

SBE INC  
Form PRER14A  
July 02, 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**

**(Amendment No. 1)**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

- x Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- o Definitive Proxy Statement
- o Definitive Additional Materials
- x 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):

- o No fee required.
- x 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: 28,379,000   |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11: Pursuant to Section 14(g)(1)(i) of the Securities Exchange Act of 1934, \$30.70 per \$1,000,000 of the proposed value. |
| (4) | Proposed maximum aggregate value of transaction: \$52,650,903   |
| (5) | Total fee paid: \$1,616.35  |

- x Fee paid previously with preliminary materials.

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- o 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
  - (2) Form, Schedule or Registration Statement No.: N/A
  - (3) Filing Party: N/A
  - (4) Date Filed: N/A
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SBE, Inc.

[\_\_\_\_\_], 2007

Dear Stockholder:

You are cordially invited to attend the Special Meeting of Stockholders of SBE, Inc. to be held on August 10, 2007 at our offices located at 4000 Executive Parkway, Suite 200, San Ramon, California 94583. The meeting will begin promptly at 9:00 a.m. California time.

The items of business to be considered at the special 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 special meeting relate to our proposed acquisition of Neonode Inc., an increase in the number of shares authorized for issuance under the 2006 Equity Incentive Plan and the amendment and restatement of our Amended and Restated Certificate of Incorporation to (i) effect a stock combination (reverse stock split) of either 1-for-2 or 1-for-3, with the specific ratio to be determined by our board of directors, pursuant to which every two or three shares of outstanding common stock, as applicable, would be reclassified into one share of common stock; (ii) increase the authorized shares of common stock from 25,000,000 to 40,000,000 and (iii) change our name from SBE, Inc. to "Neonode Inc."

Our board of directors carefully considered each of the above proposals and recommends that you vote in favor of each. We are excited about the opportunities for the combined company and believe that the combined company will be able to create substantially more stockholder value than could be achieved by the companies individually.

**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 and are the stockholder of record, 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  
*President and Chief Executive Officer*

**SBE, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
To Be Held On August 10, 2007**

To the Stockholders of SBE, Inc.:

You are cordially invited to attend the Special Meeting of Stockholders of SBE, Inc, a Delaware corporation (the "Company"). The special meeting will be held 4000 Executive Parkway, Suite 200, San Ramon, California 94583. The meeting will begin promptly at 9:00 a.m. California time.

(1) To consider and vote upon the adoption of the Agreement and Plan of Merger and Reorganization, dated January 19, 2007 and amended as of May 18, 2007, between us and Neonode Inc., and to approve the merger of our newly-formed, wholly-owned subsidiary, Cold Winter Acquisition Corporation, with and into Neonode Inc.

(2) To consider and vote upon the approval of our 2006 Equity Incentive Plan, as amended to increase the number of shares authorized for issuance under the plan by 1,000,000 shares of common stock from an aggregate of 300,000 shares to 1,300,000 shares;

(3) To consider and vote upon the approval of an amendment and restatement of our Certificate of Incorporation to effect a stock combination (reverse stock split) of either 1-for-2 or 1-for-3, with the specific ratio to be determined by our board of directors, pursuant to which every two or three shares of outstanding common stock, as applicable, would be reclassified into one share of common stock;

(4) To consider and vote upon the approval of an amendment and restatement of our Certificate of Incorporation to increase the authorized shares of common stock from 25,000,000 to 40,000,000;

(5) To consider and vote upon the approval of an amendment and restatement of our Certificate of Incorporation to change the name of the Company from "SBE, Inc." to "Neonode Inc."; and

(6) To transact such other business as may properly come before the special 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 special meeting is July 3, 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  
[\_\_\_\_\_], 2007

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**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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Annex E - Financial Statements - SBE

Annex F - Financial Statements - Neonode

Annex G - Unaudited Pro Forma Financial Statements

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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 “Neonode” shall mean Neonode Inc. and its wholly-owned subsidiary, Neonode AB.

### **SUMMARY OF THE MATERIAL TERMS OF THE MERGER**

On January 19, 2007, we entered into an Agreement and Plan of Merger and Reorganization with Cold Winter Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of SBE, referred to in this proxy as the merger sub, and Neonode Inc., a Delaware corporation. We amended this agreement as of May 18, 2007. In this proxy statement, we refer to this agreement, as amended, as the merger agreement. We contemplate that, subject to the terms and conditions of the merger agreement, Merger Sub will be merged with and into Neonode, with Neonode continuing after the merger as the surviving corporation and a wholly-owned subsidiary of SBE. It is anticipated that our name will be changed to “Neonode Inc.” and that Neonode’s name will be modified in connection with the completion of the merger. See the section entitled “The Merger Proposal— General Description of the Merger.”

Neonode is a Sweden-based developer and manufacturer of multimedia mobile handsets. See the section entitled “Business of Neonode.” After the merger is completed, the combined company’s headquarters will be in Stockholm, Sweden, where Neonode’s corporate headquarters and research and development activities are located.

The amended merger agreement provides that SBE will issue, on a pre-split basis, 3.5319 shares of its common stock (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) for each share of Neonode common stock outstanding at closing, and that it will assume all outstanding options and warrants to purchase Neonode common stock such that each option and warrant will become exercisable for 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of SBE common stock for each share of Neonode common stock subject to such option or warrant. Although the exact number of shares to be issued in the merger will be determined at closing, it is currently estimated that SBE will issue approximately 20.4 million shares of its common stock in exchange for outstanding shares of Neonode common stock and will assume options and warrants exercisable for approximately 8.0 million additional shares of SBE common stock. See the section entitled “The Merger Agreement — Merger Consideration.”

The board of directors of SBE has unanimously approved the merger agreement. Neonode and SBE have made customary representations, warranties and covenants in the merger agreement. See the section entitled “The Merger Agreement — Representations and Warranties.” Neonode’s and SBE’s covenants include, among others, that (i) each company will conduct its business in the ordinary course consistent with past practice during the interim period between the execution of the merger agreement and the effective time of the merger, except that SBE was permitted to complete its proposed sale of its embedded business to One Stop Systems, Inc., (ii) each company will not engage in certain types of transactions during such interim period, (iii) each company will call, hold and convene a meeting of its stockholders to consider adoption of the merger agreement, (iv) subject to certain exceptions, the board of directors of each company will recommend to its stockholders that they adopt the merger agreement, (v) neither company will solicit proposals relating to alternative business combination transactions, and (vi) subject to certain exceptions, neither company will enter into discussions concerning or provide confidential information in connection with any proposals for alternative business combination transactions. See the section entitled “The Merger Agreement — Certain Covenants.”

Completion of the merger is subject to customary closing conditions, including, among other things, (i) adoption of the merger agreement by Neonode’s and SBE’s stockholders; (ii) the absence of any order or injunction prohibiting the consummation of the merger; (iii) the accuracy of the representations and warranties of each party and (iv) compliance of each party with its covenants and the execution of six-month lockup agreements by all holders of Neonode securities are conditions to closing. See the section entitled “The Merger Agreement — Conditions to Closing of the Merger.” The merger agreement also contains certain termination rights for both SBE and Neonode, and further provides that, upon a party’s termination of the merger agreement under specified circumstances, such party may be

required to pay the other party a termination fee. See the section entitled “The Merger Agreement — Termination.”

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In addition, stockholders will be asked to vote on proposals to approve an amendment to our equity incentive plan to increase the number of shares authorized for issuance under the plan by 1,000,000 shares of common stock to an aggregate of 1,300,000 shares. Stockholders are also being asked to vote on three proposals to amend and restate our Certificate of Incorporation to (i) effect a stock combination (reverse stock split) of either 1-for-2 or 1-for-3, with the specific ratio to be determined by our board of directors, pursuant to which every two or three shares of outstanding common stock, as applicable, would be reclassified into one share of common stock, (ii) increase the authorized shares from 25,000,000 shares to 40,000,000 shares, and (iii) change our name to “Neonode Inc.” Our board of directors may adjourn the special meeting, if necessary, to permit further solicitation of proxies in the event that there are insufficient votes at the time of the special meeting to adopt the merger proposal or any of the proposals to amend the equity incentive plan or amend and restate the certificate of incorporation. See the sections entitled “Proposal 2 - Approval of Option Plan Increase,” “Proposal 3 - Approval of Reverse Stock Split,” “Proposal 4 - Approval of Authorized Shares Increase,” and “Proposal 5 - Approval of Name Change.”

All of the current members of our board of directors are expected to resign as directors of SBE following the merger, with the exception of John Reardon, who is currently also a director of Neonode Inc. Upon completion of the merger, we expect the board of directors of SBE to consist of Per Bystedt, Susan Major, John Reardon, Magnus Goertz and Johan Ihrfelt. We expect the executive officers of SBE at such time to be Mikael Hagman, David Brunton, Thomas Eriksson and Tommy Hallberg. See section entitled “Directors and Executive Officers of SBE Following the Merger.”

## 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,” “may expect,” “could,” “should,” “could expect,” “could intend,” 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 our proposed transaction with Neonode;
- the effect of the transaction on our market price;
- the factors discussed under “Risk Factors,” beginning on page [\_\_\_]; 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. 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 August 10, 2007**

The Special Meeting of Stockholders of SBE, Inc. will be held on August 10, 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 July 10, 2007.

**QUESTIONS AND ANSWERS ABOUT THE PROPOSALS**

***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 July 3, 2007 will be entitled to vote at the special meeting. On this record date, there were [\_\_\_\_\_] shares of common stock outstanding and entitled to vote.

***Stockholder of Record: Shares Registered in Your Name***

If on July 3, 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 July 3, 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 is being voted on?***

You are being asked to vote on the following five proposals:

*Proposal 1* — To adopt the merger agreement and approve the merger;

*Proposal 2* --- To consider and vote upon the approval of our 2006 Equity Incentive Plan, as amended to increase the number of shares authorized for issuance under the plan by 1,000,000 shares of common stock from an aggregate of 300,000 shares to 1,300,000 shares;

*Proposal 3* --- To consider and vote upon the approval of an amendment and restatement of our Certificate of Incorporation to effect a stock combination (reverse stock split) of either 1-for-2 or 1-for-3, with the specific ratio to be determined by our board of directors, pursuant to which every two or three shares of outstanding common stock, as applicable, would be reclassified into one share of common stock;



*Proposal 4* --- To consider and vote upon the approval of an amendment and restatement of our Certificate of Incorporation to increase the authorized shares of common stock from 25,000,000 to 40,000,000; and

*Proposal 5* --- To consider and vote upon the approval of an amendment and restatement of our Certificate of Incorporation to change the name of the company from “SBE, Inc.” to “Neonode Inc.”

***Do the share amounts presented in this proxy statement give effect to the proposed reverse split?***

No. All share amounts reflected in this proxy statement give effect to the 1-for-5 reverse split effected by SBE on April 2, 2007, but do not give effect to the additional reverse split proposed for approval in this proxy statement.

***How do I vote?***

For each of the matters 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. 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. 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. If you would like to vote in person, come to the special meeting and we will give you a ballot when you arrive.

***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 July 3, 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 and broker non-votes will be counted towards the vote total for each proposal other than Proposal 2 and will have the same effect as “Against” votes. Abstentions will be counted towards the vote total for Proposal 2, and will have the same effect as an “Against” vote, but broker non-votes will have no effect.

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.



***How many votes are needed to approve each proposal?***

To be approved, each of Proposal 1 (the merger proposal), Proposal 3 (the reverse stock split proposal), Proposal 4 (the authorized share increase proposal) and Proposal 5 (the name change proposal) must receive the affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date. If you do not vote or abstain from voting on any of these proposals, it will have the same effect as an “Against” vote. Broker non-votes will have the same effect as “Against” votes. To be approved, Proposal 2 (the equity incentive plan increase proposal) must receive a “For” vote from the holders of a majority of the outstanding shares represented in person or by proxy and entitled to vote at the special meeting. If those present do not vote, or abstain from voting, it will have the same effect as an “Against” vote. Broker non-votes will have no effect.

***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 in person or by proxy at the special meeting. On the record date, there were [\_\_\_\_] shares of SBE common stock outstanding and entitled to vote. Thus, at least [\_\_\_\_] shares must be represented in person or by proxy at the special meeting 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 special meeting may adjourn the special meeting to another date.

***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 the same effect as “Against” votes.

***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, it means that 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 merger to be completed?***

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

***What risks should I consider in evaluating the merger?***

You should consider the risks described under the heading “Risk Factors” beginning on page [\_\_].

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

Yes. After careful consideration, our board of directors recommends that our stockholders vote FOR each of the proposals.

***Who can help answer my questions about the proposals?***

If you have additional questions about these proposals, you should contact David Brunton, our Chief Financial Officer, at (925) 355-7700.

***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.

## SUMMARY OF THE PROXY STATEMENT

*The following summary, together with the previous question and answer section, provides an overview of the proposals discussed in this proxy statement and presented in the attached annexes. 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 proposals fully, and for a more complete description of the terms of the each proposal, you should carefully read this entire proxy statement and the attached annexes in their entirety.*

### **The Companies (see page [\_\_])**

#### ***SBE***

Historically, we designed, manufactured and sold embedded hardware products including wide area network (WAN) and local area network (LAN) network interface cards (NICs) and central processing units (CPUs) to original equipment manufacturers (OEMs) who embed our hardware products into their products for the communications markets. Our embedded hardware business generated almost all of our sales and net cash flow. Effective with the sale of our embedded hardware business to One Stop Systems on March 30, 2007, we no longer participate in the embedded hardware markets. We transferred our entire inventory and the engineering and test equipment associated with the embedded hardware business to One Stop Systems.

Since the sale of our embedded hardware business on March 30, 2007, our only business is designing and providing software-based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. Our products 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 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. Our storage software products have not gained wide acceptance in the storage markets and have not generated significant sales to date.

#### ***Neonode***

Neonode was founded in Sweden and develops, manufactures and sells multimedia mobile phones based on a unique user interface with a focus on design, enhanced user experience and customization. Neonode released its first phone, the N1, in 2004. Neonode has developed multimedia mobile phones that convert the functionality of a desktop computer to a mobile phone interface. In addition to connecting to any GSM supported cellular telephone network, Neonode's multimedia mobile phones allow the user to watch movies in full screen, play music videos, play music, take pictures with its two mega pixel camera and play games, all with internet pod casting capabilities. Neonode's patent pending user interface incorporates true one hand - on screen - navigation with a simple user interface that recognizes gestures rather than defined keys. Neonode's interface features a large display without physical buttons using the smallest handset in the mobile phone industry. Neonode's design is based on its patent pending zForce™ and Neno™ software technology. zForce™ allows the user to operate the functionality of the phone with one finger. In February 2007, Neonode showcased its new mobile phone, the N2, at the 3GSM World Congress in Barcelona, Spain. Neonode expects to begin shipping its N2 phone to its initial customers in mid-2007. Neonode initially expects to sell its mobile phones through sales channels that include distributors and network operators located in Europe, Mexico, Latin America and the United States.

### **The Merger Proposal**

Under the merger agreement, our newly-formed, wholly-owned subsidiary, Cold Winter Acquisition Corporation (referred to in this proxy statement as Merger Sub) will merge with and into Neonode. The merger agreement contemplates that, subject to the terms and conditions of the merger agreement, Merger Sub will be merged with and into Neonode, with Neonode continuing after the merger as the surviving corporation and a wholly-owned subsidiary of SBE. The securities offered in the merger will be issued pursuant to an exemption from registration under the Securities Act of 1933 and may not be offered or sold by the holders thereof absent registration or an applicable exemption from registration requirements. The merger agreement provides that SBE will issue 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of its common stock for each share of Neonode common stock outstanding at closing, and that it will assume all outstanding options and warrants to purchase Neonode common stock such that each option and warrant will become exercisable for 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of SBE common stock for each share of Neonode common stock subject to such option or warrant. Although the exact number of shares to be issued in the merger will be determined at closing, it is currently estimated that SBE will issue approximately 20.4 million shares of its common stock in exchange for outstanding shares of Neonode common stock and will assume options and warrants exercisable for approximately 8.0 million additional shares of SBE common stock. See the section entitled “The Merger Agreement — Merger Consideration.” The merger agreement is attached to this proxy statement as Annex A. We encourage you to read the merger agreement carefully. Our board of directors has approved the merger agreement, and it is the binding legal agreement that governs the terms of the merger.

***Recommendation of the Board of Directors***

Our board of directors has determined that the merger and the issuance of shares of our common stock as consideration in the merger, are fair to, and in the best interests of, us and our stockholders and recommends that our stockholders vote FOR each of the transactions and the issuance of shares of our common stock in connection with these transactions.

To review the background and reasons for the transactions in detail, see “The Merger Proposal— Reasons for the Merger” beginning on page [\_\_].

***Accounting Treatment***

The former Neonode stockholders will hold a majority of the outstanding voting securities of SBE upon completion of the merger. This transaction will be accounted for as a reverse merger, with Neonode being the acquirer for accounting purposes. The pre-acquisition financial statements (December 31 year end) of the accounting acquirer, Neonode, will become the historical financial statements of the combined companies and the historical financial statements of SBE for the periods prior to the date of the transaction (October 31 fiscal year end) will not be presented. This transaction will be accounted for as the issuance of common stock by Neonode for the net assets of SBE, accompanied by a recapitalization to reflect the legally issued and outstanding shares of the combined companies. Pre-acquisition stockholders’ equity of Neonode will be retroactively restated for the equivalent number of shares of SBE received by Neonode stockholders in the acquisition, with differences between the par value of SBE and Neonode’s stock recorded as additional paid in capital.

***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 merger and private placement, other than the filing of (1) a certificate of merger with the Secretary of State of the State of Delaware, (2) this proxy statement with the SEC and (3) compliance with all applicable state securities laws regarding the offering and issuance of the shares in connection with the transactions. 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 merger or the private placement.



### ***Registration Rights***

After completion of the merger, the combined company will be obligated to use its best efforts to register with the SEC the public resale the shares offered in the merger, on the terms and subject to the conditions set forth in the merger agreement.

### ***Voting Agreement; Neonode Stockholder Vote***

In connection with the execution of the merger agreement, the holders of approximately 67% of Neonode's outstanding capital stock entered into a voting agreement with SBE and merger sub pursuant to which, among other things, such holders agreed with SBE and Merger Sub to vote in favor of the merger and, subject to certain exceptions, agreed not to dispose of any shares of Neonode common stock held by such parties prior to the consummation of the merger. Shortly following the execution of the original merger agreement and its amendment, the stockholders of Neonode approved the merger and the merger agreement by written consent.

### ***Opinion of Our Financial Advisor***

In connection with the merger, our board of directors received a written opinion from Seidman & Company, Inc. as to the fairness of the merger consideration to be paid by us, from a financial point of view and as of the date of the opinion. The full text of Seidman's written opinion is attached to this proxy statement as Annex D. 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 Incentive Plan Proposal**

The 2006 Equity Incentive Plan currently reserves 300,000 shares of our common stock. The Incentive Plan Proposal is to increase the number of shares authorized for issuance under the plan from 300,000 to 1,300,000. The purpose of the plan is to provide our employees, directors and consultants, including those of Neonode after the merger, with the opportunity to receive stock-based and other long-term incentive grants in order to attract, retain and motivate key individuals and to align their interests with those of our stockholders. The 2006 Equity Incentive Plan, as amended, is attached as Annex C to this proxy statement. We encourage you to read the 2006 Equity Incentive Plan in its entirety.

### **The Certificate Amendment Proposals**

There are three proposals relating to the amendment and restatement of our certificate of incorporation following completion of the Neonode merger. The first of these proposals is to effect a stock combination (reverse stock split) of either 1-for-2 or 1-for-3, with the specific ratio to be determined by our board of directors, pursuant to which every two or three shares of our outstanding common stock, as applicable, would be reclassified into one share of common stock. The second of these proposals is to increase the authorized shares of common stock from 25,000,000 shares to 40,000,000 shares. The last of these proposals is to change our name from "SBE, Inc." to "Neonode Inc."

### **Risk Factors**

In evaluating the merger proposal, the incentive plan proposal, the reverse stock split proposal, the authorized share proposal and the name change proposal, you should carefully read this proxy statement and especially consider the factors discussed in the section entitled "Risk Factors."

## **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, as well as the risks set forth in our annual report on Form 10-K for the year ended October 31, 2006 and in subsequently-filed reports on Form 10-Q, in voting on the proposal relating to the merger. 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.*

### **Risk Relating to the Merger**

*If we are unable to complete the merger, our business may be adversely affected.*

If the merger is not completed, our business and the market price of our stock price may be adversely affected. We currently anticipate that our available cash balances, available borrowings and cash generated from operations will be sufficient to fund our standalone operations through fiscal 2007. If we are unable to complete the transaction, we may be unable to find 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 is not completed, the current market price of our common stock may decline.

