

SBE INC
Form DEFM14A
March 07, 2007

SCHEDULE 14A
(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

SBE, INC.

(Name of Registrant as Specified In Its Charter)

Not applicable

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

- | | |
|-----|--|
| (1) | Title of each class of securities to which transaction applies: Common Stock, par value \$0.001 per share, of the Registrant (the "Common Stock"). |
| (2) | Aggregate number of securities to which transaction applies: N/A |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11: N/A |
| (4) | Proposed maximum aggregate value of transaction: \$3,000,000 |
| (5) | Total fee paid: \$600 |

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

- | | |
|-----|-----------------------------|
| (1) | Amount previously paid: N/A |
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- (2) Form, Schedule or Registration Statement No.: N/A
 - (3) Filing Party: N/A
 - (4) Date Filed: N/A
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[SBE letterhead]

March 6, 2007

Dear Stockholder:

You are cordially invited to attend the Special Meeting of Stockholders of SBE, Inc. to be held on March 29, 2007 at SBE's offices located at 4000 Executive Parkway, Suite 200, San Ramon, California 94583. The meeting will begin promptly at 9:00 a.m., local time.

The items of business to be considered at the meeting are listed in the following Notice of Special Meeting and are more fully addressed in the proxy statement included with this letter. The items you will be asked to approve at the meeting relate to the proposed sale of our embedded business to One Stop Systems, Inc. and an amendment to our Amended and Restated Certificate of Incorporation to effect a stock combination (reverse stock split) pursuant to which every five shares of outstanding common stock would be reclassified into one share of common stock.

Our board of directors carefully considered the proposed sale of our embedded business and recommends that you vote in favor of this transaction. Our management team is excited about the sale of our embedded business and believes it is an essential step in maximizing value for our stockholders.

Whether or not you plan to attend the special meeting in person, it is important that your shares be represented and voted at the meeting. Please date, sign, and return your proxy card promptly in the enclosed envelope to ensure that your shares will be represented and voted at the special meeting, even if you cannot attend. If you attend the special meeting, you may vote your shares in person even though you have previously signed and returned your proxy.

On behalf of your board of directors, thank you for your investment in and continued support of SBE, Inc.

Sincerely,

/s/ Greg Yamamoto

Greg Yamamoto
Chief Executive Officer and President

SBE, INC.

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On March 30, 2007**

To the Stockholders of SBE, Inc.:

You are cordially invited to attend a Special Meeting of Stockholders of SBE, Inc., a Delaware corporation (the "Company"). The meeting will be held on March 29, 2007 at 9:00 a.m., local time, at SBE's offices located at 4000 Executive Parkway, Suite 200, San Ramon, California 94583, for the following purposes:

- (1) To approve the sale of our embedded business pursuant to an asset purchase agreement between us and One Stop Systems, Inc. pursuant to which One Stop would acquire our embedded business for \$2,200,000 in cash and assume our obligations under the lease of our corporate headquarters building and certain equipment leases;
- (2) To approve an amendment to the Company's Certificate of Incorporation to effect a stock combination (reverse stock split) pursuant to which every five shares of outstanding common stock would be reclassified into one share of common stock; and
- (3) To transact such other business as may properly come before the meeting or any adjournment thereof.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is March 6, 2007. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ David W. Brunton

David W. Brunton
Secretary

San Ramon, California
March 6, 2007

YOU ARE CORDIALLY INVITED TO ATTEND THE SPECIAL MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE, WHICH DOES NOT REQUIRE ANY POSTAGE IF MAILED IN THE UNITED STATES, IN ORDER TO ENSURE YOUR REPRESENTATION AT THE SPECIAL MEETING. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER IN ORDER TO VOTE IN PERSON.

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**SUMMARY TERM SHEET
FOR THE SALE OF EMBEDDED BUSINESS**

The following summary provides an overview of the proposed sale of our embedded business discussed in this proxy statement. The summary also contains cross-references to the more detailed discussions elsewhere in the proxy statement. This summary may not contain all of the information that is important to you. To understand the proposed asset sale fully, and for a more complete description of the terms of the proposed asset sale, you should carefully read this entire proxy statement and the attached annexes in their entirety.

The Companies (see page 14)

SBE

SBE, Inc., headquartered in San Ramon, California, designs and provides iSCSI-based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. We deliver an affordable, expandable, easy-to-use portfolio of software solutions designed to enable optimal performance and rapid deployment across a wide range of next generation storage systems. We also manufacture and sell hardware products, including wide area network and local area network interface cards and central processor units to original equipment manufacturers that embed our hardware products into their products for the telecommunications markets. Our hardware products perform critical computing and input/output, or I/O, tasks in diverse markets such as high-end enterprise level computing servers, Linux super-computing clusters, workstations, media gateways, routers and Internet access devices. We refer to this hardware business in this proxy statement as our embedded business. Our products are distributed worldwide through a direct sales force, distributors, independent manufacturers' representatives and value-added resellers.

One Stop

One Stop Systems, Inc. is a manufacturer of industrial-grade computing systems and components, including a line of Peripheral Component Interconnect, or PCI, Express-based products. One Stop's PCI Express-based products increase network bus speed up to 16 times faster than 64-bit PCI and 80 times faster than Gigabit Ethernet. One Stop offers over 400 standard products, including its MAX Express product line, passive backplane, Virtual Machine Environment and custom and proprietary bus structures. One Stop's principal executive office is located at 2235 Enterprise Street, Suite 110, Escondido, California 92029.

Neonode (see page 14)

On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization with Neonode, Inc., a Delaware corporation. Neonode is a Sweden-based developer and manufacturer of multimedia mobile handsets. For a description of the proposed Neonode transaction, please see "Overview of the Neonode Transaction" on page 33. The sale of our embedded business to One Stop is a condition to closing the transaction with Neonode. We intend to file a proxy statement in connection with the merger with Neonode. The proxy statement, when it becomes available, will contain important information about the merger transaction and about Neonode. Free copies of the proxy statement will be available at the SEC's website at www.sec.gov.

Overview of the Transaction (see page 33)

We have entered into an asset purchase agreement with One Stop. Under the asset purchase agreement, One Stop would acquire our embedded business for \$2,200,000 in cash and assume our obligations under the lease of our corporate headquarters building and certain equipment leases. The asset purchase agreement is attached to this proxy statement as Annex A.1

Recommendation of the Board of Directors (see page 17)

Our board of directors has determined that the asset sale is fair to, and in the best interests of, us and our stockholders and recommends that our stockholders vote FOR the proposal to approve the sale of our embedded business to One Stop.

To review the background and reasons for the asset sale in detail, see “Asset Sale — Reasons for the Asset Sale” beginning on page 17.

Opinion of Our Financial Advisor (see page 18)

In connection with the proposed asset sale, our board of directors received a written opinion from our financial advisor, Seidman & Co., Inc. as to the fairness of the consideration to be received by us, from a financial point of view and as of the date of the opinion. The full text of Seidman & Co., Inc.’s written opinion is attached to this proxy statement as Annex B. You are encouraged to read this opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken.

The Asset Sale (see page 16)

General

On January 11, 2007, we entered into an Agreement for Purchase and Sale of Assets with One Stop, the asset purchase agreement, pursuant to which we agreed to sell our embedded business to One Stop for \$2,200,000 in cash plus One Stop’s assumption of the lease of our corporate headquarters building and certain equipment leases.

Terms of the Asset Purchase Agreement

The asset purchase agreement is attached to this proxy statement as Annex A. We encourage you to read the asset purchase agreement carefully. Our board of directors has approved the asset purchase agreement, and it is the binding legal agreement that governs the terms of the asset sale.

