to participate in the program in 2001. Otherwise, directors are eligible upon election to the board.

Timothy Tomlinson, one of our directors, will receive a stock grant of 10,000 shares of our common stock upon completion of this offering.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The compensation committee of the board of directors consists of Timothy Tomlinson and D. James Bidzos. There were no compensation committee interlocks during our last fiscal year.

EXECUTIVE COMPENSATION

The following table sets forth compensation information for the fiscal year ended December 31, 1998 paid by us for services by our Chief Executive Officer and our other executive officer whose total salary and bonus for such fiscal year exceeded $100,000, collectively referred to below as the "named executive officers":

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>
Michael S. Battaglia..... Chief Executive Officer and President	$100,440(1)	$45,000(1)	1,704,545	--
Quresh Sachee..... Vice President, Marketing	89,306	47,500	200,000	--

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<FN>
(1) In addition, Mr. Battaglia received $100,440 in salary and $60,000 in bonus from Fischer International for services rendered to Fischer International in 1998. Commencing January 1, 1999, Mr. Battaglia became our full-time employee.
</FN>
</TABLE>

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth each grant of stock options during the fiscal year ended December 31, 1998 to each of the named executive officers. No stock appreciation rights were granted to these individuals during such year.

OPTION GRANTS IN 1998

<TABLE>
<CAPTION>

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(2)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($)/(SH)(3)	EXPIRATION DATE	5%($)	10%($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael S. Battaglia	1,704,545	45.5%	$0.18	1/27/08	$192,956	$488,989
Quresh Sachee.....	120,000	3.2	0.25	5/4/08	18,867	47,812
	80,000	2.1	1.00	8/21/08	50,312	127,499

<FN>
---

(1) Potential realizable value is based on the assumption that the common stock price appreciates at the annual rate shown (compounded annually) from the date of grant until the end of the option term. The amounts have been calculated based on the requirements promulgated by the Securities and Exchange Commission. The actual value, if any, a named executive officer may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised (if the executive were to sell the shares on the date of exercise), so there is no assurance that the value realized will be equal to or near the potential realizable value as calculated in this table.

(2) The options granted to Michael Battaglia are immediately exercisable, subject to our right to repurchase the shares upon the termination of Mr. Battaglia's employment with us. Our repurchase right lapses as to 2% of the shares each month for fifty months from the date of grant. The options granted to Quresh Sachee in May 1998 are immediately exercisable, subject to our repurchase right which lapses as to 25% of the shares one year after the date of grant and as to 6.25% of the shares each quarter thereafter. Those options granted to Mr. Sachee in August 1998 are immediately exercisable, subject to our right of repurchase which lapses as to 25% of the shares on January 1, 2000 and as to 6.25% of the shares each quarter thereafter. Each of the options granted have a term of ten years from the date of grant, subject to acceleration upon a change of control of our company.

(3) Prior to this offering, there has been no public market for our common stock. The exercise price of each of these options is equal to the fair market value of our common stock on the date of grant as determined by our board of directors.
</FN>
</TABLE>

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning the year-end number and value of unexercised options for each of the named executive officers. There was no public trading market for the common stock as of December 31, 1998. Accordingly, these values have been calculated based on a price of $1.20 per share, the board of director's determination of the fair market value of the common stock as of December 31, 1998, minus the applicable per share exercise price. We have never granted stock appreciation rights. Value Realized is calculated by subtracting the aggregate exercise price paid from the fair

market value of the shares issued on the exercise date, as determined by our board of directors.

AGGREGATE OPTION EXERCISES IN 1998 AND YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998($)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael S. Battaglia..	1,704,545	--	--	--	--	--
Quresh Sachee.....	120,000	--	80,000	--	$16,000	--

</TABLE>

EMPLOYMENT AGREEMENTS

The following executive officers have signed employment agreements with SmartDisk.

MICHAEL S. BATTAGLIA. Mr. Battaglia's employment agreement has a three-year term ending December 31, 2002. His annual base salary is $275,000 and he is eligible for annual merit increases at the discretion of our board of directors and an annual bonus of $125,000 for 1999 if he attains performance thresholds. Bonuses for the remaining years in the term are at the discretion of the compensation committee of our board of directors. If we terminate Mr. Battaglia without cause, we must pay him severance of six months' base salary plus fifty percent of his bonus, if any, for the year in which he was terminated. Mr. Battaglia has agreed not to compete with us for one year after his employment if he resigns and for six months after his employment if we terminate him.

ROBERT PROTHEROE. Mr. Protheroe's employment agreement has a three-year term ending March 15, 2002. His annual base salary is $180,000 and he is eligible for a bonus of $60,000 for 1999 if he attains performance thresholds. We have agreed to reimburse Mr. Protheroe for up to $40,000 in relocation expenses. Bonuses for the remaining years are at the discretion of the compensation committee of our board of directors. If we terminate Mr. Protheroe without cause, we must pay him severance of six months' base salary. Mr. Protheroe has agreed not to compete with us for one year after termination of his employment.

QURESH SACHEE. Mr. Sachee's employment agreement has a two-year term ending May 3, 2000. His annual base salary is $150,000 and he is eligible for a bonus of $50,000 for 1999 if he attains performance thresholds. We agreed to reimburse Mr. Sachee for up to $40,000 in relocation expenses. If we terminate Mr. Sachee without cause, we must pay him severance of three months' base salary. Mr. Sachee has agreed not to compete with us for one year after termination of his employment if he resigns and for six months after his employment if we terminate him.

EMPLOYEE BENEFIT PLANS

1999 INCENTIVE COMPENSATION PLAN. Our board of directors adopted our 1999 Incentive Compensation Plan in _____ 1999 and our stockholders approved the adoption of the plan in _____ 1999. We have reserved _____ shares of common stock for issuance under the plan. We have not granted any options under the plan. Under the plan, officers, employees, members of the board of directors and consultants are eligible to receive awards. The types of awards that may be made under the plan are options to purchase shares of common stock, stock appreciation rights, restricted shares, deferred shares, bonus shares, dividend equivalents and other stock-based awards. Options may be either incentive stock options that qualify for favorable tax treatment for the optionee under Section 422 of the Internal Revenue Code of 1986 or nonstatutory stock options not designed to qualify for such favorable tax treatment. If shares awarded under the plan are forfeited, then those shares will again become available for new awards under the plan. Annual cash awards are limited to $10,000,000 per person, and annual cash performance awards are limited to $20,000,000 per person.

The compensation committee of our board of directors administers the plan. The committee has complete discretion to make all decisions relating to the interpretation and operation of the plan, including the discretion to

determine which eligible individuals are to receive any award, and to determine the type, number, vesting requirements and other features and conditions of each award.

The exercise price for incentive stock options granted under the plan may not be less than 100% of the fair market value of the common stock on the option grant date. The exercise price may be paid in cash or by other means, including a cashless exercise method as determined by the committee.

The plan includes an automatic grant program for our non-employee directors. Under the plan, non-employee directors are automatically granted options to purchase 60,000 shares of common stock upon their initial election to the board of directors and 2,000 shares upon appointment to any committee of the board and upon appointment as chairman of a committee. Thereafter, the directors are granted options to purchase an additional 24,000 shares in January of each year that they serve on the board and 2,000 each year that they serve as a member, and 2,000 each year that they serve as chairman, of a committee. All options granted under the automatic grant

program vest 2% a month for each month after the grant. Directors who were serving on the board on the date that the plan was adopted are eligible to participate in the program in 2001. Otherwise, directors are eligible upon election.

Our board of directors may amend or terminate our plan at any time. If the board amends the plan, stockholder approval of the amendment will be sought only if required by an applicable law. The plan will continue in effect indefinitely unless the board decides to terminate the plan earlier.

1999 EMPLOYEE STOCK PURCHASE PLAN. Our board of directors adopted our 1999 Employee Stock Purchase Plan in _____ 1999, and our stockholders approved the adoption of the plan in _____ 1999. We have reserved _____ shares of common stock for issuance under the plan, none of which has been issued. Once an employee enters the plan, on the first day of each offering period he or she is granted an option to purchase shares of our common stock (up to a maximum of 1,000 shares) on June 30 and December 31 of each offering period. The plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, will be implemented through successive twelve-month offering periods, generally commencing the first of January each year. The initial offering period will commence on the effective date of this offering and will run through December 31, 1999. The plan will be administered by the compensation committee. Employees will be eligible to participate if they are employed by us for at least 20 hours per week and have been employed for more than five (5) months in a calendar year. The plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee's compensation. The price of stock purchased under the plan will be 85% of the lower of the fair market value of the common stock at the beginning or the end of each twelve-month offering period. Employees may not be granted shares under the plan if immediately following such grant they would hold stock and/or options to acquire stock possessing more than 5% of the total voting power of the shares of our company. In addition, employees may be granted options to purchase a maximum of $25,000 worth of stock per year under the plan. Employees may end their participation at any time and participation ends automatically upon termination of employment with us. Our board of directors may amend or terminate the plan at any time. If the board amends the plan, stockholder approval of the amendment will be sought only if required by an applicable law.

1998 EMPLOYEE STOCK OPTION PLAN. Our board of directors adopted our 1998 Employee Stock Option Plan in January 1998, and our stockholders approved the adoption of the plan in March 1998. We have reserved 5,818,181 shares of common stock for issuance under the plan, of which options to purchase 3,148,875 shares were outstanding as of June 30, 1999. Under the plan, the eligible individuals are our employees or those of any parent or subsidiary. The types of awards that may be made under the plan are options to purchase shares of common stock. Options may be incentive stock options that qualify for favorable tax treatment for the optionee under Section 422 of the Internal Revenue Code of 1986 or nonstatutory stock options not designed to qualify for such favorable tax treatment. If options awarded under the plan are forfeited, then the shares underlying those options will generally become available for new awards under the plan.

Our board of directors or a committee of our board administers the plan. The administrator has complete discretion to make all decisions relating to the interpretation and operation of the plan, including the discretion to determine which eligible individuals are to receive any award, and to determine the type, number, vesting requirements and other features and conditions of each

award.

The exercise price for incentive stock options granted under the plan may not be less than 100% of the fair market value of the common stock on the option grant date. The exercise price may be paid in cash or, at the discretion of the compensation committee, in outstanding shares of common stock, by delivery of a promissory note, or by any combination of cash, shares of common stock or promissory notes. At the discretion of the compensation committee, the exercise price may also be paid by using a cashless exercise method.

If a merger or other reorganization occurs, and our stockholders before the transaction hold a majority of the voting securities of the acquiring or surviving corporation after the transaction, outstanding options under the plan shall become exercisable for securities of the acquiring or surviving corporation. If our stockholders before the transaction hold less than a majority of the voting securities of the acquiring or surviving corporation after the transaction, outstanding options shall generally be canceled unless the merger or reorganization agreement provides otherwise.

Our board of directors may amend or terminate our 1998 Employee Stock Option Plan at any time. If the board amends the plan, stockholder approval of the amendment will be sought only if required by an applicable law. The plan will terminate in 2008 unless the board decides to terminate the plan earlier. The plan will automatically terminate when all shares reserved for grant under the plan have been granted and are not subject to vesting or repurchase rights

1998 DIRECTORS AND CONSULTANTS STOCK OPTION PLAN. Our board of directors adopted our 1998 Directors and Consultants Stock Option Plan in January 1998, and our stockholders approved the adoption of the plan in March 1998. We have reserved 1,000,000 shares of common stock for issuance under the plan, of which options to purchase 417,125 shares were outstanding as of June 30, 1999. Under the plan, our officers, directors and consultants and those of our subsidiaries are eligible for option grants and other awards. The types of awards that may be made under the plan are options to purchase shares of common stock. Options will be nonstatutory stock options and are not designed to qualify for favorable tax treatment under Section 422 of the Internal Revenue Code of 1986. If options awarded under the plan are forfeited, then the shares underlying those options generally become available for new awards under the plan

Our board of directors or a committee of the board administers the plan. The administrator has complete discretion to make all decisions relating to the interpretation and operation of the plan, including the discretion to determine which eligible individuals are to receive any award, and to determine the type, number, vesting requirements and other features and conditions of each award.

The exercise price for stock options granted under the plan shall be determined by the compensation committee at the time of grant. The exercise price may be paid in cash or, at the discretion of the committee, in outstanding shares of common stock, by delivery of a promissory note, or by any combination of cash, shares of common stock or promissory notes. At the discretion of the committee, the exercise price may also be paid by using a cashless exercise method.

If a merger or other reorganization occurs, and our stockholders before the transaction hold a majority of the voting securities of the acquiring or surviving corporation after the transaction, outstanding options under the plan shall become exercisable for securities of the acquiring or surviving corporation. If our stockholders before the transaction hold less than a majority of the voting securities of the acquiring or surviving corporation after the transaction, outstanding options shall generally be canceled unless the merger or reorganization agreement provides otherwise.

Our board of directors may amend or terminate our 1998 Directors and Consultant Stock Option Plan at any time. If the board amends the plan, stockholder approval of the amendment will be sought only if required by an applicable law. The plan will terminate in 2008 unless the board decides to terminate the plan earlier. The plan will automatically terminate when all shares reserved for grant under the plan have been granted and are not subject to vesting or repurchase rights.

CERTAIN TRANSACTIONS

PRE-FORMATION ADVANCES

Prior to 1997, Addison Fischer and his affiliates, including Fischer International, advanced SDSC, our predecessor, non-interest bearing loans in the aggregate amount of approximately $9.6 million in order to fund our operations. Of the total amount advanced to us, approximately $4.6 million was contributed to the capital stock of SDSC in 1996 and 1997. We repaid the remaining $5.0 million of advances in May 1998, of which $1,045,000 was paid to Fischer International and $3,955,000 was paid to Addison Fischer.

In addition, from 1996 to March 1999, Addison Fischer and his affiliates, including Fischer International, advanced SmartDiskette Limited, or SDL, non-interest bearing loans in the aggregate amount of approximately $600,000. In May 1999, prior to our acquisition of SDL, these advances were converted into 386,841 shares of SDL common stock (which, in May 1999, were in turn converted into 304,073 shares of our common stock).

FORMATION TRANSACTIONS

In February 1998, Toshiba, Fischer International, Phoenix House and SmartDisk entered into an agreement which detailed a comprehensive plan of capital contribution, corporate governance and business strategies for SmartDisk.

Upon signing the agreement, Toshiba made an immediate loan to us of $5.0 million in exchange for a convertible note. The note had an interest rate of 4% per annum. The note remained outstanding until May 22, 1998. At that time, Toshiba acquired 9,950,000 shares of our common stock in exchange for a cash payment of $4,950,000 and delivery and cancellation of the February 1998 note, including accrued interest.

At the same time that Toshiba purchased its shares of our common stock, both Phoenix House and Fischer International acquired shares of our common stock. Both Phoenix House and Fischer International are controlled by Addison Fischer, the Chairman of our board of directors. Phoenix House acquired 29,400,000 shares in exchange for all of the outstanding shares of our predecessor, SDSC. As a result, SDSC became a wholly owned subsidiary of ours and we became the owner of the exclusive licenses, owned by SDSC, to our current principal patents. Fischer International acquired 600,000 shares of our common stock in return for trademarks it owned relating to our SafeBoot, FlashPath and Smarty products.

On May 26, 1999, the shareholders of SDL, which included Addison Fischer and Phoenix House, exchanged all of their shares of SDL for 2,062,000 shares of our common stock. Of the total number of our shares issued, Addison Fischer received 1,715,072 shares, Phoenix House received 131,670 and the other shareholders of SDL received the remaining 215,258 shares. As a result of this transaction, we acquired 100% of SDL, the indirect owner of our current principal patents.

FISCHER TRANSACTIONS

In 1996 and 1997, all of our products were sold through Fischer International and its affiliates. Pursuant to the arrangement, Fischer International and its affiliates received a fee of approximately 25% of our sales. The revenues shown in our 1996 and 1997 financial statements are net of the fees paid to Fischer International and its affiliates. In addition, operating expenses totaling approximately $2.6 million in 1996 and $4.0 million in 1997 were incurred by Fischer International on behalf of SDSC.

In January 1998, we entered into an operating agreement with Fischer International to provide operating services to SDSC, including developing and marketing our SafeBoot, FlashPath, SmartDisk and Smarty products. This agreement was terminated in May 1998 and replaced with a new operating agreement with Fischer International. Under this new agreement, as amended in June 1999, we reimburse Fischer International for certain marketing, accounting and other similar services. In addition, until recently we have shared office space with Fischer International. We have reimbursed Fischer International for the cost of this office space as well as other general and administrative expenses. Our share of these expenses is based on an internal analysis of the relative amount of time devoted to our business by employees of Fischer International as well as the overhead charges attributable to these employees. In 1998, we paid Fischer International $1.5 million under this arrangement.

In May 1998, we entered into license and distribution agreements with Fischer International. Under these agreements, we granted Fischer International non-exclusive license and distribution rights to our SafeBoot, Smarty and FlashPath products until 2001. In 1998, we received approximately $285,000 from

Fischer International under these agreements in royalties related to SafeBoot, and no royalties related to Smarty and FlashPath.

TOSHIBA TRANSACTIONS

In May 1998, we entered into a license agreement with Toshiba, which was contemporaneously becoming one of our principal shareholders. Under this agreement, Toshiba granted us a non-exclusive license to patents relating to the interface with Toshiba's SmartMedia cards. We agreed to pay a one-half of 1% royalty on the net sales price of our products that use the Toshiba license. This agreement was amended in September 1998 to expand the field of use for the non-exclusive license. In 1998, we paid approximately $222,000 to Toshiba under this license.

In addition, we sell a number of our products to an affiliate of Toshiba which in turn serves as sales agent to Toshiba in its role as an OEM customer. In 1997 and 1998, we had aggregate sales to Toshiba or the sales agent of $495,000 and $0.

Also, since September 1998, four engineers from Toshiba have worked for us on a contract basis. In 1998, we paid Toshiba $74,296 for these services.

EMPLOYEE ADVANCES

On March 3, 1998, we loaned Michael Battaglia $305,114 in connection with Mr. Battaglia's exercise of an option to acquire 1,704,545 shares of common stock. The loan bore interest at the rate of 5.47% per year and the interest is payable quarterly. The principal balance is due on the earlier of March 3, 2003 or the end of his employment with us or an affiliate of ours.

On March 3, 1998, we loaned David Stone, a former officer, $61,023 in connection with Mr. Stone's exercise of an option to acquire 340,909 shares of common stock. The loan bears interest at the rate of 5.47% per year and was repaid in June 1998.

On March 29, 1999, we loaned Robert Protheroe $60,000 in connection with his repayment of amounts owed to his previous employer. The loan bears interest at the rate of 4.71% per year and is due in four annual installments ending in 2003, unless his employment with us ends at an earlier date, in which case the principal balance and accrued interest are due within 30 days after termination of employment.

OTHER TRANSACTIONS

On May 28, 1998, we sold 115,000 shares of our common stock at a price of $1.00 per share to First TZMM Investment Partnership, an entity affiliated with Tomlinson Zisko Morosoli & Maser LLP. Timothy Tomlinson, one of our directors, is a partner of Tomlinson Zisko Morosoli & Maser LLP.

On July 1, 1999, as part of a larger round of investments led by SCM Microsystems, we sold an aggregate of 80,000 shares of common stock to Messrs. Tomlinson and Bidzos, two of our directors, for $160,000, or $2.00 per share. Individually, Mr. Tomlinson received 30,000 shares and Mr. Bidzos received 50,000. In addition, First TZMM Investment Partnership acquired 110,000 shares for $220,000.

Timothy Tomlinson, one of our directors, is a partner of Tomlinson Zisko Morosoli & Maser LLP, which provided legal services to us in 1998. Fees paid in 1998 to Mr. Tomlinson's firm did not exceed 5% of the law firm's gross revenues for its last full fiscal year.

PRINCIPAL STOCKHOLDERS

The table below sets forth information regarding the beneficial ownership of SmartDisk's common stock as of July 1, 1999, by the following individuals or groups:

- Each person or entity who is known by SmartDisk to own beneficially more than 5.0% of SmartDisk's outstanding stock;
- Each of the named executive officers;
- Each director of SmartDisk; and

- All directors and executive officers as a group.

Unless otherwise indicated, the address of each of the individuals listed in the table is c/o SmartDisk Corporation, 3506 Mercantile Avenue, Naples, Florida 34104. Except as otherwise indicated, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them.

Percentage ownership in the following table is based on 50,094,045 shares of common stock outstanding as of July 1, 1999. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities, subject to community property laws, where applicable. Shares of our common stock subject to options that are presently exercisable or exercisable within 60 days of July 1, 1999 are deemed to be outstanding and beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage of any other person.

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	SHARES BENEFICIALLY OWNED AS A PERCENTAGE OF CLASS OUTSTANDING	
		BEFORE OFFERING	AFTER OFFERING
<S>	<C>	<C>	<C>
Phoenix House Investments, L.L.C.(1).....	29,531,670	59.0%	%
Addison M. Fischer(2).....	31,846,742	63.6	
Toshiba Corporation(3).....	9,950,000	19.9	
Michael S. Battaglia.....	1,640,546	3.3	
Quresh Sachee(4).....	200,000	*	
Timothy Tomlinson(5).....	350,000	*	
D. James Bidzos(6).....	125,000	*	
Shigeki Morita.....	0	0	
All directors and executive officers as a group (10 persons)(7).....	34,162,288	68.2	

<FN>

* Less than one percent.

(1) The address for Phoenix House is 400 West King Street, Carson City, Nevada 89703. Phoenix House is controlled by Addison M. Fischer, the Chairman of our board of directors.

(2) Includes 29,531,670 shares held of record by Phoenix House and 600,000 shares held by Fischer International. Mr. Fischer effectively controls both entities.

(3) The address for Toshiba Corporation is 1-1 Shibaura 1-Chome, Minato-ku, Tokyo 105, Japan.

(4) Includes 80,000 shares subject to options either currently exercisable or exercisable by Mr. Sachee within 60 days of July 1, 1999.

(5) Includes 320,000 shares held by investment partnerships or trusts for which Mr. Tomlinson is either the general partner or trustee. Mr. Tomlinson disclaims beneficial ownership of those shares, except to the extent of his pecuniary interest in the partnerships.

(6) Excludes shares held by Phoenix House, in which Mr. Bidzos owns a 2.5% ownership interest. Mr. Bidzos disclaims beneficial ownership of the shares held by Phoenix House.

(7) See footnotes (2), (4), (5) and (6) above.

</FN>
</TABLE>

DESCRIPTION OF CAPITAL STOCK

GENERAL

On the closing of this offering, our authorized capital stock will consist of 60,000,000 shares of common stock, $.001 par value, and 5,000,000 shares of preferred stock, $.001 par value.

COMMON STOCK

As of July 1, 1999, there were 50,094,045 shares of common stock outstanding that were held of record by approximately 43 stockholders. There will be _____ shares of common stock outstanding, assuming no exercise after July 1, 1999 of outstanding options and after giving effect to the sale of the shares of common stock offered to the public hereby.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to any preferential rights of preferred stock holders, the holders of common stock are entitled to receive dividends on a pro rata basis, if any, declared from time to time by the board of directors out of legally available funds. We have never paid dividends in the past and do not intend to do so in the future. In the event of our liquidation, dissolution or winding up, subject to any preferential rights of preferred stock holders, the holders of common stock are entitled to share on a pro rata basis in all assets remaining after payment of liabilities. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon completion of this offering will be fully paid and nonassessable.

PREFERRED STOCK

On the closing of this offering, 5,000,000 shares of preferred stock will be authorized and no shares will be outstanding. The board of directors has the authority to issue the preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. At present, we have no plans to issue any preferred stock.

REGISTRATION RIGHTS

Concurrently with the purchase of our common stock by Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation, we entered into an agreement providing registration rights for Toshiba, Phoenix House and Fischer International. At any time after 180 days following the date of this prospectus, Toshiba Corporation, Phoenix House Investments, L.L.C. or the holders of a majority of the shares held by them may require us to file a registration statement under the Securities Act covering at least 20% of the securities of SmartDisk held by them, or a lesser percentage if the net aggregate offering price would exceed $10.0 million. We will not be required to comply with such a request for registration on more than three occasions or within 60 days before or 180 days after our good faith estimate of the effective date of another registration statement filed pursuant to such a request.

When we are eligible to utilize a registration statement on Form S-3 to register an offering of our securities, holders of 20% of the shares held by Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation may request that we file a registration statement on Form S-3, covering all or a portion of securities of SmartDisk held by them, provided that the aggregate public offering price is at least $500,000. These holders can request only two S-3 registrations.

These registration rights will be subject to SmartDisk's right to delay the filing of a registration statement if, in the view of our board of directors, such a filing would be seriously detrimental to us, not more than once in

any 12-month period, for not more than 150 days after the appropriate number of holders have requested we file a registration statement.

In addition, Toshiba Corporation, Phoenix House Investments, L.L.C., SCM Microsystems, Inc. and Fischer International Systems Corporation have "piggyback" registration rights. If we propose to register any common stock

under the Securities Act, other than pursuant to the registration rights noted above and in some other instances, Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation may require us to include all or a portion of their securities in the registration. However, the managing underwriter, if any, of any offering has the right to limit the number of securities proposed to be included in the registration.

We are required to bear all registration expenses incurred in connection with these registrations. Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation will pay all underwriting discounts and selling commissions applicable to the sale of their securities.

We also agreed to indemnify Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation for any damages they suffer due to any untrue statement or omission that we make in a registration statement covering their shares.

The registration rights of Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation under the agreement providing registration rights will terminate, as to each of them, when it may sell all its shares in a three-month period under Rule 144 under the Securities Act.

ANTITAKEOVER EFFECTS OF DELAWARE LAW AND PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BYLAWS

CERTIFICATE OF INCORPORATION AND BYLAWS. Our certificate of incorporation provides that, effective upon the closing of this offering, all stockholder actions must be effected at a duly called meeting and not by a consent in writing. Our certificate of incorporation also provides that the affirmative vote of 80% of our outstanding stock is required to remove any of our directors, to approve a business combination involving our company or for our stockholders to amend our bylaws or the anti-takeover provisions of our certificate of incorporation. Our bylaws provide that our stockholders may not call a special meeting of stockholders. The bylaws also include advance notice procedures with regard to the nomination, other than by the board of directors, of candidates for director elections. These provisions of our certificate of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control of SmartDisk. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control of SmartDisk. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares or proxy fights and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

DELAWARE ANTITAKEOVER LAW. SmartDisk is subject to Section 203 of the Delaware General Corporation Law, an antitakeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns or within three years prior to the determination of interested stockholder status, did own, 15.0% or more of a corporation's voting stock. The existence of this provision may have an antitakeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the common stock is American Stock Transfer & Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for the common stock of SmartDisk, and there can be no assurance that a significant public market for the common stock will develop or be sustained after this offering. Future sales of substantial amounts of common stock, including shares issued upon exercise of outstanding options, in the public market following this offering could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through sale of our equity securities. As described below, no shares currently outstanding will be available for sale immediately after this offering because of contractual restrictions on resale. Sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding _____ shares of common stock based upon shares outstanding as of July 1, 1999, assuming no exercise of outstanding options prior to completion of this offering and no exercise of the underwriters over-allotment option. Of these shares, the _____ shares sold in this offering will be freely tradable without restriction under the Securities Act except for any shares purchased by "affiliates" of SmartDisk as that term is defined in Rule 144 under the Securities Act. The remaining 50,094,045 shares of common stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144. All of these restricted shares are subject to lock-up agreements providing the stockholder generally will not offer, sell, contract to sell or otherwise dispose of any common stock or any securities that are convertible into common stock for a period of 180 days after the date of this prospectus without the prior written consent of BancBoston Robertson Stephens Inc. As a result of these lock-up agreements, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, 144(k) and 701, none of these shares will be eligible for resale until 181 days after the date of this prospectus. BancBoston Robertson Stephens Inc. may, at its sole discretion, and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Beginning 181 days after the date of this prospectus, approximately 46,000,000 restricted shares will be eligible for sale in the public market, all of which are subject to the volume limitations under Rule 144 described below.

In general, the volume limitations under Rule 144, as currently in effect, provide that beginning 90 days after the date of this prospectus, a person who has beneficially owned restricted shares for at least one year, including the holding period of any prior owner except an affiliate, would be entitled to sell in any three-month period a number of shares that does not exceed the greater of:

- 1.0% of the number of shares of our common stock then outstanding, which will equal approximately _____ shares immediately after this offering; or

- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of Form 144 with respect to such sale.

Sales under Rule 144 must also be made in broker's transactions and are subject to notice requirements and to the public availability of current information about SmartDisk.

Within 90 days following the effectiveness of this offering, we will file a registration statement on Form S-8 registering shares of common stock subject to outstanding options or reserved for future issuance under its stock option plans. As of July 1, 1999, options to purchase a total of 3,148,875 shares were outstanding and 276,261 shares were reserved for future issuance under our 1998 Employee Stock Option Plan, options to purchase a total of 417,125 shares were outstanding and 308,876 shares were reserved for future issuance under the 1998 Directors and Consultants Stock Option Plan, _____ shares were reserved for issuance under the 1999 Incentive Compensation Plan and _____ shares were reserved for issuance under the 1999 Employee Stock Purchase Plan. The holders of all of those outstanding options are subject to lock-up agreements. Common stock issued upon exercise of outstanding vested options, other than common stock issued to our affiliates, will be available for resale in the open market 181 days after the close of this offering.

Beginning six months after the date of this offering, Toshiba Corporation, Phoenix House Investments, L.L.C. and Fischer International Systems Corporation will be entitled to registration rights for sale of their shares in the public market. See "Description of Capital Stock--Registration Rights." Registration of those shares under the

Securities Act would result in those shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates, immediately upon the effectiveness of the registration and this could affect the stock price at that time.

UNDERWRITING

The underwriters named below, acting through their representatives, BancBoston Robertson Stephens Inc., Hambrecht & Quist LLC and U.S. Bancorp Piper Jaffray Inc., have severally agreed with SmartDisk, subject to the terms and conditions set forth in the underwriting agreement, to purchase from SmartDisk the number of shares of common stock set forth opposite their names below. The underwriters are committed to purchase and pay for all such shares if any are purchased.

UNDERWRITER	NUMBER OF SHARES
BancBoston Robertson Stephens Inc.	
Hambrecht & Quist LLC.....	
U.S. Bancorp Piper Jaffray Inc.....	
Total.....	

SmartDisk has been advised by the representatives of the underwriters that the underwriters propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession of not in excess of $ per share, of which $ may be reallowed to other dealers. After the initial public offering, the public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction shall change the amount of proceeds to be received by SmartDisk as set forth on the cover page of this prospectus. The common stock is offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

OVER-ALLOTMENT OPTION. SmartDisk has granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to _____ additional shares of common stock at the same price per share as SmartDisk will receive for the _____ shares that the underwriters have agreed to purchase. To the extent that the underwriters exercise this option, each of the underwriters will have a firm commitment to purchase approximately the same percentage of such additional shares that the number of shares of common stock to be purchased by it shown in the above table represents as a percentage of the shares offered hereby. If purchased, such additional shares will be sold by the underwriters on the same terms as those on which the _____ shares are being sold. SmartDisk will be obligated, pursuant to the option, to sell shares to the extent the option is exercised. The underwriters may exercise such option only to cover over-allotments made in connection with the sale of the shares of common stock offered hereby. If such option is exercised in full, the total public offering price, underwriting discounts and commissions and proceeds to SmartDisk will be $_____, $_____ and $_____, respectively.