*The transactions will result in substantial dilution to our current stockholders.*

The merger agreement provides that SBE will issue 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of its common stock for each share of Neonode common stock outstanding at closing, and that it will assume all outstanding options and warrants to purchase Neonode common stock such that each option and warrant will become exercisable for 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of SBE common stock for each share of Neonode common stock subject to such option or warrant. Although the exact number of shares to be issued in the merger will be determined at closing, it is currently estimated that SBE will issue approximately 20.4 million shares of its common stock in exchange for outstanding shares of Neonode common stock and will assume options and warrants exercisable for approximately 8.0 million additional shares of SBE common stock. Immediately following completion of the transaction, the shares, warrants and stock options held by our existing stockholders are expected to represent approximately 9.5% of our outstanding capital stock assuming the exercise in full of all outstanding options and warrants. The Neonode stockholders will be able to direct our actions after the transaction, and will replace our current management and board of directors.

*We may not realize any anticipated benefits from the merger.*

While we believe that the opportunities for the combined company are greater than our current opportunities and that the combined company will be able to create substantially more stockholder value than could be achieved by the companies individually, there is substantial risk that the synergies and benefits sought in the transactions might not be fully achieved. There is no assurance that Neonode's technology can be successfully produced and sold or that the financial results of combined company will meet or exceed the financial results that would have been achieved by the companies individually. As a result, our operations and financial results may suffer and the market price of our common stock may decline.

*The exchange rate in the merger will not be adjusted even if there is an increase in the price of our common stock or a downturn in Neonode's business.*

The price of our common stock at the time the merger may vary from its price at the date of this proxy statement and at the date of the special meeting. Therefore, the shares that we issue in connection with the merger may have a greater value than the value of the same number of shares on the date of this proxy statement or the date of the special meeting. Variations in the price of our common stock before the completion of the merger may result from a number of factors that are beyond our control, including actual or anticipated changes in our business, operations or prospects, market assessments of the likelihood that the transactions will be consummated and the timing thereof, regulatory considerations, general market and economic conditions and other factors. At the time of the special meeting, you will not know the exact value of the shares that we will issue in the merger. In addition, the stock market generally has experienced significant price and volume fluctuations. These market fluctuations could have a material effect on the market price of our common stock before the merger is completed, and therefore could materially increase the value that we will transfer to the stockholders of Neonode in the merger.

The exchange rate in the merger agreement determining the number of shares to be issued in the merger is based primarily on SBE's net worth at closing and does not take into account any change in the net worth, business, operations, assets, liabilities, capitalization or prospects of Neonode occurring prior to the closing.

### **Risk Relating to Neonode and the Combined Company after the Merger**

*Neonode's operating results are subject to fluctuations, and if Neonode fails to meet the expectations of securities analysts or investors, our stock price may decrease significantly.*

Neonode's operating results are difficult to forecast. Its future operating results may fluctuate significantly and may not meet its expectations or those of securities analysts or investors. If this occurs, the price of our common stock will likely decline. Many factors may cause fluctuations in its operating results including, but not limited to, the following:

- timely introduction and market acceptance of new products and services;
  - changes in consumer and enterprise spending levels;
  - quality issues with its products;
- changes in consumer, enterprise and carrier preferences for its products and services;
  - loss or failure of carriers or other key sales channel partners;
- competition from other mobile telephone or handheld devices or other devices with similar functionality;
  - competition for consumer and enterprise spending on other products;
- failure by its third party manufacturers or suppliers to meet its quantity and quality requirements for products or product components on time;
  - failure to add or replace third party manufacturers or suppliers in a timely manner;
    - changes in terms, pricing or promotional program
    - variations in product costs or the mix of products sold;
  - failure to achieve product cost and operating expense targets;
  - excess inventory or insufficient inventory to meet demand;
  - seasonality of demand for some of its products and services;
    - litigation brought against us; and
- changes in general economic conditions and specific market conditions.

Any of the foregoing factors could have a material adverse effect on its business, results of operations and financial condition.

*Neonode has not been profitable since its inception and anticipates significant additional losses.*

Neonode Inc. was formed in 2006 as a holding company owning and operating Neonode AB, which was formed in 2004, and has been primarily engaged in the business of developing and selling mobile phones. Neonode has a limited operating history on which to base an evaluation of its business and prospects. Neonode's prospects must be considered in light of the risks and uncertainties encountered by companies in the early stages of development, particularly companies in new and rapidly evolving markets. Neonode's success will depend on many factors, including, but not limited to: the growth of mobile telephone usage; the efforts of its marketing partners; the level of competition faced by it; and its ability to meet customer demand for products and ongoing service. There can be no assurance that Neonode will succeed in addressing any or all of these risks, and the failure to do so would have a material adverse effect on its business, operating results and financial condition.

In addition, Neonode has experienced substantial net losses in each fiscal period since its inception and, as of March 31, 2007, had an accumulated deficit of \$12.9 million. Neonode is continuing to experience net losses. Such net losses and accumulated deficit resulted from its lack of substantial revenues and the significant costs incurred in the development of its products and infrastructure. Neonode's ability to continue as a going concern is dependent on its ability to raise additional funds and implement its business plan. Neonode's independent registered public accountants

stated in their opinion that there is substantial doubt about its ability to continue as a going concern.

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Neonode's limited operating history and the emerging nature of its market, together with the other risk factors described below, make prediction of its future operating results difficult. There can also be no assurance that Neonode will ever achieve significant revenues or profitability or, if significant revenues and profitability are achieved, that they could be sustained.

***Neonode will require additional capital to fund its operations, which capital may not be available on commercially attractive terms or at all.***

Neonode requires sources of capital in addition to cash on hand to continue operations and to implement its strategy. Neonode intends to seek credit line facilities from financial institutions and/or additional equity investment. No assurances can be given that Neonode would be successful in obtaining such additional financing on reasonable terms, or at all. If adequate funds are not available on acceptable terms, or at all, Neonode may be unable to adequately fund its business plans and it could have a negative effect on its business, results of operations and financial condition. In addition, if funds are available, the issuance of equity securities or securities convertible into equity could dilute the value of shares of its common stock and cause the market price to fall and the issuance of debt securities could impose restrictive covenants that could impair its ability to engage in certain business transactions.

***If Neonode fails to develop and introduce new products and services successfully and in a cost effective and timely manner, it will not be able to compete effectively and its ability to generate revenues will suffer.***

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

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

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

***Neonode is dependent on third parties to manufacture and supply its products and components of its products.***

Neonode's products are built by a limited number of independent manufacturers. Although Neonode provides manufacturers with key performance specifications for the phones, these manufacturers could:

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



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

***Neonode may become highly dependent on wireless carriers for the success of its products.***

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

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

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

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

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



and financial condition.

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

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***As Neonode builds strategic relationships with wireless carriers, Neonode could be exposed to significant fluctuations in revenue for its multimedia phone products.***

Because of their large sales channels, wireless carriers may purchase large quantities of its products prior to launch so that the products are widely available. Reorders of products may fluctuate quarter to quarter, depending on end-customer demand and inventory levels required by the carriers. As Neonode develops new strategic relationships and launches new products with wireless carriers, its revenue could be subject to significant fluctuation based on the timing of carrier product launches, carrier inventory requirements, marketing efforts and its ability to forecast and satisfy carrier and end-customer demand.

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

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

***Neonode's future results could be harmed by economic, political, regulatory and other risks associated with international sales and operations.***

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

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

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

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



***Neonode must significantly enhance its sales and product development organizations.***

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

***Neonode is dependent on the services of its key personnel.***

Neonode will be dependent on its current management for the foreseeable future. The loss of the services of any member of management could have a materially adverse effect on its operations and prospects.

***If third parties infringe its intellectual property or if Neonode is unable to secure and protect its intellectual property, Neonode may expend significant resources enforcing its rights or suffer competitive injury.***

Neonode's success depends in large part on its proprietary technology and other intellectual property rights. Neonode relies on a combination of patents, copyrights, trademarks and trade secrets, confidentiality provisions and licensing arrangements to establish and protect its proprietary rights. Its intellectual property, particularly its patents, may not provide them a significant competitive advantage. If Neonode fails to protect or to enforce its intellectual property rights successfully, its competitive position could suffer, which could harm its results of operations.

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

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

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

***Neonode has an international presence in countries whose laws may not provide protection of its intellectual property rights to the same extent as the laws of the United States, which may make it more difficult for it to protect its intellectual property.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Neonode's product strategy is to base its products on software operating systems that are commercially available to competitors.***

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

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



their products and services and the third-party developer community, which could attract the attention of influential user segments.

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If Neonode is unable to continue to differentiate the operating systems that Neonode includes in its mobile computing devices, its revenues and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

*operations and financial condition.*

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

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

Any change in financial accounting standards or practices that cause a change in the methodology or procedures by which Neonode tracks, calculates, records and reports its results of operations or financial condition or both could cause fluctuations in and adversely affect its reported results of operations and cause its historical financial information to not be reliable as an indicator of future results.

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

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

## THE COMPANIES

### SBE

Historically, we designed, manufactured and sold hardware products including wide area network (WAN) and local area network (LAN) network interface cards (NICs) and central processing units (CPUs) to original equipment manufacturers (OEMs) who embed our hardware products into their products for the communications markets.. Our hardware business generated the majority of our sales and net cash flow. Effective with the sale of our hardware business to One Stop Systems on March 30, 2007, we no longer participate in the embedded hardware markets. We transferred our entire inventory and the engineering and test equipment associated with our hardware business to One Stop Systems.

Since the sale of our hardware business, our only business is designing and providing software-based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. Our products 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 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. Our storage software products have not gained wide acceptance in the storage markets and have not generated significant sales, to date.

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 PCI product line. In 2005, we acquired PyX Technologies, Inc., a company engaged in the development implementation and sale of Internet Small Computer System Interface (iSCSI) software. In March 2007, we sold our hardware business to One Stop Systems, a company engages in the embedded hardware business.

### Neonode

Neonode was founded in Sweden and develops, manufactures and sells multimedia mobile phones based on a unique user interface with a focus on design, enhanced user experience and customization. Neonode released its first phone, the N1, in 2004. Neonode has developed multimedia mobile phones that convert the functionality of a desktop computer to a mobile phone interface. In addition to connecting to any GSM supported cellular telephone network, Neonode's multimedia mobile phones allow the user to watch movies in full screen, play music videos, play music, take pictures with its two mega pixel camera and play games, all with internet pod casting capabilities. Neonode's mobile phones utilize a patent pending user interface that incorporates true one -hand - on -screen - navigation with a user interface that recognizes gestures rather than defined keys. This interface has allowed Neonode to design and manufacture a mobile phone with a large display without physical buttons using the smallest handset in the mobile phone industry. Neonode's design is based on their patent pending zForce™ and Neno™ software technology. zForce™ is a new software based input system that supports one-hand navigation. It allows the user to operate the functionality of the phone with one finger. In February 2007, Neonode showcased its new mobile phone, the N2, at the 3GSM World Congress in Barcelona, Spain. Neonode expects to begin shipping its N2 phone to its initial customers in mid-2007. Neonode initially expects to sell its mobile phones through sales channels that include distributors and network operators located in Europe, Mexico, Latin America and the United States



## **PROPOSAL 1 THE MERGER PROPOSAL**

### **General Description of the Merger**

Under the merger agreement, our newly-formed, wholly-owned subsidiary, Cold Winter Acquisition Corporation (referred to in this proxy statement as Merger Sub) will merge with and into Neonode. The merger agreement contemplates that, subject to the terms and conditions of the merger agreement, Merger Sub will be merged with and into Neonode, with Neonode continuing after the merger as the surviving corporation and a wholly-owned subsidiary of SBE. The securities offered in the merger will be issued pursuant to an exemption from registration under the Securities Act of 1933 and may not be offered or sold by the holders thereof absent registration or an applicable exemption from registration requirements. The merger agreement provides that SBE will issue 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of its common stock for each share of Neonode common stock outstanding at closing, and that it will assume all outstanding options and warrants to purchase Neonode common stock such that each option and warrant will become exercisable for 3.5319 (as adjusted for stock splits and combinations affecting either the SBE stock or Neonode stock) shares of SBE common stock for each share of Neonode common stock subject to such option or warrant. Although the exact number of shares to be issued in the merger will be determined at closing, it is currently estimated that SBE will issue approximately 20.4 million shares of its common stock in exchange for outstanding shares of Neonode common stock and will assume options and warrants exercisable for approximately 8.0 million additional shares of SBE common stock. Immediately following completion of the transaction, the shares, warrants and stock options held by our existing stockholders are expected to represent approximately 9.5% of our outstanding capital stock assuming the exercise in full of all outstanding options and warrants. The merger agreement is attached to this proxy statement as Annex A. We encourage you to read the merger agreement carefully. Our board of directors has approved the merger agreement, and it is the binding legal agreement that governs the terms of the merger.

### **Background of the Merger**

On August 21, 2006, our board of directors held a regular meeting and discussed the strategic direction of SBE.

On August 31, 2006, Mr. David Brunton, our Chief Financial Officer, signed a non-disclosure agreement with a holding company that is in the initial stages of developing alternative fuel processing plants including ethanol and bio-diesel. We entered into exploratory discussion about merging SBE with this company.

From September 1 through September 29, 2006, Mr. Brunton continued exploratory discussions with the alternative fuel company.

On September 21, 2006, our board of directors held a special meeting to discuss the overall strategic future of SBE, including the possible disposition of all of our assets and a merger with a viable company. 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 October 3, 2006, Mr. Greg Yamamoto, our Chief Executive Officer, was introduced to the alternative fuel company, entered into a nondisclosure agreement with the alternative fuel company and held preliminary merger discussions.

On October 3, 2006, Mr. Yamamoto and Mr. Brunton held an initial discussion with Mr. Robert Giannini of Griffin Securities to discuss the prospect of SBE merging with Neonode Inc. (Neonode) and entered into a nondisclosure agreement with Neonode. Griffin Securities was retained by Neonode to act in the capacity of an investment advisor in a merger or initial public offering transaction.

From October 3, 2006 through November 23, 2006, we held ongoing merger discussions and due diligence with the alternative fuel company and Neonode.

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On October 12, 2006, our board of directors formed a Strategic Transaction Committee comprising our independent board members to review and approve all strategic alternatives presented to the board and appointed Mr. John Reardon as Chairman of the Committee.

On October 23, 2006, Mr. Reardon was introduced to the alternative fuel company and held an information gathering discussion with them.

On November 7, 2006, Mr. Reardon was introduced to Neonode and held an information gathering discussion with Griffin Securities. Mr. Reardon was appointed to the Board of Director's of Neonode in April 23, 2007.

From October 2006 through the execution of the merger agreement with Neonode, Mr. Yamamoto provided our board of directors with frequent status updates on the potential merger with Neonode.

On November 22, 2006, our board of directors approved a term sheet setting forth nonbinding terms of a proposed merger with Neonode and instructed our management to move forward with negotiating the terms of a merger with Neonode.

On November 23, 2006, we executed the term sheet with Neonode.

From November 23, 2006 through January 19, 2007, Neonode engaged in a due diligence investigation of SBE and SBE engaged in a due diligence investigation of Neonode.

On November 29, 2006, we notified the alternative fuel company that we were no longer interested in a merger transaction.

From December 1, 2006 through December 7, 2006, Mr. Yamamoto, Mr. Brunton and Mr. Fang, our Executive Vice President, visited Neonode in Stockholm, Sweden performing on-site due diligence.

On December 3, 2006, we received the initial draft of the merger agreement from our counsel.

During December 2006 through January 19, 2007, we continued our negotiations with Neonode regarding the proposed merger and the terms of the merger agreement.

On December 13, 2006, we retained Seidman & Co., Inc. (Seidman) to analyze the proposed merger and to determine the fairness of the proposed transaction, from a financial point of view, to our stockholders.

On January 19, 2007, at a meeting of our board of directors, Seidman delivered its oral opinion (subsequently confirmed in writing) to our board of directors that the consideration to be received by SBE in the proposed merger 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 merger agreement in the form in which it was presented to the board of directors.

On January 19, 2007, we and Neonode signed the Agreement and Plan of Merger and Reorganization. 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.

On March 30, 2007, we completed the sale of our embedded business to One Stop Systems, Inc.

On May 1, 2007, we held discussions with Griffin Securities, regarding amendment of the merger agreement to fix the exchange ratio of common stock in the merger and to allow Neonode to issue up to \$3 million in convertible notes and borrow \$1 million from SBE.

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On May 3, 2007, we held additional discussions with Griffin Securities about amending the merger agreement to fix the exchange ratio of common stock in the merger at 3.5319 shares of SBE common stock for each share of Neonode common stock.

On May 4, 2007, management briefed our board of directors about the terms of the proposed amendment to the merger agreement; and our board of directors instructed our management to move forward with negotiations with Neonode.

On May 10, 2007, our board of directors approved an amendment to the merger agreement with Neonode subject to receipt of an opinion from Seidman & Co. that the terms of the proposed amendment, are fair, from a financial point of view, to SBE's stockholders and instructed our management to finalize negotiations with Neonode.

On May 7, 2007, we received initial drafts of the proposed merger agreement amendment and loan agreement from counsel to Neonode. We continued to negotiate the terms of such agreements through May 18, 2007.

On May 17, 2007, Seidman delivered its oral opinion (subsequently confirmed in writing on May 24, 2007) to our board of directors that the consideration to be received by SBE in the proposed merger, pursuant to the terms of a proposed merger agreement amendment, are fair, from a financial point of view, to SBE's stockholders.

On May 17, 2007, the board of directors engaged in a full discussion of the proposed transaction. After such discussion, the board of directors determined that, subject to the board's receipt of an updated fairness opinion regarding the proposed merger, 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 merger agreement amendment in the form presented to the board of directors.

On May 25, 2007, we entered into the amendment to the merger agreement and the loan agreement with Neonode. On May 29, 2007, we announced via press release the execution of the amendment and the loan agreement and filed a corresponding Form 8-K with the SEC.

On May 29, 2007, pursuant to an amendment to the merger agreement with Neonode, we advanced Neonode \$500,000 under an interest bearing secured note and advanced an additional \$500,000 on June 15, 2007.

### **Reasons for the Merger**

Our board of directors considered a wide variety of factors in connection with its evaluation of the merger. In light of the complexity of those factors, our board of directors did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its decision. In addition, individual members of our board of directors may have given different weight to different factors. Our board of directors determined that the merger agreement and in the best interests of SBE and its stockholders. Our board of directors relied on the analysis, experience, expertise and recommendation of our management team, as well as Seidman, our financial advisor, for analyses of the financial terms of the merger. See "Opinion of Our Financial Advisor" on page [\_\_\_].

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 addition, our board of directors consulted with our management team, as well as our financial advisor and legal counsel, and considered the following:

1. the judgment, advice and analyses of our senior management, including their favorable recommendation of the merger;

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2. alternatives to the merger;
3. the presentations by and discussions with our senior management and representatives of our counsel regarding the terms and conditions of the merger agreement and the merger; and
4. that while the merger is likely to be completed, there are risks associated with completing the merger and, as a result of conditions to the completion of the merger, it is possible that the merger may not be completed even if approved by the stockholders of SBE and Neonode.

The foregoing discussion of the information and factors considered by our board of directors is not meant to be exhaustive, but includes the material information and factors considered by our board of directors.

### **Recommendation of Our Board of Directors**

After careful consideration, our board of directors determined that the merger is fair to and in the best interests of SBE and our stockholders. On the basis of the foregoing, our board of directors approved and declared advisable the merger and recommends that you vote or give instructions to vote "FOR" the adoption of the merger proposal.

### **Opinion of Our Financial Advisor**

The full text of the written opinion, which sets forth, among other things, the assumptions made, general procedures followed, matters considered, limitations on and qualifications made by Seidman & Co., Inc., or Seidman, in its review, is set forth as Annex D to this proxy statement and is incorporated herein by reference. The summary of Seidman's opinion in this proxy statement is qualified in its entirety by reference to the full text of the written opinion. You are urged to read carefully Seidman's written opinion in its entirety.

Seidman's opinion, which describes the assumptions made, matters considered and limitations on the review undertaken by Seidman, is attached as Annex D to this proxy statement. Seidman's opinion was directed solely to our board of directors and addresses only the fairness to SBE, Inc. stockholders of the merger from a financial point of view. The Seidman opinion does not address any other aspect of the merger and does not constitute a recommendation to any director, stockholder or other person as to how to vote or act with respect to the merger.