Conditions Precedent

One Stop’s obligation to complete the asset sale depends on the satisfaction or waiver of a number of conditions, including conditions relating to:

- accuracy of our representations on and as of the closing;
- our performance, satisfaction and compliance with all covenants, agreements and closing conditions;
- no material adverse change will have occurred with respect to the embedded business;

receipt of an officer’s certificate executed by our chief executive officer certifying that all closing conditions have been fulfilled;

- absence of litigation pertaining to the sale of the embedded business;
- our receipt of stockholder approval of the transaction; and
- payment of certain outstanding accounts payable attributable to our embedded business.

In addition, our obligation to complete the asset sale is subject to satisfaction or waiver of certain additional conditions, including conditions relating to:

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- accuracy of One Stop's representations on and as of the closing;
- One Stop's performance, satisfaction and compliance with all covenants, agreements and closing conditions; and
- absence of litigation pertaining to the transaction.

Termination

The asset purchase agreement may be terminated under the following circumstances:

- by mutual written consent of the parties, duly authorized by their respective boards;
- the closing has not occurred on or before April 30, 2007, unless the party terminating in this circumstance is at fault for the delay in closing;
- any proceeding is pending against either party that could prevent performance of the asset sale; or
 - any governmental entity has issued an order, the effect of which is to prohibit the asset sale.

Restriction on Competition

We have agreed that for four years following the closing of the asset sale, we will not directly or indirectly engage in the embedded business or have any interest in (whether as an employee, officer, director, agent, security holder, creditor, consultant, or otherwise), any entity engaged in the embedded business.

Indemnification

Each party has agreed to indemnify the other party for damages arising for any breach of any of the representations or warranties or covenants or obligations in the asset purchase agreement. In addition, we have agreed to indemnify One Stop for any liabilities attributable to operation of the embedded business prior to the closing. All representations, warranties and covenants expire on the first anniversary of the closing. Our liability for indemnification claims made by One Stop pursuant to the asset purchase agreement is capped at \$2,200,000 in the aggregate.

Regulatory Approvals

We are not aware of any federal or state regulatory requirements that must be complied with or approvals that must be obtained to consummate the asset sale other than the filing of this proxy statement with the SEC. If any additional approvals or filings are required, we will use our commercially reasonable efforts to obtain those approvals and make any required filings before completing the transactions.

Dissenters' Rights

Our stockholders are not entitled to exercise dissenters' rights in connection with the asset sale.

Transactions Following the Asset Sale

The assets we propose to sell to One Stop comprise all of our embedded business. After the closing of such sale, we expect our only remaining assets will be cash, accounts receivable, fixed assets and the storage software business we acquired in connection with our acquisition of PyX Technologies, Inc. in 2005. On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization, with Neonode Inc., a Delaware corporation. Neonode is a Sweden-based developer and manufacturer of multimedia mobile handsets. It is anticipated that our name will be changed to "Neonode Inc." in connection with the completion of the merger. The sale of our embedded business to One Stop is a condition to closing the transaction with Neonode. For a description of the proposed Neonode transaction, please see "Overview of the Neonode Transaction" on page 33. We intend to file a proxy statement in connection with the merger with Neonode. The proxy statement, when it becomes available, will contain important information about the merger transaction. Free copies of the proxy statement will be available at the SEC's web site at www.sec.gov. We are evaluating strategic alternatives regarding our storage software business.

Except as otherwise specifically noted, “SBE,” “we,” “our,” “us” and similar words in this proxy statement refer to SBE, Inc. and its subsidiaries. References to “One Stop” shall mean One Stop Systems, Inc.

FORWARD-LOOKING STATEMENTS

The information in this proxy statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that are not historical in nature, including statements about beliefs and expectations, are forward-looking statements. Words such as “may,” “will,” “should,” “estimates,” “predicts,” “believes,” “anticipates,” “plans,” “expects,” “intends,” and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying such statements. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. You are cautioned that these forward-looking statements reflect management's estimates only as of the date hereof, and we assume no obligation to update these statements, even if new information becomes available or other events occur in the future. Actual future results, events and trends may differ materially from those expressed in or implied by such statements depending on a variety of factors, including, but not limited to those set forth under “Risk Factors” and elsewhere in this proxy statement. Important factors that might cause or contribute to such a discrepancy include, but are not limited to:

- the timing and success of the proposed sale of our embedded business and our proposed transaction with Neonode;
- the effect of the transaction on our market price;
- the factors discussed under “Risk Factors,” beginning on page 12; and
- other risks referenced from time to time in our filings with the Securities and Exchange Commission, or SEC.

WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company and file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, proxy statements or other information that we file at the SEC’s public reference room at 100 F Street N.E., Room 1580, Washington, D.C., 20549. You can also request copies of these documents by writing to the SEC and paying a fee for the copying costs. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the public reference room. Our public filings with the SEC are also available on the web site maintained by the SEC at <http://www.sec.gov>.

We have supplied all information in this proxy statement relating to SBE. One Stop has supplied all information in this proxy statement relating to One Stop. Neonode has supplied all information in this proxy statement relating to Neonode. Seidman & Co., Inc. has supplied the information regarding its fairness opinion.

SBE, INC.
4000 Executive Parkway, Suite 200
San Ramon, California 94583

PROXY STATEMENT
FOR THE SPECIAL MEETING OF STOCKHOLDERS
To Be Held On March 29, 2007

The Special Meeting of Stockholders of SBE, Inc. will be held on March 29, 2007, at 4000 Executive Parkway, Suite 200, San Ramon, California 94583, beginning promptly at 9:00 a.m., local time. The enclosed proxy is solicited by our board of directors. It is anticipated that this proxy statement and the accompanying proxy card will be first mailed to holders of our common stock on or about March 9, 2007.

INFORMATION ABOUT THE MEETING

Why am I receiving this proxy statement and proxy card?

You are receiving a proxy statement and proxy card because you own shares of our common stock. This proxy statement describes the issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision.

Who can vote at the special meeting?

Only stockholders of record at the close of business on March 6, 2007 will be entitled to vote at the special meeting. On this record date, there were 11,142,831 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on March 6, 2007 your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on March 6, 2007 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the special meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the special meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

You are being asked to approve the sale of our embedded business pursuant to an asset purchase agreement between us and One Stop Systems, Inc. pursuant to which One Stop would acquire our embedded business for \$2,200,000 in cash and assume our obligations under the lease of our corporate headquarters building and certain equipment leases. In addition, you are being asked to approve an amendment to our certificate of incorporation to effect a stock combination (reverse stock split) pursuant to which every five shares of outstanding common stock would be reclassified into one share of common stock.

How do I vote?

For the matter to be voted on, you may vote “For” or “Against” or abstain from voting. The procedures for voting are fairly simple:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the special meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

- To vote in person, come to the special meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the special meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card to ensure that your vote is counted. To vote in person at the special meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 6, 2007.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count “For” and “Against” votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal and will have the same effect as “Against” votes. Broker non-votes have no effect and will not be counted towards the vote for proposal 1. For Proposal 2, broker non-votes will have the same effect as “Against” votes.

If your shares are held by your broker as your nominee (that is, in “street name”), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. If you do not give instructions to your broker, the shares will be treated as broker non-votes.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be treated as broker non-votes and will have no effect on Proposal 1 and will have the same effect as an “Against” vote for Proposal 2.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return **each** proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy card with a later date;
- You may send a written notice that you are revoking your proxy to our Secretary at 4000 Executive Parkway, Suite 200, San Ramon, California 94583; or
- You may attend the special meeting and vote in person. However, simply attending the special meeting will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

When do you expect the asset sale and reverse split to be completed?