The following table summarizes the compensation and expenses we will pay.

<TABLE>
<CAPTION>

		TOTAL	
	PER SHARE	WITHOUT OVER-ALLOTMENT	WITH OVER-ALLOTMENT
<S>	<C>	<C>	<C>
Underwriting discounts and commissions paid by us.....	$	$	$
Expenses payable by us.....	$	$	$

</TABLE>

INDEMNITY. The underwriting agreement contains covenants of indemnity

among the underwriters and SmartDisk against certain civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of representations and warranties contained in the underwriting agreement.

LOCK-UP AGREEMENTS. Each of SmartDisk's executive officers, directors, director-nominees, stockholders of record and optionholders of record has agreed with the representatives of the underwriters, for a period of 180 days after the date of this prospectus, subject to certain exceptions, not to offer to sell, contract to sell, or otherwise

sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock, any options or warrants to purchase any shares of common stock, or any securities convertible into or exchangeable for shares of common stock owned as of the date of this prospectus or thereafter acquired directly by such holders or with respect to which they have or hereafter acquire the power of disposition, without the prior written consent of BancBoston Robertson Stephens Inc. However, BancBoston Robertson Stephens Inc. may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to the lock-up agreements. There are no agreements between the representatives and any of SmartDisk's stockholders providing consent by the representatives to the sale of shares prior to the expiration of the lock-up period.

FUTURE SALES. In addition, SmartDisk has agreed that during the lock-up period SmartDisk will not, without the consent of BancBoston Robertson Stephens Inc., subject to certain exceptions,

- consent to the disposition of any shares held by stockholders subject to lock-up agreements prior to the expiration of the lock-up period or

- issue, sell, contract to sell, or otherwise dispose of, any shares of common stock, any options to purchase any shares of common stock or any securities convertible into, exercisable for or exchangeable for shares of common stock other than SmartDisk's sale of shares in this offering, the issuance of common stock upon the exercise of outstanding options, and the issuance of options or shares under existing stock option and incentive plans provided those options do not vest, or the right to resell those shares do not arise until, prior to the expiration of the lock-up period. See "Shares Eligible for Future Sale."

LISTING. We have filed an application for the common stock to be quoted on The Nasdaq National Market under the symbol "SMDK."

NO PRIOR PUBLIC MARKET. Prior to this offering, there has been no public market for the common stock of SmartDisk. Consequently, the initial public offering price for the common stock offered hereby will be determined through negotiations between SmartDisk and the representatives of the underwriters. Among the factors to be considered in such negotiations are prevailing market conditions, certain financial information of SmartDisk, market valuations of other companies that SmartDisk and the representatives believe to be comparable to SmartDisk, estimates of the business potential of SmartDisk, the present state of SmartDisk's development and other factors deemed relevant.

STABILIZATION. The representatives of the underwriters have advised SmartDisk that, pursuant to Regulation M under the Securities Act, certain persons participating in this offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A "syndicate covering transaction" is the bid for or the purchase of the common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with this offering. A "penalty bid" is an arrangement permitting the representatives to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with this offering, if the common stock originally sold by such underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. The representatives have advised SmartDisk that such transactions may be effected on The Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

DIRECTED SHARE PROGRAM. At our request, the underwriters have reserved up to 7.5 percent of the shares of common stock to be issued by SmartDisk and offered hereby for sale, at the initial public offering price, to directors, officers, employees, business associates and related persons of SmartDisk. The number of shares of common stock available for sale to the general public will be reduced to the extent that such individuals purchase all or a portion of these reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the shares of common stock offered hereby.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for SmartDisk by Greenberg Traurig, P.A., Miami, Florida. Certain legal matters in connection with the offering will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

EXPERTS

Ernst & Young LLP, independent certified public accountants, have audited our consolidated financial statements at December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998, as set forth in their report. We have included our financial statements in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission, Washington, D.C. 20549, a registration statement on Form S-1 under the Securities Act with respect to the common stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information with respect to SmartDisk and the common stock offered hereby, refer to the registration statement and the exhibits and schedules filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document referred to are not necessarily complete; refer in each instance to the copy of such contract or document filed as an exhibit to the registration statement. Each such statement is qualified in all respects by such reference to such exhibit. You may inspect a copy of the registration statement without charge at the Securities and Exchange Commission's principal office in Washington, D.C. and obtain copies of all or any part thereof upon payment of certain fees from the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, or at the Securities and Exchange Commission's regional offices in New York, located at 7 World Trade Center, Suite 1300, New York, New York 10048, or in Chicago, located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The Securities and Exchange Commission's World Wide Web address is www.sec.gov.

SmartDisk intends to furnish holders of its common stock with annual reports containing, among other information, audited financial statements certified by an independent public accounting firm and quarterly reports containing unaudited condensed financial information for the first three quarters of each fiscal year. SmartDisk intends to furnish such other reports as it may determine or as may be required by law.

SMARTDISK CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1998 and 1997 (Audited)
Three months ended March 31, 1999 and 1998 (Unaudited)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PAGE

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
SmartDisk Corporation

We have audited the accompanying consolidated balance sheets of SmartDisk Corporation as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SmartDisk Corporation at December 31, 1997 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Miami, Florida,
June 21, 1999

SMARTDISK CORPORATION
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31,		MARCH 31,	PRO FORMA STOCKHOLDERS' EQUITY AT MARCH 31,
	1997	1998	1999	1999 (NOTE 7)
			(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash and cash equivalents	$ 329,778	$ 2,919,728	$ 1,807,295	
Restricted cash	--	1,050,000	1,050,000	
Accounts receivable, net of allowance for doubtful accounts of $0 in 1997, $33,848				

in 1998 and $32,283 in 1999	--	3,736,751	5,983,674	
Inventories	294,496	1,689,020	354,210	
Prepaid expenses and other current assets	24,005	120,782	376,123	
Total current assets	648,279	9,516,281	9,571,302	
Property and equipment, net	210,119	682,014	2,000,208	
Intangible assets, net	748,137	440,978	353,441	
Deposits and other assets	--	196,682	187,752	
TOTAL ASSETS	$ 1,606,535	$ 10,835,955	$ 12,112,703	
LIABILITIES, REDEEMABLE COMMON STOCK, AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$ 253,812	$ 3,706,297	$ 4,234,479	
Bank line of credit	--	2,247,718	2,955,774	
Accrued payroll and related expenses	346	222,085	419,446	
Other accrued liabilities	147,587	471,505	893,068	
Due to related parties	1,045,000	--	--	
Stockholder loan	3,955,000	--	--	
Total current liabilities	5,401,745	6,647,605	8,502,767	
Stockholder loan	644,591	648,147	630,797	
Deferred income tax liability	186,039	109,658	87,889	
Commitments and contingencies	--	--	--	
Redeemable common stock: 9,950,000 shares issued and outstanding	--	9,991,918	9,991,918	--
Stockholders' deficit:				
Common stock: $.001 par value; 60,000,000 shares authorized; 31,305,288 issued and outstanding in 1997; 47,319,742 issued and 46,998,833 outstanding in 1998; 38,453,742 issued and 38,129,833 outstanding in 1999	31,305	37,369	38,453	$ 48,403
Capital in excess of par value	12,351,783	16,023,020	17,213,556	27,195,524
Treasury stock, 320,909 shares in 1998 and 323,909 in 1999, at cost	--	(57,764)	(58,304)	(58,304)
Accumulated other comprehensive income	188,740	478,948	455,501	455,501
Notes receivable from officers/employees	--	(417,334)	(417,334)	(417,334)
Accumulated deficit	(17,197,668)	(22,625,612)	(24,332,540)	(24,332,540)
Total stockholders' equity (deficit)	(4,625,840)	(6,561,373)	(7,100,668)	$ 2,891,250
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK, AND STOCKHOLDERS' DEFICIT	$ 1,606,535	$ 10,835,955	$ 12,112,703	

</TABLE>

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

SMARTDISK CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			FOR THE THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Revenues					
Product sales	$ 500,252	$ 892,530	$ 15,038,281	$ 421,336	$ 5,429,711
Royalties	--	--	284,298	110,976	77,284
Total revenues	500,252	892,530	15,322,579	532,312	5,506,995
Cost of revenues	366,693	300,678	12,600,330	441,122	4,647,272
Gross profit	133,559	591,852	2,722,249	91,190	859,723
Operating expenses					
Research and development	720,009	1,411,986	1,607,950	301,729	925,351
Sales and marketing	5,884	11,582	2,546,602	252,539	726,156
General and administrative	3,418,010	3,184,552	4,049,191	743,258	1,014,182
Impairment loss	7,807,157	--	--	--	--

Total operating expenses	11,951,060	4,608,120	8,203,743	1,297,526	2,665,689
Operating loss	(11,817,501)	(4,016,268)	(5,481,494)	(1,206,336)	(1,805,966)
Gain (loss) on translation	--	--	(47,678)	(358)	63,194
Interest and other income	--	8,210	75,770	13,349	25,868
Interest expense	(275)	(514)	(51,858)	(14,795)	(9,063)
Net loss before income taxes	(11,817,776)	(4,008,572)	(5,505,260)	(1,208,140)	(1,725,967)
Income tax benefit	(2,347,876)	(44,598)	(77,316)	(19,203)	(19,039)
Net loss	$ (9,469,900)	$ (3,963,974)	$ (5,427,944)	$ (1,188,937)	$ (1,706,928)
Net loss per share	$ (.31)	$ (.13)	$ (.14)	$ (.04)	$ (.04)
Shares used in computing net loss per share	30,496,024	31,262,274	38,351,162	31,306,021	45,937,541

</TABLE>

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

SMARTDISK CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

<TABLE>
<CAPTION>

	COMMON STOCK		CAPITAL IN EXCESS OF	COMPREHENSIVE
	SHARES	AMOUNT	PAR VALUE	LOSS
<S>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1995	29,400,000	$29,400	$ 154,675	
Comprehensive loss:				
Net loss				$ (9,469,900)
Foreign currency translation				181,207
Comprehensive loss				$ (9,288,693)
Acquisition of SDL	1,793,940	1,794	6,940,311	
Contribution of stockholder loan to capital			3,908,823	
BALANCE, DECEMBER 31, 1996	31,193,940	31,194	11,003,809	
Comprehensive loss:				
Net loss				$ (3,963,974)
Foreign currency translation				7,533
Comprehensive loss				$ (3,956,441)
Acquisition of SDL	111,348	111	693,313	
Contribution of stockholder loan to capital			654,661	
BALANCE, DECEMBER 31, 1997	31,305,288	31,305	12,351,783	
Comprehensive loss:				
Net loss				$ (5,427,944)
Foreign currency translation				290,208
Comprehensive loss				$ (5,137,736)
Issuance of common stock for trademarks	600,000	600	(600)	
Issuance of common stock	2,665,000	2,665	3,162,335	
Shares issued upon exercise of options	2,799,454	2,799	509,502	
Repurchase of common stock.....				
BALANCE,				

DECEMBER 31, 1998	37,369,742	37,369	16,023,020	
Comprehensive loss:				
Net loss				$ (1,706,928)
Foreign currency translation				(23,447)
Comprehensive loss				$ (1,730,375)
Issuance of common stock	1,000,000	1,000	1,099,000	
Stock compensation			76,500	
Shares issued upon exercise of options	84,000	84	15,036	
Repurchase of common stock.....				
BALANCE, MARCH 31, 1999 (Unaudited)	38,453,742	$38,453	$17,213,556	

<CAPTION>

	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	NOTES RECEIVABLE FROM OFFICERS/ EMPLOYEES	TREASURY STOCK	TOTAL STOCKHOLDERS' DEFICIT
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1995	$ (3,763,794)	$ --	$ --	$ --	$ (3,579,719)
Comprehensive loss:					
Net loss	(9,469,900)				
Foreign currency translation		181,207			
Comprehensive loss					(9,288,693)
Acquisition of SDL					6,942,105
Contribution of stockholder loan to capital					3,908,823
BALANCE, DECEMBER 31, 1996	(13,233,694)	181,207	--	--	(2,017,484)
Comprehensive loss:					
Net loss	(3,963,974)				
Foreign currency translation		7,533			
Comprehensive loss					(3,956,441)
Acquisition of SDL					693,424
Contribution of stockholder loan to capital					654,661
BALANCE, DECEMBER 31, 1997	(17,197,668)	188,740	--	--	(4,625,840)
Comprehensive loss:					
Net loss	(5,427,944)				
Foreign currency translation		290,208			
Comprehensive loss					(5,137,736)
Issuance of common stock for trademarks					
Issuance of common stock					3,165,000
Shares issued upon exercise of options			(417,334)		94,967
Repurchase of common stock.....				(57,764)	(57,764)
BALANCE, DECEMBER 31, 1998	(22,625,612)	478,948	(417,334)	(57,764)	(6,561,373)
Comprehensive loss:					
Net loss	(1,706,928)				
Foreign currency translation		(23,447)			
Comprehensive loss					(1,730,375)
Issuance of common stock					1,100,000
Stock compensation					76,500
Shares issued upon exercise of options					15,120
Repurchase of common stock.....				(540)	(540)
BALANCE, MARCH 31, 1999 (Unaudited)	$ (24,332,540)	$ 455,501	$ (417,334)	$ (58,304)	$ (7,100,668)

</TABLE>

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

SMARTDISK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (9,469,900)	$ (3,963,974)	$ (5,427,944)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	130,494	227,089	613,777
Amortization	1,653,914	179,346	310,917
Foreign currency gain	--	--	(31,235)
Employee stock option expense	--	--	--
Deferred income tax benefit	(2,347,876)	(44,598)	(77,316)
Impairment loss	7,807,157	--	--
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	--	--	(3,736,751)
Inventories	289,236	23,529	(1,394,524)
Prepaid expenses and other current assets	(25,237)	(274,894)	(80,660)
Deposits and other assets	(20,525)	20,525	(176,942)
Increase (decrease) in liabilitities:			
Accounts payable	546,890	(397,416)	3,452,485
Accrued payroll and related expenses	(29,475)	(41)	221,739
Other accrued liabilities	24,891	80,629	365,836
Net cash used in operating activities	(1,440,431)	(4,149,805)	(5,960,618)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(200,821)	(284,943)	(1,019,878)
Increase in restricted cash	--	--	(1,050,000)
Net cash used in investing activities	(200,821)	(284,943)	(2,069,878)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of exchangeable note	--	--	5,000,000
Net proceeds from line of credit	--	--	2,247,718
Net proceeds (repayment) of stockholder loan	1,450,844	3,709,527	(3,955,000)
Proceeds (repayment) of due to related parties	--	1,045,000	(1,045,000)
Proceeds from sale of redeemable common stock	--	--	4,950,000
Proceeds from sale of common stock	--	--	3,165,000
Proceeds fom exercise of stock options	--	--	94,967
Purchase of treasury stock	--	--	(57,764)
Net cash provided by financing activities	1,450,844	4,754,527	10,399,921
Effect of exchange rate fluctuations on cash	4,490	1,973	220,525
Increase (decrease) in cash and cash equivalents	(185,918)	321,752	2,589,950
Cash and cash equivalents at beginning of period	193,944	8,026	329,778
Cash and cash equivalents at end of period	$ 8,026	$ 329,778	$ 2,919,728
SIGNIFICANT NON-CASH ACTIVITIES:			
Acquisition of SDL/patents	$ 6,942,105	$ 693,424	---
Exchange of note payable plus accrued interest for redeemable common stock	---	--	$ 5,041,918
Note receivable obtained for stock options	--	--	$ 417,334
Contribution of stockholder loan to capital	$ 3,908,823	$ 654,661	--

<CAPTION>

	FOR THE THREE MONTHS ENDED MARCH 31,	
	1998	1999
	(UNAUDITED)	
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,188,937)	$ (1,706,928)

Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	82,984	176,227
Amortization	77,222	87,537
Foreign currency gain	--	(71,416)
Employee stock option expense	--	76,500
Deferred income tax benefit	(19,203)	(19,039)
Impairment loss	--	--
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(349,257)	(2,246,923)
Inventories	(487,476)	1,334,810
Prepaid expenses and other current assets	271,489	(255,341)
Deposits and other assets	--	8,930
Increase (decrease) in liabilitities:		
Accounts payable	1,012,702	528,182
Accrued payroll and related expenses	40,972	197,361
Other accrued liabilities	(7,227)	421,563
Net cash used in operating activities	(566,731)	(1,468,537)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(460,270)	(1,494,421)
Increase in restricted cash	--	--
Net cash used in investing activities	(460,270)	(1,494,421)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of exchangeable note	5,000,000	--
Net proceeds from line of credit	--	708,056
Net proceeds (repayment) of stockholder loan	(306,502)	--
Proceeds (repayment) of due to related parties	--	--
Proceeds from sale of redeemable common stock	--	--
Proceeds from sale of common stock	---	1,100,000
Proceeds fom exercise of stock options	--	15,120
Purchase of treasury stock	--	(540)
Net cash provided by financing activities	4,693,498	1,822,636
Effect of exchange rate fluctuations on cash	17,515	27,889
Increase (decrease) in cash and cash equivalents	3,684,012	(1,112,433)
Cash and cash equivalents at beginning of period	329,778	2,919,728
Cash and cash equivalents at end of period	$ 4,013,790	$ 1,807,295
SIGNIFICANT NON-CASH ACTIVITIES:		
Acquisition of SDL/patents	---	--
Exchange of note payable plus accrued interest for redeemable common stock	--	--
Note receivable obtained for stock options	--	--
Contribution of stockholder loan to capital	--	--

</TABLE>

The accompanying notes are an intregral part of these consolidated financial statements.

SMARTDISK CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

ORGANIZATION AND NATURE OF OPERATIONS

SmartDisk Corporation ("SmartDisk" or the "Company") was incorporated on March 5, 1997, and its predecessor, SmartDisk Security Corporation ("SDSC") was incorporated on May 18, 1993.

From 1993 to 1995, SDSC exploited technology that it licensed under a manufacturing license agreement with Fischer International Systems Corporation ("FISC"), a related company, owned by Addison Fischer ("Fischer"). The patents underlying the licensed technology were held by SmartDiskette GmbH ("SDG"), a German company that is wholly-owned by SmartDiskette Limited ("SDL"), a related English company. SDG licensed these patents to SDL. SDL in turn entered into a manufacturing license agreement with FISC that FISC subsequently assigned to SDSC. The license agreement covered the manufacture and sale of solid state diskettes relating to the fields of data security and validation and computer security and access control. For the period January 1, 1996 through December

31, 1997, FISC, pursuant to an operating agreement with SDSC, conducted all operations and development activities on behalf of SDSC. During this period, SDSC (through FISC) developed several products using proprietary, high-density flash memory technology. These products are hereafter referred to as the "SmartDisk Products." The SmartDisk Products consist primarily of FlashPath (used to read/write flash memory cards) and Smarty (used to read/write smart cards).

On March 21, 1997, FISC and Toshiba Corporation ("Toshiba") entered into a memorandum of understanding in which the parties agreed to form a corporation to exploit the SmartDisk Products. SmartDisk commenced operations January 1, 1998. Effective on that date, SDSC's operating agreement with FISC was terminated.

On May 26, 1998, an agreement was finalized with Toshiba and FISC in order to, among other things, capitalize SmartDisk. SDSC stockholders exchanged all the issued and outstanding shares of SDSC for 29,400,000 shares of common stock of SmartDisk, Toshiba contributed $9,991,918 (see note 7) for 9,950,000 shares of redeemable common stock and FISC assigned trademarks to SmartDisk in exchange for 600,000 shares of common stock. In conjunction with the capitalization, SDSC was merged into SmartDisk. The merger was a combination of entities under common control and accounted for at historical cost. The individual financial statements of SmartDisk and SDSC are combined in the accompanying financial statements.

From April 1993 through May 1997, Fischer acquired substantially all of the shares of SDL in a series of transactions. In May 1999, the stockholders of SDL exchanged all their shares of SDL for 2,062,000 shares of common stock of SmartDisk and SDL became a wholly owned subsidiary of SmartDisk. The merger was a combination of entities under common control and accounted for at historical cost. The individual financial statements of SmartDisk and SDL are combined in the accompanying financial statements from May 22, 1996, the date SDL came under common control. The accounts of SDL were adjusted as of that date to reflect a new basis under the purchase accounting method.

The Company serves customers in the electronics, banking and other consumer markets. Principal geographic markets for the Company's products include the United States, Japan, Europe and other world markets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the financial statements of SmartDisk, SDSC and SDL, entities that were under common control and subsequently merged to form the entity that is now known as SmartDisk Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

Common stock shares and amounts as presented in the accompanying financial statements have been retroactively adjusted to reflect the effect of the mergers of SDL and SDSC into SmartDisk.

CERTAIN UNCERTAINTIES AND RISKS

The Company sells to original equipment manufacturers, retailers, and distributors in the United States, Japan, Europe and other world markets. However, the majority of the Company's sales are to Japanese customers. Japanese sales as well as related expenses are denominated in Yen and, accordingly, are subject to the risks associated with fluctuations in exchange rates between the Yen and the US dollar. The Company does not hedge against foreign currency exposure.

In the normal course of business, the Company extends unsecured credit to its customers for the sale of products. Credit terms generally range from 30 to 150 days receivables with extended credit terms secured by promissory notes. The Company evaluates and monitors the credit worthiness of each customer on a case by case basis. Allowances are maintained for potential credit losses.

A limited number of customers account for a substantial portion of the Company's revenues. Further, one product accounts for a substantial portion of the Company's revenues. Sales of the Company's products will vary as a result

of fluctuations in market demand.

Certain raw materials used by the Company in the manufacture of its products are available from a limited number of suppliers. The Company is dependent on its manufacturers to allocate a sufficient portion of their manufacturing capacity to meet the Company's needs.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivable, accounts payable and other accrued liabilities in the accompanying balance sheet approximates fair value because of the short-term maturity of these financial instruments. The fair value of the restricted cash and line of credit approximates market, as the interest rates on these financial instruments are market rates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and money market instruments with short term maturities of 90 days or less.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

RESTRICTED CASH

Restricted cash is composed of a time deposit that the Company maintains as collateral for a line of credit.

INVENTORIES

Inventories are stated at the lower of cost or market with cost being determined on a first-in, first-out basis.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. All major expenditures for production equipment are capitalized and depreciated over the economic life of the asset. The costs of repairs and maintenance are charged to expense in the year when they are incurred. Depreciation is computed using the straight-line and declining balance methods over the estimated useful lives of 2 to 15 years. In addition, certain production equipment is depreciated using the units of production method. The units of production method depreciates the property over the estimated life cycle production quantities. The monthly depreciation cost is calculated by using the number of pieces produced times the cost per piece computed from the estimated total production quantity.

IMPAIRMENT OF LONG-LIVED ASSETS

In the event that facts and circumstances indicate that the costs of assets may be impaired, an evaluation of recoverability is performed. If an evaluation is required, the estimated future undiscounted cash flow associated with the asset is compared to the asset's carrying amount to determine if a write-down to market value is required.

SOFTWARE DEVELOPMENT COSTS

Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time certain development costs required to attain general production release would be capitalized. To date, the Company's software development has essentially been completed concurrent with the establishment of technological feasibility, and, accordingly, no costs have been capitalized.

INCOME TAXES

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes". Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

REVENUE RECOGNITION

Sales revenue is recognized at the time of shipment to customers. Royalty revenue consists of royalties earned on sales of licensed products. Royalty revenues are recognized when earned based upon contractual agreement.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

FOREIGN CURRENCY TRANSACTIONS

Substantially all of the Company's sales are made through a Japanese subsidiary. This subsidiary and other foreign subsidiaries have their local currency as their functional currency. Their assets and liabilities are translated to the US dollar at the current exchange rates in effect at the balance sheet date. Items of revenue and expense are translated using average exchange rates in effect for the period in which the items occur. The resulting gains and losses from translation are included as a component of stockholders' equity.

Certain cash time deposits and inter-company accounts of the Japanese subsidiary are dollar-denominated balances. These balances are remeasured to the functional currency using the current exchange rate at the balance sheet date, and resulting adjustments are reflected in the gain (loss) on translation account included in the statement of operations. Inter-company gains (losses) included in this account for the year ended December 31, 1998 and the three months ended March 31, 1998 (unaudited) and 1999 (unaudited) totaled $170,416, $-0- and $(535), respectively.

STOCK BASED COMPENSATION

The Company applies the intrinsic value method in accounting for its stock options. Accordingly, no compensation expense has been recognized for options granted with an exercise price equal to market value at the date of grant.

NET LOSS PER SHARE

Basic net income (loss) per share as disclosed in the statement of operations, is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income (loss) by the weighted average shares outstanding during the period. Diluted net income (loss) per share would be calculated by dividing net income by the weighted average common shares used in the basic calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. Diluted net income (loss) is not presented, as the effect of including potentially dilutive securities would be anti-dilutive.

Pro forma net loss per share assuming redemption of the redeemable common stock, which contemplates inclusion of 4% interest on the redeemable common stock in net loss and exclusion of the redeemable common stock shares from weighted average shares outstanding, for the year ended December 31, 1998 and the three months ended March 31, 1999 (unaudited) would be $0.17 and $0.05 per share, respectively.

Net loss per share has been computed reflecting the retroactive adjustment of outstanding shares related to the mergers of SDL and SDSC into SmartDisk.

ADVERTISING

Advertising costs are charged to expense as incurred, advertising expenses for 1996, 1997 and 1998 were $3,539, $3,785 and $214,000, respectively, and for the three months ended March 31, 1998 (unaudited) and 1999 (unaudited) were $8,172 and $18,762, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARD

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company expects to adopt the new Statement effective January 1, 2001. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. The Company does not anticipate that the adoption of this Statement will have a significant effect on its results of operations or financial position.

NOTE 3. INVENTORY

Inventories consist of the following:

	DECEMBER 31,		MARCH 31,
	1997	1998	1999
			(UNAUDITED)
Finished goods	$ --	$1,687,905	$338,291
Raw materials	294,496	1,115	15,919
Inventories	$294,496	$1,689,020	$354,210

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,		MARCH 31,
	1997	1998	1999
			(UNAUDITED)
<S>	<C>	<C>	<C>
Production equipment	$ 396,307	$ 702,779	$2,083,125
Furniture and fixtures	9,789	191,576	226,494
Software	31,112	167,519	238,071
Property and equipment, at cost	$ 437,208	$1,061,874	$2,547,690
Accumulated depreciation and amortization	(227,089)	(379,860)	(547,482)
Property and equipment, net	$ 210,119	$ 682,014	$2,000,208

</TABLE>

NOTE 5. INTANGIBLE ASSETS AND IMPAIRMENT LOSS

The financial statements of SDL are combined with those of the Company as of May 22, 1996, the date that SDL came under common control ("1996 acquisition") as a result of the Company's principal stockholder acquiring an 87% ownership interest in SDL through a series of acquisitions. The purchase price as of May 22, 1996 totaled approximately $7 million, all of which was allocated to patents. In addition, goodwill and a corresponding deferred tax liability totaling approximately $2.3 million were recorded to reflect the tax effect of the acquisition. The intangibles were being amortized over their estimated useful life of three years. Subsequently, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company evaluated the recoverability of the recorded patents and goodwill. SDL was acquired for its two developed products. The potential customer (U.S. Government) for one of these products

NOTE 5. INTANGIBLE ASSETS AND IMPAIRMENT LOSS--(CONTINUED)

abandoned an initiative in late 1996 for which this product was to be used and management's assessment was that there was no alternative use for this product. The other product did not meet management's market expectations. Further, no significant sales ever occurred related to the patented products and such products were discontinued in late 1996. The technology underlying the patents was assessed by management to be obsolete and the related patents deemed worthless. Accordingly, during 1996, the Company recorded an impairment loss of $7,807,157 to write-off the remaining unamortized cost of the patents and related goodwill.

On May 22, 1997, and additional 5% ownership interest in SDL was purchased for approximately $700,000 through the exercise of a put option given to SDL stockholders in connection with the 1996 acquisition. All of the additional purchase price was allocated to new patents that were issued subsequent to the 1996 acquisition, and unrelated to the patented technology that became worthless in 1996. In addition, goodwill and a corresponding deferred tax liability totaling approximately $230,000 were recorded to reflect the related tax effect. These intangible assets are being amortized over their estimated useful lives of three years.

Intangible assets consist of:

<TABLE>
<CAPTION>

	DECEMBER 31,		MARCH 31,
	1997	1998	1999
			(UNAUDITED)
<S>	<C>	<C>	<C>
Patents	$ 695,615	$ 698,334	$ 690,989
Goodwill	231,871	232,791	230,329
	927,486	931,125	921,318
Less accumulated amortization	(179,349)	(490,147)	(567,877)
Intangible assets, net	$ 748,137	$ 440,978	$ 353,441

</TABLE>

NOTE 6. BANK LINE OF CREDIT

The Company's wholly-owned Japanese subsidiary entered into an agreement with the Bank of Tokyo-Mitsubishi, Ltd. on June 8, 1998, revised on January 29, 1999, for a Line of Credit with maximum borrowing capacity of $2.59 million (300 million Yen). The facility is collateralized by a time deposit and accounts receivable. The Company maintains a time deposit with the bank that has a balance at December 31, 1998 of $1,050,000 (121,485,000 Yen). The Company may borrow up to 90% of this amount. In addition, accounts receivable of up to $1.73 million (200 million Yen) of specified trade customers may be used as additional collateral. The interest rate on borrowings under the credit facility is 1.375% per year and the credit facility must be renewed every six months. The current agreement expires on December 25, 1999. The Company also discounts certain short-term promissory notes received from trade customers with the bank. Bank borrowings collateralized by promissory notes totaled $1,382,000 at December 31, 1998 and $1,458,000 at March 31, 1999. The borrowings are short-term and bear interest at 1.375%.

Interest paid during the periods ended December 31, 1998, March 31, 1998 (unaudited) and 1999 (unaudited) amounted to $5,017, $0 and $7,387, respectively.

NOTE 7. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases space for its corporate headquarters from a related party, FISC. There is no formalized agreement and the expense is accrued and paid monthly based on a percent of usage basis. The Company's Japanese subsidiary leases office space under a two year operating lease commencing in April 1998. Total rent expense for 1996, 1997 and 1998 and for the three months ended March 31, 1998 (unaudited) and 1999 (unaudited) was $14,155, $36,995,

$261,399, $32,994 and $88,694, respectively. Rent expense incurred related to FISC for these same periods totaled $14,155, $36,995, $135,290, $26,982 and $28,489, respectively.

The table below sets forth minimum payments for the years indicated under leases with remaining terms in excess of one year, at December 31, 1998 and March 31, 1999:

	DECEMBER 31, 1998	MARCH 31, 1999 (UNAUDITED)
1999	$180,579	$135,434
2000	41,446	41,446
	$222,025	$176,880

CONTINGENCIES

The Company relies on a combination of patents, trademarks, copyright and trade secret laws, confidentiality procedures and licensing arrangements to protect its intellectual property rights. There can be no assurance that there will not be any disputes regarding the Company's intellectual property rights. Specifically, there can be no assurance that any patents held by the Company will not be invalidated, that patents will be issued for any of the Company's pending applications or that any claims allowed from existing or pending patents will be of sufficient scope or strength or be issued in the primary countries where the Company's products can be sold that will provide meaningful protection or any commercial advantage to the Company. Additionally, competitors of the Company may be able to design around the Company's patents.