In connection with rendering its opinion, Seidman reviewed the following:

1. Agreement and Plan of Merger and Reorganization, dated January 19, 2007;
2. Amendment No. 1 to Agreement and Plan of Merger and Reorganization, dated May 18, 2007;
3. Background, description and financial history of SBE, Inc.
4. Securities and Exchange Commission filings by SBE, Inc., including:

FORM	RECEIVED/PERIOD
8-K 4/19/07 (4/11/07)	
8-K 4/4/07 (3/30/07)	
8-K 3/23/07 (3/20/07)	
8-K 3/16/07 (1/31/07)	
10-Q	3/16/07 (1/31/07)
DEFM14A	3/7/07
10-K	1/29/07 (10/31/06)

8-K 1/22/07 (1/19/07)

8-K 1/12/07 (1/11/07)

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5. Draft proxy statement for SBE / Neonode transaction;
6. Draft of proposed Senior Secured Note dated May 16, 2007;
7. Proposed Neonode / SBE \$1 million Note Purchase Agreement;
8. Background, description, and financial history of Neonode AB;
9. Presentation of Neonode multimedia, smartphone cellular mobile handset product;
10. Financial estimates provided by Neonode for calendar years ending December 31, 2006 through December 31, 2008;
11. Due diligence by SBE, Inc. relating to Neonode AB;
12. Extrapolation of near term projections provided by Neonode and performance of discounted cash flow analyses;
13. Statistical analyses of selected comparable companies with publicly-traded common shares, and derivation of financial ratios typical of companies in similar SIC Codes to Neonode;
14. Conditions in, and the outlook, for the mobile phone handset industry as of April 2007;
15. Conditions in, and the outlook for, the international economies, interest rates and financial markets proposed to be targeted by Neonode; and
16. Other studies, analyses, and investigations as it deemed appropriate.

In addition, Seidman spoke with members of the senior management of SBE, Inc. to discuss the operations, financial condition, future prospects and projected operations and performance of SBE, Inc. and Neonode.

In connection with rendering its opinion, Seidman performed a variety of financial analyses, including those summarized below. These analyses were presented to the directors on May 24, 2007. The Seidman opinion necessarily is based upon economic, market, financial and other conditions as they existed and can be evaluated on the date of the opinion and does not address the fairness as a result of the proposed transaction on any other date. The summary set forth below does not purport to be a complete description of the analyses performed by Seidman in this regard. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to a partial analysis or summary description. Accordingly, notwithstanding the separate analyses summarized below, Seidman believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors considered by it, without considering all of its analyses and factors, or attempting to ascribe relative weights to some or all of its analyses and factors, could create an incomplete view of the evaluation process underlying its opinion.

Fairness to the shareholders of SBE of the proposed merger of SBE with Neonode ("Transaction") is determined by comparison of the fair market value of the interests held by the shareholders of SBE before and after the subject Transaction. In the instance of the subject Transaction, the relevant analysis is the comparison of the fair market value of the merged SBE/Neonode and the share exchange value of the Transaction to the present shareholders of SBE, Inc. relative to the fair market value of SBE, Inc. prior to and without the Neonode transaction. If the pro rata share of the combined Neonode / SBE, Inc. attributable to the present shareholders of SBE, Inc. is equal to or greater than the current fair market value of their interest, then the Transaction is deemed to be fair to the shareholders of SBE, Inc.

from a financial point of view.

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Because Neonode is a privately-held company, a key component of the Seidman analysis was a determination of the fair market value of Neonode, for which Seidman employed both market comparable and discounted cash flow valuation methodologies.

This summary does not purport to be a complete description of the analyses underlying the opinion of Seidman. For each analysis described below, the material forecasts and estimates that Seidman utilized were provided to it by management of SBE, Inc. that were obtained, in turn, from management of Neonode.

*Market Comparable or Guideline Company Analysis.* The valuation of the operating business of Neonode is based on generally accepted and recommended procedures for valuing an on-going operating business, designated the “market comparable approach.” In this valuation technique, the market value of a company is established on the basis of market prices and indicated market values of comparable companies with minority shares freely- and publicly-traded on various securities exchanges. Value is expressed in the relationship of these market prices to selective balance sheet and operating data of these market comparable companies, and derivation of market capitalization factors.

The following publicly-traded companies employed in the Seidman analysis have been identified as approximately comparable to Neonode. None of the public companies used in the public companies analysis described above is identical to Neonode. Accordingly, an analysis of publicly traded comparable companies is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading value of the comparable companies or company to which they are being compared.

- BSquare Corp.
- Backweb Technologies Ltd.
- DIJI Corp.
- Insignia Solutions PLC
- Once Voice Technologies Inc.
- Openwave Systems Inc.
- Radvision Ltd.
- Smith Micro Software Inc.
- Oasys Mobile, Inc.
- Ulticom Inc.

In employing the market comparable method of valuation, it typically is necessary to compare over an historical period, typically three to five years, the financial performance of the subject company with an appropriate universe of “market comparable” companies which have common stock that is publicly-traded. In-depth financial data for the market comparable companies are then presented for easy comparison, and selective financial measurements and ratios are computed and studied.

However, Seidman observed that Neonode is a company with no operating history and no earnings. Under the circumstances, Seidman focused on price/latest year revenues of market comparable companies and applying the

median multiple of this universe to the projected revenues of Neonode in 2007 which is based on delivery commencement of the Company's smartphones in June 2007, and the annualization of these six months of revenues. The median price/revenues multiple for the market comparable companies is 1.85x. With Neonode annualized revenues for 2007 projected at approximately \$39.5 million, an unadjusted valuation of capitalized revenues approximating \$73 million is indicated. As this is a projected value for Neonode, and there is no history of operations, Seidman adjusted this derived value by a 50% uncertainty factor, consistent with indicated returns required by the market for a company such as Neonode, thus indicating a \$36.5 million pro forma fair market value for Neonode.

*Discounted Cash Flow Analysis.* A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the “present value” of estimated future cash flows of the asset. “Present value” refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Seidman calculated discounted cash flow analyses for Neonode employing financial forecasts for Neonode for calendar years 2007 through 2011. Assuming discount rates as high as 50%, and terminal growth rates of EBITDA in the year 2011 of as low as 5%, a range of present values was derived for Neonode representing fair market value. The minimum fair market value of Neonode in the range approximates \$21.1 million.

As of the date hereof, it observed that SBE sold its embedded hardware business on March 30, 2007, and its only remaining business is designing and providing software-based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. These storage software products have not gained wide acceptance in the storage markets and have not generated significant sales to date and continue to lose money and drain cash from SBE. As of the September 30, 2007, projected closing date of the proposed SBE /Neonode merger, management of SBE estimates it will have substantially exhausted its remaining cash, and the only remaining assets held by SBE would be the \$1 million pre-merger loan receivable from Neonode plus the value attributable to SBE’s status as a publicly-traded company, estimated to be worth no more than \$1 million, and a \$150,000 credit for transaction costs.

At the projected date of closing, SBE, in the merger exchange, contributes \$1,000,000 of cash in the form of its pre-merger loan to Neonode, plus an imputed \$1,000,000 for the value of a publicly-traded corporation, plus \$150,000 for transactions costs, for a total of \$2.15 million. Seidman concluded that the \$1,000,000 imputed value for the publicly-traded corporation is believed fair from a financial point of view. It also is noted that any indicated higher value might divert a potential partner to consider other options to obtain a public market.

Seidman observed that the market capitalization of SBE as of the May 24, 2007, date of its fairness opinion was approximately \$5 million. Seidman believes that this market capitalized value already reflects the pro forma combination with Neonode. Prior to the SBE announcement on January 19, 2007, of the pending sale of its Embedded Products Division and of the prospective merger with Neonode, SBE’s market capitalization doubled from \$3.8 million on January 19, 2007, to a high of \$7.6 million on January 22, 2007, the next trading day. Thus, the market capitalization of SBE subsequent to the announcement of the merger with Neonode already had given weight to the merger with Neonode rather than to the fundamentals of SBE, Inc. as a standalone entity. As a standalone entity, Seidman is of the opinion that SBE value to its stockholders as of the projected closing date of the Transaction is no more than the total of its \$1 million loan receivable owed by Neonode plus the \$1 million estimated value of its public listing, or approximately \$2 million.

It is indicated that the shareholders of SBE will receive approximately 10% of the merged SBE / Neonode entity. Thus, since 10% of both the market comparable and discounted cash flow methodologies for valuing the merged SBE / Neonode entity result in a value to SBE shareholders equal to or greater than the estimated \$2 million present value attributable to SBE, the proposed merger transaction is deemed to be fair to the shareholders of SBE, from a financial point of view.

Seidman assumed, without independent verification, that the financial forecasts and projections it was provided, and upon which it relied, were reasonably prepared and reflected the best currently available estimates and judgments by management as to the future financial results of operations and financial performance of Neonode, and that such results of operations, synergies and financial performance will be realized. Seidman also assumed that there had been no material change in the assets, financial condition or business of Neonode since the date of the most recent financial statements and projections made available to it. Seidman further relied upon the assurance of management of SBE, Inc. that they are unaware of any facts that would make the information provided to Seidman incomplete or

misleading in any respect. Seidman assumed that the transaction contemplated by the merger agreement will be substantially consummated as described in the terms herein in the form reviewed by Seidman and that all representations and warranties therein of the parties thereto are true and accurate in all respects.

Seidman did not independently verify the accuracy and completeness of the information supplied to it with respect to Neonode and does not assume any responsibility with respect to it. Seidman did not meet with or have any discussions with any representatives of Neonode. Seidman's opinion was necessarily based on business, economic, market and other conditions as they existed and could be evaluated by it as of the date of the Seidman opinion. It should be understood that subsequent developments may affect the Seidman opinion and Seidman does not have any obligation to update, revise or reaffirm the Seidman opinion.

The SBE board of directors asked Seidman to opine on the fairness to its stockholders of the merger from a financial point of view. The Seidman opinion does not address the relative merits of the merger as compared to other business strategies that might be available to SBE, Inc., nor does it address its underlying business decision to proceed with the merger. Seidman did not make or take into account any independent appraisal or valuation of any of Neonode or SBE, Inc.'s assets or liabilities, contingent or otherwise. Seidman did not opine on any legal, tax or accounting issues concerning the merger, or any terms of the merger other than the subject fairness. Seidman did not express an opinion with respect to the prices at which SBE, Inc. common stock might trade subsequent to disclosure or consummation of the merger.

Seidman did not recommend any specific exchange ratio to the board of directors or that any specific exchange ratio constituted the only appropriate exchange ratio with respect to the merger agreement. In addition, Seidman's opinion and presentation to the board of directors was one of many factors taken into consideration by the board of directors in making its decision to approve the merger. Consequently, the Seidman analyses as described above should not be viewed as determinative of the opinion of the board of directors with respect to the exchange ratio or whether our board of directors would have been willing to agree to a different exchange ratio.

Seidman is a New York City investment banking firm specializing in securities research, analysis and valuations that has been in business since 1970 and is engaged in a broad range of investment banking and financial advisory activities, including activities relating to corporate finance, mergers and acquisitions, leveraged buyouts and private placements.

### **Regulatory Approvals Relating to the Merger**

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 merger, other than the filing of (1) a certificate of merger with the Secretary of State of the State of Delaware, (2) this proxy statement with the SEC and (3) compliance with all applicable state securities laws regarding the offering and issuance of the shares in connection with the transactions. 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 Relating to the Merger**

Our stockholders are not entitled to exercise dissenters' rights in connection with the merger or the private placement.

### **Interests of Certain Persons in the Merger**

Mr. John Reardon, a member of our board of directors, was recently named as a member of the board of directors of Neonode. He was not a member of Neonode's board of directors at the time the merger agreement was negotiated and executed by the parties. It is expected that Mr. Reardon will continue as a member of our board of directors after the merger. It is expected that Mr. David Brunton, our Chief Financial Officer, will remain on as Chief Financial Officer of the combined company after the merger. It is expected that all other employees, including officers, and directors of SBE will resign effective as of the closing of the merger.



## **THE MERGER AGREEMENT**

### **General**

The merger agreement provides that, subject to satisfaction of certain conditions, our newly-formed, wholly-owned subsidiary, Cold Winter Acquisition Corporation, referred to in this proxy statement as Merger Sub, will be merged with and into Neonode and that following the merger, Merger Sub will cease to exist as a separate entity and we will continue as sole stockholder of Neonode, the surviving entity in the merger.

We entered into the merger agreement with Neonode on January 19, 2007 and amended it as of May 18, 2007. The merger agreement is attached to this proxy statement as Annex A. You should read the merger agreement carefully. It is the agreement that governs the terms of the merger. The following information summarizes the terms of the merger agreement.

### **Effective Time of the Merger**

The consummation of the merger will take place on a date to be designated jointly by SBE and Neonode, which shall be no later than two business days after the last condition to closing has been satisfied or waived. The merger will become effective the merger agreement is filed with the Secretary of State of the State of Delaware.

### **Treatment of Stock Options**

At the effective time of the merger, each outstanding Neonode stock option, whether vested or unvested, will be assumed by SBE. All rights to acquire Neonode stock upon exercise of the Neonode options will be converted into rights to acquire our common stock. All restrictions on the exercise of each such assumed options will continue in full force and effect, and the term, exercisability, vesting schedule and other provisions of the options will otherwise remain unchanged. However, any option with a term in excess of ten years will have its term reduced so that no assumed option will have a term in excess of ten years. The number of shares of our common stock that will be subject to the new stock options and the exercise price per share of our common stock issuable upon exercise of the new options will reflect the exchange calculation set forth in the merger agreement. We expect the exercise price of the assumed options will be approximately \$1.98 per share of our common stock issuable upon exercise of the assumed options.

### **Treatment of Warrants to Purchase Stock**

At the effective time of the merger, each outstanding Neonode warrant will be assumed by SBE. All rights to acquire Neonode stock upon exercise of the Neonode warrants will be converted into rights to acquire our common stock. All of the terms and conditions of the warrants will remain unchanged. The number of shares of our common stock that will be subject to the new warrants and the exercise price per share of our common stock issuable upon exercise of the new warrants will reflect the exchange calculation set forth in the merger agreement.

### **Surrender and Exchange of Share Certificates**

As soon as reasonably practicable after the effective time of the merger, but in any event no more than ten business days thereafter, we or our agent will send to the Neonode stockholders transmittal materials containing instructions on how to exchange of their stock certificates representing shares of Neonode common stock for certificates representing shares of our common stock that are payable to them in connection with the merger. Upon surrender to us or our agent of their stock certificate or certificates representing the shares of Neonode common stock held immediately prior to the merger, and the acceptance of such certificate or certificates by us or our agent in accordance with the instructions to be provided by us or our agent, the Neonode stockholders will receive that number of shares of our common stock

equal to the number of shares of our common stock that the Neonode stockholders are entitled to receive pursuant to the exchange calculation set forth in the merger agreement. Neonode stockholders that fail to exchange their stock certificates will not be entitled to receive any dividends or other distributions payable by us after the closing until their certificates are surrendered.



We will not issue any fractional shares in the merger. In lieu of fractional shares, Neonode stockholders will receive a cash payment equal to the fractional share amount multiplied by the average closing sale price of a share of our common stock, as reported on the Nasdaq Capital Market, for each of the 10 consecutive trading days immediately preceding the closing date of the merger.

### **Representations and Warranties**

The merger agreement contains representations of Neonode relating to:

- proper corporate organization, subsidiaries and similar corporate matters;
- organizational documents and records;
- capital structure;
- financial statements and financial controls;
- absence of certain changes from September 30, 2006 to January 19, 2007;
- assets necessary for the conduct of the business;
- receivables;
- holding of equipment and real property leases;
- intellectual property rights;
- contracts;
- absence of undisclosed liabilities;
- compliance with legal requirements;
- compliance with governmental authorization;
- taxes;
- employee and employee benefits matters;
- environmental matters;
- insurance;
- related party transactions;
- absence of litigation;
- authority, binding nature of the merger agreement;

- non-contravention of Neonode's organizational documents, applicable legal requirements, applicable governmental authorizations, and Neonode's material agreements;
- vote required in connection with the merger;

- financial advisory fees; and
- the absence of false or misleading statement of a material fact or the omission of a material fact.

The merger agreement also contains representations of SBE and merger sub relating to:

- proper corporate organization, subsidiaries and similar corporate matters;
- organizational documents and records;
- capital structure;
- SEC filings, financial statements and financial controls;
- absence of certain changes from July 31, 2006 to January 19, 2007;
- assets necessary for the conduct of the business;
- bank accounts and receivables;
- ownership of real property and real property leases;
- contracts;
- absence of undisclosed liabilities;
- compliance with legal requirements;
- compliance with governmental authorization;
- compliance with laws governing business practices;
- taxes;
- employee and employee benefits matters;
- environmental matters;
- insurance;
- absence of litigation;.
- non-contravention of SBE's organizational documents, applicable legal requirements, applicable governmental authorizations, and SBE's material agreements;
- vote required in connection with the merger;
- financial advisors; and
- the absence of false or misleading statement of a material fact or the omission of a material fact.

The merger agreement contains customary representations and warranties made by Neonode to SBE and Merger Sub and by SBE and Merger Sub to Neonode for purposes of allocating the risks associated with the merger. The assertions embodied in the representations and warranties made by Neonode are qualified by information set forth in a confidential disclosure schedule that was delivered in connection with the execution of the merger agreement. While we do not believe that the disclosure schedule contains information that securities laws require us to publicly disclose, other than information that is being disclosed in this proxy statement, the disclosure schedule may contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the merger agreement. Accordingly, you should not rely on any of these representations and warranties as characterizations of the actual state of facts, since they may be modified in important respects by the underlying disclosure schedule. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in the disclosure schedule Neonode delivered to us at signing and which may not be delivered to us until the closing date of the merger.

## Certain Covenants

We and Neonode have each agreed in the merger agreement to take such actions as are necessary, proper or advisable to complete the merger.

During the period from January 19, 2007 through the effective time of the merger (referred to in this proxy statement as the Pre-Closing Period), Neonode has agreed to provide, and to cause its representatives to provide, us and our representatives with reasonable access to Neonode's representatives, personnel and assets of the Neonode and to all existing books, records, tax returns, work papers and other documents and information relating to Neonode; and to provide us and our representatives with copies of such existing books, records, tax returns, work papers and other documents and information relating to Neonode, and with such additional financial, operating and other data and information regarding Neonode, as we may reasonably request.

Neonode has further agreed that during the Pre-Closing Period it shall:

- conduct its business and operations in the ordinary course, in substantially the same manner as such business and operations have been conducted prior to January 19, 2007;
- use reasonable efforts to preserve intact its current business organization, keep available the services of its current officers and key employees and maintain its relations and good will with suppliers, customers, landlords, creditors, employees and other persons having business relationships with Neonode;
  - keep in full force certain insurance policies; and
- cause its officers to report regularly (but in no event less frequently than monthly) to us concerning the status of Neonode's business.

Finally, Neonode has agreed that during the Pre-Closing Period, subject to certain exceptions, it will not, except as consented to by SBE:

- declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock, and shall not repurchase, redeem or otherwise reacquire any shares of capital stock or other securities (except that Neonode may repurchase shares of its common stock from former employees pursuant to the terms of existing restricted stock purchase agreements);
- sell, issue or authorize the issuance of (i) any capital stock or other security, (ii) any option or right to acquire any capital stock or other security, or (iii) any instrument convertible into or exchangeable for any capital stock or other security for below the fair market value (except that Neonode shall be permitted to issue shares of its common stock to employees upon the exercise of outstanding Neonode options or to holders of outstanding Neonode warrants upon the exercise of such warrants and convertible promissory notes for an aggregate amount of up to \$3.0 million in connection with its convertible note financing);

- amend or waive any of its rights under, or permit the acceleration of vesting under, (i) any provision of the Neonode stock option plan, (ii) any provision of any agreement evidencing any outstanding Neonode option, or (iii) any provision of any restricted stock purchase agreement;
- amend or permit the adoption of any amendment to Neonode's certificate of incorporation (except to increase the number of shares of Neonode common stock authorized to 10,000,000 shares) or bylaws, or effect or permit Neonode to become a party to any acquisition transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction;
  - form any subsidiary or acquire any equity interest or other interest in any other entity;
- make any capital expenditure, except for capital expenditures that, when added to all other capital expenditures made on behalf of Neonode between January 19, 2007 and the closing of the merger, do not exceed \$350,000 per month on a cumulative basis;
- (i) enter into, or permit any of the assets owned or used by it to become bound by, any contract that is or would constitute a material contract of Neonode, or (ii) amend or prematurely terminate, or waive any material right or remedy under, any such contract;
- (i) acquire, lease or license any right or other asset from any other person, (ii) sell or otherwise dispose of, or lease or license, any right or other asset to any other person, or (iii) waive or relinquish any right, except for assets acquired, leased, licensed or disposed of by Neonode pursuant to contracts that are not material contracts of Neonode;
- (i) lend money to any person (except that Neonode may make routine travel advances to employees in the ordinary course of business), or (ii) incur or guarantee any indebtedness for borrowed money;
- (i) establish, adopt or amend any employee benefit plan or (ii) pay any bonus or make any profit sharing payment, cash incentive payment or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or key employees;
  - not change any of its methods of accounting or accounting practices in any material respect;
  - not make any tax election; and
  - not commence or settle any material legal proceeding.

During the Pre-Closing Period, we agreed to provide, to cause our representatives to provide, Neonode and its representatives with reasonable access to our representatives, personnel and assets and to all existing books, records, tax returns, work papers and other documents and information relating to SBE; and to provide Neonode and its representatives with copies of such existing books, records, tax returns, work papers and other documents and information relating to us, and with such additional financial, operating and other data and information regarding us, as Neonode may reasonably request.