We plan to complete the asset sale as soon as possible after the special meeting, subject to the satisfaction or waiver of certain conditions to the asset sale, which are described in this proxy statement. We cannot predict when, or if, these conditions will be satisfied or waived.

We will complete the reverse split as soon as possible after the special meeting.

What risks should I consider in evaluating the asset sale?

You should consider the risks described under the heading “Risk Factors” beginning on page 12.

How many votes are needed to approve each proposal?

To be approved, Proposal 1 (to consider and vote on the proposed sale of assets) and Proposal 2 (to approve a reverse stock split) must each receive a “For” vote from the majority of our outstanding shares. For Proposal 2, broker non-votes

will have the same effect as “Against” votes.

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What is the quorum requirement?

A quorum is necessary to hold a valid meeting. A quorum will be present if a majority of the outstanding shares are represented either by stockholders present at the meeting or by proxy. On the record date, there were 11,142,831 shares of SBE common stock outstanding and entitled to vote. Thus, at least 5,571,417 shares must be represented either by stockholders present at the meeting or by proxy in order to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

Does the board of directors recommend approval of each of the proposals at the special meeting?

Yes. After careful consideration, our board of directors recommends that our stockholders vote FOR Proposal 1 and Proposal 2.

Who can help answer my questions about the proposal?

If you have additional questions about the proposal, you should contact David Brunton, our Secretary, at (925) 355-2000.

How can I find out the results of the voting at the special meeting?

Preliminary voting results may be announced at the special meeting. Final voting results will be published in our quarterly report on Form 10-Q for the quarter in which the special meeting occurs.

RISK FACTORS

You should consider carefully the following risk factors as well as other information in this proxy statement and the documents incorporated by reference herein or therein, including our annual report on Form 10-K for the year ended October 31, 2006 in voting on the proposal relating to the asset sale. If any of the following risks actually occur, our business, operating results and financial condition could be adversely affected. This could cause the market price of our common stock to decline, and you may lose all or part of your investment.

Risks Relating to the Transaction with One Stop

If we are unable to complete the asset sale, our business will be adversely affected.

If the asset sale is not completed, our business and the market price of our stock will be adversely affected. We currently anticipate that our available cash balances, available borrowings and cash generated from operations will be sufficient to fund our operations only through May 2007. If we are unable to complete the asset sale, we may be unable to find another buyer for our embedded business or another way to grow our business. Costs related to the transaction, such as legal, accounting and financial advisor fees, must be paid even if the transaction is not completed. In addition, even if we have sufficient funds to continue to operate our business but the transaction are not completed, the current market price of our common stock may decline.

We may be unable to complete our proposed Neonode transaction or other strategic transactions following the asset sale.

After the closing of the proposed asset sale, we expect our only remaining assets will be cash, accounts receivable, fixed assets and the storage software business we acquired in connection with our acquisition of PyX Technologies, Inc. in 2005. On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization, with Neonode Inc., a Delaware corporation. Neonode is a Swedish based developer and manufacturer of multimedia mobile handsets. With over five years of research and development Neonode is today a leader and trendsetter in buttonless touch screen mobile phones and gesture-based user interfaces. Neonode mobile phones are based on patented technologies. With Neonode's open Microsoft based platform consumers can themselves upgrade and customize their handsets similar to a PC. It is anticipated that our name will be changed to "Neonode Inc." in connection with the completion of the merger. We intend to file a proxy statement in connection with the merger with Neonode. The proxy statement, when it becomes available, will contain important information about the merger transaction. Free copies of the proxy statement will be available at the SEC's web site at www.sec.gov. We are evaluating strategic alternatives regarding our storage software business. We do not currently have any signed agreement for any sale of our software business or acquisition transaction, nor do we believe that we can continue to operate our software business without additional financing. We may be unable to reach agreement on any such transactions on commercially acceptable terms or at all. The failure to effect any such transactions would likely result in SBE's liquidation.

If One Stop defaults on the assumed building and equipment leases, we will be obligated, as guarantor of such leases, to make the lease payments.

One Stop is assuming our headquarters building lease and engineering equipment lease and is obligated to make regularly scheduled lease payments through September 2010. If One Stop defaults on the leases at any time prior to the lease termination dates, we, as the guarantor of such leases, will be obligated to make the lease payments. We may have insufficient funds and be unable to meet the lease obligations.

We may be obligated to indemnify One Stop pursuant to the asset purchase agreement.

We have agreed to indemnify One Stop for any damages suffered by One Stop arising for any breach of any of the representations or warranties or covenants or obligations we have made in the asset purchase agreement. In addition, we have agreed to indemnify One Stop for any liabilities attributable to operation of the embedded business prior to the closing. The terms of our indemnification obligations are described elsewhere in this proxy statement. In the event we are required to indemnify One Stop, SBE's financial condition may be materially adversely affected and any value obtainable for SBE's stockholders in connection with an acquisition of another business, a sale of our software business or liquidation may decrease.

THE COMPANIES

SBE

We design, manufacture and sell hardware products, including wide area network and local area network interface cards and central processor units, to original equipment manufacturers that embed our hardware products into their products for the telecommunications markets. Embedded networking technology is hardware or software that serves as a component within a larger networking or storage device or system, such as a Gigabit Ethernet or a T-1/T-3 input/output network interface card, that plugs into an expansion slot in a high-end computer or storage system. Our embedded hardware products perform critical computing and I/O tasks in diverse markets such as high-end enterprise level computing servers, Linux super-computing clusters, workstations, media gateways, routers and Internet access devices. We also design and sell iSCSI-based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. We deliver an affordable, expandable, and easy-to-use portfolio of software solutions designed to enable optimal performance and rapid deployment across a wide range of next generation storage systems. We are evaluating strategic alternatives regarding our storage software business, including selling the business.

We were incorporated in 1961 as Linear Systems, Inc. In 1976, we completed our initial public offering. In July 2000, we acquired LAN Media Corporation, a privately held company, to complement and grow our WAN adapter product line from both a hardware and software perspective. In August 2003, we acquired the products and technologies of Antares Microsystems to increase the functionality of our hardware product line. In 2005, we acquired PyX Technologies, Inc., a company engaged in the development implementation and sale of software.

The assets we propose to sell to One Stop comprise all of our embedded hardware business. After the closing of such sale, we expect our only remaining assets will be cash, accounts receivable, fixed assets and the storage software business we acquired in connection with our acquisition of PyX Technologies, Inc. in 2005. Substantially all our revenue for the past year has been generated by our embedded hardware business. After the sale of the embedded hardware business is completed, we will no longer be active in the embedded hardware business and future cash will have to be derived from our storage software operations or from the operations from Neonode after the proposed merger is completed.

On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization, with Neonode Inc., a Delaware corporation. Neonode is a Swedish based developer and manufacturer of multimedia mobile handsets. With over five years of research and development, Neonode is today a leader and trendsetter in buttonless touch screen mobile phones and gesture-based user interfaces. Neonode mobile phones are based on patented technologies. With Neonode's open Microsoft based platform, consumers can themselves upgrade and customize their handsets similar to a PC. It is anticipated that our name will be changed to "Neonode Inc." in connection with the completion of the merger. The sale of our embedded business to One Stop is a condition to closing the transaction with Neonode. We intend to file a proxy statement in connection with the merger with Neonode. The proxy statement, when it becomes available, will contain important information about the merger transaction. Free copies of the proxy statement will be available at the SEC's web site at www.sec.gov.