REDEEMABLE COMMON STOCK

In connection with the agreement that was finalized in May 1998 (see Note 1), Toshiba received 9,950,000 shares of redeemable common stock in exchange for $9,991,918 (consisting of $4,950,000 cash, the exchange of a $5,000,000 note and accrued interest of $41,918). In March 1998, SmartDisk had executed a 4% note with Toshiba for $5,000,000 that was exchangeable into common stock at $1 per share. The terms of the agreement provided Toshiba a put option that is exercisable on February 24, 2000 and for a period of ninety days from that date. This option provides that the Company may be asked to purchase all of the redeemable common stock shares for a total of $9,950,000 plus 4% simple interest per year. This right terminates if the Company completes an initial public offering prior to the exercise date of the option. The redeemable common stock will convert to nonredeemable common stock if the Company becomes a publicly traded company prior to February 24, 2000 or the put option is not exercised. In addition, Toshiba received Board of Director representation and registration rights with regard to its common stock ownership in the Company. The redeemable

NOTE 7. COMMITMENTS AND CONTINGENCIES--(CONTINUED)

common stock has a redemption amount at December 31, 1998 and March 31, 1999 (unaudited) of $10,277,073 and $10,375,654, respectively.

Unaudited pro forma stockholders' equity at March 31, 1999 as set forth on the accompanying balance sheets reflects the exercise of the put option on the common stock as if such exercise had occurred on March 31, 1999.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with certain of its employees. These agreements stipulate, among other things, severance and benefit arrangements in the event of termination. In addition, the agreements include confidentiality provisions, invention assignment provisions, and covenants not to compete.

NOTE 8. STOCK BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related

interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options.

The Company's 1998 Employee Stock Option Plan has authorized the grant of options to employees including members of the Company's Board of Directors who are employees of the Company for up to 5,818,181 shares of the Company's common stock of which 2,074,727 and 1,627,227 remain available as of December 31, 1998 and March 31, 1999 (unaudited), respectively. Options granted under the plan have vesting dates ranging from four to five years and all options granted have a ten year contractual life.

The Company's 1998 Directors and Consultants Stock Option Plan has authorized the grant of options to officers, directors, consultants and other independent contractors (including members of the Company's Board of Directors who are not employees of the Company) for up to 1,000,000 shares of the Company's common stock of which 480,000 and 746,000 remain available as of December 31, 1998 and March 31, 1999 (unaudited), respectively. Options granted under the plan have vesting dates ranging from four to five years and all options granted have a ten year contractual life.

The Company had reserved 6,818,181 shares of common stock for issuance under the aforementioned stock option plans. At December 31, 1998 and March 31, 1999 (unaudited), 2,554,127 and 2,373,227 shares, respectively, remain outstanding and available for future grant.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock option under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998 and 1999 (unaudited); volatility factor of the expected market price of the Company's common stock of .80; risk-free interest rate of 5.25% and a weighted-average expected life of the option of 5 years.

NOTE 8. STOCK BASED COMPENSATION--(CONTINUED)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The company's pro forma information follows:

<TABLE>
<CAPTION>

	MARCH 31, 1998	DECEMBER 31, 1998	MARCH 31, 1999
	(UNAUDITED)		(UNAUDITED)
<S>	<C>	<C>	<C>
Pro forma net loss	$ (1,203,840)	$ (5,545,529)	$ (1,824,513)
Pro forma loss per share	$ (0.04)	$ (0.14)	$ (0.04)

</TABLE>

A summary of the Company's stock option activity, and related information for the year ended December 31, 1998 and the quarter ended March 31, 1999 (unaudited) are as follows:

<TABLE>
<CAPTION>

	NUMBER OF	WEIGHTED AVERAGE

	OPTIONS	EXERCISE PRICE
<S>	<C>	<C>
Outstanding at December 31, 1997	--	--
Options granted with exercise prices equal to fair market value	4,166,454	$ 0.32
Options granted with exercise prices less than fair market value	100,000	1.00
Options exercised	(2,799,454)	0.18
Options canceled	(3,000)	0.18
Outstanding at December 31, 1998	1,464,000	$ 0.63
Options granted with exercise prices equal to fair market value	923,500	1.20
Options exercised	(84,000)	0.18
Options canceled	(742,000)	0.70
Outstanding at March 31, 1999 (Unaudited)	1,561,500	$ 0.96

</TABLE>

The weighted average fair value of options granted during the year ended December 31, 1998 and the quarter ended March 31, 1999 (unaudited) with exercise prices equal to market value was $0.21 and $0.81, respectively.

The weighted average fair value of options granted during the year ended December 31, 1998 with exercise prices less than market value was $0.85.

During the quarter ended March 31, 1999, compensation expense of $76,500 was recognized relating to the accelerated vesting of 84,000 options, exercisable at $0.18 per share.

NOTE 8. STOCK BASED COMPENSATION--(CONTINUED)

As of December 31, 1998 and March 31, 1999 (unaudited), 2,052,545 and 1,810,772 shares of common stock acquired upon the exercise of 2,799,454 options during 1998 remain non-vested. Vesting of this restricted stock is subject to the vesting provisions of the original option award.

The following table summarizes information about stock options outstanding as of December 31, 1998 and March 31, 1999 (unaudited).

<TABLE>
<CAPTION>

	OUTSTANDING OPTIONS			EXERCISABLE OPTIONS	
RANGE OF EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
December 31, 1998					
$ 0.18 - $ 0.25	684,000	$ 0.19	9.1 years	9,000	$ 0.18
$1.00 - $1.20	780,000	$ 1.02	9.7 years	--	--
$0.18 - $1.20	1,464,000	$ 0.63	9.4 years	9,000	$ 0.18
March 31, 1999 (unaudited)					
$.018 - $0.25	330,000	$ 0.21	8.9 years	55,000	$ 0.19
$1.00 - $1.20	1,231,500	$ 0.96	9.8 years	1,200	$ 1.20
$ .18 - $1.20	1,561,500	$ 0.96	9.6 years	56,200	$ 0.21

</TABLE>

NOTE 9. RETIREMENT PLAN

Effective January 1, 1998, for the benefit of qualified employees, the Company became a participant in a tax deferred savings plan offered to employees of FISC. The plan is designed to provide employees with an

accumulation of funds at retirement. Qualified employees may elect to make pre tax contributions into the plan for up to 15% of their annual compensation, up to a maximum of $10,000 per year. The Company may make annual contributions to the plan at the discretion of the Board of Directors. The Company's matching contributions are earned by the employee based on a straight line, five year vesting schedule. For the years ended December 31, 1998, and the three months ended March 31, 1998 (unaudited) and 1999 (unaudited), the Company made matching contributions of $10,747, $2,601, and $9,301, respectively.

NOTE 10. INCOME TAXES

The United States and foreign components of loss from continuing operations before income taxes are as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
United States	$ (2,118,417)	$ (3,462,924)	$ (4,584,045)	$ (903,679)	$ (1,299,334)
Foreign	(9,699,359)	(545,648)	(921,215)	(304,461)	(426,633)
Total	$ (11,817,776)	$ (4,008,572)	$ (5,505,260)	$ (1,208,140)	$ (1,725,967)

</TABLE>

The income tax benefit for each period presented in the statement of operations relates to the reduction of the deferred income tax liability associated with the identified intangible assets.

NOTE 10. INCOME TAXES--(CONTINUED)

The significant components of the Company's deferred income taxes are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,		MARCH 31,
	1997	1998	1999
			(UNAUDITED)
<S>	<C>	<C>	<C>
Deferred tax assets:			
Net operating loss carry forwards	$ 770,243	$ 2,615,236	$ 3,094,602
Depreciation and amortization	--	18,377	22,330
Accrued expenses	--	9,225	9,225
Deferred tax assets	770,243	2,642,838	3,126,157
Less valuation allowance	(770,243)	(2,642,838)	(3,126,157)
Net deferred tax assets	--	--	--
Deferred tax liabilities:			
Acquired intangibles	(186,039)	(109,658)	(87,889)
Total net deferred taxes	$ (186,039)	$ (109,658)	$ (87,889)

</TABLE>

The reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate is:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>

Federal income tax benefit	(34.00)%	(34.00)%	(34.00)%	(34.00)%	(34.00)%
State taxes, net of federal benefit	(3.63)	(3.63)	(3.63)	(3.63)	(3.63)
Foreign tax rate differential	3.80	0.63	(0.13)	0.61	0.30
Non-deductible items	--	--	1.38	0.05	4.27
Goodwill	6.55	0.37	0.53	0.60	0.46
Recognition of net deferred tax assets from change in SDSC status	--	--	(0.17)	--	--
S corporation loss reported by shareholders	6.75	32.51	--	--	--
Change in valuation allowance	0.67	3.02	34.01	34.43	31.07
Other	--	--	0.61	0.36	0.43
	(19.86)%	(1.10)%	(1.40)%	(1.58)%	(1.10)%

</TABLE>

Prior to May 1998, SDSC elected to be taxed as an S corporation under the Internal Revenue Code. As a result, the taxable income or losses for periods prior to May 1998 were reported by the shareholders on their individual income tax returns. Upon the conversion from an S corporation to a C corporation, SDSC became subject to income tax. Subsequent to the conversion from an S corporation to a C corporation, SDSC was merged into SmartDisk, a C corporation.

SFAS 109 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has determined that a valuation allowance of $770,000, $2,643,000 and $3,126,000 at

NOTE 10. INCOME TAXES--(CONTINUED)

December 31, 1997 and 1998, and March 31, 1999 (unaudited), respectively, is necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The change in valuation allowance amounted to $121,000, $1,873,000 and $483,000 for December 31, 1997 and 1998, and March 31, 1999 (unaudited), respectively.

At December 31, 1998 and March 31, 1999 (unaudited), the Company had United States and foreign net operating loss carry forwards for tax purposes as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		MARCH 31, 1999 (UNAUDITED)	
JURISDICTION	AMOUNT	EXPIRATION	AMOUNT	EXPIRATION
<S>	<C>	<C>	<C>	<C>
United States	$4,932,000	2018	$ 6,149,000	2018-2019
United Kingdom	$2,343,000	Unlimited	$ 2,368,000	Unlimited
Japan	$ 377,000	2003	$ 532,000	2003-2004

</TABLE>

NOTE 11. SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information,". SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The Company operates in one reportable business segment.

Sales to foreign markets and to significant customers as a percentage of the Company's total revenues were as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Foreign markets:					
Asian and Pacific Rim Market	--%	--%	84%	--%	81%
United States	75	82	10	71	15
Europe	25	18	6	29	4
	100%	100%	100%	100%	100%

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Significant customers:					
FISC	100%	100%	14%	100%	11%
FujiFilm	--	--	38	--	32
Olympus	--	--	32	--	39

NOTE 11. SEGMENT INFORMATION--(CONTINUED)

The following is a summary of the carrying amounts of the Company's foreign net assets (liabilities) by geographic area in which they are located:

	DECEMBER 31, 1997	DECEMBER 31, 1998	MARCH 31, 1999
			(UNAUDITED)
<S>	<C>	<C>	<C>
Asia and Pacific Rim	$ --	$1,830,076	$1,581,425
Europe	(28,263)	(271,024)	(345,257)

The following is a summary of the Company's foreign long-lived assets by geographic area in which they are located:

	DECEMBER 31, 1997	DECEMBER 31, 1998	MARCH 31, 1999
			(UNAUDITED)
<S>	<C>	<C>	<C>
Asia and Pacific Rim	$ --	$281,347	$1,440,928
Europe	757,926	450,821	363,020

NOTE 12. RELATED PARTY TRANSACTIONS

Material related party transactions that have been entered into by the Company that are not disclosed otherwise in these notes are summarized below.

As outlined in Note 1, SmartDisk (including SDSC and SDL) and FISC were under the common ownership of Fischer. Further, there were various transactions between SmartDisk and FISC, such as sharing of certain general and administrative resources, the purchases/sales of products and services and similar transactions. In the opinion of management, the allocations were

reasonable and reflect all of the cost of the companies doing business.

During 1996 and 1997, FISC provided operating services to SmartDisk pursuant to an operating agreement. All of the Company's revenues for those years and operating expenses totaling approximately $2.6 million in 1996 and $4.0 million in 1997 were recognized or incurred by FISC on behalf of SmartDisk.

As a direct result of this operating arrangement between FISC and SmartDisk, the Company's stockholder loan from Fischer was increased by $1,450,844 in 1996 and $3,158,817 in 1997 representing funding of SmartDisk operations by Fischer through FISC. Stockholder loan amounts totaling $3,908,823 in 1996 and $654,661 in 1997 were contibuted to capital. In addition, stockholder loan amounts totaling $644,591, $648,147, and $630,797 at December 31, 1997, 1998 and March 31, 1999, respectively, represented advances made by Fischer and related companies to fund the operations of SDL. Those advances, which were non-interest bearing and due upon demand, were converted into 386,841 shares of common stock of SDL in May 1999.

At December 31, 1997, the Company owed $1,045,000 to FISC and $3,955,000 to Fischer, which represented non-interest amounts advanced to fund the Company's operations. These amounts were repaid in 1998.

In connection with the 1998 agreement (see Note 1), the Company was granted a non-exclusive license to certain patents relating to the interface with Toshiba's SmartMedia cards. In September

1998, this license was amended to expand the field of use for the license. In return, the Company agreed to pay a 1/2% royalty on products covered by the Toshiba patents. Royalty expenses pertaining to this license were $221,968 in 1998, and $5,270, and $80,625 for the three months ended March 31, 1998 and 1999, respectively.

The Company has entered into various strategic agreements with related parties to sell, manufacture and distribute products. In addition, the Company procures certain engineering services from a strategic investor. During 1998, and for the three months ended March 31, 1998 and 1999, approximately 14%, 100% and 11%, respectively, of the Company's sales were to related parties. During 1998 and for the three months ended March 31, 1998 and 1999, purchases of products and services of approximately $12,500,000, $320,000 and $4,500,000, respectively, were made from related parties.

Pursuant to license and distribution agreements entered into in 1998 between FISC and the Company, FISC was granted the right to license and distribute the Company's products through 2001. For this right, FISC agreed to pay to the Company royalties ranging from 5% to 33.3% of net revenue derived from SmartDisk product sales. All of the Company's royalty revenues are from FISC.

Pursuant to operating agreements entered into in 1998, FISC provides operating assistance to the Company consisting of services, facilities and shared equipment. The Company recorded operating expenses related to these agreements for the year ended December 31, 1998 and the three months ended March 31, 1998 (unaudited) and 1999 (unaudited) of approximately $1,500,000, $247,000 and $48,000, respectively.

Three of the Company's principal stockholders have the right to require the Company to file a registration statement to enable them to sell their shares

During February 1999, the Company loaned $60,000 to one of its officers and the amount was outstanding as of March 31, 1999. The loan was made pursuant to a Promissory Note, bears interest at 4.71%, and is repayable in four annual installments. In addition, the Company has, in conjunction with the 1998 Employee Stock Option Plan, made loans to various of its employees to allow for the immediate exercise of stock option grants. Each loan was made pursuant to a full recourse Promissory Note, is secured by a pledge of the shares of stock which the employee has acquired, bears interest at approximately 5.5% which is payable quarterly, and is required to be paid in full within five years of the date of issuance.

[SMARTDISK LOGO]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by SmartDisk in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fees.

Securities and Exchange Commission registration fee.....	$ 11,120
NASD filing fee.....	4,500
Nasdaq National Market listing fee.....	
Printing and engraving expenses.....	
Accounting fees and expenses.....	
Legal fees and expenses.....	
Blue Sky fees and expenses.....	
Transfer Agent's fees and expenses.....	
Miscellaneous.....	
TOTAL.....	$

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law authorizes a court to award or a corporation's Board of Directors to grant indemnification to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). The Registrant's bylaws provides for mandatory indemnification of its directors and officers and permissible indemnification of employees and other agents to the maximum extent permitted by the Delaware General Corporation Law. The Registrant's certificate of incorporation provides that, pursuant to Delaware law, its directors shall not be liable for monetary damages for breach of the directors' fiduciary duty as directors to SmartDisk and its stockholders. This provision in the certificate of incorporation does not eliminate the directors' fiduciary duty, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to SmartDisk for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws. Prior to the closing of this offering, the Registrant will enter into Indemnification Agreements with its officers and directors, a form of which is attached as Exhibit 10.18 hereto and incorporated herein by reference. The Indemnification Agreements provide the Registrant's officers and directors with further indemnification to the maximum extent permitted by the Delaware General Corporation Law. Reference is made to Section __ of the Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of the Registrant against certain liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

On May 22, 1998, SmartDisk sold 29,400,000 shares of common stock to Phoenix House Investments, L.L.C. in exchange for all outstanding shares of SmartDisk Security Corporation.

On May 22, 1998, SmartDisk sold 9,950,000 shares of common stock to Toshiba Corporation for $9,950,000.

On May 22, 1998, SmartDisk sold 600,000 shares of common stock to

Fischer International Systems Corporation in exchange for the assignment to SmartDisk of certain trademarks.

On May 28, 1998, SmartDisk sold 115,000 shares of common stock to First TZMM Investment Partnership for $115,000.

On October 15, 1998, SmartDisk sold 1,000,000 shares of common stock to Yamaichi Electronics Co., Ltd. for $1,200,000.

On October 16, 1998, SmartDisk sold 1,000,000 shares of common stock to Rohm Co., Ltd. for $1,200,000.

On November 26, 1998, SmartDisk sold 500,000 shares of common stock to NEC Corporation for $600,000.

On January 13, 1999, SmartDisk sold 1,000,000 shares of common stock to Hitachi Software Engineering Co., Ltd. for $1,100,000.

On May 26, 1999, SmartDisk sold 2,062,000 shares of common stock to the shareholders of SmartDiskette Limited, an English corporation, in exchange for all of the outstanding shares of capital stock of SmartDiskette Limited.

On July 1, 1999, SmartDisk sold 1,250,000 shares of common stock to SCM Microsystems, Inc. for $2,500,000. On that date, SmartDisk also sold an aggregate of 350,000 shares of common stock to five investors, including two of its directors, Messrs. Tomlinson and Bidzos, for $700,000, or $2.00 per share.

On July 1, 1999, SmartDisk issued 150,000 shares of common stock to SanDisk Corporation as partial consideration for the grant of a license to certain intellectual property.

Between January 1, 1998 and July 1, 1999, SmartDisk issued an aggregate of 2,990,954 shares of common stock to 20 persons, all of whom were employees or directors of, or consultants to, SmartDisk. Such shares were issued upon exercise of stock options with exercise prices ranging from $0.18 to $2.00 per share.

The sale of the above securities was deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or transactions pursuant to compensation benefit plans and contracts relating to compensation as provided under such Rule 701. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access, through their relationships with the Registrant, to information about the Registrant.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

A. EXHIBITS

EXHIBIT	EXHIBITS
1.1	Form of Underwriting Agreement(1)
3.1	Certificate of Incorporation(1)
3.2	Bylaws(1)
5.1	Opinion of Greenberg Traurig, P.A.(1)
10.1	1998 Employee Stock Option Plan(2)
10.2	1998 Directors and Consultants Stock Option Plan(2)
10.3	1999 Incentive Compensation Plan(1)(2)
10.4	1999 Employee Stock Purchase Plan(1)(2)
10.5	Employment Agreement with Michael S. Battaglia

10.6	Employment Agreement with Robert Protheroe
10.7	Employment Agreement with Quresh Sachee
10.8	License Agreement dated May 26, 1998 between Toshiba Corporation and SmartDisk, as amended(1)
10.9	Operating Agreement dated May 28, 1998 between Fischer International System Corporation and SmartDisk, as amended
10.10	License and Distribution Agreement dated May 28, 1998 between SmartDisk and Fischer International Systems Corporation(1)
10.11	Distribution Agreement dated May 28, 1998 between Fischer International Systems Corporation and SmartDisk
10.12	Investors' Rights Agreement dated May 22, 1998 among Smart Disk and each of the investors a party thereto
10.13	Lease Agreement dated October 4, 1993 between Arnold Industrial Park and SmartDisk, by assignment(1)
10.14	Development and License Agreement between SmartDisk and Sony Corporation(1)
10.15	Cooperative Development Agreement dated June 30, 1999 between SmartDisk and SanDisk Corporation(1)
10.16	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers
23.1	Consent of Greenberg Traurig, P.A. (included in Exhibit 5.1)(1)
23.2	Consent of Ernst & Young LLP
25.1	Power of Attorney (included on the signature page)
27.1	Financial Data Schedules (SEC use only)

---

(1) To be filed by amendment.

(2) Management Compensation Plan or Arrangement.

(3) Confidential treatment requested for portions of this exhibit.

ITEM 17. UNDERTAKINGS

The Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the Delaware General Corporation Law, the Certificate of Incorporation or the Bylaws of the Registrant, the Underwriting Agreement, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication

of such issue.

The Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Naples, State of Florida, on this 14th day of July, 1999.

SMARTDISK CORPORATION

By: /s/ MICHAEL S. BATTAGLIA
Michael S. Battaglia
President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Michael S. Battaglia and Daniel E. Reed or any one of them, as his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution for him or her in his or her name, place and stead in any and all capacities to execute in the name of each such person who is then an officer or director of the Registrant any and all amendments (including post-effective amendments) to this Registration Statement, and any registration statement relating to the offering hereunder pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same with all exhibits thereto and 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 required or necessary to be done in and about the premises as fully as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ ADDISON M. FISCHER Addison M. Fischer	Chairman and Director	July 14, 1999
/s/ MICHAEL S. BATTAGLIA Michael S. Battaglia	President, Chief Executive Officer and Director (Principal Executive Officer)	July 14, 1999
/s/ MICHAEL R. MATTINGLY Michael R. Mattingly	Chief Financial Officer (Principal Financial and Accounting Officer)	July 14, 1999
/s/ TIMOTHY TOMLINSON Timothy Tomlinson	Director	July 14, 1999

/s/ D. JAMES BIDZOS D. James Bidzos	Director	July 14, 1999
/s/ SHIGEKI MORITA Shigeki Morita	Director	July 14, 1999

</TABLE>

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
10.1	1998 Employee Stock Option Plan
10.2	1998 Directors and Consultants Stock Option Plan
10.5	Employment Agreement with Michael S. Battaglia
10.6	Employment Agreement with Robert Protheroe
10.7	Employment Agreement with Quresh Sachee
10.9	Operating Agreement dated May 28, 1998 between Fischer International System Corporation and SmartDisk, as amended
10.11	Distribution Agreement dated May 28, 1998 between Fischer International Systems Corporation and SmartDisk
10.12	Investors' Rights Agreement dated May 22, 1998 among Smart Disk and each of the investors a party thereto
10.16	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers
23.2	Consent of Ernst & Young LLP
27.1	Financial Data Schedules (SEC use only)

Exhibit 10.1

SMARTDISK CORPORATION

1998 EMPLOYEE STOCK OPTION PLAN
AS ADOPTED JANUARY 27, 1998

1. PURPOSE AND TYPES OF OPTIONS. This 1998 Stock Option Plan (the "PLAN") is intended to increase the incentives of, and encourage stock ownership by employees (including members of the Company's Board of Directors who are employees of the Company) providing services to SmartDisk Corporation, a Delaware corporation (the "COMPANY"), or to corporations which are or become subsidiary corporations of the Company. As used in this Plan, the terms "PARENT CORPORATION" and "SUBSIDIARY CORPORATION" shall have the meanings set forth in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended ("INTERNAL REVENUE CODE"). The Plan is intended to provide such employees with a proprietary interest (or to increase their proprietary interest) in the Company, and to encourage them to continue their employment by the Company or its subsidiaries. Options granted pursuant to the Plan, at the discretion of the Company's Board of Directors ("Board"), may be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code, or options that do not so qualify as incentive stock options and which are referenced herein as non-statutory stock options. This Plan is intended to be a written compensatory benefit plan within the meaning of Rule 701 of the Securities Act of 1933, as amended ("SECURITIES ACT").

2. STOCK. The capital stock subject to the Plan shall be shares of the Company's authorized but unissued Common Stock ("COMMON STOCK") or treasury shares of Common Stock. Subject to adjustments pursuant to Section 8 hereof, the maximum aggregate number of shares of Common Stock which may be issued under the Plan is Five Million Eight Hundred Eighteen Thousand One Hundred One (5,818,181). In the event that any outstanding option under the Plan shall expire by its terms or is otherwise terminated for any reason (or if shares of Common Stock of the Company which are issued upon exercise of an option granted hereunder are subsequently reacquired by the Company pursuant to contractual rights of the Company under the particular stock option agreement), the shares of the Common Stock allocated to the unexercised portion of such option (or the shares so reacquired by the Company pursuant to the terms of the stock option agreement) shall again become available to be made subject to options granted under the Plan. Notwithstanding any other provision of this Plan, the aggregate number of shares of Common Stock subject to outstanding options granted under this Plan at any given time, plus the aggregate number of shares which have been issued upon exercise of all options granted under this Plan and which remain outstanding, shall never be permitted to exceed the maximum number of shares specified above in this Section 2 (subject to adjustments under Section 8).

3. ADMINISTRATION. The Plan shall be administered by the Board. The interpretation and construction by the Board of any provision of this Plan, or

of any option granted pursuant hereto, shall be final, binding and conclusive. No member of the Board shall be liable to the Company or to any Subsidiary or Parent corporation, or to the holder of any option granted hereunder, for any action, inaction, determination or interpretation made in good faith with respect to the Plan or any transaction hereunder. Notwithstanding the foregoing, the Board shall have the authority to delegate some or all of its duties to administer this Plan and to exercise its powers hereunder to a committee ("COMMITTEE")

appointed by the Board. For purposes of this Plan, all references herein to "Board" shall be deemed to also refer to any such Committee. Any Committee charged with administration of the Plan shall have all the powers and protections provided to the Board under this Plan until the Board shall revoke or restrict such powers or protections. More specifically, the Board, subject to compliance with the remaining provisions of this Plan, shall have the following powers and authority (which listing is provided by way of example and is not intended to be comprehensive or limiting to the extent of powers not included):

3.1 SELECTION OF OPTIONEES. To determine the persons providing services to the Company to whom, and the time or times at which, options to purchase Common Stock of the Company shall be granted;

3.2 NUMBER OF OPTION SHARES. To determine the number of shares of Common Stock to be subject to options granted to each such person;

3.3 EXERCISE PRICE. To determine the price to be paid for the shares of Common Stock upon the exercise of each option;

3.4 TERM AND EXERCISE SCHEDULE. To determine the term and the exercise schedule of each option;

3.5 OTHER TERMS OF OPTIONS. To determine the terms and conditions of each stock option agreement (which need not be identical) entered into between the Company and any person to whom the Board determines to grant an option;

3.6 INTERPRETATION OF PLAN. To interpret the Plan and to prescribe, amend and rescind rules and regulations relating to the Plan;

3.7 AMENDMENT OF OPTIONS. With the consent of the holder thereof, to modify or amend any option granted under the Plan; and

3.8 GENERAL AUTHORITY. To take such actions and make such determinations deemed necessary or advisable by the Board for the administration

of the Plan, subject to complying with the Plan and with applicable legal requirements.

4. ELIGIBILITY AND AWARD OF OPTIONS.

4.1 AUTHORITY TO GRANT AND ELIGIBILITY. The Board shall have full and final authority, in its discretion and at any time and from time to time during the term of this Plan, to grant or authorize the granting of options to employees of the Company or its Subsidiary corporations as it may select, and to determine the number of shares of Common Stock to be subject to each option. Any individual who is eligible to receive a stock option under this Plan shall be eligible to hold more than one option at any given time, in the discretion of the Board. The Board shall have full and final authority in its discretion to determine, in the case of employees (including employees that are officers or directors), whether such options shall be incentive stock options or non-statutory stock options;

however, no incentive stock option may be granted to any person who is not a bona fide employee of the Company or of a Subsidiary corporation of the Company. Persons selected by the Board who are prospective employees of the Company or its subsidiaries, including members of the Board, shall be eligible to receive non-statutory stock options; provided, however, that in the case of such prospective employment or other engagement, the exercisability of such options shall be subject in each case to such person in fact becoming an employee of the Company or its subsidiaries.

4.2 CERTAIN RESTRICTIONS APPLICABLE TO STOCK OPTIONS. No incentive stock option shall be granted to any employee who, at the time such incentive stock option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of outstanding capital stock of the Company, or of any Parent corporation or Subsidiary corporation of the Company, unless the exercise price (as provided in Section 5.1 hereof) is not less than one hundred ten percent (110%) of the fair market value of the Common Stock on the date the incentive stock option is granted and the period within which the incentive stock option may be exercised (as provided in Section 5.2 hereof) does not exceed five (5) years from the date the incentive stock option is granted. In determining stock ownership for purposes of this Section 4.2, the provisions of Section 422(b)(6) of the Internal Revenue Code shall control. An employee shall be considered as owning the voting capital stock owned, directly or indirectly, by or for his or her brothers and sisters, spouse, ancestors and lineal descendants. Voting capital stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by or for its stockholders, partners or beneficiaries, as applicable. Additionally, for purposes of this Section 4.2,

outstanding capital stock shall include all capital stock actually issued and outstanding immediately after the grant of the option to the employee. Outstanding capital stock shall not include capital stock authorized for issue under outstanding options held by the employee or by any other person. Additionally, the aggregate fair market value (determined as of the date an option is granted) of the Common Stock with respect to which incentive stock options granted are exercisable for the first time by an employee during any one calendar year (under this Plan and under all other incentive stock option plans of the Company and of any Parent or Subsidiary corporation) shall not exceed One Hundred Thousand Dollars ($100,000). If the aggregate fair market value (determined as of the date an option is granted) of the Common Stock with respect to which incentive stock options granted are exercisable for the first time by an employee during any calendar year exceeds One Hundred Thousand Dollars ($100,000), the options for the first One Hundred Thousand Dollars ($100,000) worth of shares of Common Stock to become exercisable in such calendar year shall be incentive stock options and the options for the amount in excess of One Hundred Thousand Dollars ($100,000) that become exercisable in that calendar year shall be non-statutory stock options. In the event that the Internal Revenue Code or the regulations promulgated thereunder are amended after the effective date of the Plan to provide for a different limit on the fair market value of shares of Common Stock permitted to be subject to incentive stock options, such different limit shall be automatically incorporated herein and shall apply to options granted after the effective date of such amendment.

4.3 DATE OF GRANT. The date on which an option shall be granted shall be stated in each option agreement and shall be the date of the Board's authorization of such grant or such later date as may be set by the Board at the time such grant is authorized.

5. TERMS AND PROVISIONS OF OPTION AGREEMENTS. Each option granted under the Plan shall be evidenced by a stock option agreement between the person to whom the option is granted and the Company. Each such agreement shall be subject to the following terms and conditions, and to such other terms and conditions not inconsistent herewith as the Board may deem appropriate in each case:

5.1 EXERCISE PRICE. The price to be paid for each share of Common Stock upon the exercise of an option shall be determined by the Board at the time the option is granted; provided however that (1) no incentive stock option shall have an exercise price less than one hundred percent (100%) of the fair market value of the Common Stock on the date the option is granted; and (2) all incentive stock options granted to a ten percent (10%) stockholders shall have the exercise price set at not less than one hundred ten percent (110%) of fair market value at the date of the grant, as provided in Section 4.2 hereof; and provided, further that the exercise price of any option may not be decreased

to below the par value of the shares. For all purposes of this Plan, the fair market value of the Common Stock on any particular date shall be determined as follows:

5.1.1 If such Common Stock is then quoted on the Nasdaq National Market System, its last reported sale price on the Nasdaq National Market System on the trading day next preceding that date or, if no such reported sale takes place on the trading day next preceding such date, the average of its closing bid and asked prices on the Nasdaq National Market System on the trading day next preceding such date;

5.1.2 If such Common Stock is publicly traded and is then listed on a national securities exchange, its last reported sale price on the national securities exchange on which the Common Stock is then listed on the trading day next preceding that date or, if no such reported sale takes place on the trading day next preceding such date, the average of its closing bid and asked prices on the national securities exchange on which the Common Stock is then listed on the trading day next preceding such date; or

5.1.3 If none of the foregoing is applicable, by the Board in good faith, with such determination being based upon past arms'-length sales by the Company of its equity securities and other factors considered relevant in determining the Company's fair value.