We further agreed that during the Pre-Closing Period we will:

- conduct our business and operations in the ordinary course, in substantially the same manner as such business and operations have been conducted prior to January 19, 2007, other than the sale of our embedded hardware business to One Stop Systems, Inc. (referred to in this proxy statement as One Stop) and the sale or shut down of our remaining business operation as soon as practicable;

- keep in full force certain insurance policies to the extent necessary and to obtain certain other insurance coverage;  
and

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- cause our officers to report regularly (but in no event less frequently than monthly) to Neonode concerning the status of our business.

Finally, we agreed that during the Pre-Closing Period, subject to certain exceptions, we will not, except as consented to by Neonode:

- subject to certain limitations, declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock, and shall not repurchase, redeem or otherwise reacquire any shares of capital stock or other securities (except that we may repurchase shares of our common stock from former employees pursuant to the terms of existing restricted stock purchase agreements);
- subject to certain limitations, sell, issue or authorize the issuance of (i) any capital stock or other security, (ii) any option or right to acquire any capital stock or other security, or (iii) any instrument convertible into or exchangeable for any capital stock or other security (except that we will be permitted to issue shares of its common stock to employees upon the exercise of outstanding SBE options or to holders of outstanding SBE warrants upon the exercise of such warrants);
  - amend or waive any of our rights under, or permit the acceleration of vesting under, (i) any provision of the SBE stock option plan, (ii) any provision of any agreement evidencing any outstanding SBE option, or (iii) any provision of any restricted stock purchase agreement;
- amend or permit the adoption of any amendment to our certificate of incorporation or bylaws, or effect or permit SBE to become a party to any acquisition transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction, other than to effect one or more reverse stock splits as we deem necessary or appropriate to maintain our listing on the Nasdaq Capital Market;
  - form any subsidiary or acquire any equity interest or other interest in any other entity;
- make any capital expenditure, except in the ordinary course of our business in a manner that is not inconsistent with the sale of our embedded hardware business to One Stop or the sale or shut down of our remaining business operations;
- (i) acquire, lease or license any right or other asset from any other person, or (ii) waive or relinquish any right except , except in the ordinary course of our business in a manner that is not inconsistent with the sale of our embedded hardware business to One Stop or the sale or shut down of our remaining business operations;
- (i) lend money to any person (except that we may make routine travel advances to employees in the ordinary course of business), or (ii) incur or guarantee any indebtedness for borrowed money;
- subject to certain limitations (i) establish, adopt or amend any employee benefit plan or (ii) pay any bonus or make any profit sharing payment, cash incentive payment or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of our key employees;
  - not change any of our methods of accounting or accounting practices in any material respect;
  - not make any tax election; and
  - not commence or settle any material legal proceeding.

The merger agreement also contains additional covenants of the parties, including covenants regarding:



- making certain filings and obtaining certain consents;

- the filing of this proxy statement and holding the special meeting;
- the preparation of an information statement regarding the merger for the Neonode stockholders and holding a meeting of the Neonode stockholders for purposes of approving the merger;
  - state and federal securities law compliance;
  - restrictions on issuing press releases or public statements regarding the merger;
- causing certain of the Neonode directors, officers, note holders and stockholders to enter into voting and affiliate agreements;
  - certain tax matters;
- using commercially reasonable efforts to maintain the listing of our common stock on the Nasdaq Capital Market and reasonable best efforts to list the shares of our common stock to be issued in connection with the merger on the Nasdaq Capital Market;
  - providing notification of certain events;
  - subject to certain exceptions, terminating all of our employees effective at the effective time;
  - post-closing directors and certain corporate governance matters;
  - limitations during the Pre Closing Period or until the termination of the merger agreement, if earlier, providing that neither party shall (a) solicit or encourage or facilitate the initiation or submission of any expression of interest, inquiry, proposal or offer from any person relating to a possible acquisition transaction; (b) participate in any discussions or negotiations or enter into any agreement with, or provide any non public information to, any person relating to or in connection with a possible acquisition transaction; or (c) consider, entertain or accept any proposal or offer from any person relating to a possible acquisition transaction;
  - registration rights; and
- certain indemnification obligations with respect to our directors and executive officers from and after the effective time of the merger for a period of three years.

### **Conditions to Closing of the Merger**

Under the merger agreement, the obligations of the parties to consummate the merger are subject to certain mutual closing conditions including, among other things:

- the accuracy of the representations and warranties made by the parties in the merger agreement;
- compliance with all of the covenants and obligations required to be complied with or performed at or prior to the closing of the merger;
- that no person shall have commenced or threatened to commence any legal proceeding, challenging or seeking recovery of a material amount of damages in connection with the merger, (b) seeking to prohibit or limit the exercise by us of any material right pertaining to our ownership of stock of the surviving entity following the completion of the merger;

· that since January 19, 2007 there has been no Material Adverse Effect (as defined in the merger agreement);

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- all consents required to be obtained in connection with the merger shall have been obtained and shall be in full force and effect;
- approval by our stockholders and the Neonode stockholders of the merger and the transactions contemplated by the merger;
- holders of no more than 5% of the outstanding Neonode common stock will have elected to exercise their dissenters' rights in connection with the merger;
  - the sale of the embedded hardware business to One Stop shall be completed; and
- that no temporary restraining order, preliminary or permanent injunction or other order preventing the completion of the merger shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any legal requirement enacted or deemed applicable to the merger that makes completion of the merger illegal.

In addition, our obligation to consummate the merger is subject to certain closing conditions including, among other things:

- that we shall have received certain agreements or other documents set forth in the merger agreement, including, but not limited to, a legal opinion of Hahn & Hessen LLP, counsel to Neonode, dated as of the closing date and addressed to us covering certain agreed upon matters;
- that we shall have received a stockholder questionnaire and lock-up agreement from each of the stockholders, warrant holders and option holders of Neonode;
  - Neonode shall have filed a FIRPTA notice with the Internal Revenue Service;
  - we shall have received a complete copy of the audited financial statements of Neonode;

Finally, Neonode's obligation to consummate the merger is subject to certain closing conditions including, among other things:

- that Neonode shall have received certain agreements or other documents set forth in the merger agreement; and
  - all of our existing officers and directors shall have resigned effective as of the effective date.

### **Termination**

The merger agreement may be terminated prior to the closing by mutual consent of us and Neonode. In addition, either party may terminate the merger agreement under the following circumstances:

- if it is reasonably determined by that party that timely satisfaction of any of the conditions precedent to the obligations of that party to effect the merger and consummate the transactions contemplated by the merger agreement has become impossible;
- if any of the conditions precedent to the obligations of that party to effect the merger and consummate the transactions contemplated by the merger agreement has not been satisfied as of the agreed closing date; or
  - the merger has not been completed on or before September 30, 2007.



If the merger agreement is terminated, all further obligations of the parties under the merger agreement shall terminate and no party shall have any further liability under the merger agreement, except that neither party shall be relieved of any obligation or liability arising from any prior breach by such party of any covenant or obligation set forth in the merger agreement. A termination fee will be payable in the event that either party consummates an acquisition transaction within 12 months after termination of the merger agreement. The termination fee is \$400,000 in the case of an acquisition transaction by Neonode and \$800,000 in the case of an acquisition transaction by us. If a party fails to pay the termination fee promptly, the other party will be entitled to reasonable fees and expenses (including reasonable attorneys' fees and expenses) incurred in connection with any legal proceeding initiated to obtain payment of the termination fee.

### **Waivers**

No failure on the part of any person to exercise any power, right, privilege or remedy under the merger agreement, and no delay on the part of any person in exercising any power, right, privilege or remedy under the merger agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

No person shall be deemed to have waived any claim arising out of the merger agreement, or any power, right, privilege or remedy under the merger agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such person; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

### **Amendments**

The merger agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of all of the parties hereto; provided that the covenants related to the registration rights and indemnification of our directors and officers from and after the effective time of the merger for a period of three years can not be amended, modified, altered or supplemented after approval of either our stockholders or Neonode's stockholders has been obtained.

### **Fees and Expenses**

Except as otherwise provided in the merger agreement, each party to the merger agreement shall bear and pay all fees, costs and expenses (including legal fees and accounting fees) that have been incurred or that are incurred by or on behalf of such party in connection with the merger.

### **Accounting Treatment of the Merger**

The former Neonode stockholders will hold a majority of the outstanding voting securities of SBE upon completion of the merger. This transaction will be accounted for as a reverse merger, with Neonode being the acquirer for accounting purposes. The pre-acquisition financial statements (December 31 year end) of the accounting acquirer, Neonode, will become the historical financial statements of the combined companies and the historical financial statements of SBE for the periods prior to the date of the transaction (October 31 fiscal year end) will not be presented. This transaction will be accounted for as the issuance of common stock by Neonode for the net assets of SBE, accompanied by a recapitalization to reflect the legally issued and outstanding shares of the combined companies. Pre-acquisition stockholders' equity of Neonode will be retroactively restated for the equivalent number of shares of SBE received by Neonode stockholders in the acquisition, with differences between the par value of SBE and Neonode's stock recorded as additional paid in capital.

**Registration Rights**

After completion of the merger, the combined company will be obligated to use its best efforts to register with the SEC the public resale the shares offered in the merger, on the terms and subject to the conditions set forth in the merger agreement.

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### **Voting Agreement; Neonode Stockholder Vote**

In connection with the execution of the merger agreement, the holders of approximately 67% of Neonode's outstanding capital stock entered into a voting agreement with SBE and merger sub pursuant to which, among other things, such holders agreed with SBE and Merger Sub to vote in favor of the merger and, subject to certain exceptions, agreed not to dispose of any shares of Neonode common stock held by such parties prior to the consummation of the merger. Shortly following the execution of the original merger agreement and its amendment, the stockholders of Neonode approved the merger and the merger agreement by written consent.

### **Past Contacts, Transactions or Negotiations**

Other than as described in the "Background of the Merger and the Private Placement," we and Neonode have not had any past material contacts, transactions or negotiations.

### **Loan to Neonode**

As described in "Background of the Merger" above, Neonode required additional capital during the pre-closing period. In May 2007, we entered into a loan agreement with Neonode providing that SBE would loan Neonode \$1,000,000. The loan bears interest at 6% and all principal and accrued but unpaid interest is due on September 30, 2007 or, if the merger agreement is terminated pursuant to its terms, on the date of such termination. Our loan and Neonode's existing loans in aggregate principal amount of \$14.9 million are secured on a pari passu basis by a first-priority security interest in Neonode's shares of its wholly-owned subsidiary, Neonode AB. The loan agreement and associated promissory note were filed with our Form 8-K filed with the Securities and Exchange Commission on May 29, 2007. On May 29, 2007, we advanced Neonode \$500,000 under an interest bearing secured note and advanced an additional \$500,000 to Neonode on June 15, 2007.

### **Recommendation of our Board of Directors**

Our board of directors recommends that our stockholders vote FOR the merger, the merger agreement, the issuance of shares of our common stock to the Neonode stockholders and the assumption of options to purchase shares of our common stock in the merger.



## **PROPOSAL 2**

### **APPROVAL OF OPTION PLAN INCREASE**

In January 2006, our board of directors adopted, and our stockholders subsequently approved, the SBE, Inc. 2006 Equity Incentive Plan (the "2006 Plan") and reserved 300,000 (adjusted for the April 2, 2007 1 for 5 reverse split) shares for issuance thereunder. The 2006 Plan was adopted because our 1996 Equity 2006 Plan (the "1996 Plan") expired in January 2006. During fiscal 2006, we granted options to purchase 49,000 shares of common stock under the 2006 Plan to our current executive officers and directors at an exercise price of \$5.00 per share, and we granted to all employees and consultants (excluding executive officers) as a group options to purchase 45,000 shares of common stock at exercise prices ranging from \$1.80 to \$5.50 per share. In addition, during fiscal 2006 we granted 212,111 shares of stock to officers, directors and employees.

As of April 18, 2007, awards and stock (net of canceled or expired awards) covering an aggregate of 260,702 shares of common stock had been granted under the 2006 Plan and 39,298 shares of common stock (plus any shares that might in the future be returned to the 2006 Plan as a result of cancellation or expiration of awards) remained available for future grants under the 2006 Plan.

On May 18, 2007, our board of directors approved an amendment to the 2006 Plan, subject to stockholder approval, to increase the number of shares authorized for issuance under the 2006 Plan by 1,000,000 shares of common stock from an aggregate of 300,000 shares to 1,300,000 shares.

Stockholders are requested in this Proposal 2 to approve the 2006 Plan, as amended. The adoption of Proposal 2 will require the affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the special meeting. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved. A copy of the 2006 Plan, as amended, is appended to this proxy statement as Appendix B.

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

The essential features of the 2006 Plan are outlined below:

The 2006 Plan provides for the grant of incentive stock options, nonstatutory stock options and stock bonus awards (collectively "awards"). Incentive stock options granted under the 2006 Plan are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Nonstatutory stock options granted under the 2006 Plan are not intended to qualify as incentive stock options under the Code. See "Material Federal Income Tax Information" for a discussion of the tax treatment of awards.

#### **Purpose**

Our board of directors adopted the 2006 Plan to provide a means by which our employees, directors and consultants may be given an opportunity to purchase our common stock, to assist in retaining the services of such persons, to secure and retain the services of persons capable of filling such positions and to provide incentives for such persons to exert maximum efforts for the success of SBE and its affiliates. All of our employees, directors and consultants are eligible to participate in the 2006 Plan.

#### **Administration**

Our board of directors administers the 2006 Plan. Subject to the provisions of the 2006 Plan, the board of directors has the power to construe and interpret the 2006 Plan and to determine the persons to whom and the dates on which awards will be granted, the number of shares of common stock to be subject to each award, the time or times during the term of each award within which all or a portion of such award may be exercised, the exercise price, the type of consideration and other terms of the award.

The board of directors has the power to delegate administration of the 2006 Plan to a committee composed of not fewer than two members of the board of directors. In the discretion of the board of directors, a committee may consist solely of two or more outside directors in accordance with Section 162(m) of the Code or solely of two or more non-employee directors in accordance with Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The board of directors has delegated administration of the 2006 Plan to the Compensation Committee of the board of directors. As used herein with respect to the 2006 Plan, the “board of directors” refers to any committee the board of directors appoints as well as to the board of directors itself. The board of directors also may delegate to one or more of our officers the power to designate officers and employees to receive awards and the number of shares subject to such awards.

The regulations under Section 162(m) of the Code require that the directors who serve as members of the committee must be “outside directors.” The 2006 Plan provides that, in the board of directors’ discretion, directors serving on the committee may be “outside directors” within the meaning of Section 162(m). This limitation would exclude from the committee directors who are (i) current employees of SBE or an affiliate, (ii) former employees of SBE or an affiliate receiving compensation for past services (other than benefits under a tax-qualified pension incentive plan), (iii) current and former officers of SBE or an affiliate, (iv) directors currently receiving direct or indirect remuneration from SBE or an affiliate in any capacity (other than as a director), and (v) any other person who is otherwise not considered an “outside director” for purposes of Section 162(m).

### **Stock Subject to the 2006 Plan**

If this proposal is approved, an aggregate of 1,300,000 shares of common stock will be reserved for issuance under the 2006 Plan. If awards granted under the 2006 Plan expire or otherwise terminate without being exercised, the shares of common stock not acquired pursuant to such awards again become available for issuance under the 2006 Plan. If we reacquire unvested stock issued under the 2006 Plan, the reacquired stock will again become available for reissuance under the 2006 Plan.

### **Eligibility**

Incentive stock options may be granted under the 2006 Plan only to employees (including officers) of SBE and its affiliates. Employees (including officers), directors, and consultants of both SBE and its affiliates are eligible to receive all other types of awards under the 2006 Plan.

No incentive stock option may be granted under the 2006 Plan to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of SBE or any affiliate of SBE, unless the exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant and the term of the option does not exceed five years from the date of grant. In addition, the aggregate fair market value, determined at the time of grant, of the shares of common stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year (under the 2006 Plan and all other such plans of SBE and its affiliates) may not exceed \$100,000.

No employee may be granted options under the 2006 Plan exercisable for more than 150,000 shares of common stock during any calendar year (“Section 162(m) Limitation”).

### **Terms of Options**

The following is a description of the permissible terms of options under the 2006 Plan. Individual option grants may be more restrictive as to any or all of the permissible terms described below.

**Exercise Price; Payment.** The exercise price of incentive stock options may not be less than 100% of the fair market value of the stock subject to the option on the date of the grant and, in some cases (see “Eligibility” above), may not be less than 110% of such fair market value. The exercise price of nonstatutory options may not be less than 85% of the fair market value of the stock on the date of grant. If options were granted to covered executives with exercise prices below fair market value, deductions for compensation attributable to the exercise of such options could be limited by Section 162(m) of the Code. See “Material Federal Income Tax Information.” As of April 30, 2007, the closing price of SBE’s common stock as reported on the Nasdaq Capital Market was \$2.40 per share.

The exercise price of options granted under the 2006 Plan must be paid either in cash at the time the option is exercised or (i) by delivery of other common stock of SBE, (ii) pursuant to a deferred payment arrangement, or (iii) in any other form of legal consideration acceptable to the board of directors.

**Repricing.** In the event of a decline in the value of SBE's common stock, the board of directors has the authority to offer participants the opportunity to replace outstanding higher priced options with new lower priced options. To the extent required by Section 162(m) of the Code, a repriced option is deemed to be canceled and a new option granted. Both the option deemed to be canceled and the new option deemed to be granted will be counted against the Section 162(m) Limitation.

**Option Exercise.** Options granted under the 2006 Plan may become exercisable in cumulative increments ("vest") as determined by the board of directors. The board of directors has the power to accelerate the time during which an option may vest or be exercised. In addition, options granted under the 2006 Plan may permit exercise prior to vesting, but in such event the participant may be required to enter into an early exercise stock purchase agreement that allows us to repurchase unvested shares, generally at their exercise price, should the participant's service terminate before vesting. To the extent provided by the terms of an option, a participant may satisfy any federal, state or local tax withholding obligation relating to the exercise of such option by a cash payment upon exercise, by authorizing us to withhold a portion of the stock otherwise issuable to the participant, by delivering already-owned common stock of SBE or by a combination of these means.

**Term.** The maximum term of options under the 2006 Plan is 10 years, except that in certain cases (see "Eligibility") the maximum term is five years. Options under the 2006 Plan will generally terminate three months after termination of the participant's service unless (i) such termination is due to the participant's permanent and total disability (as defined in the Code), in which case the option may, but need not, provide that it may be exercised (to the extent the option was exercisable at the time of the termination of service) at any time within 12 months of such termination; (ii) the participant dies before the participant's service has terminated, or within a certain number of months after termination of such service, in which case the option may, but need not, provide that it may be exercised (to the extent the option was exercisable at the time of the participant's death) within 18 months of the participant's death by the person or persons to whom the rights to such option pass by will or by the laws of descent and distribution; or (iii) the option by its terms specifically provides otherwise. A participant may designate a beneficiary who may exercise the option following the participant's death. Individual option grants by their terms may provide for exercise within a longer period of time following termination of service.

The option term generally is extended in the event that exercise of the option within these periods is prohibited. A participant's option agreement may provide that if the exercise of the option following the termination of the participant's service would be prohibited because the issuance of stock would violate the registration requirements under the Securities Act of 1933, as amended (the "Securities Act"), then the option will terminate on the earlier of (i) the expiration of the term of the option or (ii) three months after the termination of the participant's service during which the exercise of the option would not be in violation of such registration requirements.

### **Terms of Stock Bonuses**

**Payment.** The board of directors may award stock bonuses in consideration of past services without a cash payment.

**Vesting.** Shares of stock sold or awarded under the 2006 Plan may, but need not be, subject to a repurchase option in favor of SBE in accordance with a vesting schedule as determined by the board of directors.

**Restrictions on Transfer.** The board of directors determines the restrictions on transfer of a stock bonus award.



### **Restrictions on Transfer**

The participant may not transfer an option otherwise than by will or by the laws of descent and distribution. During the lifetime of the participant, only the participant may exercise an option. Shares subject to repurchase by SBE under an early exercise stock purchase agreement may be subject to restrictions on transfer that the board of directors deems appropriate.

### **Adjustment Provisions**

Transactions not involving receipt of consideration by SBE, such as a merger, consolidation, reorganization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares or change in corporate structure may change the type(s), class(es) and number of shares of common stock subject to the 2006 Plan and outstanding awards. In that event, the 2006 Plan will be appropriately adjusted as to the type(s), class(es) and the maximum number of shares of common stock subject to the 2006 Plan and the Section 162(m) Limitation, and outstanding awards will be adjusted as to the type(s), class(es), number of shares and price per share of common stock subject to such awards.