One Stop

One Stop Systems, Inc. is a manufacturer of industrial-grade computing systems and components, including a line of PCI Express-based products. One Stop's PCI Express-based products increase network bus speed up to 16 times faster than 64-bit PCI and 80 times faster than Gigabit Ethernet. One Stop offers over 400 standard products, including its MAX Express product line, passive backplane, Virtual Machine Environment and custom and proprietary bus structures. One Stop's principal executive office is located at 2235 Enterprise Street, Suite 110, Escondido, California 92029.

Neonode

On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization with Neonode, Inc., a Delaware corporation. Neonode is a Sweden-based developer and manufacturer of multimedia mobile handsets. The sale of our embedded business to One Stop is a condition to closing the transaction with Neonode. For a description of the proposed Neonode transaction, please see “Overview of the Neonode Transaction” on page 33. We intend to file a proxy statement in connection with the merger with Neonode. The proxy statement, when it becomes available, will contain important information about the merger transaction and about Neonode. Free copies of the proxy statement will be available at the SEC’s website at www.sec.gov.

THE ASSET SALE

Background of the Asset Sale

On August 21, 2006, our board of directors held a regular meeting and discussed the strategic direction of SBE. The board authorized our management to retain investment banking advisors to seek alternative measures to increase stockholder value.

On September 8, 2006, we engaged Stratpoint Consulting LLC to assist us with the sale of our embedded business.

On September 21, 2006, our board of directors held a special meeting to discuss the strategic future of SBE, including the possible disposition of all of our assets. At that meeting, our board of directors authorized management to enter into discussions and negotiate term sheets for the disposition of all or a portion of our assets, subject to final approval of the term sheet by the board of directors.

On September 28, 2006, we met with Stratpoint Consulting LLC and finalized a list of 22 prospective companies to contact regarding the potential purchase of our embedded business.

During the week of October 2, 2006, Stratpoint Consulting LLC mailed inquiry letters to the list of prospective companies.

From October 4, 2006 through October 24, 2006, we entered into nondisclosure agreements with six companies that expressed an interest in purchasing our embedded business and sent informational sales packages to each of the companies.

On October 10, 2006, John Reardon, a member of our board of directors and a member of One Stop's board of directors, introduced our Chief Financial Officer, David Brunton, to One Stop's Chief Executive Officer, Steve Cooper, to discuss the potential acquisition of our embedded business by One Stop.

On October 12, 2006, our board of directors formed a Strategic Transaction Committee comprised of our independent board members to review and approve all strategic alternatives presented to the board for approval. Mr. Reardon recused himself from all One Stop and SBE board discussions relating to the potential acquisition of our embedded business by One Stop.

We entered into a nondisclosure agreement with One Stop on October 24, 2006.

From October 24, 2006 through November 10, 2006, we continued to have discussions with two of the companies that received the informational sales packages related to the sale of our embedded business. The other four potential bidders declined to continue discussions.

During the period from August 2006 through the execution of the asset purchase agreement with One Stop, our Chief Executive Officer provided our board of directors with frequent status updates on the potential divestiture of the embedded business.

On November 10, 2006, we had discussions with the two final purchaser candidates and considered purchase offers submitted by both entities before accepting the superior offer from One Stop.

On November 10, 2006, we signed a non-binding term sheet with One Stop pertaining to the proposed sale of our embedded business.

On November 13, 2006, our board of directors met to approve the term sheet and instructed our management to move forward with the asset sale.

From November 13, 2006 through December 31, 2006, One Stop performed a due diligence investigation of our embedded business.

On December 6, 2006, we received the initial draft of the asset purchase agreement from One Stop and its counsel.

During December 2006 through January 8, 2007, negotiations continued on the asset purchase agreement.

On December 13, 2006, we retained Seidman & Co., Inc. to analyze the sale of our embedded business to One Stop and to determine the fairness of the proposed transaction, from a financial point of view, to our stockholders.

On January 9, 2007, at a meeting of our board of directors, Seidman & Co., Inc. delivered its oral opinion to our board of directors that the consideration to be received by SBE in the proposed asset sale is fair, from a financial point of view, to SBE's stockholders. Thereafter, the board of directors, together with management and SBE's outside counsel, engaged in a full discussion of the proposed transaction. After such discussion, the board of directors determined that the transaction was advisable and in the best interests of SBE and its stockholders, determined to recommend to SBE's stockholders that they approve the proposed transaction, and authorized SBE management to execute the asset purchase agreement in the form in which it was presented to the board of directors.

On January 11, 2007, we and One Stop signed the asset purchase agreement. On the same day, we announced via press release the execution of the agreement and filed a corresponding Form 8-K with the Securities and Exchange Commission.

Reasons for the Asset Sale

In reaching its decision to approve the asset sale and to recommend approval of the asset purchase agreement by our stockholders, our board of directors consulted with our management team and advisors.

Prior to approving the asset sale, our board of directors considered various alternative ways to maximize stockholder value. After such consideration, our board of directors concluded that the asset sale presented the best course of action for us at this time.

The material factors considered by our board of directors in making its determination to pursue the asset sale included the following:

1. the amount and form of the consideration to be paid in the transaction;
2. the belief that, after conducting an extensive review of our financial condition, results of operations and business and earning prospects, the sale of the embedded business was likely to create greater value for our stockholders as compared to pursuing our existing course of business or an alternative business strategy; and
3. the extensive process conducted by our management in seeking potential buyers and the belief that the alternatives to the proposed transaction were not reasonably likely to provide equal or greater value to us and our stockholders.

Recommendation of Our Board of Directors

At its meeting held on January 9, 2007, our board of directors (1) determined that the asset sale and the asset purchase agreement are fair to and in the best interests of SBE and our stockholders and (2) determined to recommend that our stockholders approve the proposal related to the transaction. Accordingly, our board of directors recommends that our stockholders vote FOR the asset sale and the asset purchase agreement.

In connection with the foregoing actions, our board of directors consulted with our management team, as well as our financial advisor and legal counsel, and considered the following material factors:

1. all the reasons described above under “Reasons for the Asset Sale”;
2. the judgment, advice and analyses of our senior management, including their favorable recommendation of the asset sale;
3. alternatives to the asset sale;
4. the presentations by and discussions with our senior management and representatives of our counsel and financial advisor regarding the terms and conditions of the asset purchase;
5. the presentations by and discussions with our senior management and representatives of our counsel regarding the terms and conditions of the asset purchase agreement and the asset sale; and
6. that while the asset sale is likely to be completed, there are risks associated with completing the transactions and, as a result of conditions to the completion of the transactions, it is possible that the transactions may not be completed even if approved by our stockholders.

Our board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. Our board of directors relied on the analysis, experience, expertise and recommendation of our management team with respect to each of the transactions and relied on Seidman & Co., Inc., our financial advisor, for analyses of the financial terms of the asset sale. See “Opinion of Our Financial Advisor” on page 18.

In addition, our board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to its ultimate determination, but rather our board of directors conducted an overall analysis of the factors described above, including discussions with our management team and legal, financial and accounting advisors. In considering the factors described above, individual members of our board of directors may have given different weight to different factors.

Opinion of Our Financial Advisor

In connection with the proposed asset sale, our board of directors received a written opinion from Seidman & Co., Inc. as to the fairness of the consideration to be received by us, from a financial point of view and as of the date of the opinion. The full text of Seidman & Co., Inc.’s written opinion is attached to this proxy statement as Annex B. You are encouraged to read this opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken.

PROPOSAL 1

APPROVAL OF THE SALE OF SBE'S EMBEDDED BUSINESS

General

On January 11, 2007, we entered into an asset purchase agreement with One Stop, pursuant to which we agreed to sell our embedded business to One Stop for \$2,200,000 in cash plus One Stop's assumption of the lease of our corporate headquarters building and certain equipment leases.