Notwithstanding anything to the contrary in this Section 5.1, any Option Agreement may provide for alternative means of valuation for the purpose of repurchase at fair market value of shares acquired.

5.2 TERM OF OPTIONS. The period or periods within which an option may be exercised shall be determined by the Board at the time the option is granted, but no exercise period shall exceed ten (10) years from the date the option is granted (or five (5) years in the case of any incentive stock option granted to a ten percent (10%) stockholder as described in Section 4.2 hereof).

5.3 EXERCISABILITY. Stock options granted under this Plan shall be exercisable at such future time or times (or may be fully exercisable upon grant), whether or not in installments, as shall be determined by the Board and provided in the form of stock option agreement. Notwithstanding any other provisions of this Plan, no option may be exercised after the expiration of ten (10) years from

the date of grant.

5.4 METHOD OF PAYMENT FOR COMMON STOCK UPON EXERCISE. Except

as otherwise provided in the applicable stock option agreement (subject to the limitations of this Plan), the exercise price for each share of Common Stock purchased under an option shall be paid in full in cash at the time of purchase (or by check acceptable to the Board). At the discretion of the Board, the stock option agreement may provide for (or the Board may permit) the exercise price to be paid by one or more of the following additional alternative methods: (i) the surrender of shares of the Company's Common Stock, in proper form for transfer, owned by the person exercising the option and having a fair market value on the date of exercise equal to the exercise price, provided that such shares (a) have been outstanding for more than six (6) months and have been paid for within the meaning of Rule 144 under the Securities Act (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares) or (b) were obtained by the optionee in the public market, (ii) to the extent permitted under the applicable provisions of the Delaware General Corporation Law, the delivery by the person exercising the option of a full recourse promissory note executed by such person, bearing interest at a per annum rate which is not less than the "test rate" as set by the regulations promulgated under Sections 483 or 1274, as applicable, of the Internal Revenue Code and as in effect on the date of exercise, or (iii) any combination of cash, shares of Common Stock or promissory notes, so long as the sum of the cash so paid, plus the fair market value of the shares of Common Stock so surrendered and the principal amounts of the promissory notes so delivered, is equal to the aggregate exercise price. Without limiting the generality of the foregoing, the form of option agreement may provide (or the Board may permit) that the option be exercised through a "net issue" exercise procedure (cash-less exercise), whereby the optionee may elect to receive shares of the Company's Common Stock having an aggregate fair market value at the date of exercise equal to the net value of the portion of the option so exercised as of the exercise date. For purposes of the foregoing, the net value of any option (or portion thereof) as of such exercise date shall be equal to the aggregate fair market value of the shares subject to the option (or portion thereof being exercised) less the aggregate exercise price of the option (or portion thereof). In such event the Company shall issue to the optionee a number of shares of the Company's Common Stock having a fair market value as of the date of exercise equal to the net value of the option (or portion thereof being exercised). No share of Common Stock shall be issued under any option until full payment therefor has been made in accordance with the terms of the stock option agreement (and in compliance with the Plan). Notwithstanding the foregoing, an Option may not be exercised by surrender to the Company of shares of the Company's Common Stock to the extent such surrender of stock would constitute a violation of the provisions of any law, regulation and/or agreement restricting the redemption of the Company's Common Stock. Additionally, if permitted by the form of stock option agreement, or at the Board's discretion, any such promissory note may permit the payment of principal and interest accruing thereunder by surrender of shares of the Company's Common Stock, in proper form for transfer, and having a fair market value on the date of payment and surrender equal to the dollar amount to be applied to principal and accrued interest thereunder. No promissory note shall be permitted if the exercise of an Option using a promissory note will be a violation of any law.

5.5 NON-ASSIGNABILITY. No stock option granted under the Plan

shall be assignable or transferable by an optionee except by will or the laws of descent and distribution and shall be exercisable only by the optionee during his or her lifetime; provided, however, that the Board may

provide for the assignability and subsequent exercise of non-statutory stock options on such terms and conditions as the Board, in its sole discretion, may from time to time determine consistent with applicable law and the purposes of the Plan.

5.6 TERMINATION OF EMPLOYMENT PROVISIONS APPLICABLE TO STOCK OPTIONS. Each stock option agreement shall comply with the following provisions relating to early termination of the option based upon termination of the optionee's service to the Company:

5.6.1 DEATH. If the optionee's employment with the Company is terminated because of the death of the optionee, any stock option which such optionee holds may be exercised, to the extent it was exercisable at the date of death, within such period after the date of death as the Board shall prescribe in the stock option agreement (not less than six (6) months after death and such longer period of time as determined by the Board, in its sole discretion), by the optionee's representative or by the person entitled thereto under the optionee's will or the laws of intestate succession. If the option is not so exercised in accordance with the foregoing, it shall terminate upon the expiration of such prescribed period.

5.6.2 RETIREMENT. If the optionee's employment is terminated by voluntary retirement at or after reaching sixty-five (65) years of age, the optionee may, within three (3) months following such termination (or such longer period of time as determined by the Board, in its sole discretion), exercise the Option to the extent it was exercisable by the optionee on the date of such termination unless the optionee dies prior thereto, in which event the optionee shall be treated as though the optionee had died on the date of retirement and the provisions of Section 5.6.1 hereof shall apply.

5.6.3 DISABILITY. If the optionee's employment with the Company is terminated because of the disability of the optionee, any stock option which the optionee holds may be exercised by the optionee or the optionee's estate within such period after the date of termination of employment resulting from such disability (not less than six (6) months after termination by reason of disability and such longer period of time as determined by the Board, in its sole discretion) as the Board shall prescribe in the stock option agreement, to the extent such option would otherwise be exercisable on the date of such termination. If the option is not so exercised in accordance with the foregoing, it shall terminate upon the expiration of such prescribed period,

unless the optionee dies prior thereto, in which event the optionee shall be treated as though his or her death occurred on the date of termination resulting from such disability and the provisions of Section 5.6.1 hereof shall apply. The term "disability" shall mean the inability of the optionee, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the optionee's position because of the illness or injury of the optionee.

5.6.4 CAUSE. If the optionee's employment is terminated for "cause" as defined by the terms of the Plan, the option agreement, a contract of employment or other service contract, or applicable law, any option held by the optionee shall expire on the optionee's termination date or at such later time and on such conditions as determined by the Board, in its sole discretion. In the absence of any other provisions in the option agreement, the term "cause" shall be defined as the willful breach or habitual neglect of the duties which optionee is required to perform under his or her

employment or other service agreement with Company, or any act of dishonesty, fraud, misrepresentation or other acts of moral turpitude as would prevent the effective performance of optionee's duties.

5.6.5 TRANSFER TO RELATED CORPORATION. In the event that an optionee leaves the employ of the Company to become an employee of any Parent or Subsidiary corporation of the Company, or if the optionee leaves the employ of any such Parent or Subsidiary corporation to become an employee of the Company or of another Parent or Subsidiary corporation, such optionee shall be deemed to continue as an employee of the Company for all purposes of this Plan, and any reference to employment by the Company shall also be deemed to refer to employment with any Parent or Subsidiary of the Company. The optionee's employment shall be deemed to have terminated upon an actual termination of employment and upon such Parent or Subsidiary Corporation of the Company ceasing to have such relationship with the Company.

5.6.6 OTHER SEVERANCE. In the event an optionee leaves the employ of the Company for any reason other than as set forth above in this Section 5.6, any stock option which such optionee holds must be exercised, to the extent it was exercisable at the date such optionee left the employ of the Company, not later than one (1) month after the date on which the optionee's employment terminates (or such longer period of time as determined by the Board, in its sole discretion). The stock option shall terminate upon the expiration of such prescribed period. For purposes of this Section 5, the Company, in its sole discretion, shall determine whether the optionee's employment has terminated and the effective date of such termination.

5.6.7 EXTENSION IF EXERCISE PREVENTED BY LAW.

Notwithstanding the foregoing, if the exercise of an option within the applicable time periods set forth above is prevented because the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities law or other law or regulation, the option shall remain exercisable until three (3) months after the date the optionee is notified by the Company that the option is exercisable, but in any event no later than the expiration of ten (10) years from the date of grant.

5.6.8 EXTENSION IF OPTIONEE SUBJECT TO SECTION 16(B). Notwithstanding the foregoing, if a sale within the applicable time periods set forth in this Section 5.6 of shares acquired upon the exercise of the option would subject the optionee to liability under Section 16(b) of the Securities Exchange Act of 1934, as amended, the option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the optionee would no longer be subject to such liability, (ii) the one hundred and ninetieth (190th) day after the optionee's termination of service, or (iii) the option expiration date.

5.7 ALL OPTIONS SUBJECT TO TERMS OF THIS PLAN. In addition to the provisions contained in any option agreement granted under this Plan, each such stock option agreement shall provide that the same is subject to the terms and conditions of this Plan and each optionee shall be given a copy of this Plan. Further, any terms or conditions contained in any such stock option agreement granted hereunder which are inconsistent in any respect with the provisions of this Plan shall be disregarded and void, or shall be deemed amended to the extent necessary to comply with the provisions of this Plan and the intent of the Board.

5.8 OTHER PROVISIONS. Option agreements under the Plan shall contain such other provisions, including, without limitation: (i) rights of first refusal in favor of the Company (or its assignees) applicable to shares of Common Stock acquired upon exercise of an option which are subsequently proposed to be transferred by the optionee, (ii) lock-up agreements (applicable in the event of the public offering of the Common Stock of the Company) restricting an optionee from any sales or other transfers of option stock for a designated period of time following the effective date of a registration statement under the Securities Act, (iii) commitments to pay cash bonuses, make loans or transfer other property to an optionee upon exercise of any option, and (iv) restrictions required by federal and applicable state securities laws, all as the Board shall deem necessary or advisable; provided that no such additional provision shall be inconsistent with any other term or condition of this Plan or applicable state law and no such additional provision shall cause any incentive stock option granted pursuant to this Plan to fail to qualify as an incentive stock option under Section 422 of the Internal Revenue Code. Without limiting

the generality of the foregoing, the Board may provide in the form of stock option agreement that, (a) in lieu of an exercise schedule, the option may immediately be exercisable in full and provide a "vesting schedule" with respect to the stock so purchased, giving the Company (or its assignees) the right to repurchase the shares of Common Stock at the exercise price to the extent such shares have not become vested upon any termination of the optionee's employment or other engagement with the Company, which vesting may depend upon continued service to the Company pursuant to which the obligation to resell such shares to the Company shall lapse; (b) optionee's service or employment with the Company shall not be deemed to have terminated merely because of a change in the capacity in which the optionee renders service, provided there is no interruption or termination of the optionee's service; or (c) an exercise or vesting schedule shall be accelerated upon the consummation of a "change in control" or similar event.

6. SECURITIES LAW AND OTHER REGULATORY REQUIREMENTS. The Board shall require any potential optionee, as a condition of the exercise of an option, to represent and establish to the satisfaction of the Board that all shares of Common Stock to be acquired upon the exercise of such option will be acquired for investment and not for resale. No shares of Common Stock shall be issued upon the exercise of any option unless and until: (i) the Company and the optionee have satisfied all applicable requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended, (ii) any applicable listing requirement of any stock exchange on which the Company's Common Stock is listed has been satisfied, and (iii) all other applicable provisions of state and federal law have been satisfied. The Board shall cause such legends to be placed on certificates evidencing shares of Common Stock issued upon exercise of an option as, in the opinion of the Company's counsel, may be required by federal and applicable state securities laws.

7. WITHHOLDING TAXES. The exercise of any option granted under this Plan shall be conditioned upon the optionee's payment to the Company of all amounts (in addition to the exercise price) required to meet federal, state, local or foreign taxes of any kind required by law to be withheld with respect to shares to be issued on exercise of such option. The Board, in its discretion, may declare cash bonuses to an optionee to satisfy any such withholding requirements or may incorporate provisions in the form of stock option agreement allowing (or after grant of the option may permit, in its discretion) an optionee to satisfy any such withholding obligations, in whole or in part, by delivery of shares of the

Company's Common Stock already owned by the optionee and which are not subject to repurchase, forfeiture, vesting or other similar requirements or restrictions. The fair market value of any such shares used to satisfy such

withholding obligations shall be determined as of the date the amount of tax to be withheld is to be determined. The Company shall have the right at any time to deduct from payments of any kind otherwise due to the optionee (whether shares of Common Stock issuable upon exercise of an Option, regular salary, commissions, or otherwise) any federal, state or local taxes of any kind required by law to be withheld with respect to any shares issued upon exercise of options granted under the Plan.

8. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION OR MERGER.

8.1 STOCK SPLITS AND SIMILAR EVENTS; RECLASSIFICATIONS. The number of shares of Common Stock covered by outstanding options granted under this Plan and the exercise price thereof shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or combination of such shares or the payment of a stock dividend (but only on the Common Stock) or a recapitalization or any other increase or decrease in the number of such outstanding shares of Common Stock effected without the receipt of consideration by the Company; provided, however, that the conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." In the event that the shares of Common Stock covered by outstanding options granted under this Plan are reclassified by the Company, other than pursuant to a transaction described in Section 8.2, then such options shall apply to the appropriate number of shares of newly classified Common Stock designated by the Board.

8.2 MERGERS AND ACQUISITIONS. If the Company shall be a constituent corporation in any merger or consolidation which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning, directly or indirectly, at least a majority of the beneficial interest in the outstanding voting securities of the surviving corporation or its Parent corporation (determined immediately after such merger or consolidation), the options granted under this Plan shall pertain and apply to the securities or other property to which a holder of the number of shares subject to the unexercised portion of this Option would have been entitled. Any of (i) a dissolution or liquidation of the Company; (ii) a sale of substantially all of the Company's business and assets; or (iii) a merger or consolidation (in which the Company is a constituent corporation) which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning, directly or indirectly, less than a majority of the beneficial interest in the outstanding voting securities of the surviving corporation or its Parent corporation (determined immediately after such merger or consolidation) will cause the Option to terminate, unless (a) the agreement of such sale, merger, consolidation or other transaction otherwise provides or (b) a sale on the day preceding the scheduled consummation of such event (the "test date") of shares acquired upon the exercise of the option would subject the optionee to liability under Section 16(b) of the Securities Exchange Act of 1934, as amended, in which event the option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the optionee would no longer be subject to such liability,

(ii) the one hundred and ninetieth (190th) day after the test date, or (iii) the option's expiration date.

8.3 BOARD'S DETERMINATION FINAL AND BINDING UPON OPTIONEES. The foregoing

determinations and adjustments in this Section 8 relating to stock or securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. The Company shall give notice of any such adjustment or action to each optionee; provided, however, that any such adjustment or action shall be effective and binding for all purposes, whether or not such notice is given or received.

8.4 NO FRACTIONS OF SHARES. Fractions of shares shall not be issued by the Company. Instead, such fractions of shares shall either be paid in cash at fair market value or shall be rounded up or down to the nearest share, as determined by the Board.

8.5 NO RIGHTS EXCEPT AS EXPRESSLY STATED. Except as hereinabove expressly provided in this Section 8, no additional rights shall accrue to any optionee by reason of any subdivision or combination of shares of the capital stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of any class or by reason of any dissolution, liquidation, merger or consolidation or spin-off of assets or of stock of another corporation, and any issue by the Company of shares of stock of any class or of securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of shares subject to options granted hereunder.

8.6 NO LIMITATIONS ON COMPANY'S DISCRETION. The grant of options under this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

9. NO ADDITIONAL EMPLOYMENT RELATED RIGHTS OR BENEFITS.

9.1 NO SPECIAL EMPLOYMENT RIGHTS. Nothing contained in this Plan or in any option granted hereunder shall confer upon any optionee any right with respect to the continuation of his or her employment by the Company or interfere in any way with the right of the Company, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the compensation of any optionee. Whether an authorized leave of absence, or absence in military or government service,

shall constitute termination of an optionee's employment shall be determined by the Board.

9.2 OTHER EMPLOYEE BENEFITS. The amount of any compensation deemed to be received by any employee as a result of the exercise of an option or the sale of shares received upon such exercise will not constitute compensation with respect to which any other employment (or other engagement) related benefits of such optionee are determined, including, without limitation, benefits under any bonus, pension, profit-sharing, life insurance or salary continuation plan, except as otherwise specifically determined by the Board or as expressly provided for in the option agreement. The granting of an option shall impose no obligation upon the optionee to exercise such option.

10. RIGHTS AS A SHAREHOLDER AND ACCESS TO INFORMATION. No optionee and no person claiming under or through any such optionee shall be, or have any of the rights or privileges of, a

stockholder of the Company in respect of any of the shares issuable upon the exercise of any option granted under this Plan, unless and until the option is properly and lawfully exercised and a certificate representing the shares so purchased is duly issued to the optionee or to his or her estate. No adjustment shall be made for dividends or any other rights if the record date relating to such dividend or other right is before the date the optionee became a stockholder.

11. MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS. Subject to the limitations of this Plan, the Board may modify, extend or renew outstanding options granted under the Plan. Furthermore, the Board may, subject to the other provisions of this Plan, upon the cancellation of previously granted options having higher per share exercise prices, regrant options at a lower price; provided, however, that no such modification or cancellation and regrant of an option shall, without the written consent of the optionee, alter or impair any rights of the optionee under any option previously granted under the Plan.

12. USE OF PROCEEDS. The proceeds received from the sale of shares of the Common Stock upon exercise of options granted under the Plan shall be used for general corporate purposes.

13. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of the Plan and all options issued hereunder.

14. TERM OF PLAN.

14.1 EFFECTIVE DATES. The Plan became effective when adopted by the Board, but no incentive stock option granted under the Plan shall become exercisable unless and until the Plan shall have been approved by the Company's stockholders by the vote of the holders of a majority of the outstanding shares of the Company present and entitled to vote at a duly held meeting of the Company's stockholders (or by consent of the holders of the outstanding shares of the Company entitled to vote) in accordance with the requirements of the Company's Bylaws and the Delaware General Corporation Law. If such stockholder approval is not obtained within twelve (12) months after the date of the Board's adoption of the Plan, any incentive stock options previously granted under the Plan shall become non-statutory options and no further incentive stock options shall be granted. Subject to the foregoing limitation, options may be granted under the Plan at any time after the effective date and before the date fixed for termination of the Plan.

14.2 TERMINATION. Unless sooner terminated in accordance with Section 15, the Plan shall terminate upon the earlier of: (i) the close of business on the last business day preceding the tenth (10th) anniversary of the earlier of [a] the date of the Plan's adoption by the Board occurs or [b] the date of the Plan's approval by the Company's stockholders, or (ii) the date on which all shares available for issuance under the Plan shall have been issued pursuant to options granted under the Plan and none of such shares shall remain subject to contractual repurchase rights of the Company pursuant to "vesting" or other similar provisions. If the date of termination is determined under clause (i) above, then any options outstanding on such date shall continue to have force and effect in accordance with the provisions of the option agreements evidencing such options.

15. EARLY TERMINATION AND AMENDMENT OF THE PLAN. The Board may from time to time suspend or terminate the Plan or revise or amend it; provided, however, that, without the approval of the Company's stockholders (except as to 15.1 below, which also requires the consent of the affected optionees) at a duly held meeting of the Company's stockholders by the vote of a majority of the shares present and entitled to vote (or by written consent of the holders entitled to vote) in compliance with the requirements of the Company's Bylaws and the Delaware General Corporation Law, no such action of the Board shall:

15.1 MODIFICATIONS OF OUTSTANDING OPTIONS. Without the consent of each affected optionee, alter or impair any rights of an optionee under any option previously granted under the Plan;

15.2 INCREASES IN NUMBER OF SHARES SUBJECT TO THE PLAN. Increase the aggregate number of shares of the Common Stock which may be issued

upon exercise of options granted under the Plan (except for adjustments made pursuant to Section 8 hereof);

15.3 CHANGES IN ELIGIBILITY. Change the designation of employees eligible to receive incentive stock options under the Plan;

15.4 PLAN DURATION. Extend the termination date beyond that provided in Section 14.2;

15.5 CHANGES NOT APPROVED BY LEGAL COUNSEL. Otherwise amend or modify the Plan (or outstanding options) under circumstances where stockholder approval is considered necessary in the opinion of legal counsel to the Company; or

15.6 CHANGES TO THIS SECTION. Amend this Section 15 to defeat its purposes.

Exhibit 10.2

SMARTDISK CORPORATION

1998 DIRECTORS AND CONSULTANTS STOCK OPTION PLAN
AS ADOPTED JANUARY 27, 1998

1. PURPOSE AND TYPES OF OPTIONS. This 1998 Directors and Consultants Stock Option Plan (the "PLAN") is intended to increase the incentives of, and encourage stock ownership by, officers, directors, consultants and other independent contractors (including members of the Company's Board of Directors who are not employees of the Company) providing services to SmartDisk Corporation, a Delaware corporation (the "COMPANY"), or to corporations which are or become subsidiary corporations of the Company. As used in this Plan, the terms "PARENT CORPORATION" and "SUBSIDIARY CORPORATION" shall have the meanings set forth in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended ("INTERNAL REVENUE CODE"). The Plan is intended to provide such officers, directors, and consultants and other independent contractors with a proprietary interest (or to increase their proprietary interest) in the Company, and to encourage them to continue their engagement by the Company or its subsidiaries. Options granted pursuant to the Plan do not qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code and are referenced herein as non-statutory stock options. This Plan is intended to be a written compensatory benefit plan within the meaning of Rule 701 of the Securities Act of 1933, as amended ("SECURITIES ACT").

2. STOCK. The capital stock subject to the Plan shall be shares of the Company's authorized but unissued Common Stock ("COMMON STOCK") or treasury shares of Common Stock. Subject to adjustments pursuant to Section 8 hereof, the maximum aggregate number of shares of Common Stock which may be issued under the Plan is One Million (1,000,000). In the event that any outstanding option under the Plan shall expire by its terms or is otherwise terminated for any reason (or if shares of Common Stock of the Company which are issued upon exercise of an option granted hereunder are subsequently reacquired by the Company pursuant to contractual rights of the Company under the particular stock option agreement), the shares of the Common Stock allocated to the unexercised portion of such option (or the shares so reacquired by the Company pursuant to the terms of the stock option agreement) shall again become available to be made subject to options granted under the Plan. Notwithstanding any other provision of this Plan, the aggregate number of shares of Common Stock subject to outstanding options granted under this Plan at any given time, plus the aggregate number of shares which have been issued upon exercise of all options granted under this Plan and which remain outstanding, shall never be permitted to exceed the maximum number of shares specified above in this Section 2 (subject to adjustments under Section 8).

3. ADMINISTRATION. The Plan shall be administered by the Company's Board of Directors ("BOARD"). The interpretation and construction by the Board

of any provision of this Plan, or of any option granted pursuant hereto, shall be final, binding and conclusive. No member of the Board shall be liable to the Company or to any Subsidiary or Parent corporation, or to the holder of any option granted hereunder, for any action, inaction, determination or interpretation made in good faith with respect to the Plan or any transaction hereunder. Notwithstanding the foregoing, the Board shall have the authority to delegate some or all of its duties to administer this Plan and to exercise its powers hereunder to a committee ("COMMITTEE") appointed by the Board. For purposes of this Plan, all references herein to "Board" shall be deemed to also refer to any such Committee. Any Committee charged with administration of the Plan shall have all the powers and protections provided to the Board under this Plan until the Board shall revoke or restrict such powers or protections. More specifically, the Board, subject to compliance with the remaining provisions of this Plan, shall have the following powers and authority (which listing is provided by way of example and is not intended to be comprehensive or limiting to the extent of powers not included):

3.1 SELECTION OF OPTIONEES. To determine the persons providing services to the Company to whom, and the time or times at which, options to purchase Common Stock of the Company shall be granted;

3.2 NUMBER OF OPTION SHARES. To determine the number of shares of Common Stock to be subject to options granted to each such person;

3.3 EXERCISE PRICE. To determine the price to be paid for the shares of Common Stock upon the exercise of each option;

3.4 TERM AND EXERCISE SCHEDULE. To determine the term and the exercise schedule of each option;

3.5 OTHER TERMS OF OPTIONS. To determine the terms and conditions of each stock option agreement (which need not be identical) entered into between the Company and any person to whom the Board determines to grant an option;

3.6 INTERPRETATION OF PLAN. To interpret the Plan and to prescribe, amend and rescind rules and regulations relating to the Plan;

3.7 AMENDMENT OF OPTIONS. With the consent of the holder thereof, to modify or amend any option granted under the Plan; and

3.8 GENERAL AUTHORITY. To take such actions and make such determinations deemed necessary or advisable by the Board for the administration of the Plan, subject to complying with the Plan and with applicable legal

requirements.

4. ELIGIBILITY AND AWARD OF OPTIONS.

4.1 AUTHORITY TO GRANT AND ELIGIBILITY. The Board shall have full and final authority, in its discretion and at any time and from time to time during the term of this Plan, to grant or authorize the granting of options to such officers and directors of, and consultants and other independent contractors retained by, the Company or its Subsidiary corporations as it may select, and to determine the number of shares of Common Stock to be subject to each option. Any individual who is eligible to receive a stock option under this Plan shall be eligible to hold more than one option at any given time, in the discretion of the Board. Persons selected by the Board who are prospective consultants or other independent contractors to be retained by the Company or its subsidiaries, including members of the Board, shall be eligible to receive non-statutory stock options; provided, however, that in the case of such prospective engagement, the exercisability of such options shall be subject in each case to such person in fact becoming a Director, consultant or other independent contractor, as applicable, of the Company or its subsidiaries.

4.2 DATE OF GRANT. The date on which an option shall be granted shall be stated in each option agreement and shall be the date of the Board's authorization of such grant or such later date as may be set by the Board at the time such grant is authorized.

5. TERMS AND PROVISIONS OF OPTION AGREEMENTS. Each option granted under the Plan shall be evidenced by a stock option agreement between the person to whom the option is granted and the Company. Each such agreement shall be subject to the following terms and conditions, and to such other terms and conditions not inconsistent herewith as the Board may deem appropriate in each case:

5.1 EXERCISE PRICE. The price to be paid for each share of Common Stock upon the exercise of an option shall be determined by the Board at the time the option is granted; provided that the exercise price of any option may not be decreased to below the par value of the shares. For all purposes of this Plan, the fair market value of the Common Stock on any particular date shall be determined as follows:

5.1.1 If such Common Stock is then quoted on the Nasdaq National Market System, its last reported sale price on the Nasdaq National Market System on the trading day next preceding that date or, if no such reported sale takes place on the trading day next preceding such date, the average of its closing bid and asked prices on the Nasdaq National Market System on the trading day next preceding such date;

5.1.2 If such Common Stock is publicly traded and is then listed on a national securities exchange, its last reported sale price on the national securities exchange on which the Common Stock is then listed on the trading day next preceding that date or, if no such reported sale takes place on the trading day next preceding such date, the average of its closing bid and asked prices on the national securities exchange on which the Common Stock is then listed on the trading day next preceding such date; or

5.1.3 If none of the foregoing is applicable, by the Board in good faith, with such determination being based upon past arms'-length sales by the Company of its equity securities and other factors considered relevant in determining the Company's fair value.

Notwithstanding anything to the contrary in this Section 5.1, any Option Agreement may provide for alternative means of valuation for the purpose of repurchase at fair market value of shares acquired.

5.2 TERM OF OPTIONS. The period or periods within which an option may be exercised shall be determined by the Board at the time the option is granted, but no exercise period shall exceed ten (10) years from the date the option is granted.

5.3 EXERCISABILITY. Stock options granted under this Plan shall be exercisable at such future time or times (or may be fully exercisable upon grant), whether or not in installments, as shall be determined by the Board and provided in the form of stock option agreement. Notwithstanding any other provisions of this Plan, no option may be exercised after the expiration of ten (10) years from the date of grant.

5.4 METHOD OF PAYMENT FOR COMMON STOCK UPON EXERCISE. Except as otherwise provided in the applicable stock option agreement (subject to the limitations of this Plan), the exercise price for each share of Common Stock purchased under an option shall be paid in full in cash at the time of purchase (or by check acceptable to the Board). At the discretion of the Board, the stock option agreement may provide for (or the Board may permit) the exercise price to be paid by one or more of the following additional alternative methods: (i) the surrender of shares of the Company's Common Stock, in proper form for transfer, owned by the person exercising the option and having a fair market value on the date of exercise equal to the exercise price, provided that such shares (a) have been outstanding for more than six (6) months and have been paid for within the meaning of Rule 144 under the Securities Act (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares) or (b) were obtained by the optionee in the public market, (ii) to the extent permitted under the applicable provisions of the Delaware General Corporation Law, the delivery by the person exercising the option of a full recourse promissory note executed by such person, bearing interest at a per annum rate which is not less than the "test rate" as set by the regulations promulgated under Sections 483 or 1274, as applicable, of the Internal Revenue Code and as in effect on the date of exercise, or (iii) any combination of cash, shares of Common Stock or

promissory notes, so long as the sum of the cash so paid, plus the fair market value of the shares of Common Stock so surrendered and the principal amounts of the promissory notes so delivered, is equal to the aggregate exercise price. Without limiting the generality of the foregoing, the form of option agreement may provide (or the Board may permit) that the option be exercised through a "net issue" exercise procedure (cash-less exercise), whereby the optionee may elect to receive shares of the Company's Common Stock having an aggregate fair market value at the date of exercise equal to the net value of the portion of the option so exercised as of the exercise date. For purposes of the foregoing, the net value of any option (or portion thereof) as of such exercise date shall be equal to the aggregate fair market value of the shares subject to the option (or portion thereof being exercised) less the aggregate exercise price of the option (or portion thereof). In such event the Company shall issue to the optionee a number of shares of the Company's Common Stock having a fair market value as of the date of exercise equal to the net value of the option (or portion thereof being exercised). No share of Common Stock shall be issued under any option until full payment therefor has been made in accordance with the terms of the stock option agreement (and in compliance with the Plan). Notwithstanding the foregoing, an Option may not be exercised by surrender to the Company of shares of the Company's Common Stock to the extent such surrender of stock would constitute a violation of the provisions of any law, regulation and/or agreement restricting the redemption of the Company's Common Stock. Additionally, if permitted by the form of stock option agreement, or at the Board's discretion, any such promissory note may permit the payment of principal and interest accruing thereunder by surrender of shares of the Company's Common Stock, in proper form for transfer, and having a fair market value on the date of payment and surrender equal to the dollar amount to be applied to principal and accrued interest thereunder. No promissory note shall be permitted if the exercise of an Option using a promissory note will be a violation of any law.

5.5 NON-ASSIGNABILITY. No stock option granted under the Plan shall be assignable or transferable by an optionee except by will or the laws of descent and distribution and shall be exercisable only by the optionee during his or her lifetime; provided, however, that the Board may provide for the assignability and subsequent exercise of non-statutory stock options on such terms and conditions as the Board, in its sole discretion, may from time to time determine consistent with applicable law and the purposes of the Plan.