### **Effect Of Certain Corporate Transactions**

In the event of (i) the sale or other disposition of all or substantially all of the consolidated assets of SBE, (ii) the sale or other disposition of at least 90% of the outstanding securities of SBE, or (iii) certain specified types of merger, consolidation or similar transactions (collectively, "corporate transaction"), any surviving or acquiring corporation may continue or assume awards outstanding under the 2006 Plan or may substitute similar awards. If any surviving or acquiring corporation does not assume such awards or to substitute similar awards, then with respect to awards held by participants whose service with SBE or an affiliate has not terminated as of the effective date of the corporate transaction, the vesting of such awards (and, if applicable, the time during which such awards may be exercised) will be accelerated in full and the awards will terminate if not exercised (if applicable) at or prior to such effective date.

The 2006 Plan also provides that, in the event of a dissolution or liquidation, all outstanding awards shall terminate.

The acceleration of an award in the event of a corporate transaction or a change in control event may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of SBE.

### **Duration, Amendment and Termination**

The board of directors may suspend or terminate the 2006 Plan without stockholder approval or ratification at any time or from time to time. Unless sooner terminated, the 2006 Plan will terminate on the tenth anniversary of the date the Incentive Plan was adopted by the board of directors.

The board of directors may also amend the 2006 Plan at any time or from time to time. However, no amendment will be effective unless approved by the stockholders of SBE within 12 months before or after its adoption by the board of directors to the extent such approval is necessary to satisfy applicable law. The board of directors may submit any other amendment to the 2006 Plan for stockholder approval, including, but not limited to, amendments intended to satisfy the requirements of Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limitation on the deductibility of compensation paid to certain employees.

### **Material Federal Income Tax Information**

This following 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.

***Incentive Stock Options.*** Incentive stock options under the 2006 Plan are intended to be eligible for the favorable federal income tax treatment accorded “incentive stock options” under the Code. There generally are no federal income tax consequences to the participant or SBE by reason of the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may increase the participant’s alternative minimum tax liability, if any.



If a participant holds stock acquired through exercise of an incentive stock option for more than two years from the date on which the option is granted and more than one year from the date on which the shares are transferred to the participant upon exercise of the option, any gain or loss on a disposition of such stock will be a long-term capital gain or loss if the participant held the stock for more than one year.

Generally, if the participant disposes of the stock before the expiration of either of these holding periods (a “disqualifying disposition”), then at the time of disposition the participant will realize taxable ordinary income equal to the lesser of (i) the excess of the stock’s fair market value on the date of exercise over the exercise price, or (ii) the participant’s actual gain, if any, on the purchase and sale. The participant’s additional gain or any loss upon the disqualifying disposition will be a capital gain or loss, which will be long-term or short-term depending on whether the stock was held for more than one year.

To the extent the participant recognizes ordinary income by reason of a disqualifying disposition, SBE will generally be entitled (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) to a corresponding business expense deduction in the tax year in which the disqualifying disposition occurs.

***Nonstatutory Stock Options, Restricted Stock Purchase Awards and Stock Bonuses.*** Nonstatutory stock options, restricted stock purchase awards and stock bonuses granted under the 2006 Plan generally have the following federal income tax consequences.

There are no tax consequences to the participant or SBE by reason of the grant of the awards. However, if the strike price of a nonstatutory stock option can, at any time, be less than the fair market value of the stock on the grant date, Section 409A of the Code imposes ordinary income and employment tax liability for the participant as the option vests in an amount equal to the difference between the fair market value of the stock on the vesting date and the strike price. In addition, Section 409A imposes a penalty of 20% of such amount and an interest charge. SBE would be responsible for withholding these tax amounts. Upon acquisition of the stock under any of these awards, the participant normally will recognize taxable ordinary income equal to the excess, if any, of the stock’s fair market value on the acquisition date over the purchase price. However, to the extent the stock is subject to certain types of vesting restrictions, the taxable event will be delayed until the vesting restrictions lapse unless the participant elects to be taxed on receipt of the stock. With respect to employees, SBE is generally required to withhold from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation, SBE will generally be entitled to a business expense deduction equal to the taxable ordinary income realized by the participant.

Upon disposition of the stock, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year. Slightly different rules may apply to participants who acquire stock subject to certain repurchase options or who are subject to Section 16(b) of the Exchange Act.

***Potential Limitation on Company Deductions.*** Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation to such covered employee exceeds \$1 million. It is possible that compensation attributable to awards, when combined with all other types of compensation received by a covered employee from SBE, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified “performance-based compensation,” are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m), compensation

attributable to stock options will qualify as performance-based compensation if the award is granted by a compensation committee comprised solely of “outside directors” and either (i) the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, the per-employee limitation is approved by the stockholders, and the exercise price of the award is no less than the fair market value of the stock on the date of grant, or (ii) the award is granted (or exercisable) only upon the achievement (as certified in writing by the compensation committee) of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, and the award is approved by stockholders.

Awards to purchase restricted stock and stock bonus awards will qualify as performance-based compensation under the Treasury Regulations only if (i) the award is granted by a compensation committee comprised solely of “outside directors,” (ii) the award is granted (or exercisable) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) the compensation committee certifies in writing prior to the granting (or exercisability) of the award that the performance goal has been satisfied and (iv) prior to the granting (or exercisability) of the award, stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount -- or formula used to calculate the amount -- payable upon attainment of the performance goal).

### PROPOSAL 3

#### APPROVAL OF REVERSE STOCK SPLIT

##### Background

Our common stock is quoted on The Nasdaq Capital Market under the symbol SBEI. 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 \$1.0 million and our common stock must have a minimum closing bid price of \$1.00 per share. Our stockholders' equity as of January 31, 2007 was approximately \$2.4 million and our closing bid price on January 31, 2007 was \$0.56, on a pre-split basis.

On July 14, 2006, we received a notice from 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. We were provided 180 calendar days, or until January 10, 2007, to regain compliance with the Rule. We did not regain compliance during the 180 calendar day period and on January 11, 2007; we received a notice from Nasdaq that our stock is subject to delisting. We filed an appeal of the staff's determination to the Listings Qualifications Panel. The appeals' hearing was held on February 22, 2007.

On April 11, 2007, we received a determination letter from the Nasdaq Listing Qualifications Panel (Panel) granting our request for continued listing on Nasdaq subject to certain conditions. Our continued listing is subject to certain specified conditions, including:

1. On or before April 17, 2007, we must have evidenced a closing bid price of \$1.00 or more for a minimum of ten prior consecutive trading days. Our bid price increase to over the minimum \$1.00 per share as a result of the 1-for-5 reverse stock split effected on April 2, 2007. We maintained a closing bid price for more than the minimum 10 consecutive days and exceeded the requirement.
2. On or before April 30, 2007, we shall file an initial listing application with Nasdaq with respect to the pending merger with Neonode, unless we delay or decide not to go forward with the merger. The initial listing application for Neonode was filed with Nasdaq on April 17, 2007.
3. On or before May 31, 2007, we must file a Form 8-K with pro forma financial information indicating that our plan to report stockholders' equity of \$2.5 million or greater as of quarter end. On May 29, 2007, we filed a Form 8-K with the actual financial information reporting stockholders' equity of greater than \$2.5 million as of our latest fiscal quarter end, April 30, 2007.
4. We shall immediately notify the Panel if we enter into an agreement to sell, transfer or otherwise dispose of our software business before we consummate a merger with Neonode, and the Panel may revisit its determination.

This action follows recent steps taken by us to come into compliance with Nasdaq requirements for continued listing including a gain to stockholders' equity resulting from the \$2.2 million sale of our embedded hardware business to One Stop Systems on March 30, 2007 and an increase in bid price resulting from the 1-for-5 reverse stock split effected on April 2, 2007. On April 30, 2007, our closing bid price was \$2.40 and our shareholders' equity exceeded the required \$2.5 million.

On June 21, 2007, we received notification from Nasdaq that we regained compliance with Nasdaq Marketplace Rule 4210(c)(4) and with Marketplace Rule 4310(c)(2)(B)



## **Purpose and Material Effects of Proposed Reverse Split**

Our merger with Neonode will require us to meet the initial, instead of the continued, listing criteria of The Nasdaq Capital Market. One of the key requirements for initial listing on The Nasdaq Capital Market is that our common stock must maintain a minimum bid price above \$4.00 per share. We believe that the proposed new reverse split of either 1-for-2 or 1-for-3, with the specific ratio to be determined by our board of directors, 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. Our board of directors will make the final determination regarding the reverse stock split ratio based on the closing price of our common stock as of the closing of the merger with Neonode.

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 \$4.00 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 of directors 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 following table depicts, by way of example, the potential effects of a reverse stock split of either 1-for-2 or 1-for-3 as of June 29, 2007, before considering any issuance as a result of the merger with Neonode, on the number of (i) shares of our common stock outstanding, (ii) shares of our common stock reserved for future issuance pursuant to outstanding options, (iii) shares of our common stock reserved for future issuance pursuant to outstanding warrants, (iv) shares of our common stock reserved for future issuance under our equity incentive plans; and (v) authorized but unissued shares of our common stock that would be available for future issuance.

Reverse stock split ratio	Common stock issued and outstanding	Common stock reserved for issuance pursuant to outstanding options(1)	Common stock reserved for issuance pursuant to outstanding warrants(1)	Common stock reserved for future issuance under our equity incentive plans	Common stock available for future issuance
No stock split	2,269,595	458,000	232,000	39,298	22,040,405
2-for-1	1,134,798	229,000	116,000	19,649	23,500,553
3-for-1	756,532	152,667	77,333	13,099	24,000,369

(1) As of the effective date of the reverse stock split, the exercise price of all outstanding options and warrants will be adjusted such that the aggregate exercise price to be paid upon exercise of such option or warrant will be the same as the aggregate exercise price in effect immediately prior to the reverse split.

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 our outstanding common stock will be reduced to one-half of its present amount, and the additional paid-in capital account will 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 following table depicts, by way of example, the potential effects of a reverse stock split of either 1-for-2 or 1-for-3 on the estimated number of (i) shares of our common stock outstanding, (ii) shares of our common stock reserved for future issuance pursuant to outstanding options, (iii) shares of our common stock reserved for future issuance pursuant to outstanding warrants, (iv) shares of our common stock reserved for future issuance under our equity incentive plans; and (v) authorized but unissued shares of our common stock that would be available for future issuance. The actual number of shares of common stock, options to purchase common stock and warrants to purchase common stock issued and outstanding will be determined based on the actual number of shares of common stock outstanding at the closing date of the merger.

Reverse stock split ratio	Common stock issued and outstanding	Common stock reserved for issuance pursuant to outstanding options	Common stock reserved for issuance pursuant to outstanding warrants	Common stock reserved for future issuance under our equity incentive plans	Common stock available for future issuance
No stock split	22,665,000	2,447,000	6,234,000	1,039,298	7,614,702
2-for-1	7,555,000	2,077,000	815,000	519,649	29,033,351
3-for-1	11,333,000	1,223,000	3,117,000	346,432	23,980,568

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, our board of directors will determine the specific stock split ratio and we will promptly file our amended and restated certificate of incorporation 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 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 Code. 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.

The adoption of Proposal 3 will require the affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE  
IN FAVOR OF PROPOSAL 3.**

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## **PROPOSAL 4**

### **APPROVAL OF INCREASE IN AUTHORIZED SHARES**

We are requesting stockholder approval to increase the authorized number of shares of common stock from 25,000,000 shares to 40,000,000 shares. The additional common stock to be authorized by adoption of this proposal would have rights identical to our currently outstanding common stock. Adoption of the proposed amendment and issuance of the common stock would not affect the rights of the holders of our currently outstanding common stock, except for effects incidental to increasing the number of shares of our common stock outstanding, such as dilution of the earnings per share and voting rights of our current holders of common stock. If the amendment is adopted, it will become effective upon filing of the amended and restated certificate of incorporation with the Secretary of State of the State of Delaware. If the merger proposal is not adopted, the certificate amendment proposals, including this proposal, will not be presented at the special meeting.

As of June 29, 2007, we had outstanding 2,269,595 shares, as well as options and warrants, which if exercised, would result in the issuance of an additional 690,182 shares. We will have insufficient authorized shares of common stock to issue in connection with the merger and the proposed 2006 Plan share reserve increase.

The additional shares of common stock that would become available for issuance if the proposal is adopted could also be used by us to oppose a hostile takeover attempt or to delay or prevent changes in control or management of SBE. For example, without further stockholder approval, our board of directors could strategically sell shares of common stock in a private transaction to purchasers who would oppose a takeover or favor the incumbent board of directors. Although this proposal to increase the authorized common stock has been prompted by business and financial considerations and not by the threat of any hostile takeover attempt (nor is our board of directors currently aware of any such attempts directed at us), nevertheless, stockholders should be aware that approval of proposal could facilitate our future efforts to deter or prevent changes in control of SBE, including transactions in which the stockholders might otherwise receive a premium for their shares over then current market prices.

The adoption of Proposal 4 will require the affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date.

### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 4.**

**PROPOSAL 5**

**APPROVAL OF NAME CHANGE**

We are proposing to change our corporate name from “SBE, Inc.” to “Neonode Inc.” upon completion of the merger. In the judgment of our board of directors, the change of our corporate name is desirable to reflect our merger with Neonode. Stockholders will not be required to exchange outstanding stock certificates for new stock certificates if the amended and restated certificate of incorporation is adopted. If the merger proposal is not adopted, the certificate amendment proposals, including this proposal, will not be presented at the special meeting.

The adoption of Proposal 5 will require the affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE  
IN FAVOR OF PROPOSAL 5.**

## **SBE'S BUSINESS**

The following description of SBE's business contains forward-looking statements that involve risks and uncertainties. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are cautioned that the forward-looking statements reflect SBE's analysis only as of the date hereof, and SBE assumes no obligation to update these statements. Actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. The following description should be read in conjunction with SBE's unaudited consolidated financial statements for the three and six months ended April 30, 2007 and 2006 and the related notes included in this proxy statement.

### **Overview**

We experienced a decline in our sales volume of our hardware products and a lack of market acceptance for our storage software that dramatically affected our operating cash flow. Because of the continuing decline of our cash balance, we evaluated strategic alternatives to return the Company to cash flow positive and unlock value for our shareholders.

On March 30, 2007, we sold all of the assets associated with our hardware business (excluding cash, accounts receivable and other excluded assets specified in the asset purchase agreement) to One Stop Systems for \$2.2 million in cash plus One Stop's assumption of the lease of our corporate headquarters building and certain equipment leases. We received \$1.7 million in cash on the date of the sale and received \$500,000 in cash held in escrow on June 5, 2007.

On January 19, 2007, amended May 18, 2007, we entered into a merger agreement with Neonode, a Delaware corporation. Neonode was founded in Sweden in 2001 to develop, manufacture and sell multimedia mobile phones based on a unique user interface with a focus on design, enhanced user experience and customization. Over the past four years Neonode developed a multimedia mobile phone that converts the functionality of a desktop computer to a mobile phone interface. In addition to connecting to any GSM supported cellular telephone network, Neonode's multimedia mobile phone allows the user to watch movies in full screen, play music videos, play music, take pictures with its two mega pixel camera and play games, all with internet pod casting capabilities. Neonode's patent pending user interface incorporates true one hand - on screen - navigation with a user interface that recognizes gestures rather than defined keys. Neonode's user interface allowed for the design and manufacture of a mobile phone with a large display without physical buttons using the smallest form factor in the mobile phone industry. Neonode's design is based on their patent pending zForce™ and Neno™ software and hardware technologies. Neonode released its new mobile phone, the N2, on February 10, 2007 and will begin shipments of that product to customers in mid-2007.

Nasdaq has deemed that our proposed merger with Neonode would qualify as a "reverse merger" under Nasdaq Marketplace Rule 4340(a). Neonode has submitted an initial listing application and will be required to meet all initial inclusion criteria on the Nasdaq Capital Market including a \$4.00 minimum bid price, in connection with the Neonode transaction so, if required in order to meet the Nasdaq listing requirements, we may effect an additional reverse split in connection with that transaction. It is anticipated that we will change our name to "Neonode Inc." upon consummation of the merger.

Historically, we designed, manufactured and sold hardware products including wide area network (WAN) and local area network (LAN) network interface cards (NICs) and central processing units (CPUs) to original equipment manufacturers (OEMs) who embed our hardware products into their products for the communications markets. Our hardware business generated the majority of our sales and net cash flow. As of March 30, 2007, with the sale of our hardware business to One Stop Systems we no longer participate in the hardware markets. We transferred our entire inventory and the engineering and test equipment used to support the hardware business to One Stop Systems.

Since July 2005, we have been designing and providing software-based storage networking solutions for an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery. Our products 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 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. Our storage software products have not gained wide acceptance in the storage markets and have not generated significant sales, to date.

## **Distribution, Sales and Marketing**

We license our software products using a direct sales force as well as independent manufacturers' representatives. We have a network of 8 manufacturers' representatives covering the United States and Canada. We believe that our direct sales force is well suited to communicate how our products differ from those of our competitors. Since our products represent a complex and technical sale, our sales force is supported by field application engineers who provide customers with pre-sale technical assistance.

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

We have focused our sales and marketing efforts in North America. All of our international sales are negotiated and executed in U.S. dollars.

Our direct sales force and our marketing activities are conducted from our corporate headquarters in San Ramon, California.

## **Research and Development**

We continue to invest in research and development of current and emerging technologies that we deem critical to maintaining our competitive position in the storage software market. Many factors are involved in determining the strategic direction of our product development focus, including trends and developments in the marketplace, competitive analyses, market demands, business conditions, and feedback from our customers and strategic partners. Our product development efforts are focused principally on our storage software products, providing advanced storage software features.

Although we are evaluating strategic alternatives for our storage software business including selling the business, we continue development of our storage software products to bring a broader spectrum of IP storage solutions to market. In fiscal 2006, we completed the development of some key storage networking solutions that enable an extensive range of business critical applications, including Disk-to-Disk Back-up and Disaster Recovery to complement our iSCSI based transport software.

During the three and six months ended April 30, 2007 our continuing operation incurred \$252,000 and \$611,000, respectively, in product research and development expenses compared to \$498,000 and \$1.1 million for the same three and six month periods in 2006.

## **Competition**

The market for both storage interface products is highly competitive. Many of our competitors have greater financial resources and are well established in the space. Our storage software product competes with products designed and/or manufactured by Lefthand Networks, Wasabi Systems, OpenE Software, FalconStor Software and UNH. To compete and differentiate ourselves in our markets, we emphasize the functionality, engineering support, quality and price of our products in relation to the products of our competitors, as well as our ability to customize our products to meet the customers' specific application needs.



Additionally, we compete with the internal engineering resources of our customers. Typically, as our customers become successful with their products, they seek to reduce costs and integrate functions. To compete with the internal engineering resources of our customers, we position ourselves as an extension of our customers' engineering teams, focusing on satisfying their price/performance and time-to-market challenges through product innovation, technological expertise, and comprehensive support. By doing so, we emphasize the advantages and efficiencies of outsourcing embedded hardware and software, and keeping internal engineering resources focused on their core competencies and value-added services.

### **Intellectual Property**

We believe that innovation in product engineering, sales, marketing, support, and customer relations, and protection of this proprietary technology and knowledge impacts our future success. We rely on a combination of copyright, trademark, trade secret laws and contractual provisions to establish and protect our proprietary rights in our products. We typically enter into confidentiality agreements with our employees, strategic partners, channel partners and suppliers, and enforce strict limitations and access to our proprietary information.

### **Employees**

On April 30, 2007, we had 10 employees. None of our employees is represented by a labor union. We have experienced no work stoppages. We believe our employee relations are positive.

### **Facilities**

We sublease office space to house our engineering and administrative headquarters located in San Ramon, California on a month-to-month basis from One Stop Systems. One Stop Systems assumed our lease on our 22,000 square foot headquarter office on March 30, 2007. The lease terminates in 2010 and we are a guarantor on One Stop's lease for the remaining term of the lease.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF SBE**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are cautioned that the forward-looking statements reflect SBE's analysis only as of the date hereof, and SBE assumes no obligation to update these statements. Actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. The following description should be read in conjunction with SBE's unaudited consolidated financial statements for the three and six months ended April 30, 2007 and 2006 and the related notes included in this proxy statement.

### **Overview**

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 and through the quarter ended April 30, 2007. Because of the continuing decline of our cash balance, we evaluated numerous strategic alternatives to return SBE to cash flow positive and unlock value for our stockholders. In September 2006, our board of directors and management believed that the best course of action was to sell our hardware business and consider selling our storage software business and to seek a viable merger candidate.

Until March 30, 2007, we designed and sold hardware products including WAN and LAN NICs and CPUs to OEMs that embedded our hardware products into their products for the communications markets. We sold our hardware business to One Stop Systems on March 30, 2007 and with the sale of our hardware business we no longer participate in the hardware markets. We transferred our entire inventory and the engineering and test equipment used to support the hardware business to One Stop Systems.

After the sale of our hardware business, our remaining business is the design and licensing of software 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 OEMs, system integrators and value added resellers (VARs) who embed our software into their IP storage area network (IP SAN) and NAS systems to provide data storage solutions for the small and medium business (SMB) enterprise storage markets. We license our software products in North America through a direct sales force and independent manufacturers' representatives.