The asset purchase agreement is attached to this proxy statement as Annex A. You should read the asset purchase agreement carefully. It is the agreement that governs the terms of the asset sale. The following information summarizes the terms of the asset purchase agreement.

Effective Time of the Asset Sale

The asset purchase agreement provides that the closing of the asset sale will take place as soon as practicable after the conditions to closing set forth in the asset purchase agreement are fulfilled. Completion of the asset sale could be delayed if there is a delay in satisfying the closing conditions to the asset sale. There can be no assurances as to whether, and on what date, the conditions will be satisfied or that the asset sale will be completed at all. If the asset sale is not completed on or before April 30, 2007, either we or One Stop may terminate the asset purchase agreement, except that a party cannot terminate the agreement if that party's failure to fulfill any of its obligations under the asset purchase agreement was the cause of the asset sale not being completed by that date.

Representations and Warranties

The asset purchase agreement contains representations and warranties made by us to One Stop and by One Stop to us for purposes of allocating the risks associated with the asset sale. Our representations and warranties to One Stop in the asset purchase agreement include, among other things:

- our organization, qualification and good standing;
- the accuracy of our financial statements;
- the absence of certain changes since July 31, 2006;
- our debts, obligations and liabilities;

the assets of our business, including our real property, inventory, tangible personal property, accounts receivable, intellectual property and other intangible property;

- title to and sufficiency of our assets;
- our customers and sales;
- our employment contracts and benefits;
- insurance policies;
- our compliance with laws and regulations;

- litigation;
- necessary authority and consents;

- conflicts of interest with our customers, suppliers or competitors; and
 - personnel.

One Stop's representations and warranties to us include, among other things:

- organization, qualification and good standing;
- necessary authority and consents; and
- ability to pay the purchase price.

Certain Covenants

The asset purchase agreement provides that we must meet certain obligations with respect to our embedded business prior to the closing of the asset sale:

- provide One Stop with access to all of our records and documents;
- conduct our embedded business in the ordinary course and in substantially the same manner as conducted prior to the asset purchase agreement;
 - preserve our business and relationships;
 - maintain our existing insurance;
- not make changes in compensation or benefits of our employees, sales agents or representatives;
- not enter into new contracts (i) not in the ordinary course or consistent with past practices, (ii) in the ordinary course for an amount in excess of \$50,000, (iii) for the lease of capital equipment or property with annual lease charges in excess of \$10,000 or (iv) for the sale of any capital assets with a net book value in excess of \$10,000;
 - not modify or terminate any of our existing contracts or agreements;
 - obtain the written consent of certain third parties;
- upon request, deliver to One Stop a description of our trade secrets, processes or business procedures;
- obtain written approval of our board of directors for the asset sale; and
 - comply with our confidentiality obligations.

The asset purchase agreement provides that One Stop must meet certain obligations prior to the closing of the asset sale:

- comply with its confidentiality obligations;
- cooperate in our efforts to obtain the consents of certain third parties;
- furnish a resale certificate to comply with California sales and use tax laws; and

- obtain written approval of its board of directors for the purchase of assets.

Conditions Precedent

One Stop's obligation to complete the asset sale depends on the satisfaction or waiver of a number of conditions, including conditions relating to:

- accuracy of our representations on and as of the closing;
- our performance, satisfaction and compliance with all covenants, agreements and closing conditions;
- no material adverse change will have occurred with respect to the embedded business;

receipt of an officer's certificate executed by our chief executive officer certifying that all closing conditions have been fulfilled;

- absence of litigation pertaining to the sale of the embedded business;
- our receipt of stockholder approval of the transaction; and
- payment of certain outstanding accounts payable attributable to the embedded business.

In addition, our obligation to complete the asset sale is subject to satisfaction or waiver of certain additional conditions, including conditions relating to:

- accuracy of One Stop's representations on and as of the closing;
- One Stop's performance, satisfaction and compliance with all covenants, agreements and closing conditions; and
- absence of litigation pertaining to the transaction.

Termination

The asset purchase agreement may be terminated under the following circumstances:

- by mutual written consent of the parties, duly authorized by their respective boards;

the closing has not occurred on or before April 30, 2007, unless the party terminating in this circumstance is at fault for the delay in closing;

- any proceeding is pending against either party that could prevent performance of the asset sale; or
- any governmental entity has issued an order, the effect of which is to prohibit the asset sale.

Restriction on Competition

We have agreed that for four years following the closing of the asset sale, we will not directly or indirectly engage in the embedded business or have any interest in (whether as an employee, officer, director, agent, security holder, creditor, consultant, or otherwise), any entity engaged in the embedded business.

Indemnification

Each party has agreed to indemnify the other party for damages arising for any breach of any of the representations or warranties or covenants or obligations in the asset purchase agreement. In addition, we have agreed to indemnify One Stop for any liabilities attributable to operation of the embedded business prior to the closing. All representations, warranties and covenants expire on the first anniversary of the closing. Our liability for indemnification claims made by One Stop pursuant to the asset purchase agreement is capped at \$2,200,000 in the aggregate.

Waivers

Any provision of the asset purchase agreement may be waived if the waiver is duly executed and delivered by the party against whom the waiver is to be effective and will only be applicable in the specific instance in which it is given.

Amendments

Any provision of the asset purchase agreement may be amended if the amendment is duly executed and delivered by us and One Stop.

Fees and Expenses

We and One Stop will each pay our own respective fees, costs and expenses incurred in connection with the asset purchase agreement.

PROPOSAL 2

APPROVAL OF REVERSE STOCK SPLIT

Background

Our common stock is quoted on The Nasdaq Capital Market under the symbol SBEL. In order for our common stock to continue to be quoted on the Nasdaq Capital Market, we must satisfy various listing maintenance standards established by Nasdaq. Among other things, as such requirements pertain to us, we are required to have stockholders' equity of at least \$2.5 million and public float value of at least \$1 million and our common stock must have a minimum closing bid price of \$1.00 per share. Our stockholders' equity as of October 31, 2006 was approximately \$3.3 million and our closing bid price on October 31, 2006 was \$0.37.

On July 14, 2006, we received a notice from The Nasdaq Stock Market, or Nasdaq, indicating that for the preceding 30 consecutive business days, the bid price of our common stock closed below the \$1.00 minimum bid price required for continued listing by Nasdaq Marketplace Rule 4310(c)(4), referred to as the Rule. The notice stated that we would be provided 180 calendar days, or until January 10, 2007, to regain compliance with the Rule. The notice further stated that if we were not in compliance with the Rule by January 10, 2007, the Nasdaq staff would determine whether we meet the Nasdaq initial listing criteria as set forth in Nasdaq Marketplace Rule 4310(c), except for the bid price requirement. If we met the initial listing criteria, the Nasdaq staff would notify us that we had been granted an additional 180 calendar day compliance period. If we were not eligible for an additional compliance period, the Nasdaq staff would provide us written notification that our securities would be delisted from Nasdaq, and at that time we would be able to appeal the staff's determination to a Listings Qualifications Panel.

On January 11, 2007, we received a notice from Nasdaq that our stock is subject to delisting and that we would not be given the additional 180 day compliance period and that we did not meet the Nasdaq initial listing criteria as set forth in Nasdaq Marketplace Rule 4310(c). We filed an appeal of the staff's determination to a Listings Qualifications Panel. Delisting of our stock from Nasdaq is stayed pending the determination of the Listings Qualifications Panel. The appeals hearing was held on February 22, 2007 and we are awaiting the Panel's determination. We expect the Panel will grant us an extension such that if we complete a stock split sufficient to increase our bid price to \$1.00 or more prior to the extension date, our shares may remain listed on the Nasdaq Capital Market. We anticipate seeking stockholder approval of such reverse split at the same time as we seek stockholder approval of the One Stop Systems transaction. We will need to comply with the Nasdaq initial listing criteria, which requires a \$4.00 minimum bid price, in connection with the Neonode transaction so we may effect a subsequent reverse split in connection with that transaction.