5.6 TERMINATION OF SERVICE PROVISIONS APPLICABLE TO STOCK OPTIONS. Each stock option agreement shall comply with the following provisions relating to early termination of the option based upon termination of the optionee's service to the Company as an independent contractor or Director:

5.6.1 DEATH. If the optionee's service with the Company is terminated because of the death of the optionee, any stock option which such optionee holds may be exercised, to the extent it was exercisable at the date of death, within such period after the date of death as the Board shall prescribe in the stock option agreement (not less than six (6) months after death and such longer period of time as determined by the Board, in its sole discretion), by the optionee's representative or by the person entitled thereto under the optionee's will or the laws of intestate succession. If the option is not so exercised in accordance with the foregoing, it shall terminate upon the expiration of such prescribed period.

5.6.2 RETIREMENT. If the optionee's service is terminated by voluntary retirement at or after reaching sixty-five (65) years of age, the optionee may, within three (3) months following such termination (or such longer period of time as determined by the Board, in its sole discretion), exercise the Option to the extent it was exercisable by the optionee on the date of such termination unless the optionee dies prior thereto, in which event the optionee shall be treated as though the optionee had died on the date of retirement and the provisions of Section 5.6.1 hereof shall apply.

5.6.3 DISABILITY. If the optionee's service with the Company is terminated because of the disability of the optionee, any stock option which the optionee holds may be exercised by the optionee or the optionee's estate within such period after the date of termination of employment resulting from such disability (not less than six (6) months after termination by reason of disability and such longer period of time as determined by the Board, in its sole discretion) as the Board shall prescribe in the stock option agreement, to the extent such option would otherwise be exercisable on the date of such termination. If the option is not so exercised in accordance with the foregoing, it shall terminate upon the expiration of such prescribed period, unless the optionee dies prior thereto, in which event the optionee shall be treated as though his or her death occurred on the date of termination resulting from such disability and the provisions of Section 5.6.1 hereof shall apply. The term "disability" shall mean the inability of the optionee, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the optionee's position because of the illness or injury of the optionee.

5.6.4 CAUSE. If the optionee's service is terminated for "cause" as defined by the terms of the Plan, the option agreement, or other service contract, or applicable law, any option held by the optionee shall expire on the optionee's termination date or at such later time and on such conditions as determined by the Board, in its sole discretion. In the absence of any other provisions in the option agreement, the term "cause" shall be defined as the willful breach or habitual neglect of the duties which optionee is

required to perform under his or her employment or other service agreement with Company, or any act of dishonesty, fraud, misrepresentation or other acts of moral turpitude as would prevent the effective performance of optionee's duties.

5.6.5 TRANSFER TO RELATED CORPORATION. In the event that an optionee leaves the service of the Company to become an employee, independent contractor or Director of any Parent or Subsidiary corporation of the Company, or if the optionee leaves the employ of any such Parent or Subsidiary corporation to become an employee, independent contractor or Director of the Company or of another Parent or Subsidiary corporation, such optionee shall be deemed to continue as an employee, independent contractor or Director of the Company for all purposes of this Plan, and any reference to employment by or service with the Company shall also be deemed to refer to employment or service with any Parent or Subsidiary of the Company. The optionee's service shall be deemed to have terminated upon an actual termination of employment or service and upon such Parent or Subsidiary Corporation of the Company ceasing to have such relationship with the Company.

5.6.6 OTHER SEVERANCE. In the event an optionee leaves the service of the Company for any reason other than as set forth above in this Section 5.6, any stock option which such optionee holds must be exercised, to the extent it was exercisable at the date such optionee left the service of the Company, not later than one (1) month after the date on which the optionee's service terminates (or such longer period of time as determined by the Board, in its sole discretion). The stock option shall terminate upon the expiration of such prescribed period. For purposes of this Section 5, the Company, in its sole discretion, shall determine whether the optionee's service has terminated and the effective date of such termination.

5.6.7 EXTENSION IF EXERCISE PREVENTED BY LAW. Notwithstanding the foregoing, if the exercise of an option within the applicable time periods set forth above is prevented because the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities law or other law or regulation, the option shall remain exercisable until three (3) months after the date the optionee is notified by the Company that the option is exercisable, but in any event no later than the expiration of ten (10) years from the date of grant.

5.6.8 EXTENSION IF OPTIONEE SUBJECT TO SECTION 16(B). Notwithstanding the

foregoing, if a sale within the applicable time periods set forth in this Section 5.6 of shares acquired upon the exercise of the option would subject the optionee to liability under Section 16(b) of the Securities Exchange Act of

1934, as amended, the option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the optionee would no longer be subject to such liability, (ii) the one hundred and ninetieth (190th) day after the optionee's termination of service, or (iii) the option expiration date.

5.7 ALL OPTIONS SUBJECT TO TERMS OF THIS PLAN. In addition to the provisions contained in any option agreement granted under this Plan, each such stock option agreement shall provide that the same is subject to the terms and conditions of this Plan and each optionee shall be given a copy of this Plan. Further, any terms or conditions contained in any such stock option agreement granted hereunder which are inconsistent in any respect with the provisions of this Plan shall be disregarded and void, or shall be deemed amended to the extent necessary to comply with the provisions of this Plan and the intent of the Board.

5.8 OTHER PROVISIONS. Option agreements under the Plan shall contain such other provisions, including, without limitation: (i) rights of first refusal in favor of the Company (or its assignees) applicable to shares of Common Stock acquired upon exercise of an option which are subsequently proposed to be transferred by the optionee, (ii) lock-up agreements (applicable in the event of the public offering of the Common Stock of the Company) restricting an optionee from any sales or other transfers of option stock for a designated period of time following the effective date of a registration statement under the Securities Act, (iii) commitments to pay cash bonuses, make loans or transfer other property to an optionee upon exercise of any option, and (iv) restrictions required by federal and applicable state securities laws, all as the Board shall deem necessary or advisable; provided that no such additional provision shall be inconsistent with any other term or condition of this Plan or applicable state law. Without limiting the generality of the foregoing, the Board may provide in the form of stock option agreement that, (a) in lieu of an exercise schedule, the option may immediately be exercisable in full and provide a "vesting schedule" with respect to the stock so purchased, giving the Company (or its assignees) the right to repurchase the shares of Common Stock at the exercise price to the extent such shares have not become vested upon any termination of the optionee's employment or other engagement with the Company, which vesting may depend upon continued service to the Company pursuant to which the obligation to resell such shares to the Company shall lapse; (b) optionee's service or employment with the Company shall not be deemed to have terminated merely because of a change in the capacity in which the optionee renders service, provided there is no interruption or termination of the optionee's service; or (c) an exercise or vesting schedule shall be accelerated upon the consummation of a "change in control" or similar event.

6. SECURITIES LAW AND OTHER REGULATORY REQUIREMENTS. The Board shall require any potential optionee, as a condition of the exercise of an option, to represent and establish to the satisfaction of the Board that all shares of Common Stock to be acquired upon the exercise of such option will be acquired for investment and not for resale. No shares of Common Stock shall be issued upon the exercise of any option unless and until: (i) the Company and the optionee have satisfied all applicable requirements under the Securities Act of

1933 and the Securities Exchange Act of 1934, as amended, (ii) any applicable listing requirement of any stock exchange on which the Company's Common Stock is listed has been satisfied, and (iii) all other applicable provisions of state and federal law have been satisfied. The Board shall cause such legends to be placed on certificates evidencing shares of Common Stock issued upon exercise of an option as, in the opinion of the Company's counsel, may be required by federal and applicable state securities laws.

7. WITHHOLDING TAXES. The exercise of any option granted under this Plan shall be conditioned upon the optionee's payment to the Company of all amounts (in addition to the exercise price) required to meet federal, state, local or foreign taxes of any kind required by law to be withheld with respect to shares to be

issued on exercise of such option. The Board, in its discretion, may declare cash bonuses to an optionee to satisfy any such withholding requirements or may incorporate provisions in the form of stock option agreement allowing (or after grant of the option may permit, in its discretion) an optionee to satisfy any such withholding obligations, in whole or in part, by delivery of shares of the Company's Common Stock already owned by the optionee and which are not subject to repurchase, forfeiture, vesting or other similar requirements or restrictions. The fair market value of any such shares used to satisfy such withholding obligations shall be determined as of the date the amount of tax to be withheld is to be determined. The Company shall have the right at any time to deduct from payments of any kind otherwise due to the optionee (whether shares of Common Stock issuable upon exercise of an Option, regular salary, commissions, or otherwise) any federal, state or local taxes of any kind required by law to be withheld with respect to any shares issued upon exercise of options granted under the Plan.

8. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION OR MERGER.

8.1 STOCK SPLITS AND SIMILAR EVENTS; RECLASSIFICATIONS. The number of shares of Common Stock covered by outstanding options granted under this Plan and the exercise price thereof shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or combination of such shares or the payment of a stock dividend (but only on the Common Stock) or a recapitalization or any other increase or decrease in the number of such outstanding shares of Common Stock effected without the receipt of consideration by the Company; provided, however, that the conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." In the event that the shares of Common Stock covered by outstanding options granted under this Plan are reclassified by the Company,

other than pursuant to a transaction described in Section 8.2, then such options shall apply to the appropriate number of shares of newly classified Common Stock designated by the Board.

8.2 MERGERS AND ACQUISITIONS. If the Company shall be a constituent corporation in any merger or consolidation which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning, directly or indirectly, at least a majority of the beneficial interest in the outstanding voting securities of the surviving corporation or its Parent corporation (determined immediately after such merger or consolidation), the options granted under this Plan shall pertain and apply to the securities or other property to which a holder of the number of shares subject to the unexercised portion of this Option would have been entitled. Any of (i) a dissolution or liquidation of the Company; (ii) a sale of substantially all of the Company's business and assets; or (iii) a merger or consolidation (in which the Company is a constituent corporation) which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning, directly or indirectly, less than a majority of the beneficial interest in the outstanding voting securities of the surviving corporation or its Parent corporation (determined immediately after such merger or consolidation) will cause the Option to terminate, unless (a) the agreement of such sale, merger, consolidation or other transaction otherwise provides or (b) a sale on the day preceding the scheduled consummation of such event (the "test date") of shares acquired upon the exercise of the option would subject the optionee to liability under Section 16(b) of the Securities Exchange Act of 1934, as amended, in which event the option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the optionee would no longer be subject to such liability, (ii) the one hundred and ninetieth (190th) day after the test date, or (iii) the option's expiration date.

8.3 BOARD'S DETERMINATION FINAL AND BINDING UPON OPTIONEES. The foregoing determinations and adjustments in this Section 8 relating to stock or securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. The Company shall give

notice of any such adjustment or action to each optionee; provided, however, that any such adjustment or action shall be effective and binding for all purposes, whether or not such notice is given or received.

8.4 NO FRACTIONS OF SHARES. Fractions of shares shall not be issued by the Company. Instead, such fractions of shares shall either be paid in cash at fair market value or shall be rounded up or down to the nearest share,

as determined by the Board.

8.5 NO RIGHTS EXCEPT AS EXPRESSLY STATED. Except as hereinabove expressly provided in this Section 8, no additional rights shall accrue to any optionee by reason of any subdivision or combination of shares of the capital stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of any class or by reason of any dissolution, liquidation, merger or consolidation or spin-off of assets or of stock of another corporation, and any issue by the Company of shares of stock of any class or of securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of shares subject to options granted hereunder.

8.6 NO LIMITATIONS ON COMPANY'S DISCRETION. The grant of options under this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

9. NO ADDITIONAL EMPLOYMENT RELATED RIGHTS OR BENEFITS.

9.1 NO SPECIAL EMPLOYMENT RIGHTS. Nothing contained in this Plan or in any option granted hereunder shall confer upon any optionee any right with respect to the continuation of his or her employment or other engagement by the Company or interfere in any way with the right of the Company, subject to the terms of any separate employment or consulting agreement to the contrary, at any time to terminate such employment or consulting or other relationship or to increase or decrease the compensation of any optionee. Whether an authorized leave of absence, or absence in military or government service, shall constitute termination of an optionee's employment or other engagement shall be determined by the Board.

9.2 OTHER EMPLOYEE BENEFITS. The amount of any compensation deemed to be received by any employee or consultant as a result of the exercise of an option or the sale of shares received upon such exercise will not constitute compensation with respect to which any other employment (or other engagement) related benefits of such optionee are determined, including, without limitation, benefits under any bonus, pension, profit-sharing, life insurance or salary continuation plan, except as otherwise specifically determined by the Board or as expressly provided for in the option agreement. The granting of an option shall impose no obligation upon the optionee to exercise such option.

10. RIGHTS AS A SHAREHOLDER AND ACCESS TO INFORMATION. No optionee and no person claiming under or through any such optionee shall be, or have any of the rights or privileges of, a stockholder of the Company in respect of any of the shares issuable upon the exercise of any option granted under this Plan, unless and until the option is properly and lawfully exercised and a certificate representing the shares so purchased is duly issued to the optionee or to his or her estate. No adjustment shall be made for dividends or any other rights if the record date relating to such dividend or other right is before the date the optionee became a stockholder.

11. MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS. Subject to the limitations of this Plan, the Board may modify, extend or renew outstanding options granted under the Plan. Furthermore, the Board may,

subject to the other provisions of this Plan, upon the cancellation of previously granted options having higher per share exercise prices, regrant options at a lower price; provided, however, that no such modification or cancellation and regrant of an option shall, without the written consent of the optionee, alter or impair any rights of the optionee under any option previously granted under the Plan.

12. USE OF PROCEEDS. The proceeds received from the sale of shares of the Common Stock upon exercise of options granted under the Plan shall be used for general corporate purposes.

13. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of the Plan and all options issued hereunder.

14. TERM OF PLAN.

14.1 EFFECTIVE DATES. The Plan became effective when adopted by the Board, but no incentive stock option granted under the Plan shall become exercisable unless and until the Plan shall have been approved by the Company's stockholders by the vote of the holders of a majority of the outstanding shares of the Company present and entitled to vote at a duly held meeting of the Company's stockholders (or by consent of the holders of the outstanding shares of the Company entitled to vote) in accordance with the requirements of the Company's Bylaws and the Delaware General Corporation Law. If such stockholder approval is not obtained within twelve (12) months after the date of the Board's adoption of the Plan, any incentive stock options previously granted under the Plan shall become non-statutory options and no further incentive stock options shall be granted. Subject to the foregoing limitation, options may be granted under the Plan at any time after the effective date and before the date fixed for termination of the Plan.

14.2 TERMINATION. Unless sooner terminated in accordance with Section 15, the Plan shall terminate upon the earlier of: (i) the close of business on the last business day preceding the tenth (10th) anniversary of the earlier of [a] the date of the Plan's adoption by the Board occurs or [b] the date of the Plan's approval by the Company's stockholders, or (ii) the date on which all shares available for issuance under the Plan shall have been issued

pursuant to options granted under the Plan and none of such shares shall remain subject to contractual repurchase rights of the Company pursuant to "vesting" or other similar provisions. If the date of termination is determined under clause (i) above, then any options outstanding on such date shall continue to have force and effect in accordance with the provisions of the option agreements evidencing such options.

15. EARLY TERMINATION AND AMENDMENT OF THE PLAN. The Board may from time to time suspend or terminate the Plan or revise or amend it; provided, however, that, without the approval of the Company's stockholders (except as to 15.1 below, which also requires the consent of the affected optionees) at a duly held meeting of the Company's stockholders by the vote of a majority of the shares present and entitled to vote (or by written consent of the holders entitled to vote) in compliance with the requirements of the Company's Bylaws and the Delaware General Corporation Law, no such action of the Board shall:

15.1 MODIFICATIONS OF OUTSTANDING OPTIONS. Without the consent of each affected optionee, alter or impair any rights of an optionee under any option previously granted under the Plan;

15.2 INCREASES IN NUMBER OF SHARES SUBJECT TO THE PLAN. Increase the aggregate number of shares of the Common Stock which may be issued upon exercise of options granted under the Plan (except for adjustments made pursuant to Section 8 hereof);

15.3 CHANGES IN ELIGIBILITY. Change the designation of employees eligible to receive incentive stock options under the Plan;

15.4 PLAN DURATION. Extend the termination date beyond that provided in Section 14.2;

15.5 CHANGES NOT APPROVED BY LEGAL COUNSEL. Otherwise amend or modify the Plan (or outstanding options) under circumstances where stockholder approval is considered necessary in the opinion of legal counsel to the Company; or

15.6 CHANGES TO THIS SECTION. Amend this Section 15 to defeat its purposes.

Exhibit 10.5

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("AGREEMENT") is entered into as of January 1, 1999, the "EFFECTIVE DATE") by and between SmartDisk Corporation, a Delaware corporation ("COMPANY") and Michael S. Battaglia ("EMPLOYEE").

1. EMPLOYMENT RELATIONSHIP.

1.1 COMMENCEMENT AND TERM OF EMPLOYMENT. The Company employs Employee and Employee accepts employment by the Company as of the Effective Date on the terms and conditions set forth in this Agreement. The term of employment ("TERM OF EMPLOYMENT") shall commence as of the Effective Date and shall continue thereafter for a period of thirty-six (36) months unless sooner terminated pursuant to Section 5.

1.2 DUTIES. During the Term of Employment, Employee shall have the title and perform and faithfully discharge the duties and responsibilities of President and Chief Executive Officer of the Company. Employee shall use his best efforts to perform and discharge such duties and responsibilities in such manner as the Company's Board of Directors may reasonably prescribe to Employee from time to time. Employee shall also use his best efforts to observe all policies, procedures and other requirements not inconsistent with this Agreement that may be implemented or revised by the Company during the Term of Employment.

1.3 COMMITMENT OF EMPLOYEE. Employee shall devote substantially all of his productive business time, attention, knowledge and skill exclusively to the performance of his duties hereunder throughout the Term of Employment and shall at all times discharge his duties faithfully, industriously and to the best of his ability, experience and talents.

2. COMPENSATION.

2.1 SALARY. For all of Employee's services during the Term of Employment, Employee shall be paid a salary of Two Hundred Seventy Five Thousand Dollars ($275,000.00) per year. Employee shall be eligible for merit increases as determined by the Board of Directors after the first anniversary of the Effective Date of this Agreement. Payment shall be made in periodic installments in accordance with Company's payroll policies instituted from time to time. Upon termination of this Agreement pursuant to Section 5, the Company shall have no obligation to pay salary or other benefits to Employee except as may be provided in Section 5.

2.2 BONUS. Employee shall be entitled to an annual bonus pursuant to Company's incentive plan set forth in EXHIBIT A (the "INCENTIVE

PLAN") attached hereto, or as the same may be amended by the Compensation Committee of the Board of Directors. Upon attainment of one hundred percent (100%) of the objective set forth in the Incentive Plan, Employee shall be entitled to a bonus in the first year of One Hundred Twenty Five Thousand Dollars ($125,000.00). Said bonus shall be payable on the dates established by the Company for payment of quarterly and annual bonuses and shall be payable only if Employee continues to remain in the employ of the Company on such date; provided, however, that in the event the Company terminates Employee's employment hereunder without cause pursuant to Section 5.4, Incentive Plan bonus may be paid in accordance with Section 5.5.

2.3 EMPLOYEE BENEFITS. During the Term of Employment, Employee shall be entitled to participate in the group medical, dental and disability policies and other benefits maintained from time to time by the Company for the benefit of senior officers of the Company. During the Term of Employment, Employee shall be entitled to receive all other benefits, and to participate in all other benefit plans, as are generally available to employees of the Company on the same terms as other senior management employees. Employee shall be entitled to reimbursement for all usual and customary business expenses in reasonable amount incurred by Employee in the performance of his duties for the Company in accordance with the Company's then current expense reimbursement policies and guidelines.

2.4 STOCK OPTION. Employee shall receive an incentive stock option in the form attached as EXHIBIT B-1 pursuant to which Employee shall be entitled to purchase two hundred seventy-one thousand eight hundred fifty-eight (271,858) shares of the Company's Common Stock at an exercise price of not more than $1.20 per share and a non-statutory stock option in the form attached hereto as EXHIBIT B-2 pursuant to which Employee shall be entitled to purchase seventy-eight thousand one hundred forty-two (78,142) shares of the Company's Common Stock at a price of not more than $1.20 per share.

3. VACATIONS. During the Term of Employment, Employee shall be entitled to fifteen (15) days of paid vacation per year, plus a one-time carry-over of the amount of accrued and unpaid vacation time and other personal time off from Fischer International Systems Corporation ("FISC VACATION TIME"). Other than the FISC Vacation Time, in no event shall Employee be entitled to accrue and carry forward more than five (5) days of paid vacation from any calendar year to another, and if Employee has reached this total, no further vacation days shall accrue until the total of accrued but unused vacation days falls below such maximum.

4. PLACE OF BUSINESS. During the Term of Employment, Employee shall render services hereunder at the Company's principal executive offices in Naples, Florida, or any successor principal office. Employee shall also be available to travel for business purposes incident to the performance of his duties, as required from time to time. Transportation, lodging and meal expenses shall be incurred and reimbursed in accordance with the general policy of the Company as adopted by the Company from time to time

5. EARLY TERMINATION.

5.1 TERMINATION UPON PERMANENT DISABILITY OR DEATH. This Agreement shall automatically terminate upon the permanent disability or death of Employee, subject to the obligation of the Company to pay Employee or Employee's personal representative or designated beneficiary, as the case may be, (i) the balance of Employee's salary and other benefits for the remainder of the month in which disability or death occurs, (ii) a pro rata portion of any bonus to which Employee was otherwise entitled under Section 2.2 based upon the ratio the number of months employed (calculated through the end of the then current month) bears to the bonus period of twelve (12) months and (iii) any other disability benefits described in this Section 5.1 to which Employee may be entitled. The Company will continue to pay Employee his regular salary during any period during which Employee is incapable of continuing the further performance of Employee's normal employment activities with the Company because of a mental, emotional or physical injury, sickness or disorder. However, when such period exceeds an aggregate of sixty (60) business days (exclusive of any accrued vacation within the limits set forth above) out of any three hundred sixty-five (365) consecutive calendar days, Employee shall be deemed permanently disabled. Employee shall also be deemed permanently disabled if so certified by any two physicians, or upon the expiration of any elimination period under any disability insurance policy purchased by the Company for the benefit of Employee. Should Employee become permanently disabled, Employee or his personal representative shall be entitled to receive his termination compensation set forth in subsections (i), (ii) and (iii) above, as well as any disability benefits maintained for Employee by the Company, if any, pursuant to the terms and subject to the conditions of any such applicable disability benefit program or policy.

5.2 TERMINATION FOR CAUSE. During the Term of Employment, the Company may at any time, without giving notice to Employee, immediately terminate this Agreement if Employee (a) commits any act of embezzlement, theft, fraud or dishonesty; (b) engages in unfair competition with the Company or any subsidiary of the Company whether or not wholly-owned; (c) is convicted of any felony; (d) breaches any material provision of the Confidentiality Agreement entered into by Employee pursuant to Section 6 of this Agreement; (e) uses illegal drugs or other substances or (f) willfully breaches any other material provision of this Agreement. If Employee materially breaches or habitually neglects or fails in any material way to perform the usual and customary duties of his job, or any other duties required to be performed under the terms of this Agreement, or the policies of the Company, the Company may, at its option, terminate this Agreement by giving written notice of termination to Employee. Any termination pursuant to either of the two preceding sentences shall be without prejudice to any other remedy to which the Company may be entitled either at law, in equity, or under this Agreement. Before the Company may terminate this Agreement by reason of Employee's habitual neglect of or failure to perform the usual and customary duties of his job or policies of the Company, the Company must first notify Employee in writing, setting forth in detail those duties and/or policies which Employee has habitually neglected or failed to

perform, and provide Employee a reasonable period of time, not to exceed thirty (30) days, in which to cure such neglect or failure. If Employee does not cure the specified areas of neglect of failure, the Company may terminate this Agreement immediately by giving Employee written notice. At the time of any termination for cause, Employee shall be entitled to receive any salary and employment benefits which shall have accrued prior to the date of termination, but shall not be entitled to any bonus or severance payments, salary or employment benefits relating to periods subsequent to the date of termination, subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

5.3 TERMINATION BY EMPLOYEE. This Agreement may be terminated by Employee for any reason, or no reason, by giving thirty (30) days' written notice of termination to the Company. Upon termination by Employee, all rights accruing to Employee under the terms of this Agreement shall cease, and Employee shall not be entitled to any bonus or severance payments, salary or employment benefits, except to the extent earned and accrued prior to the termination date, and subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

5.4 TERMINATION WITHOUT CAUSE. Employee's employment with the Company during the Term of Employment may be terminated by the Company at any time without cause, by the Company's giving thirty (30) days prior written notice. A termination without cause, for purposes of this Agreement, means termination by the Company other than as provided for in Sections 5.1 and 5.2.

5.5 SEVERANCE PAYMENTS. If Employee is terminated pursuant to Section 5.4, Employee shall be entitled to severance pay in accordance with the Company's normal payroll practices at the rate of Employee's salary for such year set forth in Section 2.1 for a period of six (6) months following termination together with fifty percent (50%) of the Incentive Plan target bonus for such year, if any, described in Section 2.2. All bonuses shall be payable only at the discretion of the Compensation Committee of the Board of Directors and shall reflect Employee's performance to the date of termination. All severance pay shall be payable in equal consecutive monthly installments on the last day of each month following the effective date of Employee's termination for the number of months of severance pay to which Employee is entitled hereunder. Any pro rata bonus shall be payable on the effective date of termination of employment. Employee understands and agrees that such payments shall be his only entitlement as and for severance pay or severance compensation. Upon termination pursuant to Section 5.4, except for the severance payments stated above, all rights and obligations accruing to Employee under the terms of this Agreement or otherwise shall cease, and Employee shall not be entitled to any further salary or employment benefits, except to the extent earned and accrued prior to such date, and subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

6. NONDISCLOSURE OF CONFIDENTIAL INFORMATION. Concurrently with the execution and delivery of this Agreement, Employee agrees to enter into the Company's Confidentiality Agreement for senior executive officers of the Company in the form attached as EXHIBIT C (the "CONFIDENTIALITY AGREEMENT"). In the event of any inconsistency between the terms and provisions of this Agreement and those of the Confidentiality Agreement, the terms and provisions of this Agreement shall prevail.

7. NON-COMPETITION.

7.1 AGREEMENT NOT TO COMPETE. Employee agrees that during the Term of Employment and for the period thereafter specified in the next sentence, Employee will not engage, directly or indirectly, either as principal, agent, consultant, proprietor, stockholder, director, officer or Employee, or participate in the ownership, management, operation or control of any other business engaged in the type of business conducted by the Company. Such agreement not to compete shall extend after the date of termination for one year if employee voluntarily terminates his employment and for a period of six (6) months if the Company involuntarily terminates Employee's employment. This

Section 7.1 shall not apply to Employee's ownership of less than one percent (1%) of the capital stock of any corporation having a class of capital stock which is traded on any national stock exchange or in the over-the-counter market.

7.2 SOLICITATION. During the Term of Employment, and for the period of two (2) years thereafter, Employee agrees that he will not, without the Company's prior written consent, solicit or encourage any of the employees of the Company or Fischer International Systems Corporation ("FISC") to leave the employ of the Company or FISC, or terminate or alter their contractual relationships in a way that is adverse to the Company's or FISC's interest or, during the period of Employee's employment, solicit business from any customer of the Company on behalf of any competitor of the Company.

8. MISCELLANEOUS.

8.1 GOVERNING LAWS. It is the intention of the parties hereto that the internal laws of the State of Florida (irrespective of its choice of law principles) shall govern the validity of this Agreement, the construction of its terms, and the interpretation and enforcement of the rights and duties of the parties hereto.

8.2 BINDING UPON SUCCESSORS AND ASSIGNS. Subject to, and unless otherwise provided in, this Agreement, each and all of the covenants, terms, provisions, and agreements contained herein shall be binding upon, and inure to the benefit of, the permitted successors, executors, heirs, representatives, administrators and assigns of the parties hereto. Employee may not assign this Agreement or any of Employee's rights hereunder except as

provided herein or with the prior written consent of the Company.

8.3 SEVERABILITY. If any provision of this Agreement, or the application thereof, shall for any reason and to any extent be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances shall be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

8.4 ENTIRE AGREEMENT. This Agreement (together with the Option and Confidentiality Agreement) constitutes the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements or understanding, inducements or conditions, express or implied, written or oral, between the parties with respect hereto and thereto.

8.5 AMENDMENT AND WAIVERS. Any term or provision of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the party to be bound thereby. The waiver by a party of any breach hereof or default in the performance hereof shall not be deemed to constitute a waiver of any other default or any succeeding breach or default.

8.6 NO WAIVER. The failure of any party to enforce any of the provisions hereof shall not be construed to be a waiver of the right of such party thereafter to enforce such provisions.

8.7 NOTICES. Whenever any party hereto desires or is required to give any notice, demand, or request with respect to this Agreement, each such communication shall be in writing and shall be effective only if it is delivered by personal service or mailed, United States certified mail, postage prepaid, addressed as follows:

Company:	3506 Mercantile Avenue Naples, Florida 43104-3310 Attn: Chairman of the Board
Employee:	To the address set forth on the signature page hereof

Such communications shall be effective when they are received by the addressee thereof; but if sent by certified mail in the manner set forth above, they shall be effective no later than five (5) days after being deposited in the United States mail. Any party may change its address for such communications by giving notice thereof to the other party in conformity with

this Section.

8.8 FURTHER ASSURANCES. Each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurances, as may be reasonably requested by any other party to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes of this Agreement.

8.9 INSURABLE INTEREST. Employee hereby grants to the Company an insurable interest in Employee's life, and agrees and understands that the Company may at any time or from time to time during the Term of Employment choose to purchase and maintain key man life insurance on Employee.

8.10 EMPLOYEE'S REPRESENTATIONS. Employee represents and warrants that he is free to enter into this Employment Agreement and to perform each of the terms and covenants of it. Employee represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing this Employment Agreement, and that his execution and performance of this Employment Agreement is not a violation or breach of any other agreement between Employee and any other person or entity.

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

EMPLOYEE'S ADDRESS FOR NOTICE:

EMPLOYEE:

/s/ MICHAEL S. BATTAGLIA

Michael S. Battaglia

COMPANY:

SMARTDISK CORPORATION

By: /s/ MICHAEL R. MATTINGLY

Name: Michael R. Mattingly
Title: Chief Financial Officer

Exhibit 10.6

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("AGREEMENT") is entered into as of March 16, 1999, (the "EFFECTIVE DATE") by and between SmartDisk Corporation, a Delaware corporation ("COMPANY") and Robert Protheroe ("EMPLOYEE").

1. EMPLOYMENT RELATIONSHIP.

1.1 COMMENCEMENT AND TERM OF EMPLOYMENT. The Company employs Employee and Employee accepts employment by the Company as of the Effective Date on the terms and conditions set forth in this Agreement. The term of employment ("TERM OF EMPLOYMENT") shall commence as of the Effective Date and shall continue thereafter for a period of thirty-six (36) months unless sooner terminated pursuant to Section 5.

1.2 DUTIES. During the Term of Employment, Employee shall have the title and perform and faithfully discharge the duties and responsibilities of Senior Vice President, Development and Engineering of the Company. Employee shall use his best efforts to perform and discharge such duties and responsibilities in such manner as the Company's Board of Directors or President and Chief Executive Officer may reasonably prescribe to Employee from time to time. Employee shall also use his best efforts to observe all policies, procedures and other requirements not inconsistent with this Agreement that may be implemented or revised by the Company during the Term of Employment.