Substantially all our revenue has been generated by the hardware business that we sold to One Stop Systems on March 30, 2007.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include levels of reserves for doubtful accounts, warranty costs and deferred tax assets. Actual results could differ from those estimates.

Our critical accounting policies and estimates include the following:

*Revenue Recognition*

*Software Products*

We derive revenues from the following sources: (1) software, which includes new iSCSI software licenses and (2) services, which include consulting. We account for the licensing of software in accordance with of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*. SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. These documents include post delivery support, upgrades and similar services. We typically charge software maintenance equal to 20% of the software license fees.

For software license arrangements that do not require significant modification or customization of the underlying software, we recognize new software license revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is reasonably assured. We initially defer all revenue related to the software license and maintenance fees until such time that we are able to establish VSOE for these elements of our software products. Revenue deferred under these arrangements is recognized to revenue over the expected contract term. We will also continue to defer revenues that represent undelivered post-delivery engineering support until the engineering support has been completed and the software product is accepted.

For one customer we began recognizing software license fee revenue and related engineering support revenue by amortizing previously deferred revenue related to engineering services over 36 months beginning in March 2006, which was the month the first software license for this customer was activated. The 36-month amortization period is the estimated life of the related software product for this customer. We also amortize all fees related to the licensing of our software to this customer over 36 months beginning with the month the software license is activated. In the three and six months ended April 30, 2007, we recognized \$12,000 and \$22,000 of software license fees for this customer and \$15,000 and \$25,000 of deferred revenue related to engineering services to this and one other customer compared to \$0 and \$10,000 of software engineering services for the same periods in fiscal 2006.

Certain software arrangements include consulting implementation services sold separately under consulting engagement contracts.

#### *Allowance for Doubtful Accounts*

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

We also record an allowance for all customers based on certain other factors including the length of time the receivables are past due and historical collection experience with customers. We believe our reported allowances are adequate. If the financial conditions of those customers were to deteriorate, however, resulting in their inability to make payments, we may need to record additional allowances which would result in additional general and administrative expenses being recorded for the period in which such determination was made.

#### *Warranty Reserves*

We accrue the estimated costs to be incurred in performing warranty services at the time of revenue recognition and shipment of the products to the OEMs. Because there is no contractual right of return other than for defective products, we can reasonably estimate such returns and record a warranty reserve at the point of shipment. Our estimate of costs to service our warranty obligations is based on historical experience and expectation of future conditions. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims, the warranty accrual will increase, resulting in decreased gross margin.



### *Income Taxes*

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of items that have been included in the financial statements or tax returns. Deferred income taxes represent the future net tax effects resulting from temporary differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are recorded against net deferred tax assets where, in our opinion, realization is uncertain. Based on the uncertainty of future pre-tax income, we fully reserved our deferred tax assets as of April 30, 2007 and October 31, 2006. In the event we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such determination was made. The provision for income taxes represents the net change in deferred tax amounts, plus income taxes payable for the current period.

### *Long-lived Assets*

We assess any impairment by estimating the future cash flow from the associated asset in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. If the estimated undiscounted cash flow related to these assets decreases in the future or the useful life is shorter than originally estimated, we may incur charges for impairment of these assets. The impairment is based on the estimated discounted cash flow associated with the asset. Capitalized software costs consist of costs to purchase software and costs to internally develop software. Capitalization of software costs begins upon the establishment of technological feasibility. All capitalized software costs are amortized as related sales are recorded on a per-unit basis with a minimum amortization to cost of goods sold based on a straight-line method over the estimated useful life, generally two to three years. We evaluate the estimated net realizable value of each software product and record provisions to the asset value of each product for which the net book value is in excess of the net realizable value.

During fiscal 2006, we evaluated the current expected cash flow from the sale of storage software and determined that the net book value was in excess of the net realizable value. In the year ended October 31, 2006, we recorded asset impairment charges of \$6.5 million against our earnings for the period, reducing our capitalized storage software asset to \$1.3 million, which represents the present value of the expected future sales of our storage software products less costs. Prior to the write-down, we amortized our storage software over 36 months at the rate of \$339,000 per month. As of April 30, 2007, we are amortizing the remaining \$939,000 software asset over the remaining 15-month amortization period at the rate of \$63,000 per month.

### *Stock-Based Compensation:*

We follow Statement of Financial Accounting Standards (SFAS) 123(R), *Share Based Payments*, which requires measurement of compensation cost for all stock-based awards at fair value on the grant date and recognition of compensation expense over the requisite service period for awards expected to vest. We estimate future forfeitures and adjust our estimate on a period basis. The fair value of stock option grants is determined using the Black-Scholes valuation model. The fair value of restricted stock awards is determined based on the number of shares granted and the quoted price of our common stock. Such fair values is recognized as compensation expense over the requisite service period, net of estimated forfeitures.

### *New Accounting Pronouncements*

In September 2006, the SEC issued SAB 108, *Considering the Effects of Prior Year Misstatements in Current Year Financial Statements*. SAB 108 expresses the SEC Staff's views regarding the process of quantifying financial statement misstatements. SAB 108 addresses the diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. SAB 108 will be

effective for the year beginning November 1, 2006. The cumulative effect of the initial application of SAB 108 will be reported in the carrying amounts of assets and liabilities as of the beginning of the fiscal year, with the offsetting balance to retained earnings. We do not expect the adoption of SAB 108 to have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value as required by other accounting pronouncements and expands fair value measurement disclosures. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 157 on our financial statements.

**Results of Operations**

The following table sets forth, as a percentage of net revenue, our consolidated statements of operations data for the three and six months ended April 30, 2007 and 2006. Our statements of operations for the three and six months ended April 30, 2007 and 2006 have been adjusted to reflect the effect of our discontinued operations related to the sale of our hardware business. These operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2007	2006	2007	2006
Net revenue	100%	---%	100%	100%
Amortization and impairment of acquired software and intellectual property	696	---	765	20,460
Product research and development	933	---	1,247	10,690
Sales and marketing	337	---	557	6,180
General and administrative	2,681	---	2,420	15,380
Total operating expenses from continuing operations	4,647	---	4,989	52,710
Loss from continuing operations	(4,533)	---	(4,889)	(52,370)
Income (loss) from discontinued operations	4,144	---	2,371	(5,200)
Net loss	(389)%	---%	(2,518)%	(57,570)%

Percentages of the three months ended April 30, 2006 are incalculable because there were no revenues.

We sold our hardware business to One Stop on March 30, 2007. Our hardware business generated substantially all of our revenue and effective with the sale of this business we no longer participate in the embedded hardware business. Our statements of operations for the three and six months ended April 30, 2007 and 2006 have been adjusted to reflect the effect of our discontinued operations related to the sale of our hardware business. We do not expect to sell any new products to, or generate additional revenue from, our former hardware customers.

**CONTINUING OPERATIONS****Net Revenue**

Net revenue for the second quarter of fiscal 2007 was \$27,000, compared to no revenue in the second quarter of fiscal 2006. For the first six months of fiscal 2007, net revenue was \$49,000, which represented a 390% increase over net revenue of \$10,000 for the same period in fiscal 2006. All of our revenue from continuing operations is generated from the sales and servicing of our storage software.

After the proposed merger transaction with Neonode is completed, we will change our name to "Neonode Inc." and focus on the design and manufacture of mobile multi-media telephones with patented buttonless touch screen mobile phones and gesture-based user interfaces.



### ***Amortization and Impairment of Purchased Software and Intellectual Property***

We recorded a software asset totaling \$12.4 million when we acquired PyX in 2005. We continue to upgrade our software by enhancing the existing features of our products and by adding new features and products. We evaluate whether to develop these new offerings in-house or whether we can achieve a greater return on investment by purchasing or licensing software from third parties. Based on our evaluations, we have purchased or licensed various software for resale since 1996.

Recurring amortization of capitalized software and intellectual property costs totaled \$188,000 and \$375,000 for the three and six months ended April 30, 2007 compared to \$1.0 million and \$2.0 million for the three and six months ended April 30, 2006, respectively, and is included in amortization and impairment of acquired software and intellectual property in our Condensed Statements of Operations. The decrease in amortization of purchased software and intellectual property in 2007 over 2006 was due to the write down to expected realizable value in fiscal 2006 of our software asset that we acquired in the PyX acquisition.

In the fiscal year ended October 31, 2006, we recorded an asset impairment charge of \$6.5 million against our earnings for the year, reducing our storage software asset to \$1.3 million at November 1, 2006. Prior to the write-down, we amortized our storage software asset over 36 months at the rate of \$339,000 per month. We began to amortize the remaining \$1.3 million software asset over the then remaining 21 month amortization period at the rate of \$63,000 per month, effective November 1, 2006.

### ***Product Research and Development***

Product research and development (R&D) expenses for the three months ended April 30, 2007 were \$252,000, a 49% decrease over \$498,000 in the same quarter of fiscal 2006. R&D expenses for the six months ended April 30, 2007 were \$611,000, a 44% decrease over \$1.1 million in the same period of fiscal 2006. We decreased our R&D in 2007 as compared to 2006 primarily as the result of a reduction in cash spending for materials and consultants working on development projects.

Included in R&D expense for the three and six months ended April 30, 2007 is \$75,000 and \$197,000 of non-cash stock-based compensation expense related to the stock-for-pay program, stock option expense and the issuance of restricted stock to employees compared to \$125,000 and \$164,000 for the same periods in fiscal 2006, respectively.

With the sale of our hardware business and lack of market acceptance for our storage software products, we reduced our R&D budget significantly and have focused our R&D efforts on key storage management features to enhance the value of our storage software business.

We did not capitalize any internal software development costs in the three and six months ended April 30, 2007 or 2006 and do not expect to capitalize internal software development costs in the future.

### ***Sales and Marketing***

Sales and marketing expenses for the three months ended April 30, 2007 were \$91,000, a 72% decrease over \$326,000 in the same quarter of fiscal 2006. Sales and marketing expenses for the six months ended April 30, 2007 were \$273,000, a 56% decrease over \$618,000 in the same period of fiscal 2006. We experienced a reduction the number of employees in our sales and marketing group from eight in 2006 to three in 2007. In addition, our marketing expenditures in the six months ended April 30, 2007 decreased as compared to the same six-month period in 2006 as a result of reduced cash expenditures across the company.

Included in sales and marketing expense for the three and six months ended April 30, 2007 is a \$23,000 reduction to expense due the reversal of compensation expense related to the forfeiture of unvested restricted stock issued to employees who terminated their employment prior to vesting and \$24,000 of non-cash stock-based compensation expense related to the stock-for-pay program, stock option expense and the issuance of restricted stock to employees compared to expense of \$122,000 and \$166,000 for the same periods in fiscal 2006, respectively.

We are not currently planning to attend trade shows or engage in product marketing activities other than via our Web site and word of mouth.

### ***General and Administrative***

General and administrative expenses for the three months ended April 30, 2007 were \$724,000, a 4% decrease over \$756,000 in the same quarter of fiscal 2006. General and administrative expenses for the six months ended April 30, 2007 were \$1.2 million, a 20% decrease over \$1.5 million in the same period of fiscal 2006. This decrease in the six month period is primarily due to a reduction of officers and directors salaries and fees in fiscal 2007 compared to 2006. We reduced the salaries for all officers and eliminated the cash fees paid to our Board and, in our fourth quarter of fiscal 2006, the Board suspended the stock-for-pay program for all of our directors and officers.

Included in general and administrative expense for the three months and six months ended April 30, 2007 is \$104,000 and \$211,000 of non-cash stock-based compensation expense related to the stock-for-pay program, stock option expense and the issuance of restricted stock to employees compared to \$387,000 and \$758,000 for the same periods in fiscal 2006, respectively.

### ***Loss from Continuing Operations***

As a result of the factors discussed above, we recorded a loss from continuing operations of \$1.2 million and \$2.4 million in the three and six month periods ended April 30, 2007, as compared to a loss from continuing operations of \$2.6 million and \$5.2 million for the same periods in fiscal 2006.

## **DISCONTINUED OPERATIONS**

Included in the loss from discontinued operation in the statements of operations are the net results of our hardware business that we sold to One Stop on March 30, 2007.

The following is a discussion of activities of our hardware business for the three and six months ended April 30, 2007 and 2006.

### ***Net Revenue***

Net revenue for the second quarter of fiscal 2007 was \$342,000, an 81% decrease from \$1.8 million in the second quarter of fiscal 2006. For the first six months of fiscal 2007, net revenue was \$1.5 million, which represented a 53% decrease over net sales of \$3.2 million for the same period in fiscal 2006.

Sales to two of our customers, DCL and True Position, represented 45% and 21%, respectively, 66% collectively, of net sales during the second quarter of fiscal 2007. Sales to three of our customers, Raytheon, DCL and Nortel, represented 29%, 19% and 19%, respectively, and 67%, collectively, of net sales during the second quarter of fiscal 2006.

Sales to three of our customers, DCL, ACAL Technologies (ACAL) and Nortel, represented 35%, 16% and 13%, respectively, and 64% collectively, of net sales during the first two quarters of fiscal 2007. Sales to three of our customers, DCL, Raytheon and Nortel, represented 29%, 19% and 16%, respectively, and 64% collectively, of net sales during the first two quarters of fiscal 2006.

**Sales by product (in thousands)**

<b>Product</b>	Three Months Ended April 30, 2007		Three Months Ended April 30, 2006		
Adapter	\$	107	31%	\$ 1,200	66%
HighWire		132	39%	379	21%
Legacy & other		103	30%	236	13%
Total	\$	342		\$ 1,815	

<b>Product</b>	Six Months Ended April 30, 2007		Six Months Ended April 30, 2006		
Adapter	\$	848	56%	\$ 2,000	62%
HighWire		556	36%	970	30%
Legacy & other		123	8%	246	8%
Total	\$	1,527		\$ 3,216	

Our adapter products are used primarily in edge-of-the-network applications such as Virtual Private Network (VPN) and other routers, VoIP gateways and security devices. Our HighWire products are primarily targeted at core-of-the-network applications used primarily by telecommunications central offices and VoIP providers. All of these product lines were sold to One Stop on March 30, 2007.

We recorded a \$1.3 million gain on the sale of our hardware business to One Stop on March 30, 2007. The gain is based on the difference between the proceeds received and liabilities assumed from/by One Stop and the carrying value of the assets transferred to One Stop.

	Gain on the sale of hardware business (in thousands)
Cash and escrow receivable	\$ 2,200
Liabilities assumed	209
Total consideration	2,409
Inventory	741
Plant property & equipment	277
Other assets	48
Total basis of assets sold	1,066
Gain on Sale	\$ 1,343

International sales constituted 52% and 61% of net sales for the three and six month periods ended April 30, 2007 compared to 29% and 41% of net sales for the three and six month periods ended April 30, 2006, respectively. International sales are primarily executed with customers in the United Kingdom, which represented 50% and 51% of our sales for the three and six month periods ended April 30, 2007, respectively, and 25% and 35% of our sales for the three and six month periods ended April 30, 2006, respectively. All international sales are executed in U.S. dollars.

***Cost of Hardware Products and Other Revenue***

Cost of hardware products and other revenues consisted of the direct and indirect costs of our manufactured hardware products and the costs related to the personnel in our operations and production departments including share-based payment compensation expense associated with the implementation of SFAS 123(R). Cost of hardware products and other revenues for the three months ended April 30, 2007 decreased by 76% to \$304,000 compared with \$1.3 million for the three months ended April 30, 2006. Cost of hardware products and other revenues for the six months ended April 30, 2007 decreased by 50% to \$1.0 compared with \$2.1 million for the six months ended April 30, 2006. We sold our hardware business on March 30, 2007 and transferred three employees in our production and operations group and certain of the hardware product related supplier contracts to One Stop upon consummation of the sale. The decrease in cost of hardware products and other revenue in absolute dollars was principally due to a lower volume of hardware sales that decreased the total direct and indirect cost of our manufactured products and a decrease in production and operations personnel.

### ***Product Research and Development***

Product research and development (R&D) expenses for the three months ended April 30, 2007 were \$172,000, a 73% decrease over \$649,000 in the same quarter of fiscal 2006. R&D expenses for the six months ended April 30, 2007 were \$398,000, a 60% decrease over \$1.0 million in the same period of fiscal 2006. We sold our hardware business on March 30, 2007 and transferred five employees in our engineering group and all the hardware engineering contracts to One Stop upon consummation of the sale. In addition, the prior year periods R&D expense include a \$279,000 inventory write-down related to the cancellation of our VoIP product development program. We also decreased our R&D in 2007 as compared to 2006 primarily as the result of a reduction in cash spending for materials and consultants working on development projects.

We did not capitalize any internal software development costs in the three and six months ended April 30, 2007 or 2006 and do not expect to capitalize internal software development costs in the future.

### ***Sales and Marketing***

Sales and marketing expenses for the three months ended April 30, 2007 were \$90,000, a 72% decrease over \$325,000 in the same quarter of fiscal 2006. Sales and marketing expenses for the six months ended April 30, 2007 were \$272,000, a 56% decrease over \$618,000 in the same period of fiscal 2006. We sold our hardware business on March 30, 2007 and transferred three employees in our sales and marketing group and all the customer contracts related to the hardware business to One Stop upon consummation of the sale. We also experienced an overall reduction in the total number of employees in our sales and marketing group due to voluntary terminations. Our marketing expenditures in the six months ended April 30, 2007 decreased as compared to the same six-month period in 2006 as a result of reduced cash expenditures across the company.

### ***Net Income (Loss) from Discontinued Operations***

As a result of the factors discussed above, we recorded net income from discontinued operations of \$1.1 million and \$1.2 million in the three and six month periods ended April 30, 2007, as compared to a net loss of \$438,000 and \$520,000 for the same periods in fiscal 2006. The net income from discontinued operations for the three months ended April 30, 2007 is comprised of a loss from our discontinued hardware business totaling \$224,000 and a \$1.3 million gain from the sale of the hardware business. The net income from discontinued operations for the six months ended April 30, 2007 is comprised of a loss from our discontinued hardware business totaling \$181,000 and a \$1.3 million gain from the sale of the hardware business.

### ***Net Loss***

As a result of the factors discussed above, we recorded a net loss of \$105,000 and \$1.2 million in the three and six month periods ended April 30, 2007, as compared to a net loss of \$3.0 million and \$5.6 million for the same periods in fiscal 2006.

### ***Contractual Obligations and Commercial Commitments***

The following table sets forth a pro forma summary of our material contractual obligations and commercial commitments subsequent to the sale of our hardware business to One Stop Systems on March 30, 2007:

Contractual Obligations	Total	Payments due by period (in thousands)			
		Less than 1 year	1-2 Years	3-5 Years	More than 5 Years
Building leases (1)	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Capital leases	133	44	44	45	---
Total net lease payments	\$ 133	\$ 44	\$ 44	\$ 45	\$ ---

(1) One Stop Systems assumed our corporate headquarters office lease and a lease for certain engineering equipment as part of the consideration related to the purchase of our hardware business on March 30, 2007. One Stop Systems assumed approximately \$2.2 million of future lease payments.

In addition to salary, each of our directors and executive officers is eligible to receive a bonus pursuant to our Director and Officer Bonus Plan adopted September 21, 2006. The total paid to our directors and executive officers in April 2007 under our Director and Officer Bonus Plan was \$58,000. Each of our executive officers have severance agreements that provide for 6 months' salary and accelerated vesting of all unvested stock options upon certain events triggered by a change in control. The total estimated amounts due under the severance agreements is approximately \$247,000. The amounts due will be paid to the executive officers upon completion of the merger and subsequent termination of employment.

### Off-Balance Sheet Arrangements

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

### Liquidity and Capital Resources

Our liquidity is dependent on many factors, including sales volume, operating profit and the efficiency of asset use and turnover. On May 29, 2007, pursuant to an amendment to the merger agreement with Neonode, we advanced Neonode \$500,000 under an interest bearing secured note payable and advanced an additional \$500,000 on June 15, 2007. As of June 6, 2007, we had \$1.3 million in cash and we expect our cash balance, after advances to Neonode, will be adequate to fund our operations until the merger is consummated. If we are unable to consummate our proposed merger with Neonode or Neonode is unable to repay the notes on September 30, 2007, as required, we will be forced to seek credit line facilities from financial institutions and/or additional equity investment. No assurances can be given that we would be successful in obtaining such additional financing on reasonable terms, or at all.

Our future liquidity after the merger with Neonode is completed will be affected by, among other things:

- sales of Neonode's products;
- our operating expenses;
- the timing of Neonode's product shipments;
- Neonode's gross profit margin;
- our ability to raise additional capital, if necessary; and
- our ability to secure credit facilities, if necessary.