In response to the notice from Nasdaq, we propose that a 1-for-5 reverse stock split be implemented for the purpose of increasing the market price of our common stock above the Nasdaq minimum bid requirement. There is no assurance that we will meet the continued listing requirements following the split or that, even if the continued listing requirements are met, that our common stock will continue to be traded on the Nasdaq Capital Market.

If we fail to regain compliance with the standards necessary to be quoted on The Nasdaq Capital Market or we are unsuccessful in our appeal of the delisting determination and our common stock is delisted, trading in our common stock would be conducted on the OTC Bulletin Board as long as we continue to file reports required by the Securities and Exchange Commission. The OTC Bulletin Board is generally considered to be a less efficient market than The Nasdaq Capital Market, and our stock price, as well as the liquidity of our common stock, may be adversely impacted as a result.

Purpose and Material Effects of Proposed Reverse Split

One of the key requirements for continued listing on The Nasdaq Capital Market is that our common stock must maintain a minimum bid price above \$1.00 per share. We believe that the reverse split will improve the price level of our common stock so that we are able to maintain compliance with the Nasdaq minimum bid price listing standard. Furthermore, we believe that maintaining our Nasdaq Capital Market listing, if possible, may provide us with a broader market for our common stock.

However, the effect of the reverse split upon the market price for our common stock cannot be predicted, and the history of similar stock split combinations for companies in like circumstances is varied. There can be no assurance that the market price per share of our common stock after the reverse split will rise in proportion to the reduction in the number of shares of our common stock outstanding resulting from the reverse split. The market price of our common stock may also be based on our performance and other factors, some of which may be unrelated to the number of shares outstanding. Furthermore, the possibility exists that liquidity in the market price of our common stock could be adversely affected by the reduced number of shares that would be outstanding after the reverse split. There can be no assurance that the market price per post-reverse split share will either exceed or remain in excess of the \$1.00 minimum bid price as required by Nasdaq, or that we will otherwise meet the requirements of Nasdaq for continued listing on The Nasdaq Capital Market, including the minimum public float or stockholders' equity requirements.

The reverse split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in us or proportionate voting power, except to the extent that the reverse split results in any of our stockholders owning a fractional share. In lieu of issuing fractional shares, we will pay cash to each stockholder owning fractional shares as described below. Although the reverse split will not affect any stockholder's percentage ownership or proportionate voting power (subject to the treatment of fractional shares), the number of authorized shares of common stock will not be reduced and will increase the ability of the Board to issue such authorized and unissued shares without further stockholder action. This issuance of such additional shares, if such shares were issued, may have the effect of diluting the earnings per share and book value per share, as well as the stock ownership and voting rights, of outstanding common stock. The effective increase in the number of authorized but unissued shares of common stock may be construed as having an anti-takeover effect by permitting the issuance of shares to purchasers who might oppose a hostile takeover bid or oppose any efforts to amend or repeal certain provisions of our certificate of incorporation or bylaws.

The principal effect of the reverse split will be that (i) the number of shares of common stock issued and outstanding will be reduced from approximately 11,130,831 million shares as of January 29, 2007 to approximately 2,226,166 million shares, (ii) all outstanding options entitling the holders thereof to purchase shares of common stock will enable such holders to purchase, upon exercise of their options, one-fifth of the number of shares of common stock which such holders would have been able to purchase upon exercise of their options immediately preceding the reverse split at an exercise price equal to five times the exercise price specified before the reverse split, resulting in the same aggregate price being required to be paid therefor upon exercise thereof immediately preceding the reverse split, and (iii) the number of shares reserved for issuance in our equity incentive plans will be reduced to one-fifth of the number of shares currently included in each such plan.

The reverse split will not affect the par value of our common stock. As a result, on the effective date of the reverse split, the stated capital on our balance sheet attributable to the common stock will be reduced to one-fifth of its present amount, and the additional paid-in capital account shall be credited with the amount by which the stated capital is reduced. The per share net income or loss and net book value of our common stock will be increased because there will be fewer shares of our common stock outstanding.

The reverse split is not intended as, and will not have the effect of, a "going private transaction" covered by Rule 13e-3 under the Securities Exchange Act of 1934. We will continue to be subject to the periodic reporting requirements of the Securities Exchange Act of 1934.

Procedure for Effecting Reverse Split and Exchange of Stock Certificates

If the reverse split is approved by our stockholders and the Board of Directors has determined to effect the reverse split, we will promptly file a certificate of amendment with the Secretary of State of the State of Delaware. The reverse split will become effective on the date of filing the certificate of amendment, which we will refer to as the

effective date. Beginning on the effective date, each certificate representing pre-reverse split shares will be deemed for all corporate purposes to evidence ownership of post-reverse split shares.

As soon as practicable after the effective date, stockholders will be notified that the reverse split has been effected. Our transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. We refer to such person as the exchange agent. Holders of pre-reverse split shares may be asked to surrender to the exchange agent certificates representing pre-reverse split shares in exchange for certificates representing post-reverse split shares in accordance with the procedures to be set forth in a letter of transmittal to be sent by us. **Stockholders should not destroy any stock certificate and should not submit any certificates until requested to do so.**

Fractional Shares

We will not issue fractional certificates for post-reverse split shares in connection with the reverse split. In lieu of any such fractional share interest, each holder of pre-reverse split shares who as a result of the reverse split would otherwise receive a fractional share of post-reverse split common stock will be entitled to receive cash in an amount equal to the product obtained by multiplying (i) the closing sales price of our common stock on the effective date as reported on The Nasdaq Capital Market by (ii) the number of shares of pre-reverse split common stock held by such holder that would otherwise have been exchanged for such fractional share interest. Such amount will be issued to such holder in the form of a check in accordance with the exchange procedures outlined above.

No Dissenter's Rights

Under the Delaware General Corporation Law, our stockholders are not entitled to dissenter's rights with respect to our proposed amendment to our charter to effect the reverse split and we will not independently provide our stockholders with any such right.

Federal Income Tax Consequences of the Reverse Split

The following is a summary of important U.S. federal income tax considerations of the reverse split. It addresses only stockholders who hold the pre-reverse split shares and post-reverse split shares as capital assets. It does not purport to be complete and does not address stockholders subject to special rules, such as financial institutions, tax-exempt organizations, insurance companies, dealers in securities, mutual funds, foreign stockholders, stockholders who hold the pre-reverse split shares as part of a straddle, hedge, or conversion transaction, stockholders who hold the pre-reverse split shares as qualified small business stock within the meaning of Section 1202 of the Internal Revenue Code of 1986, as amended (the "Code"), stockholders who are subject to the alternative minimum tax provisions of the Code, and stockholders who acquired their pre-reverse split shares pursuant to the exercise of employee stock options or otherwise as compensation. This summary is based upon current law, which may change, possibly even retroactively. It does not address tax considerations under state, local, foreign, and other laws. Furthermore, we have not obtained a ruling from the Internal Revenue Service or an opinion of legal or tax counsel with respect to the consequences of the reverse stock split. Each stockholder is advised to consult his or her tax advisor as to his or her own situation.