1.3 COMMITMENT OF EMPLOYEE. Employee shall devote substantially all of his productive business time, attention, knowledge and skill exclusively to the performance of his duties hereunder throughout the Term of Employment and shall at all times discharge his duties faithfully, industriously and to the best of his ability, experience and talents.

2. COMPENSATION.

2.1 SALARY. For all of Employee's services during the Term of Employment, Employee shall be paid a salary of One Hundred Eighty Thousand Dollars ($180,000.00) per year ("BASE SALARY"). Employee shall be eligible for merit increases in salary after the first anniversary of the Effective Date of this Agreement, as determined by the Compensation Committee of the Company's Board of Directors (the "COMPENSATION COMMITTEE"). Payment shall be made in periodic installments in accordance with Company's payroll policies instituted from time to time. Upon termination of this Agreement pursuant to Section 5, the Company shall have no obligation to pay salary or other benefits to Employee except as may be provided in Section 5.

2.2 BONUS. Employee shall be entitled to an annual bonus ("BONUS"). Upon attainment of one hundred percent (100%) of the bonus

objectives, Employee shall be entitled to a Bonus in calendar year 1999 of Sixty Thousand Dollars ($60,000.00). Each year the parties shall agree on a mutually acceptable Bonus objectives. Said Bonus shall be payable on the dates established by the Company for payment of annual bonuses and shall be payable only if Employee continues to remain in the employ of the Company on such date.

2.3 EMPLOYEE BENEFITS. During the Term of Employment, Employee shall be entitled to participate in the group medical, dental and disability policies and other benefits maintained from time to time by the Company for the benefit of senior officers of the Company. During the Term of Employment, Employee shall be entitled to receive all other benefits, and to participate in all other benefit plans, as are generally available to employees of the Company on the same terms as other senior management employees. Employee shall be entitled to reimbursement for all usual and customary business expenses in reasonable amount incurred by Employee in the performance of his duties for the Company in accordance with the Company's then current expense reimbursement policies and guidelines.

2.4 RELOCATION AND OTHER ASSISTANCE. Employee shall be reimbursed by Company up to a maximum amount of Forty Thousand Dollars ($40,000.00) for relocation costs all of which are set forth on EXHIBIT A.

2.5 STOCK OPTIONS. The Company shall recommend to the Compensation Committee that Employee receive an incentive stock option in the form attached as EXHIBIT B (the "OPTION") pursuant to which Employee shall be entitled to purchase one hundred sixty thousand (160,000) shares of the Company's Common Stock at an exercise price equal to the fair market value of the Company's Common Stock on the date of the grant, which the Company anticipates will be $1.20 per share, and shall vest twenty-five percent (25%) one year after the Effective Date and then in twelve equal quarterly installments, all as more fully provided in the Initial Option. To the extent that the Option grant cannot be an incentive stock option, the balance of such grant shall be a non-statutory option.

2.6 LOAN. The Company will extend to Employee a loan of Sixty Thousand Dollars ($60,000). The loan will be evidenced by a Promissory Note in the form attached hereto as EXHIBIT C.

3. VACATIONS. During the Term of Employment, Employee shall be entitled to fifteen (15) days of paid vacation per year. In no event shall Employee be entitled to accrue and carry forward more than five (5) days of paid vacation from any calendar year to another, and if Employee has reached this total, no further vacation days shall accrue until the total of accrued but unused vacation days falls below such maximum.

4. PLACE OF BUSINESS. During the Term of Employment, Employee shall render services hereunder at the Company's principal executive offices in Naples, Florida, or any successor principal office. Employee shall also be available to travel for business purposes incident to the performance of his duties, as required from time to time. Transportation, lodging and meal expenses shall be incurred and reimbursed in accordance with the general policy of the Company as adopted by the Company from time to time.

5. EARLY TERMINATION.

5.1 TERMINATION UPON PERMANENT DISABILITY OR DEATH. This Agreement shall automatically terminate upon the permanent disability or death of Employee, subject to the obligation of the Company to pay Employee or Employee's personal representative or designated beneficiary, as the case may be, (i) the balance of Employee's Base Salary and other benefits for the remainder of the month in which disability or death occurs, (ii) a pro rata portion of any Bonus to which Employee was otherwise entitled under Section 2.2 based upon the ratio the number of months employed for the year in question (calculated through the end of the then current month) bears to the bonus period of twelve (12) months and

(iii) any other disability benefits described in this Section 5.1 to which Employee may be entitled. The Company will continue to pay Employee his regular Base Salary during any period during which Employee is incapable of continuing the further performance of Employee's normal employment activities with the Company because of a mental, emotional or physical injury, sickness or disorder. However, when such period exceeds an aggregate of sixty (60) business days (exclusive of any accrued vacation within the limits set forth above) out of any three hundred sixty-five (365) consecutive calendar days, Employee shall be deemed permanently disabled. Employee shall also be deemed permanently disabled if so certified by any two physicians, or upon the expiration of any elimination period under any disability insurance policy purchased by the Company for the benefit of Employee. Should Employee become permanently disabled, Employee or his personal representative shall be entitled to receive his termination compensation, as well as any disability benefits maintained for Employee by the Company, if any, pursuant to the terms and subject to the conditions of any such applicable disability benefit program or policy.

5.2 TERMINATION FOR CAUSE. During the Term of Employment, the Company may at any time, without giving notice to Employee, immediately terminate this Agreement for Cause. As used herein, "Cause" shall mean if Employee (a) commits any act of embezzlement, theft, fraud or dishonesty; (b) engages in unfair competition with the Company or any subsidiary of the Company

whether or not wholly-owned; (c) is convicted of any felony; (d) breaches any material provision of the Confidentiality Agreement entered into by Employee pursuant to Section 6 of this Agreement; (e) uses illegal drugs or abuses other substances or (f) willfully breaches any other material provision of this Agreement. The Company may also terminate Employee for "Cause" if Employee materially breaches or habitually neglects or fails in any material way to perform the usual and customary duties of his job, or any other duties required to be performed under the terms of this Agreement, or the policies of the Company, in which case the Company may, at its option, terminate this Agreement by giving written notice of termination to Employee. Any termination pursuant to either of the two preceding sentences shall be without prejudice to any other remedy to which the Company may be entitled either at law, in equity, or under this Agreement. Before the Company may terminate this Agreement by reason of Employee's habitual neglect of or failure to perform the usual and customary duties of his job or policies of the Company, the Company must first notify Employee in writing, setting forth in detail those duties and/or policies which Employee has habitually neglected or failed to perform, and provide Employee a reasonable period of time, not to exceed thirty (30) days, in which to cure such neglect or failure. If Employee does not cure the specified areas of neglect of failure, the Company may terminate this Agreement immediately by giving Employee written notice. At the time of any termination for Cause, Employee shall be entitled to receive any Base Salary and employment benefits which shall have accrued prior to the date of termination, but shall not be entitled to any Bonus or severance payments, salary or employment benefits relating to periods subsequent to the date of termination, subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

5.3 TERMINATION BY EMPLOYEE. This Agreement may be terminated by Employee for any reason, or no reason, by giving thirty (30) days' written notice of termination to the Company. Upon termination by Employee, all rights accruing to Employee under the terms of this Agreement shall cease, and Employee shall not be entitled to any Bonus or severance payments, Base Salary or employment benefits, except to the extent earned and accrued prior to the termination date, and subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

5.4 TERMINATION WITHOUT CAUSE. Employee's employment with the Company during the Term of Employment may be terminated by the Company at any time without Cause, by the Company's giving fifteen (15) days prior written notice. A termination without Cause, for purposes of this Agreement, means termination by the Company other than as provided for in Sections 5.1 and 5.2.

5.5 SEVERANCE PAYMENTS. If Employee is terminated pursuant to Section 5.4, Employee shall be entitled to severance pay in accordance with the Company's normal payroll practices at the rate of Employee's Base Salary for such year set forth in Section 2.1 for a period of six (6) months following termination. All severance pay shall be payable in equal consecutive monthly installments on the last day of each month following the effective date of Employee's termination for the number of months of severance pay to which Employee is entitled hereunder. Employee understands and agrees that such payments shall be his only entitlement as and for severance pay or severance compensation. Upon termination pursuant to Section 5.4, except for the severance payments stated above, all rights and obligations accruing to Employee under the terms of this Agreement or otherwise shall cease, and Employee shall not be entitled to any further salary, bonus or employment benefits, except to the extent earned and accrued prior to such date, and subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

6. NONDISCLOSURE OF CONFIDENTIAL INFORMATION. Concurrently with the execution and delivery of this Agreement, Employee agrees to enter into the Company's Confidentiality Agreement for senior executive officers of the Company in the form attached as EXHIBIT D (the "CONFIDENTIALITY AGREEMENT"). In the event of any inconsistency between the terms and provisions of this Agreement and those of the Confidentiality Agreement, the terms and provisions of this Agreement shall prevail.

7. NON-COMPETITION.

7.1 AGREEMENT NOT TO COMPETE. Employee agrees that during the Term of Employment and for the period thereafter specified in the next sentence, Employee will not engage, directly or indirectly, either as principal, agent, consultant, proprietor, stockholder, director, officer or Employee, or participate in the ownership, management, operation or control of any other business engaged in the type of business conducted by the Company. Such agreement not to compete shall extend after the date of termination for any reason for one year. This Section 7.1 shall not apply to Employee's ownership of less than one percent (1%) of the capital stock of any corporation having a class of capital stock which is traded on any national stock exchange or in the over-the-counter market.

7.2 SOLICITATION. During the Term of Employment, and for the period of one (1) year thereafter, Employee agrees that he will not, without the Company's prior written consent, solicit or encourage any of the employees of the Company or Fischer International Systems Corporation ("FISC") to leave the employ of the Company or FISC, or terminate or alter their contractual relationships in a way that is adverse to the Company's or FISC's interest or, during the period of Employee's employment, solicit business from any customer of the Company on behalf of any competitor of the Company.

8. MISCELLANEOUS.

8.1 GOVERNING LAWS. It is the intention of the parties hereto that the internal laws of the State of Florida (irrespective of its choice of law principles) shall govern the validity of this Agreement, the construction of its terms, and the interpretation and enforcement of the rights and duties of the parties hereto.

8.2 BINDING UPON SUCCESSORS AND ASSIGNS. Subject to, and unless otherwise provided in, this Agreement, each and all of the covenants, terms, provisions, and agreements contained herein shall be binding upon, and inure to the benefit of, the permitted successors, executors, heirs, representatives, administrators and assigns of the parties hereto. Employee may not assign this Agreement or any of Employee's rights hereunder except as provided herein or with the prior written consent of the Company.

8.3 SEVERABILITY. If any provision of this Agreement, or the application thereof, shall for any reason and to any extent be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances shall be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

8.4 ENTIRE AGREEMENT. This Agreement (together with the Option and Confidentiality Agreement) constitutes the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements or understanding, inducements or conditions, express or implied, written or oral, between the parties with respect hereto and thereto.

8.5 AMENDMENT AND WAIVERS. Any term or provision of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the party to be bound thereby. The waiver by a party of any breach hereof or default in the performance hereof shall not be deemed to constitute a waiver of any other default or any succeeding breach or default.

8.6 NO WAIVER. The failure of any party to enforce any of the provisions hereof shall not be construed to be a waiver of the right of such party thereafter to enforce such provisions.

8.7 NOTICES. Whenever any party hereto desires or is required to give any notice, demand, or request with respect to this Agreement, each such

communication shall be in writing and shall be effective only if it is delivered by personal service or mailed, United States certified mail, postage prepaid, addressed as follows:

Company: 3506 Mercantile Avenue
Naples, Florida 34104-3310
Attn: Chief Executive Officer

Employee: To the address set forth on the signature page hereof

Such communications shall be effective when they are received by the addressee thereof; but if sent by certified mail in the manner set forth above, they shall be effective no later than five (5) days after being deposited in the United States mail. Any party may change its address for such communications by giving notice thereof to the other party in conformity with this Section.

8.8 FURTHER ASSURANCES. Each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurances, as may be reasonably requested by any other party to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes of this Agreement.

8.9 INSURABLE INTEREST. Employee hereby grants to the Company an insurable interest in Employee's life, and agrees and understands that the Company may at any time or from time to time during the Term of Employment choose to purchase and maintain key man life insurance on Employee.

8.10 EMPLOYEE'S REPRESENTATIONS. Employee represents and warrants that he is free to enter into this Employment Agreement and to perform each of the terms and covenants of it. Employee represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing this Employment Agreement, and that his execution and performance of this Employment Agreement is not a violation or breach of any other agreement between Employee and any other person or entity.

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

EMPLOYEE'S ADDRESS FOR NOTICE: EMPLOYEE:

3506 MERCANTILE AVENUE
NAPLES, FL 34104

/s/ ROBERT PROTHEROE

Robert Protheroe

COMPANY:

SMARTDISK CORPORATION

By: /s/ MICHAEL S. BATTAGLIA

Its: PRESIDENT

EXHIBIT A

Relocation Assistance: Up to $40,000

- Relocation of household goods
- Closing costs and realtor's fees for sale of Employee's residence in Ohio
- House hunting travel and lodging expenses
- Other related expenses to purchasing a residence in Naples, Florida

Exhibit 10.7

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("AGREEMENT") is entered into as of May 4, 1998, (the "EFFECTIVE DATE") by and between SmartDisk Corporation, a Delaware corporation ("COMPANY") and Quresh Sachee ("EMPLOYEE").

1. EMPLOYMENT RELATIONSHIP.

1.1 COMMENCEMENT AND TERM OF EMPLOYMENT. The Company employs Employee and Employee accepts employment by the Company as of the Effective Date on the terms and conditions set forth in this Agreement. The term of employment ("TERM OF EMPLOYMENT") shall commence as of the Effective Date and shall continue thereafter for a period of twenty-four (24) months unless sooner terminated pursuant to Section 5.

1.2 DUTIES. During the Term of Employment, Employee shall have the title and perform and faithfully discharge the duties and responsibilities of Vice President, Marketing of the Company. Employee shall use his best efforts to perform and discharge such duties and responsibilities in such manner as the Company's Board of Directors or President and Chief Executive Officer may reasonably prescribe to Employee from time to time. Employee shall also use his best efforts to observe all policies, procedures and other requirements not inconsistent with this Agreement that may be implemented or revised by the Company during the Term of Employment.

1.3 COMMITMENT OF EMPLOYEE. Employee shall devote substantially all of his productive business time, attention, knowledge and skill exclusively to the performance of his duties hereunder throughout the Term of Employment and shall at all times discharge his duties faithfully, industriously and to the best of his ability, experience and talents.

2. COMPENSATION.

2.1 SALARY. For all of Employee's services during the Term of Employment, Employee shall be paid a salary of One Hundred Forty Thousand Dollars ($140,000.00) per year. Employee shall be eligible for merit increases in salary after the first anniversary of the Effective Date of this Agreement. Payment shall be made in periodic installments in accordance with Company's payroll policies instituted from time to time. Upon termination of this Agreement pursuant to Section 5, the Company shall have no obligation to pay salary or other benefits to Employee except as may be provided in Section 5.

2.2 BONUS. Employee shall be entitled to an annual bonus pursuant to Company's incentive plan set forth in EXHIBIT A (the "INCENTIVE PLAN") attached hereto, or as the same may be amended by Board of Directors, Chief Executive Officer or President. Upon attainment of one hundred percent

(100%) of the objective set forth in the Incentive Plan, Employee shall be entitled to a bonus in the first year of Forty Thousand Dollars ($40,000.00). The parties agree that the columns "Percent Achievement" and "Quarterly Revenue" shall be adjusted to reflect specific dollar targets rather than percent of achievement of goals. The parties shall agree on a mutually acceptable targets. Said bonus shall be payable on the dates established by the Company for payment of quarterly and annual bonuses and shall be payable only if Employee continues to remain in the employ of the Company on such date; provided, however, that in the event the Company terminates Employee's employment hereunder without cause pursuant to Section 5.4, Incentive Plan bonus may be paid in accordance with Section 5.5.

2.3 EMPLOYEE BENEFITS. During the Term of Employment, Employee shall be entitled to

participate in the group medical, dental and disability policies and other benefits maintained from time to time by the Company for the benefit of senior officers of the Company. During the Term of Employment, Employee shall be entitled to receive all other benefits, and to participate in all other benefit plans, as are generally available to employees of the Company on the same terms as other senior management employees. Employee shall be entitled to reimbursement for all usual and customary business expenses in reasonable amount incurred by Employee in the performance of his duties for the Company in accordance with the Company's then current expense reimbursement policies and guidelines.

2.4 RELOCATION AND OTHER ASSISTANCE. Employee shall be reimbursed by Company or FISC up to a maximum amount of Forty Thousand Dollars ($40,000.00) for relocation costs all of which are set forth on EXHIBIT B.

2.5 NON QUALIFIED STOCK OPTION. Employee shall receive an incentive stock option in the form attached as EXHIBIT C (the "OPTION") pursuant to which Employee shall be entitled to purchase one hundred twenty thousand (120,000) shares of the Company's Common Stock at an exercise price of not more than $ 1.00 per share, and shall vest twenty-five percent (25%) one year after the Effective Date and then in twelve equal quarterly installments (or such other vesting schedule as is offered to other senior executives) all as more fully provided in the Option.

3. VACATIONS. During the Term of Employment, Employee shall be entitled to fifteen (15) days of paid vacation per year. In no event shall Employee be entitled to accrue and carry forward more than five (5) days of paid vacation from any calendar year to another, and if Employee has reached this total, no further vacation days shall accrue until the total of accrued but unused vacation days falls below such maximum.

4. PLACE OF BUSINESS. During the Term of Employment, Employee shall render services hereunder at the Company's principal executive offices in Naples, Florida, or any successor principal office. Employee shall also be available to travel for business purposes incident to the performance of his duties, as required from time to time. Transportation, lodging and meal expenses shall be incurred and reimbursed in accordance with the general policy of the Company as adopted by the Company from time to time.

5. EARLY TERMINATION.

5.1 TERMINATION UPON PERMANENT DISABILITY OR DEATH. This Agreement shall automatically terminate upon the permanent disability or death of Employee, subject to the obligation of the Company to pay Employee or Employee's personal representative or designated beneficiary, as the case may be, (i) the balance of Employee's salary and other benefits for the remainder of the month in which disability or death occurs, (ii) a pro rata portion of any bonus to which Employee was otherwise entitled under Section 2.2 based upon the ratio the number of months employed (calculated through the end of the then current month) bears to the bonus period of twelve (12) months and (iii) any other disability benefits described in this Section 5.1 to which Employee may be entitled. The Company will continue to pay Employee his regular salary during any period during which Employee is incapable of continuing the further performance of Employee's normal employment activities with the Company because of a mental, emotional or physical injury, sickness or disorder. However, when such period exceeds an aggregate of sixty (60) business days (exclusive of any

accrued vacation within the limits set forth above) out of any three hundred sixty-five (365) consecutive calendar days, Employee shall be deemed permanently disabled. Employee shall also be deemed permanently disabled if so certified by any two physicians, or upon the expiration of any elimination period under any disability insurance policy purchased by the Company for the benefit of Employee. Should Employee become permanently disabled, Employee or his personal representative shall be entitled to receive his termination compensation, as well as any disability benefits maintained for Employee by the Company, if any, pursuant to the terms and subject to the conditions of any such applicable disability benefit program or policy.

5.2 TERMINATION FOR CAUSE. During the Term of Employment, the Company may at any time, without giving notice to Employee, immediately terminate this Agreement if Employee (a) commits any act of embezzlement, theft, fraud or dishonesty; (b) engages in unfair competition with the Company or any subsidiary of the Company whether or not wholly-owned; (c) is convicted of any felony; (d) breaches any material provision of the Confidentiality Agreement

entered into by Employee pursuant to Section 6 of this Agreement; (e) uses illegal drugs or other substances or (f) willfully breaches any other material provision of this Agreement. If Employee materially breaches or habitually neglects or fails in any material way to perform the usual and customary duties of his job, or any other duties required to be performed under the terms of this Agreement, or the policies of the Company, the Company may, at its option, terminate this Agreement by giving written notice of termination to Employee. Any termination pursuant to either of the two preceding sentences shall be without prejudice to any other remedy to which the Company may be entitled either at law, in equity, or under this Agreement. Before the Company may terminate this Agreement by reason of Employee's habitual neglect of or failure to perform the usual and customary duties of his job or policies of the Company, the Company must first notify Employee in writing, setting forth in detail those duties and/or policies which Employee has habitually neglected or failed to perform, and provide Employee a reasonable period of time, not to exceed thirty (30) days, in which to cure such neglect or failure. If Employee does not cure the specified areas of neglect of failure, the Company may terminate this Agreement immediately by giving Employee written notice. At the time of any termination for cause, Employee shall be entitled to receive any salary and employment benefits which shall have accrued prior to the date of termination, but shall not be entitled to any bonus or severance payments, salary or employment benefits relating to periods subsequent to the date of termination, subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

5.3 TERMINATION BY EMPLOYEE. This Agreement may be terminated by Employee for any reason, or no reason, by giving thirty (30) days' written notice of termination to the Company. Upon termination by Employee, all rights accruing to Employee under the terms of this Agreement shall cease, and Employee shall not be entitled to any bonus or severance payments, salary or employment benefits, except to the extent earned and accrued prior to the termination date, and subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

5.4 TERMINATION WITHOUT CAUSE. Employee's employment with the Company during the Term of Employment may be terminated by the Company at any time without cause, by the Company's giving fifteen (15) days prior written notice. A termination without cause, for purposes of this Agreement, means termination by the Company other than as provided for in Sections 5.1 and 5.2.

5.5 SEVERANCE PAYMENTS. If Employee is terminated pursuant to Section 5.4, Employee shall be entitled to severance pay in accordance with the Company's normal payroll practices at the rate of Employee's salary for such year set forth in Section 2.1 for a period of six (6) months if Employee is

terminated pursuant to Section 5.4 during the first twelve months of employment, or for a period of three (3) months if Employee is terminated pursuant to Section 5.4 during the second twelve (12) months of employment, following termination together with the Incentive Plan earned bonus for such year, if any, described in Section 2.2 pro rated to the date of termination. All pro rated bonuses shall be payable only at the discretion of the President or Chief Executive Officer of the Company and shall reflect Employee's performance to the date of termination. All severance pay shall be payable in equal consecutive monthly installments on the last day of each month following the effective date of Employee's termination for the number of months of severance pay to which Employee is entitled hereunder. Any pro rata bonus shall be payable on the effective date of termination of employment. Employee understands and agrees that such payments shall be his only entitlement as and for severance pay or severance compensation. Upon termination pursuant to Section 5.4, except for the severance payments stated above, all rights and obligations accruing to Employee under the terms of this Agreement or otherwise shall cease, and Employee shall not be entitled to any further salary or employment benefits, except to the extent earned and accrued prior to such date, and subject to Employee's rights to continue medical and dental coverage under the Company's group policy, at Employee's expense, as may be provided by law.

6. NONDISCLOSURE OF CONFIDENTIAL INFORMATION. Concurrently with the execution and delivery of this Agreement, Employee agrees to enter into the Company's Confidentiality Agreement for senior executive officers of the Company in the form attached as EXHIBIT C (the "CONFIDENTIALITY AGREEMENT"). In the event of any inconsistency between the terms and provisions of this Agreement and those of the Confidentiality Agreement, the terms and provisions of this Agreement shall prevail.

7. NON-COMPETITION.

7.1 AGREEMENT NOT TO COMPETE. Employee agrees that during the Term of Employment and for the period thereafter specified in the next sentence, Employee will not engage, directly or indirectly, either as principal, agent, consultant, proprietor, stockholder, director, officer or Employee, or participate in the ownership, management, operation or control of any other business engaged in the type of business conducted by the Company. Such agreement not to compete shall extend after the date of termination for one year if employee voluntarily terminates his employment and for a period of six (6) months if the Company involuntarily terminates Employee's employment. This Section 7.1 shall not apply to Employee's ownership of less than one percent (1%) of the capital stock of any corporation having a class of capital stock which is traded on any national stock exchange or in the over-the-counter market.

7.2 SOLICITATION. During the Term of Employment, and for the period of two (2) years thereafter, Employee agrees that he will not, without the Company's prior written consent, solicit or encourage any of the employees of the Company or Fischer International Systems Corporation ("FISC") to leave the employ of the Company or FISC, or terminate or alter their contractual relationships in a way that is adverse to the Company's or FISC's interest or,

during the period of Employee's employment, solicit business from any

customer of the Company on behalf of any competitor of the Company.

8. MISCELLANEOUS.

8.1 GOVERNING LAWS. It is the intention of the parties hereto that the internal laws of the State of Florida (irrespective of its choice of law principles) shall govern the validity of this Agreement, the construction of its terms, and the interpretation and enforcement of the rights and duties of the parties hereto.

8.2 BINDING UPON SUCCESSORS AND ASSIGNS. Subject to, and unless otherwise provided in, this Agreement, each and all of the covenants, terms, provisions, and agreements contained herein shall be binding upon, and inure to the benefit of, the permitted successors, executors, heirs, representatives, administrators and assigns of the parties hereto. Employee may not assign this Agreement or any of Employee's rights hereunder except as provided herein or with the prior written consent of the Company.

8.3 SEVERABILITY. If any provision of this Agreement, or the application thereof, shall for any reason and to any extent be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances shall be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

8.4 ENTIRE AGREEMENT. This Agreement (together with the Option and Confidentiality Agreement) constitutes the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements or understanding, inducements or conditions, express or implied, written or oral, between the parties with respect hereto and thereto.

8.5 AMENDMENT AND WAIVERS. Any term or provision of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the party to be bound thereby. The waiver by a party of any breach hereof or default in the performance hereof shall not be deemed to constitute a waiver of any other default or any succeeding breach or default.

8.6 NO WAIVER. The failure of any party to enforce any of the provisions hereof shall not be construed to be a waiver of the right of such party thereafter to enforce such provisions.

8.7 NOTICES. Whenever any party hereto desires or is required to give any notice, demand, or request with respect to this Agreement, each such communication shall be in writing and shall be effective only if it is delivered by personal service or mailed, United States certified mail, postage prepaid, addressed as follows:

Company: 3506 Mercantile Avenue
Naples, Florida 34104-3310

Attn: Chief Executive Officer

Employee: To the address set forth on the signature page hereof

Such communications shall be effective when they are received by the addressee thereof; but if sent by certified mail in the manner set forth above, they shall be effective no later than five (5) days after being deposited in the United States mail. Any party may change its address for such communications by giving notice thereof to the other party in conformity with this Section.

8.8 FURTHER ASSURANCES. Each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurances, as may be reasonably requested by any other party to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes of this Agreement.

8.9 INSURABLE INTEREST. Employee hereby grants to the Company an insurable interest in Employee's life, and agrees and understands that the Company may at any time or from time to time during the Term of Employment choose to purchase and maintain key man life insurance on Employee.

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8.10 EMPLOYEE'S REPRESENTATIONS. Employee represents and warrants that he is free to enter into this Employment Agreement and to perform each of the terms and covenants of it. Employee represents and warrants that he is not restricted or prohibited, contractually or otherwise, from entering into and performing this Employment Agreement, and that his execution and performance of this Employment Agreement is not a violation or breach of any other agreement between Employee and any other person or entity.

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

EMPLOYEE'S ADDRESS FOR NOTICE:

3506 Mercantile Avenue
Naples, FL 34103

EMPLOYEE:

/s/ QURESH SACHEE

Quresh Sachee

COMPANY:

SMARTDISK CORPORATION

By: /s/ MICHAEL S. BATTAGLIA

Its: PRESIDENT AND CEO

EXHIBIT B

Relocation Assistance: Up to $40,000

- Relocation of household goods
- Relocation of automobiles
- Closing costs in Georgia
- Closing costs in Florida
- Realtor Fees in Georgia
- Miscellaneous (House Repairs, Auto Tags, etc. not to exceed $3,000)

Exhibit 10.9

OPERATING AGREEMENT

This Operating Agreement is made effective May 28, 1998 by and among Fischer International Systems Corporation, a Florida corporation ("FISC") and SmartDisk Corporation, a Delaware corporation ("SDC").

R E C I T A L S

A. FISC and SmartDiskette Limited, a private limited company registered in England ("SDL") entered a Manufacturing License made the 20th day of April 1993 (the "MANUFACTURING LICENSE") whereby SDL licensed to FISC certain technology (the "TECHNOLOGY").

B. On May 27, 1993 FISC assigned the Manufacturing License to SmartDisk Security Corporation, a Florida corporation ("SDSC") pursuant to an Assignment and Assumption Agreement in accordance with Section 4.5 of the Manufacturing License.

C. SDSC and SDC have used and intend to use the Technology to make, use, license and sell Crypto SmartDisk, SafeBoot, FlashPath, SmartDisk, and Smarty ("PRODUCTS").

D. Effective January 1, 1996 FISC agreed to provide operations services to SDSC to exploit the Technology and to enhance, manufacture and sell Products pursuant to an Operating Agreement between SDSC and FISC. Such Operating Agreement terminated effective January 1, 1998.

E. On January 1, 1998 certain of FISC's employees performing services on behalf of SDSC became employees of SDC and FISC and SDC entered into an Operating Agreement with SDSC for the provision of certain services by FISC and SDC for SDSC. Such Operating Agreement terminated May 27, 1998.

F. SDC now wishes also to obtain operations services from FISC commencing May 28, 1998.

A G R E E M E N T

NOW THEREFORE, in reliance on the foregoing recitals and in consideration of the mutual covenants contained herein, the parties agree as follows:

1. OPERATIONS. FISC agrees to provide for SDC all administrative services necessary to operate

its business including without limiting the generality of the foregoing: provision of marketing services, financial and accounting services, shipping and receiving services (known internally to SDC as "distribution services"), product documentation services, and all other functions necessary for the administration and operation of SDC's business of manufacturing, enhancing and selling Products.

2. REIMBURSEMENT. SDC shall pay to FISC for these services as set forth on Exhibit "A."

3. TERM. This Agreement shall terminate upon notice from any party.

4. LICENSE. All activities of FISC undertaken in connection with this Agreement are on behalf of SDC and as agent of SDC, to the extent necessary to permit performance of such activities, SDC hereby grants to FISC a sub-license under the Manufacturing License.

5. TITLE. All right, title and interest in all intellectual property created by FISC, its employees, agents and subcontractors pursuant to this Agreement shall belong to SDC and FISC agrees to execute and deliver appropriate assignment documents in form and substance acceptable to SDC upon request and hereby confirms that all such intellectual property was created as a work for hire, and whether or not a work for hire, FISC hereby assigns all of its right, title and interest in all such intellectual property to SDC.

6. GOVERNING LAW. This Agreement shall be governed by the laws of the State of Delaware excluding its conflicts of law provisions.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective May 28, 1998.

FISCHER INTERNATIONAL SYSTEMS CORPORATION

Dated: MAY 28, 1999

By: /s/ MICHAEL S. BATTAGLIA

Michael S. Battaglia
President

SMARTDISK CORPORATION

Dated: MAY 28, 1999 By: /s/ TIMOTHY TOMLINSON

Timothy Tomlinson
Secretary

EXHIBIT A

Distribution Payroll @ 50% of Actual	Approximately	$3,000.00
Sales Payroll @ 25% of Actual	Approximately	$20,000.00
Accounting Payroll @ 50% of Actual	Approximately	$13,000.00
Marketing Payroll @ 35% of Actual	Approximately	$9,000.00
Documentation Payroll @ 50% of Actual	Approximately	$9,000.00
International Payroll @ 10% of Actual	Approximately	$5,000.00
Building Occupancy - Naples	Actual	$10,050.00
Telephone - Naples	Approximately	$5,500.00
TOTAL FISC ALLOCATIONS		$74,550.00

FIRST AMENDMENT TO

OPERATING AGREEMENT

BETWEEN

FISCHER INTERNATIONAL SYSTEMS CORPORATION

AND

SMARTDISK CORPORATION

This First Amendment to Operating Agreement between Fischer International Systems Corporation ("FISC") and SmartDisk Corporation ("SDC") is made effective the 1st day of January, 1999.