At April 30, 2007, we had cash and cash equivalents of \$1.2 million, as compared to \$1.1 million at October 31, 2006. In the first six months of fiscal 2007, \$1.6 million of cash was used in operating activities, primarily as a result of our net loss. Our cash used was reduced by an amortization and depreciation expense of \$468,000 related to property and equipment and capitalized software and \$451,000 of stock-based compensation expense that are included in the \$1.2 million net loss but did not require cash. We received \$1.7 million in cash proceeds from the sale of our hardware business and received an additional \$500,000 in cash proceeds on June 5, 2007. Working capital, consisting of our current assets less our current liabilities; at April 30, 2007 was \$1.5 million, as compared to \$1.7 million at October 31, 2006.

In the six months ended April 30, 2007, we purchased \$4,000 of fixed assets, consisting primarily of computers and engineering equipment.

We continue to pursue cost cutting measures to reduce our cash expenditures. We reduced the salaries for all officers and employees and eliminated the cash fees paid to our Board. We sold our hardware business for cash and reduced our ongoing lease liabilities and our headcount to reflect our current business. We continue to operate our storage software business and are actively developing new product features and licensing our software to new customers.

In January 2007, we entered into a merger agreement with Neonode. If the merger is not completed, our business may be adversely affected. We currently anticipate that our available cash balances and cash generated from operations will be sufficient to fund our standalone operations through fiscal 2007. If we are unable to complete the transaction, we may be unable to find 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. If we are unable to complete the merger transaction and are successful in growing our software business we may be forced to seek credit line facilities from financial institutions and/or additional equity investment. No assurances can be given that we would be successful in obtaining such additional financing on reasonable terms, or at all. If adequate funds are not available on acceptable terms, or at all, we may be unable to adequately fund our business plans and it could have a negative effect on our business, results of operations and financial condition. In addition, if funds are available, the issuance of equity securities or securities convertible into equity could dilute the value of shares of our common stock and cause the market price to fall and the issuance of debt securities could impose restrictive covenants that could impair our ability to engage in certain business transactions. Our ability to continue as a going concern is dependent on our ability to complete the merger transaction with Neonode. Our independent registered public accountants stated in their opinion for the year ended October 31, 2006 that there is substantial doubt about our ability to continue as a going concern.

### **Quantitative and Qualitative Disclosures About Market Risk**

Our cash and cash equivalents are subject to interest rate risk. We invest primarily on a short-term basis. Our financial instrument holdings at April 30, 2007 were analyzed to determine their sensitivity to interest rate changes. The fair values of these instruments were determined by net present values. In our sensitivity analysis, the same change in interest rate was used for all maturities and all other factors were held constant. If interest rates increased by 10%, the expected effect on net loss related to our financial instruments would be immaterial. We hold no assets or liabilities denominated in a foreign currency and all sales are denominated in U.S. dollars.



## NEONODE'S BUSINESS

The following description of Neonode's business contains forward-looking statements that involve risks and uncertainties. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are cautioned that the forward-looking statements reflect Neonode's analysis only as of the date hereof, and Neonode assumes no obligation to update these statements. Actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. The following description should be read in conjunction with Neonode's consolidated financial statements for the three months ended March 31, 2007 and the years ended December 31, 2006, 2005 and the ten months ended December 31, 2004 and the related notes included in this proxy statement.

### Overview

Neonode was founded in Sweden to develop, manufacture and sell multimedia mobile phones, technologies and software based on a unique user interface with a focus on design, enhanced user experience and customization. Neonode delivers GSM based multimedia mobile phones that includes all the features from a desktop personal computer (PC). The first models of Neonode's multimedia mobile phone, the N1 and N1m, were released in November 2004. Neonode first started selling the N1 and N1m phones in the later part of 2004 and continued to sell limited numbers of the phones throughout 2005 and into the first quarter of 2006. Approximately 7,000 units of the N1 and N1m's were sold during this period. During the final three quarters of 2006, Neonode concentrated its efforts on the development of its next generation phone, N2. Neonode released the N2 model of its multimedia mobile phone in mid-February 2007. Neonode expects to begin shipping the N2 to its first customers in mid-2007, and to gradually expand product range and distribution worldwide.

Neonode delivers a compact multimedia mobile phone, with a focus on interoperability, functionality and ease of integration with desktop PC and other media devices. Neonode offers:

- A mobile multimedia device that is also a phone.
- Focus on design (size, colors, look and feel).
- Fast, flexible and easy software upgrades (internet and SD card)
- Large mass storage for media content (up to 32 Gigabytes)

### Strategy

Neonode's overall strategy is to develop innovative differentiated touchscreen products based on its patent pending hardware and software technologies. Neonode is targeting consumers in the middle to high middle segment of the mobile multimedia phone market who value style combined with innovative technology. Neonode incorporates its patent pending technologies in its multimedia mobile products and also license its hardware and software technologies to other companies. Neonode's products are not locked into any individual mobile telephone operator's network and can be used on any GSM mobile network in the world, thereby allowing the end users to select the network and calling plans. Future mobile phone handsets may be developed that are tailored for specific mobile network operator's needs.

Neonode expects to begin shipping its multimedia mobile phone, N2, to customers in mid-2007. Together with a network of third party partners providing first line product support and product delivery logistic, Neonode is focused on building a large-scale product development and customer support infrastructure.

Neonode is building a sales channel with an initial focus on European and Latin American distributors, and plans to expand its marketing and distribution on other continents. Neonode also plans to sell the N2 directly to end users via its Web site in areas where they do not have a distributor presence. Neonode has an agreement with a provider of call center, customer technical support and credit card payment processing for its anticipated Web sales.

On the product development side, Neonode is currently developing its next generation of multimedia phone products, N2.5, which will feature additional functionality. In addition, Neonode began developing its 3G mobile phone in early 2007.

## Products

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

Neonode's N2 mobile phone is based on a patent pending user interface that incorporates true one hand on screen navigation with a simple user interface that recognizes gestures rather than defined keys. As a result, Neonode's interface features a large display without physical buttons using the smallest handset in the mobile phone industry. Neonode's standard N2 phone incorporates a standard one Gigabyte SD memory card (currently expandable to four Gigabytes) that allows storage capacity for thousands of songs and pictures and several movies. Neonode's multimedia mobile phone has battery life for 30 hours of music and seven hours of video playback time. In addition, standby time is estimated to be 200 hours with a talk-time of four hours.

Neonode may license its patent pending touchscreen hardware and software designs to third party companies for incorporation into diverse products that incorporate touchscreen technology such as digital cameras, Global Positioning Systems (GPS) and alarm system touch pads. In 2005, Neonode entered into a non-exclusive licensing agreement, which expires in July 2007, with a major Asian mobile telephone manufacturer whereby Neonode licensed its touch screen technology for use in a mobile phone to be included in their product assortment. Neonode also provides consulting services related to the implementation of its software. The fees for these consultancy services vary from hourly rates to monthly rates and are based on reasonable market rates for such services.

Neonode's designs are based on its patent pending zForce™ and Neno™ software and hardware technology. zForce™ supports one-handed navigation allowing the user to operate the functionality with finger gestures passing over the screen. Some of the qualities include:

- Touchscreen is based on infrared LED and photodiodes (works in sunlight)
  - Finger based input (no need for stylus)
  - Accurate navigation on small displays
  - No degradation of display quality
- Limited accuracy needed (navigation on the move)
  - Low power consumption
  - High speed capture (capture gestures)
  - Near surface detection (no false detection)
  - No ambient light needed (works in the dark)

· No force needed

- Single and multiple area detection (games)
- No calibration needed

Neno™ is based on Windows CE™ includes the following:

- Media players for streaming video, movies and music that supports all the standard applications (WMA, WMV, MP3, WAV, DivX and AVI MPEG1/4)
- Internet explorer 6.0 browser
- Image viewer with camera preview and capture
- Organizer with calendar and task with Microsoft Outlook synchronization
  - Calendar, alarm, calculator and call list
  - Telephony manager for voice calls
- Messaging manager for SMS, MMS, IM and T9
  - File manager
- Task manager for switching between applications
  - Notebook
  - Games

## **Intellectual Property**

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

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

Neonode has been granted design protection in Sweden for the design of a mobile phone, and has applied for design protection in Sweden of a new a design of its mobile phone.

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

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

Neonode also licenses technologies from third parties for integration into its products. Neonode believes that the licensing of complementary technologies from third parties with specific expertise is an effective means of expanding the features and functionality of its products, allowing Neonode to focus on its core competencies.

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

### **Distribution, Sales and Marketing**

Neonode currently is seeking to build a network of distributors covering Europe and Mexico and hopes to expand its network to the United States and Latin America in 2008. Neonode's products are customizable for each country or region using the GSM standard. In addition to the distributor sales channel, Neonode is exploring the use of its Neonode.com web store as a direct sales channel to sell its products and third-party products, focusing particularly on its existing customer base. Neonode expects to accomplish this through e-marketing campaigns.

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

Neonode's sales are normally negotiated and executed in U.S. Dollars or Euros.

Neonode's direct sales force and marketing operations are based out of its corporate headquarters in Stockholm, Sweden.

### **Research and Development**

Neonode continues to invest in research and development of current and emerging technologies that it deems critical to maintaining its competitive position in the mobile multimedia telecommunications markets. Many factors are involved in determining the strategic direction of Neonode's product development focus, including trends and developments in the marketplace, competitive analyses, market demands, business conditions, and feedback from its customers and strategic partners.

Neonode's product development efforts are focused principally on its strategic product lines including its N2.5 model multimedia phone with additional functionality. Neonode has also initiated a 3G mobile phone technology investigation.

During the three months ended March 31, 2007 and the fiscal years 2006, 2005 and 2004, Neonode incurred \$1.0 million, \$2.2 million, \$1.6 million and \$661,000, respectively, in product research and development expenses.

### **Manufacturing**

Neonode does not engage in any manufacturing operations. Instead, Neonode utilizes third-party manufacturers to build its multimedia mobile phone products.

### **Competition**

Competition in the mobile computing device market is intense and characterized by rapid change and complex technology. The principal competitive factors affecting the market for Neonode's mobile computing devices are access to sales and distribution channels, price, styling, usability, functionality, features, operating system, brand, marketing, availability of third-party software applications and customer and developer support. Neonode's devices compete with

a variety of mobile devices, including pen-and keyboard-based devices, mobile phones and converged voice/data devices.

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



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

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

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

### **Employees**

In June 15, 2007, Neonode had 29 employees and augmented its staffing needs with consultants as needed; all are located in Stockholm, Sweden. None of Neonode's employees is represented by a labor union. Neonode has experienced no work stoppages. Neonode believes its employee relations are positive.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF NEONODE**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Readers are cautioned that the forward-looking statements reflect our analysis only as of the date hereof, and neither we nor Neonode assume any obligation to update these statements. Actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. The following discussion should be read in conjunction with Neonode's financial statements for the years ended December 31, 2006, 2005 and the ten months ended December 31, 2004 and the three months ended March 31, 2007 and the related notes included in this proxy statement.

### **Overview**

Neonode develops, manufactures and sells multimedia mobile phones, technologies and software based on a unique user interface. The first model of the Neonode multimedia mobile phone, the N1, was released in November 2004. Approximately 7,000 units of the N1 and N1m's have been sold between late 2004 and early 2006. During the final three quarters of 2006, Neonode stopped production of the N1 and N1m mobile phones and concentrated its efforts on the development of its next generation phone, N2. Neonode released the N2 model of its multimedia mobile phone in mid-February 2007 and expects to begin shipping the N2 to customers in mid-2007. Neonode initially expects to sell the N2 and future generations of mobile phones through sales channels that include distributors and network operators Europe, Mexico, Latin America and the United States.

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

Neonode has incurred net operating losses and negative operating cash flows since inception. As of March 31, 2007, Neonode had an accumulated deficit of \$12.9 million. Neonode expects to incur additional losses and negative operating cash flows through the end of 2007.

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

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

internationally, and ability to obtain adequate capital to fund future operations.

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## Critical Accounting Policies and Estimates

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

### *Revenue Recognition*

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

Revenue for the twelve months ended December 31, 2006 and 2005 includes revenue from the sales of the N1 multimedia mobile phone and revenue from a licensing agreement with a major Asian manufacturer. In July 2005, Neonode entered into a licensing agreement with a major Asian manufacturer whereby Neonode licensed its touchscreen technology for use in a mobile phone to be included in their product assortment. In this agreement, Neonode received approximately \$2.0 million in return for granting an exclusive right to use its software over a two year period. The exclusive rights do not limit Neonode's right to use its licensed technology for its own use, nor to grant to third parties rights to use its licensed technology in other devices than mobile phones. The net revenue related to this agreement has been allocated over the term of the agreement, amounting to \$851,000 in 2006 and \$399,000 in 2005 and \$225,000 and \$200,000 for the three months ended March 31, 2007 and 2006, respectively. The contract also included consulting services to be provided by Neonode on an "as needed basis". The fees for these consultancy services vary from hourly rates to monthly rates and are based on reasonable market rates for such services. Another component of the agreement provides for a fee of approximately \$2.65 per telephone if the Asian manufacture sells mobile phones based on Neonode's technology. As of May 12, 2007, the Asian manufacturer had not sold any mobile telephones using Neonode's technology.

### *Allowance for Doubtful Accounts*

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

### *Warranty Reserves*

Neonode's products are generally warranted against defects for 12 months following the sale. Neonode has a 12 month warranty from the manufacturer of the mobile phones. Reserves for potential warranty claims not covered by the manufacturer are provided at the time of revenue recognition and are based on several factors, including current sales levels and Neonode's estimate of repair costs.

### *Research and Development*

Research and Development costs are expensed as incurred. Software development costs are accounted for in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Costs incurred in the product development of new software products are expensed as incurred until technological feasibility has been established. To date, the establishment of technological feasibility of Neonode's products and general release substantially coincide. As a result, Neonode has not capitalized any software development costs since such costs have been immaterial.

Research and development costs consists mainly of personnel related costs in addition to some external consultancy costs such as testing, certifying, measurements, etc.

### *Long-lived Assets*

Neonode assesses any impairment by estimating the future cash flow from the associated asset in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. If the estimated undiscounted cash flow related to these assets decreases in the future or the useful life is shorter than originally estimated, Neonode may incur charges for impairment of these assets. The impairment is based on the estimated discounted cash flow associated with the asset.

### *Stock Based Compensation Expense*

Neonode accounts for stock-based employee compensation arrangements in accordance with SFAS No. 123R, *Accounting for Stock-Based Compensation*. Neonode accounts for equity instruments issued to non-employees in accordance with SFAS No. 123R and Emerging Issues Task Force (EITF) 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, which require that such equity instruments be recorded at their fair value. When determining stock based compensation expense involving options and warrants, Neonode determines the estimated fair value of options and warrants using the Black-Scholes option pricing model.

### *Accounting for Debt Issued with Stock Purchase Warrants*

Neonode accounts for debt issued with stock purchase warrants in accordance with APB opinion 14 *Accounting for Convertible Debts and Debts issued with stock purchase warrants*. Neonode allocates the proceeds of the debt between the debt and the detachable warrants based on the relative fair values of the debt security without the warrants and the warrants themselves.

### *Derivatives*

Neonode does not enter into derivative contracts for purposes of risk management or speculation. However, from time to time, Neonode enters into contracts that are not considered derivative financial instruments in their entirety but that include embedded derivative features. Such embedded derivatives are assessed at inception of the contract and, depending on their characteristics, are accounted for as separate derivative financial instruments pursuant to FAS 133.

Neonode accounts for these derivatives under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (together, FAS 133).

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

#### *Income taxes*

Neonode accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of items that have been included in the financial statements or tax returns. Neonode estimates income taxes based on rates in effect in each of the jurisdictions in which it operates. Deferred income tax assets and liabilities are determined based upon differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The realization of deferred tax assets is based on historical tax positions and expectations about future taxable income. Valuation allowances are recorded against net deferred tax assets where, in our opinion, realization is uncertain based on the “not more likely than not” criteria of SFAS No. 109.

Based on the uncertainty of future pre-tax income, Neonode fully reserved its net deferred tax assets as of March 31, 2007, December 31, 2006 and 2005. In the event Neonode were to determine that it would be able to realize its deferred tax assets in the future, an adjustment to the deferred tax asset would increase income in the period such determination was made. The provision for income taxes represents the net change in deferred tax amounts, plus income taxes payable for the current period.

#### *New Accounting Pronouncements*

In September 2006, FASB issued SFAS No. 157 Fair Value Measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating this standard and its effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require certain assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may choose, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of the fiscal year that begins after November 15, 2007. The Company is currently assessing the impact that SFAS 159 will have on its results of operations and financial position.

## **Results of Operations**

### **March 31, 2007 compared to March 31, 2006**

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



	2007	2006
Net sales	100%	100%
Cost of goods	1	77
Gross profit	99	23
Operating expenses:		
Product research and development	420	37
Sales and marketing	195	16
General and administrative	448	90
Total operating expenses	1,063	143
Operating loss before other expense	(964)	(120)
Interest and other expense, net	55	8
Non-cash inducement expense	---	11
Net loss available to common shareholders	(1,019)%	(139)%

### *Net Sales*

Net sales for the three months ended March 31, 2007 were \$249,000, a 73.6% decrease from \$945,000 for the three months ended March 31, 2006. Revenue for the three months ended March 31, 2007 includes \$21,000 from the sales of the N1m multimedia mobile phone compared to \$745,000 for the same period in 2006. In addition, both the comparable three month periods for 2007 and 2006 include revenue from a licensing agreement with a major Asian manufacturer. In July 2005, Neonode entered into a licensing agreement with a major Asian manufacturer whereby Neonode licensed its touchscreen technology for use in a mobile phone to be included in their product assortment. In this agreement, Neonode received approximately \$2.0 million in return for granting an exclusive right to use its software for a period which expires in July 2007. The exclusive rights do not limit Neonode's right to use its licensed technology for its own use, nor to grant to third parties the right to use Neonode's licensed technology in other devices than mobile phones. The net revenue related to this agreement has been allocated over the term of the agreement, amounting to \$225,000 in the three months ended March 31, 2007 and \$200,000 in the comparable period in 2006.

Neonode launched the N2 model of its multimedia mobile phone in mid-February 2007. Neonode expects to begin shipping the N2 to its first customers in mid-2007. Neonode currently has a purchase order from one customer for the N2 that totals approximately \$2.3 million with shipment dates beginning mid-2007.

Neonode expects to sell and license its products, initially in Europe and Mexico, using a direct sales force to support its distributors. Neonode's plan is concentrating its sales efforts on the European and Mexico markets. Neonode anticipates an increase in the sales associated with its N2 mobile phone in the later part of 2007 as it begins customer shipment of its N2 phone.

### *Gross Profit*

Gross profit as a percentage of net sales was 99% and 23% in the three months ended March 31, 2007 and 2006, respectively. Neonode's costs of goods include the direct cost of production of the phone. Neonode has not begun production or shipments of its commercially available N2 mobile phone handsets and the costs of goods for the years presented reflect the cost to produce a limited number of N1 and N1m mobile phone handsets in very limited production runs. Limited production runs of new products typically have higher costs of production due to the price of purchasing components in low volumes. Sales for the three months ended March 31, 2007 were primarily the results of the amortization of deferred revenue related to technology license agreement entered into in 2005. The revenue was initially deferred and is amortized over 24 months, which is the term of the license agreement. The costs to service this technology license agreement are minimal and as a result the entire amount of the license revenue is included in gross profit for the three month period.

Neonode expects its gross profit to increase as Neonode begins to produce and sell its N2 mobile phone handsets in larger quantities. Neonode's target range for gross profit is between 30% and 35% once full production mode is achieved.

### ***Product Research and Development***

Product research and development (R&D) expenses for the three months ended March 31, 2007 were \$1.1 million, a 199% increase over \$349,000 for the same quarter in 2006.

The increase in R&D in 2007 as compared to 2006 is primarily the result of two factors:

- An increase in the number of employees in the Neonode's engineering department; and
- an increase in engineering design projects related expenditures related to the development of the N2 and future products including production tooling, N2 prototypes and the extensive use of outside engineering design services and consultants to develop the plastics/mechanics and antenna used in the design of the phone.

Neonode plans to continue to increase expenditures on critical R&D projects and has planned increases in both the headcount of its engineering department and the purchase of critical design and testing technology. Neonode has a product roadmap of future mobile phone handsets and technologies and expects to increase R&D budgets in order to develop these products and technologies to meet market demands. Neonode is currently working on the N2.5 with additional functionality and initiated a 3G mobile phone technology investigation.

### ***Sales and Marketing***

Sales and marketing expenses for the three months ended March 31, 2007 were \$486,000, a 230% increase from \$147,000 for the same period in 2006.

This increase in 2007 over 2006 is primarily related to an increase in product marketing activities as Neonode prepared to release its N2 model phone handset including the introduction of the N2 at the Barcelona, Spain 3GSM Trade Show and the preparation of product marketing materials.

Sales and marketing programs are focused on design wins with new customers and, therefore, as new customer sales increase, sales and marketing expenses are expected to increase. Neonode expects its sales and marketing expenses to continue to increase as Neonode positions the Company to take advantage of new market opportunities for its N2 and future mobile phone handsets and participate in more sales lead generation and branding initiatives, such as, industry trade events, public relations and direct marketing.