The reverse stock split is intended to constitute a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1968. Assuming the reverse split qualifies as a reorganization, a stockholder generally will not recognize gain or loss on the reverse stock split, except to the extent of cash, if any, received in lieu of a fractional share interest in the post-reverse split shares. The aggregate tax basis of the post-reverse split shares received will be equal to the aggregate tax basis of the pre-reverse split shares exchanged therefor (excluding any portion of the holder's basis allocated to fractional shares), and the holding period of the post-reverse split shares received will include the holding period of the pre-reverse split shares exchanged.

A holder of the pre-reverse split shares who receives cash will generally recognize gain or loss equal to the difference between the portion of the tax basis of the pre-reverse split shares allocated to the fractional share interest and the cash received. Such gain or loss will be a capital gain or loss and will be short term if the pre-reverse split shares were held

for one year or less and long term if held more than one year.

No gain or loss will be recognized by SBE as a result of the reverse stock split.

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Vote Required

The affirmative vote of the holders of a majority of the shares of our common stock will be required to approve the amendment to our Certificate of Incorporation to effect the reverse split. As a result, abstentions and broker non-votes will have the same effect as negative votes.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE
IN FAVOR OF PROPOSAL 2**

BUSINESS

Overview

SBE designs, manufactures and sells embedded hardware products including wide area network (WAN) and local area network (LAN) network interface cards (NICs) and central processing units (CPUs) to OEMs who embed our hardware products into their products for the communications markets. Our embedded hardware products perform critical, computing and Input/Output (I/O) tasks in diverse markets such as high-end enterprise level computing servers, Linux super-computing clusters, workstations, media gateways, routers and Internet access devices.

We also design and provide software based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. We deliver an affordable, expandable, and easy-to-use portfolio of software solutions designed to enable optimal performance and rapid deployment across a wide range of next generation storage systems. We sell standards-based storage software solutions to original equipment manufacturers (OEMs), system integrators and value added resellers (VARs) who embed our software into their IP storage area network (IP SAN) and network attached storage (NAS) systems to provide data storage solutions for the small and medium business (SMB) enterprise storage markets. We are evaluating strategic alternatives regarding our storage software business, including selling the business.

We experienced a decline in our sales volume of our embedded hardware products and a lack of market acceptance for our storage software that dramatically affected our operating cash flow for fiscal 2006. Because of the continuing decline of our cash balance, we have been evaluating strategic alternatives to return the company to cash flow positive and unlock value for our shareholders. In September 2006, our Board of Directors and management believed that the best course of action was to consider selling our embedded hardware and storage software businesses and to consider seeking a viable merger candidate.

On January 11, 2007, we signed an asset purchase agreement with One Stop Systems, Inc., a private California corporation, to purchase our embedded hardware business for \$2.2 million cash plus the assumption of our corporate headquarters office lease and a lease for certain engineering equipment. When the divestiture of our embedded hardware business is completed we will no longer participate in the embedded hardware markets. We will transfer our entire inventor and the engineering and test equipment associated with the embedded hardware business to One Stop.

On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization with Neonode Inc., a Delaware corporation. Neonode is a Sweden-based developer and manufacturer of multimedia mobile handsets. With over five years of research and development, Neonode is today a leader and trendsetter in buttonless touch screen mobile phones and gesture-based user interfaces. Neonode mobile phones are based on patented technologies. With Neonode's open Microsoft based platform consumers can themselves upgrade and customize their handsets similar to a PC. It is anticipated that our name will be changed to "Neonode Inc." in connection with the completion of the merger. The sale of our embedded business to One Stop is a condition to closing the transaction with Neonode. We intend to file a proxy statement in connection with the merger with Neonode. The proxy statement, when it becomes available, will contain important information about the merger transaction. Free copies of the proxy statement will be available at the SEC's web site at www.sec.gov.

Products and Technologies

Storage Products

Managing, growing, and protecting storage is regarded as one of the most burdensome and expensive responsibilities of a company's data center management. In the direct-attached storage (DAS) environments that most small to mid-sized companies deploy, the process of managing storage is made more difficult by the number of physical

connection points and the number of storage systems in the organization. Imagine an environment with ten computers, each with its own storage system. That creates ten storage systems that need to be managed and maintained, which then equates to ten times the effort normally required in order to handle storage expansion, reallocation and repairs. One of the main driving forces behind a transition from DAS to a SAN is often high data growth and the need for operations efficiency. In these circumstances the legacy DAS environment becomes increasingly complex, backup/restore operations become increasingly unreliable, and the storage environment is unable to support the demands of the business.

Developed to extend the reach of SANs by enabling SAN functionality over the IP network, Internet Small Computer System Interface (iSCSI) technology uses the SCSI command set over Transmission Control Protocol/ Internet Protocol (TCP/IP), enabling any requesting node on the IP network (the initiator) to contact any remote storage server (the target) and perform block I/O on the target as if it was a local hard drive. Because of the ubiquity of IP networks, iSCSI can be used to transmit data over LANs, WANs, or the Internet and can enable location independent data storage and retrieval. iSCSI has no distance limitations, can utilize existing network infrastructure, does not require specialized training, and takes advantage of Ethernet's economies of scale. With the immediate availability of 10G adapters and switches, we believe that iSCSI SANs can more than double the performance levels of leading-edge Fibre Channel implementations, while mass adoption continues to drive costs down.

On top of all that, regulatory compliance pressures, the need to integrate geographically dispersed data assets, and the availability of effective information life-cycle management solutions create further issues and serve as drivers behind the move to IP SANs. Another significant driver behind IP SANs is the availability of data center staff. Most smaller, regional, and departmental data centers have to operate with limited staff. Often, the decision to move to a SAN environment hinges on whether the existing staff can handle it. In these cases an IP SAN solution becomes a viable alternative, since it can almost always be more easily managed by existing staff and skill sets.

Our IP SAN Director Suite addresses the need for easy-to-manage, inexpensive storage and data protection through our iSCSI transport stack, storage management features, and data protection modules.

The iSCSI transport stack is the foundation of our IP SAN Director Suite and is scalable from Wi-Fi to 10 Gigabit Ethernet. It delivers the same level of reliability, quality of service and system robustness as alternative solutions, such as Fibre Channel, but at a fraction of the cost. We believe that the advanced features designed into the architecture of our iSCSI protocol stack enables highly efficient and cost-effective storage transport by optimizing bandwidth usage, enabling unlimited storage to be attached to each target device, and leveraging existing network technologies.

Our iSCSI protocol stack provides multipathing I/O functionality for maximum redundancy and reliability, aggregation of bandwidth to reduce service costs, as well as multiple connections per session to increase bandwidth efficiency and data integrity. Enterprise-level quality of service functionality enables traffic to be consistently classified, prioritized, and queued at line rate. We believe that the Error Recovery Level 2 (ERL2) featured in our iSCSI protocol stack increases system reliability, availability and adaptability. ERL2 supports active/active task migration, which prevents session and data loss. Our iSCSI stack is fully tested and compliant with IETF RFC-3720 iSCSI standards, including all mandatory and optional feature sets. Our SBE iSCSI target supports most Linux distributions and is compatible with any compliant iSCSI initiator under any OS distribution, including Linux, Windows and Solaris. An additional benefit of using iSCSI transport is its interoperability with any storage protocol disk drive interfaces (SCSI, Serial Attached SCSI (SAS), Serial ATA (SATA), Fiber Channel drives).

On top of our foundation iSCSI protocol stack, we have developed and manufactured a wide variety of storage management features and data protection modules. While the iSCSI protocol stack provides for a robust, inexpensive, and highly scalable transport infrastructure, modules included in our IP SAN Director Suite such as iSNS (Internet Storage Name Service), SNMP (Simple Network Management Protocol), Snapshot, High Availability, and Replication seamlessly address the needs and requirements of today's IT storage managers.