RECITALS

1. FISC and SDC executed an Operating Agreement effective May 28, 1998, attached hereto as Exhibit "A" and incorporated herein by reference.

2. SDC agreed to reimburse FISC for certain administrative services necessary to operate its business.

2. FISC continues to provide such administrative services to SDC.

3. SDC agrees to reimburse FISC for such administrative services.

AGREEMENT

NOW THEREFORE, in reliance on the foregoing and in consideration of mutual covenants contained herein, the parties agree as follows:

1. REIMBURSEMENT. SDC shall pay to FISC for these services as set forth on Exhibit "B", hereto;

2. RATIFICATION. FISC and SDC ratify the original terms and conditions of the Operating Agreement, except as amended herein.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment effective January 1, 1999.

FISCHER INTERNATIONAL SYSTEMS CORPORATION

BY: /s/ JOHN W. WYNKOOP

John W. Wynkoop
Corporate Secretary

SMARTDISK CORPORATION

BY: /s/ MICHAEL S. BATTAGLIA

Michael S. Battaglia
President and Chief Executive Officer

EXHIBIT B

Distribution Payroll @ 50% of Actual	Approximately	$ 4,000.00 per month
Documentation Payroll @ 50% of Actual	Approximately	$ 8,300.00 per month
Accounting Payroll	Allocated Fee	$ 3,000.00 per month
Administration Payroll	Allocated Fee	$ 2,100.00 per month
Information Services	Allocated Fee	$ 3,000.00 per month
Corporate Services	Allocated Fee	$ 2,000.00 per month
Telephone - Naples	Allocated Fee	$ 6,500.00 per month
Total FISC Allocations	Approximately	$28,900.00 per month

Exhibit 10.11

DISTRIBUTION AGREEMENT

THIS DISTRIBUTION AGREEMENT ("AGREEMENT") is made and entered into as of the 28th day of May, 1998, by and between SmartDisk Corporation, a Delaware corporation (the "COMPANY"), and Fischer International Systems Corporation, a Florida corporation ("DISTRIBUTOR").

In consideration of the mutual promises herein contained and subject to the following terms and provisions, the parties do hereby agree as follows:

1. APPOINTMENT AND ACCEPTANCE

The Company appoints Distributor as a non-exclusive distributor for the Products in the Territory (as such terms are defined in Section 2) and Distributor accepts such appointment. Distributor's distribution rights include the right to combine the Products with other products to create combined products ("COMBINED Products") for distribution and the right to appoint, by written agreement only, subdistributors and dealers ("SUBDISTRIBUTORS") for distribution of Products and Combined Products; provided that the Company's proprietary rights are as fully protected under each such written appointment as they are under this Agreement. In addition, Distributor shall have the right to solicit orders for Products to carry a label of a third party Subdistributor ("PRIVATE LABEL PRODUCTS") pursuant to the procedure set forth in Section 2.3 below.

2. PRODUCTS AND TERRITORY

2.1 PRODUCTS. Distributor shall be a distributor for those of the Company's products listed on attached Exhibit A and all updates, enhancements and modifications thereto (individually, a "PRODUCT" and collectively, the "PRODUCTS"). The Company may from time to time, by written notice to Distributor, make updates, enhancements and modifications to the Products without otherwise affecting the terms of this Agreement although Company may only do so upon sixty (60) calendar days written notice to Distributor.

2.2 ADDITIONAL PRODUCTS. For any additional product ("ADDITIONAL PRODUCT") developed by the Company which contains substantially similar functionality as the Products, but does not constitute an update, enhancement or modification of any Product, the Company will discuss with, and offer to Distributor in writing, the right to distribute such Additional Product in the Territory at a purchase price specified by the Company and, unless otherwise specified by the Company, upon such other terms as are set forth herein with respect to the Products. For each Additional Product, the Company shall commence such discussion and offer with Distributor no later than any other discussion with or offer to any other distributor for such Additional

Product. Within thirty (30) days, or such longer period as the parties may agree upon in writing, after receipt of any offer of appointment from the Company pursuant to this Section 2.2, Distributor shall notify the Company in writing whether Distributor elects to accept or reject such offer. Failure by Distributor to give any notice within such period shall constitute a rejection by Distributor of such offer. In the event Distributor accepts any such offer of appointment, the Additional Product(s) accepted shall become Product(s) under this Agreement and shall be governed by the terms and conditions hereof applicable to the Products, except that the terms and conditions of the Company's written offer shall govern to the extent they supplement or modify the terms and conditions of this Agreement. In the event Distributor rejects any Company offer of appointment, Distributor shall have no rights with respect to the Additional Product covered by such rejected offer. The Company shall have no obligation to make any further offer of appointment to Distributor for an Additional Product for which Distributor has rejected an initial offer of appointment, including at the time that any distribution arrangement with another distributor for such Additional Product expires. Notwithstanding any of the foregoing, and as an exception thereto, in the event that the Company offers any such Additional Product to any other distributor or third party on terms or conditions more favorable than those offered to Distributor, the Company shall reoffer such Additional Product to Distributor on such more favorable terms and conditions.

The Company's obligation hereunder to offer Distributor the right to distribute Additional Products shall only be applicable for such periods as Distributor is in compliance with all of the terms and provisions of this Agreement.

2.3 PRIVATE LABEL PRODUCTS. In the event that a Subdistributor desires to purchase Private Label Products, Distributor shall submit a written notice to the Company (the "PLP NOTICE") which shall include the subject Product and any modifications thereto requested by the Subdistributor, the proposed private label name, a description of such Subdistributor's business and its intended distribution of the Private Label Product. To the extent that such Subdistributor meets the minimum purchase quantities and other conditions set forth in the Company's Private Label Products Distributor Price List ("PLP PRICE LIST") then in effect the Company agrees to accept and process all such Private Label Products ordered by Distributor. All such Private Label Products shall become Products under this Agreement and shall be governed by the terms and conditions set forth in the PLP Price List then in effect and, to the extent not in conflict with such PLP Price List, this Agreement as applicable to Products.

2.4 TERRITORY. Distributor shall sell and solicit orders for the sale of the Products, and shall permit its Subdistributors to sell and solicit orders for the sale of the Products only within the geographic area set

forth on Exhibit B (the "TERRITORY").

3. DISTRIBUTOR'S SALES DUTIES

During the term of this Agreement, Distributor shall be responsible for the following:

3.1 REASONABLE COMMERCIAL EFFORTS. Distributor shall use its reasonable commercial efforts to solicit orders and sell the Products within the Territory and to develop the full sales potential for the Products within the Territory consistent with ethical business practices and in a manner that will reflect favorably on the Products and on the good will and reputation of the Company.

3.2 SUPPORT AND TRAINING COMMITMENT. The Company hereby grants Distributor the right and confers upon Distributor the obligation to pass through to the end-user the warranty established by the Company for the Products. The Company reserves the right to modify the form of Product warranty from time to time upon written notice to Distributor. Distributor shall provide all Subdistributor and end-user support, as well as Subdistributor training, for the Products which Distributor distributes. The Company shall provide limited engineering support directly to Distributor for those issues which Distributor cannot, after reasonable efforts, manage through its own engineering efforts. Notwithstanding anything set forth herein, Distributor shall encourage all end-user customers to bring their claims for Product support and warranty to the relevant Subdistributor, and shall instruct all Subdistributors to bring their claims for Product support and warranty to Distributor.

3.3 SALES MATERIALS. Distributor shall create appropriate sales promotion and advertising materials for the Products. Distributor's sales promotion and advertising material shall be subject to the Company's prior written consent which shall not be unreasonably withheld. Distributor shall provide the Company with not less than fourteen (14) calendar days prior delivery of copies of the sales promotion and advertising material to be approved by the Company. Failure of the Company to accept or reject such materials on or before the fourteenth (14th) calendar day after receipt by the Company thereof shall be deemed acceptance of such materials.

3.4 GOVERNMENTAL REGULATIONS AND REGULATORY COMPLIANCE. Distributor shall comply with all laws, regulations and orders of government, and with all other governmental requirements applicable to its sales activities with respect to the Products in the Territory. The Company shall furnish Distributor with such assistance and cooperation as may reasonably be requested in connection with compliance with such governmental requirements. All

registrations and permits required for the sale and distribution of the Products shall be filed by Distributor in the name of, for the benefit of and at the expense of the Company. In the event any registration or permit must be filed in the name of any entity other than the Company because of requirements of applicable law, Distributor agrees promptly upon termination or expiration of this Agreement to assign or cause to be assigned to the Company or its designee, without charge, every such registration or permit to the fullest extent assignable. Distributor shall also obtain, at its own expense, any import license, foreign exchange license, foreign exchange permit, or other permit or approval it may need for the performance of its obligations under this Agreement. Distributor further agrees to maintain and to provide the Company with such records and reports as the Company deems necessary or advisable to enable the Company to satisfy and conform to all regulatory requirements relating to the sale of the Products. In particular, Distributor agrees to maintain and to provide the Company with product liability and traceability, quality assurance and defect incident reports in such form as may be requested by the Company from time to time. Distributor will immediately report to the Company all defects in the Products discovered by or reported to Distributor in sufficient detail to enable the Company to take corrective action.

4. PRICE AND TERMS OF SALE

4.1 PRICE. All purchases of Products, or Private Label Products, by Distributor shall be at the prices then in effect pursuant to the Company's Distributors Price List ("DISTRIBUTORS PRICE LIST") or PLP Price List, as appropriate. The Company may adjust its Distributors Price List and PLP Price List from time to time upon giving Distributor written notice thereof at least sixty (60) calendar days in advance of the effective date of any such change and the new prices will be effective as to all Product orders accepted by the Company after the effective date as specified in such notice and to all orders accepted by the Company prior to the effective date to the extent of any Products specified to be shipped more than ninety (90) days after the effective date of such price change.

4.2 PLACEMENT OF ORDERS. Distributor shall place orders with the Company by facsimile, e-mail or airmail. All orders for the purchase of Products from the Company hereunder are subject to approval and acceptance by the Company at the Company's home office. The Company may fill any order it accepts in whole or partial shipments.

4.3 ACCEPTANCE OF ORDERS. Upon receipt of a purchase order, the Company shall check the contents of the order and notify Distributor of the Company's acceptance or rejection within ten (10) calendar days of receipt thereof specifying, with respect to each accepted order, the estimated shipment date for each Product with respect to each accepted order. In the event the Company does not notify Distributor of rejection of an order within such ten (10) day period, the order shall be deemed accepted.

4.4 PURCHASE ORDER FORMS. It is understood that Distributor may use its standard purchase order forms with respect to its purchase of Products for resale hereunder, which purchase orders may specify, among other

things, the description and quantities of the Products ordered, the method of shipment, the requested shipment dates, and the destination to which such Products shall be shipped. Such forms shall be used for convenience only and any terms or provisions thereof which are inconsistent with or in addition to

those contained in this Agreement shall have no force or effect whatsoever as between the parties hereto, irrespective of whether or not the Company might otherwise be deemed to have accepted such form by reason of its execution or acknowledgment thereof.

4.5 PAYMENTS. All payments due to the Company by Distributor under this Agreement shall be payable in accordance with the terms set forth in the Distributors Price List then in effect.

4.6 TAXES AND ASSESSMENTS. In addition to payments for Products and other charges, Distributor assumes and agrees to pay (or provide the Company with a certificate of exemption acceptable to the appropriate taxing authorities prior to shipment) and to indemnify and hold the Company harmless from all export charges and import duties and any and all sales, use, excise or other taxes or assessments imposed upon or applicable to any sale to Distributor hereunder by any governmental authority. If any taxes or assessments are required to be withheld from payments to the Company, Distributor will pay the Company an amount which, after such withholding, equals the original amount due under this Agreement, and will provide the Company with official tax receipts or other evidence of payment of such withheld taxes or assessments sufficient to substantiate a claim by the Company for credit against United States federal income tax.

4.7 SHIPMENT; TITLE AND RISK OF LOSS. All sales of Products to Distributor will be F.O.B. the Company's manufacturing facility in the Philippines or any other manufacturing facility designated by the Company, and Distributor agrees to pay all costs and charges for transportation, brokerage, handling and insurance of the Products from the point of shipment. Title to Products will pass to Distributor upon delivery to a common carrier. Delivery of bills of lading before or after the Products arrive at the initial delivery point will not affect the place of delivery of the Products. Upon delivery of the Products to a common carrier, risk of loss or damage to the Products shall pass to Distributor. All Products will be drop-shipped at Distributor's expense to Distributor's customers as indicated in Distributor's purchase orders.

5. TERM OF AGREEMENT AND TERMINATION

5.1 TERM. Subject to earlier termination as provided in this Section 5, the term of this Agreement shall extend from the date hereof through

December 31, 2001. This Agreement shall be automatically renewed for successive periods of twelve (12) months thereafter unless either party hereto sends a written notice to the other not less than sixty (60) calendar days before the expiration of the initial term of this Agreement or any renewal thereof stating that such party is not renewing this Agreement.

5.2 TERMINATION BY EITHER PARTY. Either party may terminate this Agreement as follows:

5.2.1 In the event of a material default by either party in the performance of its duties, obligations or undertakings under this Agreement, the non-defaulting party shall have the right to give written notice to the defaulting party advising such party of the specific default involved and, if within thirty (30) calendar days after such notice, the defaulting party shall not have remedied such default, the other party shall have the unconditional right, in addition to any other rights and remedies it may have, to terminate this Agreement immediately upon giving written notice to the defaulting party.

5.2.2 At any time by giving written notice of such termination in the event the other party becomes insolvent or institutes or permits to be instituted against it any proceedings seeking receivership, trusteeship, bankruptcy, reorganization, arrangement, readjustment of debt, assignment for the benefit of

creditors, or other similar proceedings under any applicable law.

5.3 TERMINATION OF RIGHTS AND OBLIGATIONS. Upon termination of this Agreement for any reason:

5.3.1 All amounts owed by Distributor to the Company shall become immediately due, except in the case of expiration of the term of this Agreement, in which case all amounts owed shall be paid in accordance with Section 4.7, and all unfilled orders of Products for purchase by Distributor specifying shipment dates beyond sixty (60) days after termination shall be deemed terminated without liability on the part of either party;

5.3.2 The right of Distributor to act as a distributor for the Company shall cease, and Distributor shall immediately discontinue all use of the Company's trade names and trademarks, and Distributor shall return to the Company all price lists, catalogs, sales literature, operating and service manuals, advertising literature and other materials relating to the Products, except that, notwithstanding the foregoing, Distributor shall have the right, for a reasonable period not to exceed ninety

(90) days, to sell any Products remaining in inventory;

5.3.3 Except to the extent of selling its remaining inventory of Products as permitted by Section 5.3.2, Distributor shall not thereafter represent or hold itself out as being an authorized distributor for the Company's Products or engage in any practices which might make it appear that Distributor is still such an authorized distributor; and

5.3.4 Distributor shall transfer to the Company any rights it may have to any trademarks or trade names of the Company and Distributor shall assign to the Company, or its nominee, any registrations or other governmental permits with respect to the Products except to the extent a Combined Product carries a trademark which is distinct from the Products, or if such assignment is not permitted by law, Distributor shall cooperate in the cancellation of such registrations and permits standing in its name and the reissuance thereof to the Company or its nominee.

5.4 NO REVIVAL OR WAIVER. The acceptance by the Company of orders after notice of termination is given hereunder shall be separate transactions and shall not operate as a renewal or revival of this Agreement or as a waiver of any provision hereof.

5.5 NO LIABILITY. The Company shall have no obligation to Distributor by reason of the expiration or termination, in compliance with the provisions of Section 5.2, of this Agreement or the Company's non-renewal of this Agreement at the expiration of the initial term or any extension thereof, and Distributor hereby agrees not to assert any claim by reason of such expiration or termination of this Agreement. Neither party, by reason of the termination of this Agreement, shall be liable to the other because of any loss of anticipated sales or prospective profits or because of expenditures or investments related to the performance of this Agreement or the goodwill created in the course of performance hereunder.

5.6 NO RELEASE. No termination of this Agreement shall in any manner whatsoever release, or be construed as releasing, any party from any liability to the other arising out of or in connection with a party's breach of, of failure to perform, any covenant, agreement, duty or obligation contained herein.

5.7 SURVIVAL. The provisions of Sections 3.5, 4.5, 4.6, 4.7, 4.8, 4.9, 5, 6, 7.2, 7.4, 8, 9, 10, 11 and 12 will survive the expiration or termination of this Agreement.

6. WARRANTIES

6.1 PRODUCT WARRANTY. Products shall be covered by the Company's standard product warranty then in effect for each such Product. The Company may change its product warranty for a Product from time to time upon giving Distributor written notice thereof at least thirty (30) days in advance of the effective date of any change together with a copy of the new product warranty which will be effective as to all subject Products shipped after the effective date specified in such notice. Distributor shall not make any product warranty to its customers of the Products other than the Company's product warranty then in effect with respect to such Product. Distributor shall pass the Company's warranty through to its customers as set forth in Section 3.2 above.

6.2 THE COMPANY OPTION. The Company shall, at its option, replace, repair or issue credit to Distributor for any confirmed defective Products sold by the Company to Distributor under this Agreement and covered under the warranty period.

6.3 EXCLUSIVE REMEDY. In case of breach of the product warranties issued by the Company in accordance with Section 6.1 above, Distributor's or its customers' exclusive remedy against the Company, and the Company's sole liability, shall be, as set forth in Section 6.2. Distributor or its customers shall prepay return transportation charges to the Company's designated site. If the returned Product is found defective by the Company under the terms of the warranty and the Company elects to repair or replace the defective Product, the Company will prepay return transportation charges to Distributor or its customers, as appropriate. The Company shall have a reasonable time to make repairs, replace or issue credit with respect to Products found to be defective. All replaced parts will become the property of the Company on an exchange basis. Any replacement or spare parts will be new or equivalent parts which, at the time of installation, meet the Company functional specifications then applicable to new parts.

6.4 LIMITATION. The Company's warranty will not apply to a Product if its correction, repair or replacement is required due to: (i) natural disasters, including fire, smoke, water, wind, earthquakes or lightning, (ii) electric power failures, (iii) the failure to maintain appropriate environmental conditions, (iv) the neglect, misuse or other than the ordinary use of the Product, or (v) attempted repairs or alterations by persons other than those employed by the Company. Under these circumstances, the Company may charge Distributor or its customers for the correction, repair or replacement on a time-and-materials basis at the Company's then-current rates.

6.5 DISCLAIMER. EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 6, ALL WARRANTIES, CONDITIONS, REPRESENTATIONS, INDEMNITIES AND GUARANTEES, WHETHER EXPRESS OR IMPLIED, ARISING BY LAW, CUSTOM, PRIOR ORAL OR WRITTEN STATEMENTS BY THE COMPANY OR OTHERWISE (INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR OF UNINTERRUPTED USE) ARE HEREBY OVERRIDDEN, EXCLUDED AND DISCLAIMED.

6.6 NO CONSEQUENTIAL DAMAGES. THE COMPANY WILL NOT BE LIABLE TO DISTRIBUTOR OR ITS CUSTOMERS AND DISTRIBUTOR WILL NOT BE LIABLE TO THE

COMPANY FOR ANY CONSEQUENTIAL, INDIRECT, PUNITIVE, SPECIAL OR INCIDENTAL DAMAGES, WHETHER FORESEEABLE OR UNFORESEEABLE, BASED ON CLAIMS OF DISTRIBUTOR, OR ITS CUSTOMERS, OR THE COMPANY, AS THE CASE MAY BE, (INCLUDING, BUT NOT LIMITED TO, CLAIMS FOR LOSS OF GOODWILL, PROFITS, INVESTMENTS, USE OF MONEY, LOSS OF USE OF THE COMPANY'S PRODUCTS; INTERRUPTION IN USE, STOPPAGE OF OTHER WORK OR IMPAIRMENT OF OTHER ASSETS, OR LABOR CLAIMS), ARISING OUT OF BREACH OF EXPRESS OR IMPLIED WARRANTY, BREACH OF CONTRACT, MISREPRESENTATION, NEGLIGENCE, STRICT LIABILITY IN TORT OR OTHERWISE, EXCEPT ONLY IN THE CASE OF DEATH OR PERSONAL INJURY WHERE AND SOLELY TO THE EXTENT THAT APPLICABLE LAW REQUIRES SUCH LIABILITY.

6.7 DISTRIBUTOR INDEMNITY. If Distributor makes any warranty or representation inconsistent with or in addition to the warranties stated in this Section 6, Distributor shall, at its own expense, defend, indemnify and hold the Company harmless from any claim to the extent it is based upon such inconsistent or additional warranty or representation.

7. TRADEMARKS AND TRADE NAMES

7.1 VALIDITY AND DISTRIBUTOR REGISTRATION. Distributor recognizes the validity of the Company's trademarks and trade names as set forth on Exhibit C attached hereto, (the "COMPANY TRADEMARKS"), acknowledges that the same are the property of the Company, and agrees not to infringe upon, harm or contest the rights of the Company in the Company Trademarks. Distributor further agrees, if requested by the Company and at the Company's expense, to register or otherwise obtain protection in the Territory for the Company Trademarks on behalf and for the benefit of the Company.

7.2 OWNERSHIP. All Company Trademarks are and will remain the exclusive property of the Company, whether or not specifically recognized or registered under applicable law. Distributor will not take any action that jeopardizes the proprietary rights of or acquire any right to the Company Trademarks, except the limited use rights specified in this Section 7. Distributor will not register, directly or indirectly, any trademark, service mark, trade name, copyright, company name or other proprietary or commercial right which is identical or confusingly similar to the Company Trademarks.

7.3 USE. Distributor shall have the right to use in the Territory all the Company Trademarks as well as other trademarks which are or may be owned by the Company during the term of this Agreement in connection with the Products for the exclusive purpose of advertising and promoting the Products in the Territory. All advertisements and promotional materials will (i) clearly identify the Company as the owner of its trademarks, (ii) conform to the

Company's then-current trademark and logotype guidelines and (iii) otherwise comply with any local applicable notice or marking requirement. Before publishing or disseminating any advertisement or promotional materials bearing a trademark of the Company, Distributor will deliver a copy of the advertisement or promotional materials in the English language to the Company for approval, which approval shall not be unreasonably withheld. If the Company gives Distributor written notice that the proposed use of its trademark is inappropriate within ten (10) calendar days from the date of submission by Distributor, Distributor will not place the advertisement or promotional materials in circulation.

7.4 RETURN OF MATERIALS. Distributor agrees that upon termination of this Agreement for any reason it will destroy or return to the Company any advertising, stationery or other materials bearing any

of the Company's trade names or trademarks.

7.5 INFRINGEMENT. Distributor will immediately notify the Company if it learns (i) of any potential infringement of a Company trademark by a third party or (ii) that the use of a the Company trademark may infringe the proprietary rights of a third party. The Company will determine the steps to be taken under these circumstances in accordance with Section 8.2 below.

8. INTELLECTUAL PROPERTY RIGHTS

8.1 COMPANY'S RIGHTS. The Company is the sole author and exclusive owner, or authorized licensee of the Products and all intellectual property rights therein. The Products do not and will not throughout the term of this Agreement infringe upon any patent, copyright, trade secret or other proprietary right held by any third party and there is no such claim or pending or threatening action with respect thereto.

8.2 COMPANY'S OBLIGATIONS. The Company will indemnify and hold harmless Distributor from and against all claims, actions, damages, costs and expenses (including attorneys fees) arising out of any actual or threatened claim of infringement of any proprietary right, including copyrights, trademarks, patent rights and trade secrets, arising out of the Products (but not attributable to any product with which a Product is combined to form a Combined Product.) This obligation will be subject to the following terms and conditions:

(i) The obligation will arise only if Distributor gives the Company prompt notice of the infringement claim and grants the Company, in writing, exclusive control over its defense and settlements;

(ii) This obligation will cover the Products only in the form as shipped to Distributor by the Company or its agents, and will not cover any correction, modification, improvement, enhancement or addition to any Product made by anyone other than the Company without the Company's prior written authorization;

(iii) This obligation will not cover any claim that any Product infringes any third party's rights as used in combination with any hardware or software not supplied by the Company if that claim could have been avoided by the use of that Product in combination with other hardware or software;

(iv) Without limiting the Company's general obligation of indemnification, and in addition thereto, if an infringement claim is asserted, or if the Company believes one likely, the Company will have the right and the obligation to do any of the following: (a) procure a license from the person(s) claiming or likely to claim infringements; or (b) modify the Product to avoid the claim of infringement; or (c) suspend the Agreement with respect to such Product until the infringement claim has otherwise been resolved. If the Company modifies any Product to avoid a claim of infringement, the Company will have no obligation to indemnify Distributor with respect to unmodified Products distributed by Distributor after the Company has supplied the modification to Distributor; and

THE FOREGOING STATES THE COMPANY'S EXCLUSIVE AND ENTIRE OBLIGATION WITH RESPECT TO ANY CLAIMS OF INFRINGEMENT OF PROPRIETARY RIGHTS OF ANY KIND.

8.3 DISTRIBUTOR'S INDEMNIFICATION. Distributor will indemnify and hold harmless the Company from and against all claims, actions, damages, costs and expenses (including attorneys fees) arising out of any actual or threatened claim of infringement of any proprietary right, including copyrights,

trademarks, patent rights and trade secrets, arising out of the inclusion of any product not supplied by the Company and combined with the Product for distribution as a Combined Product. Distributor's obligation to indemnify the Company will arise if the Company gives Distributor prompt notice of the claim and cooperates and consults fully with Distributor in its defense and/or settlement. If such an infringement claim is asserted, or if Distributor believes one likely, Distributor will have the right, but no obligation, to procure a license from the person claiming or likely to claim infringement.

9. RECALL. In the event of a recall of any of the Products, Distributor shall cooperate fully with the Company in promptly contacting any purchasers

that the Company desires to be contacted and promptly communicating to such purchasers the information and instructions the Company desires to be transmitted. Costs related to the shipment or replacement of the Products incurred in connection with such recall shall be borne by the Company.

10. CONFIDENTIAL INFORMATION. Each party agrees that it will treat accordingly all verbal and written communications from the other party which are designated, or which should reasonably be regarded in the normal commercial view, as constituting business secrets or proprietary information, and will impose upon its employees and agents the same obligations with respect to the other party's proprietary information as it employs with respect to its own confidential information, but in no event less than a reasonable degree of care. The provisions of this Section shall survive the termination of this Agreement.

11. INDEPENDENT CONTRACTOR.

11.1 NO AUTHORIZATION. Distributor shall be an independent contractor hereunder. Distributor is not authorized to: (i) enter into agreements for or on behalf of the Company; (ii) create any obligation or responsibility, express or implied, for or on behalf of the Company; (iii) accept payment of any obligation due or owed to the Company; (iv) accept service of process for the Company; or (v) bind the Company in any manner whatsoever, except for Distributor's right to pass to its customers and end-users the Company's product warranties for the Products as set forth herein. Distributor shall not list, print, or display the Company's name in such manner as to indicate or imply that there is an employer-employee or a principal-agent relationship between the Company and Distributor.

11.2 CONTROL OF DISTRIBUTOR. Subject to its compliance with all applicable laws and regulations and except as otherwise provided herein, Distributor shall have control over the manner and means of performing its obligations under this Agreement. All expenses incurred by Distributor in connection with the performance of its obligations hereunder shall be borne solely by Distributor. Distributor shall be responsible for appointing its own employees, agents and representatives, who shall be compensated by Distributor.

12. MISCELLANEOUS PROVISIONS.

12.1 SALES AND LICENSES. All Products delivered hereunder are licensed as provided herein. All references in this Agreement to the "sale" or "purchase" of Products signify only the delivery of the Product in question subject to the terms set forth in this Agreement. Distributor shall acquire no rights with respect to the Products other than the right to distribute such Products and provide related support, as provided herein.

12.2 MOST FAVORED NATIONS. In no event shall the Company offer any other distributor or

third party customer any terms or conditions more favorable than those set forth in this Agreement.

12.3 GOVERNING LAWS. The internal laws of the State of Delaware, U.S.A., regardless of any choice of law principles, shall govern the validity of this Agreement, the construction of its terms and the interpretation and enforcement of the rights and duties of the parties. THE PARTIES AGREE THAT THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS SHALL NOT APPLY TO THIS AGREEMENT AND ITS APPLICATION IS HEREBY EXPRESSLY EXCLUDED.

12.4 SUCCESSORS AND ASSIGNS. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties hereto or their respective permitted successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

12.5 SEVERABILITY. If any provision of this Agreement, or the application thereof, shall for any reason and to any extent be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances shall be interpreted so as best to reasonably effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision which will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

12.6 ENTIRE AGREEMENT. This Agreement, the exhibits hereto, the documents referenced herein and the exhibits thereto, constitute the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and thereof and supersede all prior and contemporaneous agreements or understandings, inducements or conditions, express or implied, written or oral, between the parties with respect hereto and thereto. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof.

12.7 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original as against any party whose signature appears thereon, and all of which together shall constitute one and the same instrument.

12.8 OTHER REMEDIES. Any and all remedies herein expressly conferred upon a party shall be deemed cumulative with, and not exclusive of, any other remedy conferred hereby or by law on such party, and the exercise of any one remedy shall not preclude the exercise of any other.

12.9 AMENDMENT AND WAIVERS. Any term or provision of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only by a writing signed by the parties. The waiver by a party of any breach hereof for default in payment of any amount due hereunder or default in the performance hereof shall not be deemed to constitute a waiver of any other default or succeeding breach or default.

12.10 ATTORNEYS' FEES. Should suit be brought to enforce or interpret any part of this Agreement, the prevailing party shall be entitled to recover, as an element of the costs of suit and not as damages, reasonable attorneys' fees to be fixed by the court (including, without limitation, costs, expenses and

fees on any appeal). The prevailing party shall be the party entitled to recover its costs of suit, regardless of whether such suit proceeds to final judgment. A party not entitled to recover its costs shall not be entitled to recover attorneys' fees. No sum for attorneys' fees shall be counted in calculating the amount of a judgment for purposes of determining if a party is entitled to recover costs or attorneys' fees.

12.11 NOTICES. Whenever any party hereto desires or is required to give any notice, demand or request with respect to this Agreement, each such communication shall be in writing and shall be given or made by telecopy, telegraph, cable, mail or other delivery and telecopied, telegraphed, cabled, mailed or delivered to the intended recipient at the addresses specified below:

If to the Company: SmartDisk Corporation
3506 Mercantile Avenue
Naples, FL 34104
Facsimile: (941) 436-2509
Attn: Michael S. Battaglia

with a copy to: Baker & McKenzie
660 Hansen Way
Palo Alto, CA 94304
Facsimile: (650) 856-9299
Attn: J. Pat Powers, Esq.

If to Distributor: Fischer International Systems Corporation
3506 Mercantile Avenue
Naples, FL 34104

Facsimile: (941) 436-2509
Attn: John W. Wynkoop

with a copy to: Tomlinson Zisko Morosoli & Maser LLP
200 Page Mill Road, Second Floor
Palo Alto, CA 94306
Facsimile: (650) 324-1808
Attn: Jill E. Fishbein, Esq.