The iSNS feature set provides similar functionality as a DHCP (Dynamic Host Configuration Protocol) server. As new storage subsystems are brought online, iSNS allows automatically names and adds them to the storage pool. Consistent with our integrated approach to system design, both an iSNS client and iSNS server are provided. To further ease the burdens of large-scan storage administration, the SNMP module allows the user to monitor the status of a large SAN from a single console.

As a component of our IP SAN Director Suite, the Snapshot add-in module provides critical data protection by creating point-in-time images of iSCSI data volumes. As a standalone application the snapshot module provides maximum protection; users may access data at discrete times in history when a combination of application error and user error overwrites, or corrupts critical data. In the event of a catastrophic event such as virus infection, the rollback feature allows the IT administrator to recover the entire data volume to a previously known healthy state. The Snapshot module conjoined with backup software running on an application server allows mainline, primary data access to continue, while the backup process copies the snapshot image to a secondary and offline storage.

Replication across storage subsystems is a critical part of any IP SAN data protection solution. Multiple versions of replication exist and are required for different purposes and application environments. To effectively address the wide spectrum of needs, we are developing 3 distinct Replication add-in modules that are seamlessly integrated into our IP SAN Director Suite. The first two add-in modules in our Replication portfolio address the need for data mirrors for primary storage within a SAN. With the Synchronous Online Replication module, both the local target and remote target must complete any writes from iSCSI initiators before an acknowledgment is sent. This guarantees data integrity and works well in low-latency SAN environments for primary storage.

There are some instances where performance is the top priority. In these cases, the Asynchronous Online Replication module is appropriate. Writes completed on the primary target are immediately acknowledged in parallel with writes that are sent to the mirror target, thus the latency associated with waiting for the mirror target to acknowledge a write are avoided. This is also beneficial in higher latency environments for backup when the mirror target may be on a WAN connection.

In a disaster recovery scenario, the mirror target is often located several hundred miles from the primary target and accessible only through a bandwidth-limited WAN connection. In this situation, the Offline Replication module is most appropriate. This module allows the system administrator to schedule replication events during discrete periods of time.

A complete IP SAN solution requires data availability and access features as well as data protection features. While SBE's Snapshot and Replication add-in modules support data protection, SBE is proud to offer High Availability as an additional module to directly address the need for uninterruptible access to mission critical data. In the event of failure at the primary storage director, the mirror storage director automatically takes over with no disruption and interruption of service to the initiators accessing the underlying storage. The high availability functionality is transparent to the initiators requiring zero additional configurations.

Hardware Products

Upon closing the sale of our embedded hardware business to One Stop Systems, estimated to take place in the second quarter of fiscal 2007, we will no longer have a hardware product line and the terms and conditions of the asset sale agreement prohibit us from competing in the embedded hardware markets for at least four year after the transaction is completed.

Network Interface Cards

Wide Area Networking Adapters. A WAN is a computer or communications network that spans a relatively large geographical area. Computers attached to a WAN are often connected through dedicated networks, such as the telephone system, leased lines or satellites. Our series of WAN adapter products is designed to address the need for WAN interfaces in data communication products, such as those used in Internet and other communications routers, security firewalls, Virtual Private Network (VPN) servers and Voice over Internet Protocol (VoIP) gateways. We provide a broad range of standards-based interfaces that can be easily integrated into our OEM customers' products.

Local Area Networking Adapters. A LAN is a computer network spanning a relatively small geographical area. Often confined to a single building or group of buildings, most LANs connect workstations and personal computers in an office environment. Each computer in the LAN is able to access data and devices, such as printers, located anywhere on the LAN. There are many different types of LANs but Ethernet is the one that is most commonly deployed. Ethernet LAN connectivity is utilized by virtually every market segment in both the embedded and enterprise space.

Our LAN adapter products are focused on LAN connectivity using high speed Ethernet technology. We offer single, dual or quad port LAN adapters that feature connectivity speeds of up to 10 Megabits (Mb)/second, 100 Mb/second or 1000 Mb/second. Our Gigabit Ethernet NICs include trunking and failover features. These features allow our customers' systems to take advantage of static load balancing and failure recovery within a user-defined communications trunk. Our Gigabit Ethernet NICs are designed to distribute traffic across the aggregated links, detect port failures, and increase throughput. In the event of a system failure, the software will automatically redistribute outgoing loads across the remaining links.

Storage Network Interface Cards. Our storage NICs are comprised of SCSI products. SCSI is a parallel interface standard used by personal computers and many UNIX systems for attaching peripheral devices, such as printers and disk drives, to computers. SCSI interfaces are designed to allow for faster transmission rates than standard serial ports, which transfer data one bit at a time, and parallel ports, which simultaneously transfer data more than one bit at a time. Our series of SCSI host bus adapters are specifically designed for the enterprise Sun UNIX market. With transfer rates ranging from 40 Megabytes (MB)/sec to 320 MB/sec, our SCSI adapters have been utilized in data centers and enterprise environments within the financial, government, manufacturing, and healthcare sectors. These SCSI boards are also utilized in UNIX-based SCSI tape backup systems.

Encryption Adapters. Our secure PMC series of high-performance security offload solutions is designed for integration into Linux-based systems. Advanced encryption processors accelerate SSL and IPsec cryptographic operations, significantly improving security, performance, and availability of networking applications. Designed to enable quick integration by OEMs, VARs and end users, our secure PMC adapters can be used in a wide variety of networking equipment, including routers, switches, web servers, server load balancers, firewalls, SANs and VPN gateways.

TCP/IP Offload Engine (TOE). A TOE is a highly specialized TCP/IP protocol accelerator. Typically, in the form of a NIC, it is designed to reduce the amount of host CPU cycles required for TCP/IP processing and maximize Ethernet throughput. This is accomplished by offloading TCP/IP protocol processing from the host processor to the hardware on the TOE. It is designed to provide fast, reliable, and secure access to networked storage devices via the Internet without seriously impacting the host CPU.

Intelligent Communications Controllers

Our HighWire products are "intelligent," containing their own microprocessors and memory. This architecture allows our communications controllers to offload many of the lower-level communications tasks that would typically be performed by the host platform.

In the telecommunications market, the HighWire series of communications controller products provide high bandwidth intelligent connectivity to servers designed to act as gateways and signaling points within communication networks and network devices. The HighWire co-processing controllers enable operators of wireline and wireless networks to deliver Intelligent Network and Advanced Intelligent Network services such as Caller ID, voice messaging, personal number calling, Service Provider Local Number Portability, and customized routing and billing, as well as digital wireless services such as Personal Communications Systems (PCS) and Global System for Mobile Telecommunications (GSM). The HighWire products are designed for integration with standard server platforms that enable traditional carriers and new telecommunications entrants to pursue cost-reduced and performance-enhanced network architectures based on IP, broadband or other "packet" technologies.

Other

Although we continue to sell and manufacture legacy products such as Multibus, Versa Module Europa (VME) bus, and ISA, we emphasize three principal lines of products: storage software solutions, WAN/LAN adapter products, and

carrier platforms (also known as our “HighWire” line). Our legacy, WAN/LAN, adapter and carrier platforms products comprise our embedded hardware products that we are selling to One Stop Systems.

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The following table shows sales by major product type as a percentage of net sales for fiscal 2006, 2005 and 2004:

	Year Ended October 31,		
	2006	2005	2004
	(percentage of net sales)		
VME	8%	20%	43%
Adapters	59	48	46
HighWire	32	32	11
Storage Software			