Except as may be otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier with verified receipt by the receiving telecopier, when personally delivered, four (4) days after being delivered to an overnight air courier (E.G. DHL, or Federal Express) upon proof of delivery, or, in the case of a mailed notice, five (5) days after being deposited in the United States mail certified or registered mail, postage prepaid. Either party may change its address for such communications by giving notice thereof to the other party in conformance with this section.

12.12 CONSTRUCTION OF AGREEMENT. This Agreement has been negotiated by the respective parties hereto and their attorneys and the language hereof shall not be construed for or against any party. A reference in this Agreement to any Section shall include a reference to every Section the number of which begins with the number of the Section to which reference is specifically made (E.G., a reference to Section 5.8 shall include a reference to Sections 5.8.1 and 5.8.1.1). The titles and headings herein are for reference

purposes only and shall not in any manner limit the construction of this Agreement which shall be considered as a whole. A reference to a Schedule, Exhibit or Section means a Schedule, Exhibit or Section of this Agreement, unless the context expressly otherwise requires.

12.13 PRONOUNS. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person, persons, entity or entities may require.

12.14 FURTHER ASSURANCES. Each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurances as may be reasonably requested by any other party to better evidence and reflect the transactions described herein and contemplated hereby, and to carry into effect the intents and purposes of this Agreement.

12.15 ABSENCE OF THIRD PARTY BENEFICIARY RIGHTS. No provisions

of this Agreement are intended nor shall be interpreted to provide or create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, shareholder or partner of any party hereto, or any other person, unless specifically provided otherwise herein and, except as so provided, all provisions hereof shall be personal solely between the parties to this Agreement.

12.16 FORCE MAJEURE. Except as to the timely payment by Distributor of the purchase price of Products purchased by it hereunder for which the Company shall have the right to terminate this Agreement in accordance with Section 6.2 or invoice Distributor for same, no failure or omission to carry out or observe any of the terms, provisions or conditions of this Agreement shall give rise to any claim by one party against the other or be deemed to be a breach of this Agreement if the same is caused by or arises out of one or more of the following conditions: acts of God; acts, regulations or laws of any government; war; civil commotion; destruction of production facilities or materials by fire, earthquake or storm; labor disturbances; epidemic; failure of public utilities or of suppliers; or any other event, matter or thing wherever occurring and whether or not of the same class or kind as those set forth above, which is not reasonably within the control of the party affected thereby. However, the parties hereto shall endeavor to avoid, remove or cure all such conditions. Any party temporarily excused from performance hereunder by such conditions shall resume performance promptly when such conditions are removed or cured. Any party claiming any such conditions as an excuse for delay in performance hereunder shall give prompt notice in writing thereof to the other party.

12.17 COMPLIANCE WITH LAWS. The parties acknowledge and agree that this Agreement and the rights and obligations of the parties hereunder are subject to all applicable laws and regulations of governmental entities having jurisdiction over any aspects of this Agreement.

12.18 ASSIGNMENT. Except as provided in this Section, neither party to this Agreement shall assign or otherwise transfer any of its rights or obligations under this Agreement to any third party, and any such attempt at assignment shall be void. However, the Company shall have the right to assign this Agreement, without the prior approval of Distributor, to any successor of all or substantially all of its business and assets at the time of assignment, provided that such successor undertakes to fulfill all the obligations of the Company under this Agreement. Additionally, both the Company and Distributor shall have the right to assign this Agreement or delegate its obligations hereunder to any affiliate by giving written notice, provided that such party guarantees the obligations to be performed by such affiliate. For purposes of this Agreement, the term "AFFILIATE" shall mean any corporation or business entity controlled by, controlling or under common control

with the Company or Distributor.

12.19 FOREIGN RESHIPMENT LIABILITY. THIS AGREEMENT IS EXPRESSLY MADE SUBJECT TO ANY LAWS, REGULATIONS, ORDERS OR OTHER RESTRICTIONS ON THE EXPORT FROM THE UNITED STATES OF AMERICA OF TECHNICAL INFORMATION OR PRODUCTS WHICH MAY BE IMPOSED FROM TIME TO TIME BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA. NOTWITHSTANDING ANYTHING CONTAINED IN THIS AGREEMENT TO THE CONTRARY, DISTRIBUTOR SHALL NOT EXPORT OR REEXPORT, DIRECTLY OR INDIRECTLY, ANY TECHNICAL INFORMATION OR PRODUCTS TO ANY COUNTRY OR DESTINATION OR PERMIT ITS TRANSHIPMENT TO ANY COUNTRY OR DESTINATION FOR WHICH SUCH GOVERNMENT OR ANY AGENCY THEREOF REQUIRES AN EXPORT LICENSE OR OTHER GOVERNMENTAL APPROVAL AT THE TIME OF EXPORT WITHOUT FIRST OBTAINING SUCH LICENSE OR APPROVAL.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the day and year first above written.

SMARTDISK CORPORATION		FISCHER INTERNATIONAL SYSTEMS CORPORATION	
By:	/s/ TIMOTHY TOMLINSON	By:	/s/ MICHAEL S. BATTAGLIA
Name:	TIMOTHY TOMLINSON	Name:	MICHAEL S. BATTAGLIA
Title:	SECRETARY	Title:	PRESIDENT

EXHIBIT A

LIST OF PRODUCTS

NAME OF PRODUCT

FlashPath

Smarty

EXHIBIT B

TERRITORY

WORLDWIDE EXCEPT:

Australia
Burma/Myanmar
China/Hong Kong
Indonesia
Japan
Korea
Laos
Malaysia
Micronesia
New Zealand
Papua/New Guinea
Philippines
Singapore
Taiwan
Thailand
Vietnam

EXHIBIT C

COMPANY TRADEMARKS

FlashPath

Smarty

SmartDisk

Exhibit 10.12

SMARTDISK CORPORATION

INVESTORS' RIGHTS AGREEMENT

THIS INVESTORS' RIGHTS AGREEMENT (the "AGREEMENT") is made as of the 22 day of May, 1998, by and among SmartDisk Corporation, a Delaware corporation (the "COMPANY"), and each of the investors (the "INVESTORS") listed on Exhibit A hereto.

R E C I T A L S

A. The Company and the Investors have entered into a Founders' Subscription Agreement of even date herewith as amended by Amendment Number One to Founders' Subscription Agreement of even date herewith (collectively the "PURCHASE AGREEMENT") pursuant to that certain Joint Venture Agreement by and among Phoenix House Investments, L.L.C., a Delaware limited liability company ("PHOENIX"), Toshiba Corporation ("TOSHIBA") and the Company dated February 24, 1998, (the "JOINT VENTURE AGREEMENT").

B. Under the Purchase Agreement, Investors' wish to purchase and the Company wishes to sell shares of the Company's Common Stock.

C. The Joint Venture Agreement contains as a condition to the Investors' obligations under the Purchase Agreement that the Company and the Investors enter into this Agreement in order to provide the Investors with (i) certain rights to register shares of the Company's Common Stock and (ii) certain rights to receive or inspect information pertaining to the Company.

D. The Company desires to induce the Investors to purchase shares of Common Stock pursuant to the Purchase Agreement by agreeing to the terms and conditions set forth herein.

NOW THEREFORE, in reliance on the foregoing recitals and in consideration of the mutual covenants contained herein, in the Joint Venture Agreement and the Purchase Agreement the parties hereto agree as follows:

A G R E E M E N T

1. REGISTRATION RIGHTS. The Company and the Investors covenant and agree as follows:

1.1 DEFINITIONS. For purposes of this Section 1:

1.1.1 The terms "REGISTER," "REGISTERED," and "REGISTRATION" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act of 1933, as amended (the "ACT"), and the declaration or ordering of effectiveness of such registration statement or document.

1.1.2 The term "REGISTRABLE SECURITIES" means (i) the shares of Common Stock purchased by Investors under the Purchase Agreement (such shares of Common Stock are collectively referred to hereinafter as the "STOCK"), and (ii) any other shares of Common Stock or other securities of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in

exchange for or in replacement of, the Stock, provided that the foregoing definition shall exclude in all cases any Registrable Securities sold by a person in a transaction in which his or her rights under this Agreement are not assigned. Notwithstanding the foregoing, Common Stock or other securities shall only be treated as Registrable Securities if and so long as they have not been (A) sold to

or through a broker or dealer or underwriter in a public distribution or a public securities transaction, or (B) sold in a transaction exempt from the registration and prospectus delivery requirements of the Act under Section 4(1) thereof so that all transfer restrictions, and restrictive legends with respect thereto, if any, are removed upon the consummation of such sale.

1.1.3 The number of shares of "REGISTRABLE SECURITIES THEN OUTSTANDING" shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are, Registrable Securities.

1.1.4 The term "HOLDER" means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.13 hereof.

1.1.5 The term "FORM S-3" means such form under the Act as in effect on the date hereof or any successor form under the Act.

1.1.6 The term "SEC" means the Securities and Exchange Commission.

1.1.7 The term "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

1.2 REQUEST FOR REGISTRATION.

1.2.1 If the Company shall receive at any time after the earlier of: (i) six (6) months after the effective date of the first registration statement for a public offering of securities of the Company (other than a registration statement relating either to the sale of securities to employees of the Company pursuant to a stock option, stock purchase or similar plan or an SEC Rule 145 transaction) or (ii) three (3) years from the date hereof, a written request from Toshiba, Phoenix or from the Holders of a majority of the Registrable Securities then outstanding that the Company file a registration statement under the Act covering the registration of at least twenty percent (20%) of the Registrable Securities then outstanding (or a lesser percent if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed Ten Million Dollars ($10,000,000)), then the Company shall, within ten (10) days of the receipt thereof, give written notice of such request to all Holders and shall, subject to the limitations of subsection 1.2.2, use its best efforts to effect as soon as practicable, and in any event within 60 days of the receipt of such request, the registration under the Act of all Registrable Securities which the Holders request to be registered within twenty (20) days of the mailing of such notice by the Company in accordance with Section 3.5.

1.2.2 If the Holders initiating the registration request hereunder ("INITIATING HOLDERS") intend to distribute the Registrable Securities covered

by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.2 and the Company shall include such information in the written notice referred to in subsection 1.2.1. The underwriter will be selected by a majority in interest of the Initiating Holders and shall be reasonably acceptable to the Company. In such event, the right of any Holder to include his Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in subsection 1.4.5 enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by a majority in interest of the Initiating Holders. Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be

included in the underwriting shall be allocated among all Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the amount of Registrable Securities of the Company owned by each Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

1.2.3 Notwithstanding the foregoing, if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 1.2 a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than one hundred fifty (150) days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12)-month period.

1.2.4 In addition, the Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to this Section 1.2:

1.2.4.1 After the Company has effected three (3) registrations pursuant to this Section 1.2 and such registrations have been declared or ordered effective; or

1.2.4.2 During the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date one hundred eighty (180) days after the effective date of, a registration subject to Section 1.3 hereof; provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective.

1.3 COMPANY REGISTRATION. If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected

by the Company for shareholders other than the Holders) any of its stock under the Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan or a transaction covered by Rule 145 under the Act, a registration in which the only stock being registered is Common Stock issuable upon conversion of debt securities which are also being registered, or any registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 3.5, the Company shall, subject to the provisions of Section 1.8, cause to be registered under the Act all of the Registrable Securities that each such Holder has requested to be registered.

1.4 OBLIGATIONS OF THE COMPANY. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

1.4.1 Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to ninety (90) days.

1.4.2 Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement for up to ninety (90) days.

1.4.3 Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

1.4.4 Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

1.4.5 In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering, including, without limitation, participating in investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Registrable Securities. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

1.4.6 Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in

effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, such obligation to continue for ninety (90) days.

1.4.7 Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed or to be listed on the Nasdaq National Market, if not listed on a securities exchange, if eligible.

1.4.8 Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

1.4.9 Use its best efforts to furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 1, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 1, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

1.5 FURNISH INFORMATION. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of such Holder's Registrable Securities. The Company shall have no obligation with respect to any registration requested pursuant to Section 1.2 or Section 1.12 of this Agreement if, as a result of the application of the preceding sentence, the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated

aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in subsection 1.2.1 or subsection 1.12.2(2), whichever is applicable.

1.6 EXPENSES OF DEMAND REGISTRATION. All expenses other than underwriting discounts and commissions incurred in connection with registrations, filings or qualifications pursuant to Section 1.2, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the selling Holders shall be borne by the

Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2, provided further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 1.2.

1.7 EXPENSES OF COMPANY REGISTRATION. The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to Section 1.3 for each Holder (which right may be assigned as provided in Section 1.13), including (without limitation) all registration, filing, and qualification fees, printers' and accounting fees relating or apportionable thereto and the reasonable fees and disbursements of one counsel for the selling Holders selected by them with the approval of the Company, which approval shall not be unreasonably withheld, but excluding underwriting discounts and commissions relating to Registrable Securities.

1.8 UNDERWRITING REQUIREMENTS. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it (or by other persons entitled to select the underwriters), and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by shareholders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling shareholders according to the total amount of securities entitled to be included therein owned by each selling shareholder or in such other proportions as shall mutually be agreed to by such selling shareholders) but in no event shall (i) the amount of securities of the selling Holders included in the offering be reduced below thirty percent (30%) of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities in which case the selling shareholders may be excluded if the underwriters make the determination described above and no other shareholder's securities are included or (ii) notwithstanding (i) above, any shares being sold by a shareholder exercising a demand registration right similar to that granted in Section 1.2 be excluded from such offering. For purposes of the preceding parenthetical concerning apportionment, for any selling shareholder which is a Holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and shareholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "SELLING SHAREHOLDER," and any pro-rata reduction with respect to such

"selling shareholder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling shareholder," as defined in this sentence.

1.9 DELAY OF REGISTRATION. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.10 INDEMNIFICATION. In the event any Registrable Securities are included in a registration statement under this Section 1:

1.10.1 To the extent permitted by law, the Company will indemnify and hold harmless each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "VIOLATION"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Act, the Exchange Act or any state securities law; and the Company will pay to each such Holder, underwriter or controlling person, as incurred, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter or controlling person.

1.10.2 To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will pay, as incurred, any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 1.10.2, in connection with

investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, that, in no event shall any indemnity under this subsection 1.10.2 exceed the net proceeds from the offering received by such Holder, except in the case of willful fraud by such Holder.

1.10.3 Promptly after receipt by an indemnified party under this Section 1.10 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.10, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the reasonable fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.10, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.10.

1.10.4 If the indemnification provided for in this Section 1.10 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations; provided, that, in no event shall any contribution by a Holder under this subsection 1.10.4 exceed the net proceeds from the offering received by such Holder, except in the case of willful fraud by such Holder. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

1.10.5 Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are

in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

1.10.6 The obligations of the Company and Holders under this Section 1.10 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise.

1.11 REPORTS UNDER SECURITIES EXCHANGE ACT OF 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

1.11.1 make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public so long as the Company remains subject to the periodic reporting requirements under Sections 13 or 15(d) of the Exchange Act;

1.11.2 take such action, including the voluntary registration of its Common Stock under Section 12 of the Exchange Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

1.11.3 file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the Exchange Act; and

1.11.4 furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

1.12 FORM S-3 REGISTRATION. In case the Company shall receive from any Holder or Holders of not less than twenty percent (20%) of the Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

1.12.1 promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

1.12.2 as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would

permit or facilitate the sale and distribution of all or such portion of such Holder's Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 1.12: (1) if Form S-3 is not available for such offering by the Holders; (2) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than Five Hundred Thousand Dollars ($500,000); (3) if the Company shall furnish to the Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than one hundred fifty (150) days after receipt of the request of the Holder or Holders under this Section 1.12; provided, however, that the Company shall not utilize this right more than once in any twelve month period; (4) if the Company has already effected two registrations on Form S-3 for the Holders pursuant to this Section 1.12; or (5) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

1.12.3 Subject to the foregoing, the Company shall file a registration statement covering

the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. All expenses incurred in connection with a registration requested pursuant to Section 1.12, including (without limitation) all registration, filing, qualification, printers' and accounting fees and the reasonable fees and disbursements of counsel for the selling Holder or Holders and counsel for the Company, but excluding any underwriters' discounts or commissions associated with Registrable Securities, shall be borne by the Company. Registrations effected pursuant to this Section 1.12 shall not be counted as demands for registration or registrations effected pursuant to Sections 1.2 or 1.3, respectively.

1.13 ASSIGNMENT OF REGISTRATION RIGHTS. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of at least one hundred thousand (100,000) shares of such securities as presently constituted, provided the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; and provided, further, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act. For the purposes of determining the number of shares of Registrable Securities held by a transferee or assignee, the holdings of transferees and assignees of a partnership or limited liability company who are

partners, members or retired partners or members of such partnership or limited liability company (including spouses and ancestors, lineal descendants and siblings of such partners, members or spouses who acquire Registrable Securities by gift, will or intestate succession) shall be aggregated together and with the partnership or limited liability company; provided that all assignees and transferees who would not qualify individually for assignment of registration rights shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices or taking any action under Section 1.

1.14 LIMITATIONS ON SUBSEQUENT REGISTRATION RIGHTS. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder (a) to include such securities in any registration filed under Section 1.2 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of his securities will not reduce the amount of the Registrable Securities of the Holders which is included or (b) to make a demand registration which could result in such registration statement being declared effective prior to the earlier of either of the dates set forth in subsection 1.2.1 or within one hundred twenty (120) days of the effective date of any registration effected pursuant to Section 1.2.

1.15 "MARKET STAND-OFF" AGREEMENT.

1.15.1 Each Holder hereby agrees that, during the period of duration (up to, but not exceeding, one hundred eighty (180) days) specified by the Company and an underwriter of Common Stock or other securities of the Company, following the date of the final prospectus distributed in connection with a registration statement of the Company filed under the Act, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; provided, however, that: (i) such agreement shall be applicable only to the first such registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and (ii) all officers and directors of the Company, all five percent (5%) security holders, except for pension funds, mutual funds and other similar investment vehicles, and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar

agreements.

1.15.2 In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period, and each Holder agrees that, if so requested, such Holder will execute an agreement in the form provided by the underwriter containing terms which are essentially consistent with the provisions of this Section 1.15.

1.15.3 Notwithstanding the foregoing, the obligations described in

this Section 1.15 shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms which may be promulgated in the future, or a registration relating solely to an SEC Rule 145 transaction on Form S-4 or similar forms which may be promulgated in the future.

1.16 TERMINATION OF REGISTRATION RIGHTS. No Holder shall be entitled to exercise any right provided for in this Section 1 after such time as Rule 144 or another similar exemption under the Act is available for the sale of all of such Holder's shares during a three (3)-month period without registration.

2. COVENANTS OF THE COMPANY.

2.1 DELIVERY OF FINANCIAL STATEMENTS. The Company shall deliver to each Investor holding, and to transferees of, at least one hundred thousand (100,000) shares of Registrable Securities as presently constituted:

2.1.1 as soon as practicable, but in any event within one hundred (100) days after the end of each fiscal year of the Company, an income statement for such fiscal year, a balance sheet of the Company and statement of shareholder's equity as of the end of such year, and a statement of cash flows for such year, such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by an independent public accounting firm selected by the Company;

2.1.2 as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company, an unaudited profit or loss statement, a statement of cash flows for such fiscal quarter and an unaudited balance sheet as of the end of such fiscal quarter;

2.2 INSPECTION. The Company shall permit each Investor who holds not less than one hundred thousand (100,000) shares of Registrable Securities, at such Investor's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Investor; provided, however, that the Company shall not be obligated pursuant to this Section 2.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

2.3 TERMINATION OF INFORMATION AND INSPECTION COVENANTS. The covenants set forth in Sections 2.1 and 2.2 shall terminate as to Investors and be of no further force or effect when the sale of securities pursuant to a registration statement filed by the Company under the Act in connection with the firm commitment underwritten offering of its securities to the general public is consummated or when the Company first becomes subject to the periodic reporting requirements of Sections 13 or 1 5(d) of the Exchange Act, whichever event shall first occur.

3. MISCELLANEOUS.

3.1 SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of the Common Stock). Nothing in this Agreement, express or implied, is intended

to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

3.2 GOVERNING LAW. This Agreement and all acts and transactions pursuant hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of laws.

3.3 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

3.4 TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

3.5 NOTICES. Unless otherwise provided, any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by telegram or fax, or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address as set forth below or on Exhibit A hereto or as subsequently modified by written notice.

3.6 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term 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, Toshiba and the Holders of a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each Holder of any Registrable Securities then outstanding, each future Holder of all such Registrable Securities, and the Company.

3.7 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (x) such provision shall be excluded from this Agreement, (y) the balance of the Agreement shall be interpreted as if such provision were so excluded and (z) the balance of the Agreement shall be enforceable in accordance with its terms.

3.8 AGGREGATION OF STOCK. All shares of the Preferred Stock held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

[Signature Page Follows]

The parties have executed this Investors' Rights Agreement as of the date first above written.

<TABLE>
<S> <C>
COMPANY: INVESTORS:

SMARTDISK CORPORATION

By: /S/ MICHAEL S. BATTAGLIA
Michael S. Battaglia, President

Address: 3506 Mercantile Avenue
Naples, Florida 34104-3310

FISCHER INTERNATIONAL
SYSTEMS CORPORATION

By: /S/ MICHAEL S. BATTAGLIA
Michael S. Battaglia, President

Address: 3506 Mercantile Avenue
Naples, Florida 34104-3310

TOSHIBA CORPORATION

By: /S/ MASAICHI KOGA
Its: SENIOR EXECUTIVE VICE PRESIDENT

Address: 1-1, Shibaura 1-Chome
Minato-ku, Tokyo 105-01
Japan

PHOENIX HOUSE INVESTMENTS, L.L.C.

By: /S/ ADDISON M. FISCHER
Addison M. Fischer, General Manager

Address: 400 West King Street
Carson City, Nevada 89703

</TABLE>

EXHIBIT A

INVESTORS

NAME	ADDRESS	NO. OF SHARES
Toshiba Corporation	1-1, Shibaura 1-Chome Minato-ku, Tokyo 105-01 Japan	9,950,000
Phoenix House Investments, L.L.C.	400 West King Street Carson City, Nevada 89703	29,400,000
Fischer International Systems Corporation	3506 Mercantile Avenue Naples, Florida 34104-3310	600,000

_____

_____

_____

Exhibit 10.16

FORM OF
INDEMNIFICATION AGREEMENT

THIS AGREEMENT (the "Agreement") is made and entered into as of _____, 1999 between SmartDisk Corporation, a Delaware corporation ("the Company"), and _____ ("Indemnitee"). Certain capitalized terms are defined in Section 13.

WITNESSETH THAT:

WHEREAS, Indemnitee performs a valuable service for the Company; and

WHEREAS, the Board of Directors of the Company has adopted Bylaws (the "Bylaws") providing for the indemnification of the officers and directors of the Company to the maximum extent authorized by law; and

WHEREAS, the Bylaws by their nonexclusive nature, permit contracts between the Company and the officers or directors of the Company with respect to indemnification of such officers or directors; and

WHEREAS, in accordance with the authorization as provided by the Bylaws, the Company may purchase and maintain a policy or policies of directors' and officers' liability insurance ("D & O Insurance"), covering certain liabilities which may be incurred by its officers or directors in the performance of their obligations to the Company; and

WHEREAS, in order to induce Indemnitee to continue to serve as an officer or director of the Company, the Company has determined and agreed to enter into this contract with Indemnitee;

NOW, THEREFORE, in consideration of Indemnitee's service as an officer or director after the date hereof, the parties hereto agree as follows:

SECTION 1. INDEMNITY OF INDEMNITEE. The Company hereby agrees to hold harmless and indemnify Indemnitee to the full extent authorized or permitted by law, as such may be amended from time to time, and the Bylaws, as such may be amended. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) PROCEEDINGS OTHER THAN PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY. Indemnitee shall be entitled to the rights of indemnification provided in this Section l(a) if, by reason of his Corporate Status, he is, or is threatened to be made, a party to or participant in any Proceeding other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses, judgments, penalties,

fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the

Company and, with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

(b) PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his Corporate Status, he is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection with such Proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; provided, however, that, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the Court of Chancery of the State of Delaware shall determine that such indemnification may be made.

(c) INDEMNIFICATION FOR EXPENSES OF A PARTY WHO IS WHOLLY OR PARTLY SUCCESSFUL. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, he shall be indemnified to the maximum extent permitted by law against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

SECTION 2. ADDITIONAL INDEMNITY. In addition to, and without regard to any limitations on, the indemnification provided for in Section 1, the Company shall and hereby does indemnify and hold harmless Indemnitee against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf if, by reason of his Corporate Status, he is, or is threatened to be made, a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company), including, without limitation, all liability arising out of the negligence or active or passive wrongdoing of Indemnitee. The only limitation that shall exist upon the Company's obligations pursuant to this Agreement shall be that the

Company shall not be obligated to make any payment to Indemnitee that is finally determined (under the procedures, and subject to the presumptions, set forth in Sections 6 and 7 hereof) to be unlawful under law.

SECTION 3. CONTRIBUTION IN THE EVENT OF JOINT LIABILITY.

(a) Whether or not the indemnification provided in Sections 1 and 2 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), Company shall pay, in the first instance, the entire amount of any judgment or

settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. Company shall not enter into any settlement of any action, suit or proceeding in which Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), Company shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which the law may require to be considered. The relative fault of Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the

degree to which their liability is primary or secondary, and the degree to which their conduct is active or passive.

(c) Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Company other than Indemnitee who may be jointly liable with Indemnitee.

SECTION 4. INDEMNIFICATION FOR EXPENSES OF A WITNESS. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

SECTION 5. ADVANCEMENT OF EXPENSES. Notwithstanding any other provision of this Agreement, the Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within ten days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by

Indemnitee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free. Notwithstanding the foregoing, the obligation of the Company to advance Expenses pursuant to this Section 5 shall be subject to the condition that, if, when and to the extent that the Company determines that Indemnitee would not be permitted to be indemnified under applicable law, the Company shall be entitled to be reimbursed, within thirty (30) days of such determination, by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Company that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any advance of Expenses until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed).

SECTION 6. PROCEDURES AND PRESUMPTIONS FOR DETERMINATION OF ENTITLEMENT TO INDEMNIFICATION. It is the intent of this Agreement to secure for Indemnitee rights of indemnity that are as favorable as may be permitted under the law. Accordingly, the parties agree that the following procedures and presumptions

shall apply in the event of any question as to whether Indemnitee is entitled to indemnification under this Agreement:

(a) To obtain indemnification (including, but not limited to, the advancement of Expenses and contribution by the Company) under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of the following three methods, which shall be at the election of Indemnitee: (1) by a majority vote of the disinterested directors, even though less than a quorum, or (2) by independent legal counsel in a written opinion, or (3) by the stockholders.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) hereof, the Independent Counsel shall be selected as provided in this Section 6(c). The Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board of Directors). Indemnitee or the Company, as the case may be, may, within ten days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of

"Independent Counsel" as defined in Section 13 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 6(b) hereof. The

Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 6(c), regardless of the manner in which such Independent Counsel was selected or appointed.

(d) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 6(a) of this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

(e) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 6(e) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

(f) If the person, persons or entity empowered or selected under Section 6 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within thirty days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not

materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such thirty day period may be extended for a reasonable time, not to exceed an additional fifteen days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating documentation

and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 6(g) shall not apply if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen days after receipt by the Company of the request for such determination the Board of Directors or the Disinterested Directors, if appropriate, resolve to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within 75 days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen days after such receipt for the purpose of making such determination, such meeting is held for such purpose within 60 days after having been so called and such determination is made thereat.

(g) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board of Directors, or stockholder of the Company shall act reasonably and in good faith in making a determination under the Agreement of the Indemnitee's entitlement to indemnification. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(h) The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

SECTION 7. REMEDIES OF INDEMNITEE.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 6(b) of this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to this Agreement within ten days after

receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification. Indemnitee shall commence such proceeding seeking an adjudication within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 7(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 7 shall be conducted in all respects as a de novo trial, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination under Section 6(b).

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 7, absent a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 7, seeks a judicial adjudication of his rights under, or to recover damages for breach of, this Agreement, or to recover under any directors' and officers' liability insurance policies maintained by the Company, the Company shall pay on his behalf, in advance, any and all expenses (of the types described in the definition of Expenses in Section 13 of this Agreement) actually and reasonably incurred by him in such judicial adjudication, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery.

(e) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 7 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement.

SECTION 8. NON-EXCLUSIVITY; SURVIVAL OF RIGHTS; INSURANCE; SUBROGATION.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the certificate of incorporation of the Company, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal

of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the law, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and

every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

SECTION 9. EXCEPTION TO RIGHT OF INDEMNIFICATION. Notwithstanding any other provision of this Agreement, Indemnitee shall not be entitled to indemnification under this Agreement with respect to any Proceeding brought by Indemnitee, or any claim therein, unless (a) the bringing of such Proceeding or making of such claim shall have been approved by the Board of Directors of the Company or (b) such Proceeding is being brought by the Indemnitee to assert, interpret or enforce his rights under this Agreement.

SECTION 10. DURATION OF AGREEMENT. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an

officer or director of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any Proceeding (or any proceeding commenced under Section 7 hereof) by reason of his Corporate Status, whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as an officer or director of the Company or any other Enterprise at the Company's request.

SECTION 11. SECURITY. To the extent requested by the Indemnitee and approved by the Board of Directors of the Company, the Company may at any time and from time to time provide security to the Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to the Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

SECTION 12. ENFORCEMENT.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as an officer or director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as an officer or director of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

SECTION 13. DEFINITIONS. For purposes of this Agreement:

(a) "Corporate Status" describes the status of a person who is or was a director, officer, employee or agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the express written request of the Company.

(b) "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which

indemnification is sought by Indemnitee.

(c) "Enterprise" shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the express written request of the Company as a director, officer, employee, agent or fiduciary.

(d) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding.

(e) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the

foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(f) "Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of the fact that Indemnitee is or was a director of the Company, by reason of any action taken by him or of any inaction on his part while acting as an officer or director of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other Enterprise; in each case whether or not he is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under

this Agreement; including one pending on or before the date of this Agreement; and excluding one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce his rights under this Agreement.

SECTION 14. SEVERABILITY. If any provision or provisions of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

SECTION 15. MODIFICATION AND WAIVER. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

SECTION 16. NOTICE BY INDEMNITEE. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to the Indemnitee under this

Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

SECTION 17. NOTICES. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to Indemnitee, to the address set forth below Indemnitee signature hereto.

(b) If to the Company, to:

SmartDisk Corporation
3506 Mercantile Avenue
Naples, Florida 34104

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

SECTION 18. IDENTICAL COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

SECTION 19. HEADINGS. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

SECTION 20. GOVERNING LAW. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware without application of the conflict of laws principles thereof.

SECTION 21. GENDER. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate.

SECTION 22. TERMINATION OF PRIOR INDEMNIFICATION AGREEMENTS. Upon the effectiveness of this Agreement, any prior Indemnification Agreements between the parties hereto shall terminate and be of no further force and effect, and shall be superseded and replaced in its entirety by this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

SMARTDISK CORPORATION

By: _____
Name: _____

Address:

_____
_____
_____

EXHIBIT 23.2

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated June 21, 1999, in the Registration Statement (Form S-1) and related Prospectus of SmartDisk Corporation for the registration of shares of its common stock.

/s/ Ernst & Young LLP

Miami, Florida
July 12, 1999

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