### ***General and Administrative***

General and administrative expenses for the three months ended March 31, 2007 were \$1.1 million, a 32% increase from \$847,000 for the same period in 2006.

The increase is primarily due to an increase in legal and accounting fees combined with an increase in headcount in preparation with product rollout and the merger.

Neonode expects general and administrative expense to increase after the merger with SBE due to legal, accounting, insurance and other costs associated with being a public company.

### ***Interest Expense***

Interest and other expense, net for the three months ended March 31, 2007 was \$245,000, a 163% increase from \$93,000 for the same period in 2006. The increase is directly related to a \$5.0 million increase in corporate borrowings under bridge notes issued in January 2007 and as a result almost \$10.0 million of debt was outstanding during the quarter ended March 31, 2007 but only one month of \$4.0 million of debt was outstanding in the same quarter of 2006.

On April 29, 2004, Neonode AB entered into a loan agreement with ALMI Företagspartner Stockholm AB (Almi). The credit period for the loan is 44 months starting April 29, 2004 with an annualized interest rate of 9.75%.

On April 6, 2005, Neonode AB entered into a second loan agreement with Almi. The loan has a credit period of 48 months with an annualized interest rate of 2%. On February 26, 2006, in conjunction with Neonode's reorganization, Almi received shares and warrants to purchase Neonode's common stock.

On December 22, 2004 Neonode AB entered into a Loan agreement with Petrus Holding SA. The funds under this loan agreement were received in January 2005. This loan arrangement has an interest rate of 5% per annum. The loan is due December 22, 2009.

In February 2006, Neonode raised \$5.0 million in a private offering of secured notes (bridge notes) convertible into its stock. In January 2007, an additional \$5.0 million was raised through the private sales of additional bridge notes. These notes are convertible into shares of its common stock under the same terms and conditions as the bridge notes dated February 26, 2006. Neonode expects all of the bridge notes to be converted to shares of its common stock prior to the merger with SBE. After the conversion to common stock, Neonode will no longer be obligated to pay interest on these bridge notes.

### *Income Taxes*

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

### *Net Loss Available to Common Shareholders*

As a result of the factors discussed above, Neonode recorded a net loss available to common shareholders of \$2.5 million in the three months ended March 31, 2007, compared to a net loss available to common shareholders of \$1.3 million in the comparable period in 2006.

### **Contractual Obligations and Commercial Commitments**

Neonode entered into borrowing agreements with lenders that provide that under certain circumstances the borrowings under the notes and accrued interest are convertible into shares of Neonode's common stock. (see Note 10 to the Neonode financial statements included as Annex F to this proxy statement) Neonode leases office facilities and certain office equipment under various non-cancelable operating lease agreements. Aggregate future minimum lease payments under contractual commitments are as follows as of March 31, 2007 (in thousands):

Contractual Obligations	Total	Payments due by period (in thousands)			
		Less than 1 year	1-2 Years	3-5 Years	More than 5 Years
Debt	\$ 11,038	\$ 10,218	\$ 90	\$ 730	\$ —
Building and furniture leases	226	224	2	—	—
Total net payments	\$ 11,264	\$ 10,442	\$ 92	\$ 730	\$ —

Total rent expense under the leases was \$84,000 and \$65,000 for the three months ended March 31, 2007 and 2006, respectively.

Neonode has issued \$10.9 million of bridge notes and other debt that is convertible into shares of Neonode common stock. These notes will be converted into Neonode common stock simultaneously with the consummation of the merger with SBE. See Liquidity and Capital Resources.

**Year ended December 31, 2006 compared to year ended December 31, 2005 and Year ended December 31, 2005 compared to ten months ended December 31, 2004**

The following table sets forth, as a percentage of net sales, certain statements of operations data for the twelve months ended December 31, 2006 and 2005 and ten months ended December 31, 2004. These operating results are not necessarily indicative of Neonode's operating results for any future period.

	2006	2005	2004
Net sales	100%	100%	100%
Cost of goods	79	96	231
Gross profit (loss)	21	4	(131)
Operating expenses:			
Product research and development	135	110	266
Sales and marketing	45	47	58
General and administrative	112	71	115
Total operating expenses	292	228	439
Operating loss before other expense	(271)	(224)	(571)
Interest and other expense, net	40	21	4
Non cash inducement expense	6	---	---
Net loss available to common shareholders	(317)%	(245)%	(575)%

***Net Sales***

Net sales for the year ended December 31, 2006 were \$1.6 million, a 9.6% increase from \$1.5 million for the year in 2005. Neonode's net sales for the year ended December 31, 2005 represents a 504% increase from \$248,000 for the ten months ended December 31, 2004. Revenue for the year ended December 31, 2006 and 2005 includes \$793,000 and \$1.1 million revenue from the sales of the N1m multimedia mobile phone, respectively. In addition, both 2006 and 2005 include revenue from a licensing agreement with a major Asian manufacturer. In July 2005, Neonode entered into a licensing agreement with a major Asian manufacturer whereby Neonode licensed its touchscreen technology for use in a mobile phone to be included in their product assortment. In this agreement, Neonode received approximately \$2.0 million in return for granting an exclusive right to use its software for a period that expires in July 2007. The

exclusive rights do not limit Neonode's right to use its licensed technology for its own use, nor to grant to third parties to use Neonode's licensed technology in other devices than mobile phones. The net revenue related to this agreement has been allocated over the term of the agreement, amounting to \$851,000 in 2006 and \$399,000 in 2005. The revenue in 2004 was generated from the sales of Neonode's initial phone, N1 that was sold on a limited release.

Neonode launched the N2 model of its multimedia mobile phone in mid-February 2007. The N2 phone represents Neonode's first mobile phone handset that will be released on a wide-spread basis to customers. Neonode expects to begin shipping the N2 to its first customers in mid-2007. Neonode currently has a purchase order from one customer for the N2 that total approximately \$2.3 million with shipment dates beginning mid-2007.

Neonode expects to sell and license its products, initially in Europe and Mexico, using a direct sales force to support its distributors. Neonode's plan is concentrating its sales efforts on the European and Mexico markets. Neonode anticipates an increase in the sales associated with its N2 mobile phone in the later part of 2007 as it begins customer shipment of its N2 phone.

### ***Gross Profit***

Gross profit as a percentage of net sales was 21% and 4% in the years ended December 31, 2006 and 2005, respectively compared to a gross loss of 131% for the ten months ended December 31, 2004. Neonode's costs of goods include the direct cost of production of the phone. Neonode has not begun production or shipments of its commercially available N2 mobile phone handsets and the costs of goods for the years presented reflect the cost to produce a limited number of N1 and N1m mobile phone handsets in very limited production runs. Limited production runs of new products typically have higher costs of production due to the price of purchasing components in low volumes. Neonode's cost of goods for the years ended December 31, 2006 and 2005 includes write-downs of obsolete inventory of \$133,000 and \$195,000, respectively.

Neonode expects its gross profit to increase as Neonode begins to produce and sell its N2 mobile phone handsets in larger quantities. Neonode's target range for gross profit is between 30% and 35% once full production mode is achieved.

### ***Product Research and Development***

Product research and development (R&D) expenses for the year ended December 31, 2006 were \$2.2 million, a 34% increase over \$1.7 million for the same year in 2005. R&D expense for the year ended December 31, 2005 increased by 150% over \$661,000 for the ten months ended December 31, 2004.

The increase in R&D in 2006 as compared to 2005 is primarily the result of two factors:

- a minor increase in the headcount of Neonode's engineering department from 10 to 11. Beginning in 2005, in order to recruit, retain and motivate employees, Neonode began to increase employee's salaries to market levels over a two year period. Prior to 2005, Neonode's employee's salaries were below market level; and
- an increase in engineering design projects related expenditures related to the development of the N2 and future products including the extensive use of outside engineering design services and consultants to develop the plastics/mechanics and antenna used in the design of the phone.

The increase in R&D in 2005 as compared to 2004 is primarily the result of two factors:

- an increase in the headcount of Neonode's engineering department from 8 to 10. Beginning in 2005, in order to recruit, retain and motivate employees, Neonode began a two year program to increase employee's salaries to market levels. Prior to 2005, Neonode's employee's salaries were below market level; and
- an increase in engineering design projects related expenditures related to the development of the N2. In 2004 and early 2005, R&D expense was related to the development and release of Neonode's N1 and N1m mobile phone handsets.

Neonode plans to continue to increase expenditures on critical R&D projects and has planned increases in both the headcount of its engineering department and the purchase of critical design and testing technology. Neonode has a product roadmap of future mobile phone handsets and technologies and expects to increase R&D budgets in order to develop these products and technologies to meet market demands. Neonode is currently working on the N2.5 with additional functionality and initiated a 3G mobile phone technology investigation.



***Sales and Marketing***

Sales and marketing expenses for the year ended December 31, 2006 were \$746,000, a 5% increase from \$711,000 for the same period in 2005. Sales and marketing expense for the year ended December 31, 2005 increased by 390% over \$145,000 for the ten months ended December 31, 2004.

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This increase in 2006 over 2005 is primarily related to an increase in product marketing activities as Neonode prepared to release its N2 model phone handset and increasing salaries to market levels.

This increase in 2005 over 2004 is primarily related to an increase in headcount from 1.5 to 6.

Sales and marketing programs are focused on design wins with new customers and, therefore, as new customer sales increase, sales and marketing expenses are expected to increase. Neonode expects its sales and marketing expenses to continue to increase as Neonode positions the Company to take advantage of new market opportunities for its N2 and future mobile phone handsets and participate in more sales lead generation and branding initiatives, such as, industry trade events, public relations and direct marketing.

### ***General and Administrative***

General and administrative expenses for the year ended December 31, 2006 were \$1.8 million, a 74% increase from \$1.1 million for the same period in 2005. General and administrative expense for the year ended December 31, 2005 increased by 271% over \$286,000 for the ten months ended December 31, 2004.

This increase in 2006 over 2005 is primarily related to \$616,000 of non-cash stock based compensation charges related to warrants to purchase Neonode's common stock issued to Iwo Jima SARL in a February 26, 2006 reorganization of Neonode. Included in 2006, is \$410,000 to settle a legal dispute related to the production of its N1 phone in 2005. In addition, beginning in 2005, in order to recruit, retain and motivate employees, Neonode began to increase employee's salaries to market levels over a two year period. Prior to 2005, Neonode's employee's salaries were below market level. Prior to 2005, Neonode's employee's salaries were below market level.

This increase in 2005 over 2004 is primarily related to an increase in headcount from 5 to 9. In 2005, rent and lease related expenses increased because Neonode moved to larger facilities and leased additional equipment to support the increase in the number of employees. Beginning in 2005, in order to recruit, retain and motivate employees, Neonode began a two year program to increase employee's salaries to market levels. Prior to 2005, Neonode's employee's salaries were below market level.

Neonode expects general and administrative expense to increase in after the merger with SBE due to legal, accounting, insurance and other costs associated with being a public company.

### ***Interest Expense***

Interest and other expense, net for the year ended December 31, 2006 was \$764,000, a 127% increase from \$336,000 for the same period in 2005. Interest expense for the twelve months ended December 31, 2005 increased by 2700% over \$12,000 for the ten months ended December 31, 2004.

On April 29, 2004, Neonode AB entered into a loan agreement with ALMI Företagspartner Stockholm AB (Almi). The credit period for the loan is 44 months starting April 29, 2004 with an annualized interest rate of 9.75%.

On April 6, 2005, Neonode AB entered into a second loan agreement with Almi. The loan has a credit period of 48 months with an annualized interest rate of 2%. On February 26, 2006, in conjunction with Neonode's reorganization, Almi received shares and warrants to purchase Neonode's common stock.

On December 22, 2004 Neonode AB entered into a Loan agreement with Petrus Holding SA. The funds under this loan agreement were received in January 2005. This loan arrangement has an interest rate of 5% per annum. The loan is due December 22, 2009.

In February 2006, Neonode raised \$5.0 million in a private offering of secured notes (bridge notes) convertible into its stock. In January 2007, an additional \$5.0 million was raised through the private sales of additional bridge notes. These notes are convertible into shares of our common stock under the same terms and conditions as the bridge notes dated February 26, 2006. Neonode expects all of the bridge notes to be converted to shares of its common stock prior to the merger with SBE. After the conversion to common stock, Neonode will no longer be obligated to pay interest on these bridge notes.

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In addition to the interest expense related to additional borrowings during the year, interest and other expense net for the year ended December 31, 2006 includes approximately \$200,000 of foreign exchange loss as well as \$222,000 of non-cash amortization of deferred financing fees and debt discounts and changes in the fair value related to the February 26, 2006 line of credit debt conversion feature.

### ***Income Taxes***

Neonode's effective tax rate was 0% in the year ended December 31, 2006 and 2005 and for the ten months ended December 31, 2004, respectively. Neonode recorded valuation allowances in 2006, 2005 and 2004 for deferred tax assets related to net operating losses due to the uncertainty of realization. In the event of future taxable income, Neonode's effective income tax rate in future periods could be lower than the statutory rate as such tax assets are realized.

### ***Net Loss Available to Common Shareholders***

As a result of the factors discussed above, Neonode recorded a net loss available to common shareholders of \$5.2 million in the year ended December 31, 2006, compared to a net loss available to common shareholders of \$3.7 million in the same period in 2005 and \$1.4 million in the ten months ended December 31, 2004.

### **Off-Balance Sheet Arrangements**

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

### **Liquidity and Capital Resources**

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

- sales of Neonode's products;
- Neonode's operating expenses;
- the timing of product shipments;
- Neonode's gross profit margin;
- Neonode's ability to raise additional capital, if necessary; and
- Neonode's ability to secure credit facilities, if necessary.

Neonode had cash and cash equivalents of \$2.9 million and \$369,000 on December 31, 2006 and 2005, respectively. In the three months ended March 31, 2007, \$2.2 million of cash was used by operating activities, primarily as a result of net losses. Neonode's cash used was reduced by \$27,000 of amortization and depreciation expense related to property and equipment, \$229,000 of deferred interest and amortization of debt discount and financing fees and \$163,000 of stock based compensation expense that are included in the \$2.7 million net loss but did not require cash. Cash used was increased by \$5.0 million proceeds from the issuance of convertible debt. Neonode had a working capital (current assets less current liabilities) at March 31, 2007 of \$1.5 million (assuming conversion of outstanding convertible debt), as compared to a working capital deficit of \$884,000 (assuming conversion of outstanding convertible debt) at December 31, 2006.

In the three months ended March 31, 2007, Neonode purchased \$101,000 of fixed assets, consisting primarily of computers, software and engineering equipment.

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In the three months ended March 31, 2007, Neonode received proceeds of \$122,000 from the sale of employee stock options.

On May 18, 2007 the Merger agreement between SBE and Neonode was amended to set the exchange ratio of SBE shares to Neonode shares at 3.5319 SBE shares per one Neonode share. Also in this amendment, it was agreed that SBE may lend \$1.0 million to Neonode. The maturity date of the SBE loan is September 30, 2007 with an annualized interest rate of 6%. On May 29, 2007, pursuant the amendment, SBE advanced Neonode \$500,000 under the note and advanced an additional \$500,000 on June 15, 2007.

In June 2007, bridge notes were issued for an additional \$3.0 million and the maturity date for all outstanding bridge notes was extended to December 31, 2007.

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

Neonode's interest bearing debt consists of the following (in thousands):

	March 31, 2007	December 31, 2006
Senior secured notes (bridge notes) (1)	\$ 10,000	5,000
Petrus Holding SA	766	780
Loan - Almi Företagspartner 2	176	201
Loan - Almi Företagspartner 1	92	94
Capital lease	4	5
<b>Total notes outstanding</b>	<b>11,038</b>	<b>6,080</b>
<b>Unamortized debt discounts</b>	<b>(201)</b>	<b>(114)</b>
<b>Total debt, net of debt discounts</b>	<b>\$ 10,837</b>	<b>5,966</b>

(1) An additional \$3.0 million of bridge notes were issued on June 15, 2007.

*Petrus Holdings SA ( Petrus)*

On December 22, 2004 Neonode AB entered into a Loan agreement with Petrus Holding SA. The funds under this loan agreement were received in January 2005. This loan arrangement has an interest rate of 5% per annum. The loan shall be repaid no later than December 22, 2009. The Petrus loan is subordinated in right of payment to all indebtedness of Neonode to Almi.

*ALMI Företagspartner Stockholm AB (Almi)*

*Almi 1*

On April 29, 2004, Neonode AB entered into a loan agreement with Almi. The loan has a term of 44 months with annual interest rate of 9.75%. Neonode has the right to redeem the loan at any time prior to expiration subject to a prepayment penalty of \$14,000.

*Almi 2*

On April 6, 2005, Neonode AB entered into a second loan agreement with Almi. This loan agreement has a warrant to purchase 72,000 shares of Neonode common stock. The loan has a term of 48 months with annualized interest rate of 2%. Neonode has the right to redeem the loan at any time prior to expiration subject to a prepayment penalty of 1%, on an annualized basis, of the outstanding principle amount over the remaining term of the loan. On February 26, 2006, in conjunction with Neonode's reorganization, Almi received 43,993 shares of Neonode common stock and warrants to purchase 22,490 shares Neonode's common stock.

*Bridge Notes*

In February 2006, Neonode raised \$5.0 million in a private offering of bridge notes convertible into its stock. Neonode expects all of the bridge notes to be converted to shares of its common stock prior to the merger with SBE. After the conversion to common stock, Neonode will no longer be obligated to pay interest on these bridge notes.

On January 19, 2007, all outstanding bridge notes were modified to include a reverse merger with SBE as an event for conversion on the same terms as an initial public offering. In addition, the conversion terms relating to the senior secured notes were modified to extend the maturity date from August 28, 2007 to September 30, 2007.

At March 31, 2007, the bridge notes, which bear interest at 4%, had a maturity date of September 30, 2007. In May 2007, the maturity date for all outstanding bridge notes was further extended from September 30, 2007 to December 31, 2007. The bridge notes are collateralized by the common stock shares of Neonode's wholly owned subsidiary, Neonode AB and are subordinated in right of payment to all indebtedness of Neonode AB to Almi. In addition, Per Bystedt, Thomas Ericsson and Magnus Goertz have pledged their beneficial holdings in Neonode as collateral for the bridge notes. The bridge notes are convertible under the following scenarios:

1. In the event the Merger Agreement is terminated, the bridge notes may be prepaid without premium or penalty, in whole or in part, on 20 days notice; provided that the Lender shall have the opportunity, prior to such prepayment, to convert the senior secured note into common stock of Neonode at a price based on the price set forth in Scenario 3 or 4 below.
2. In the event that the Merger is consummated pursuant to the terms of the Merger Agreement, the bridge notes, including without limitation all accrued interest (unless paid in cash by the undersigned) and other obligations under the senior secured note, shall automatically convert, immediately prior to the Closing of the merger and without any action of the holder, into a number of units of the undersigned (the "Units"), each Unit consisting of one share of Neonode Common Stock and one half of a Warrant of the undersigned determined by dividing the outstanding principal amount and accrued interest due on the senior secured notes by \$5.00 (the "Conversion Price").
3. In the event the Merger Agreement is terminated and the Neonode completes a registered public offering in the United States, United Kingdom or Sweden (the "QIPO") with gross proceeds in an amount at least equal to the cost of operating Neonode for a period of three months (commencing after the QIPO) on or before December 31, 2007

(as amended in May 2007), this senior secured notes, including without limitation all accrued interest (unless paid in cash by Neonode) and other obligations under the senior secured notes, shall automatically convert without any action of the holder into the securities offered in such financing at a price per security equal to the price paid by public investors based on the pre-money valuation of the fully-diluted equity of Neonode, including for this purpose as equity all debt (other than (i) SEK 2,000,000 of debt held by Almi and (ii) all principal and interest under the bridge notes) held by stockholders or their affiliates, of \$15.3 million; and provided further that Neonode has not suffered any material adverse change since the date hereof.



4. In the event the Merger Agreement is terminated and Neonode fails to complete the QIPO or Merger by December 31, 2007 (as amended in May 2007) due to circumstances beyond Neonode's control, the bridge notes, including without limitation all accrued interest and other obligations under the bridge notes, shall be converted into common stock of the Neonode at a price per share equal to the fair market value of such shares as determined by negotiations between the Neonode and the holders of at least 50.1% of the aggregate outstanding principal amount of the bridge notes (the "Required Holders"), subject to compliance with applicable securities law; provided that (i) the pre-money valuation of the fully-diluted equity of Neonode in the event and at the time of such conversion, including for this purpose as equity all debt (other than (a) SEK 2,000 of debt held by Almi and (b) all principal and interest under the senior secured notes) held by stockholders or their affiliates, does not exceed \$15.3 million, (ii) Neonode has not suffered any Material Adverse Change since the date hereof and (iii) the Lender and Neonode enter into an investor rights agreement which includes certain demand and piggyback registration rights, preemptive rights, tagalong rights with principal stockholders of Neonode, rights to Neonode information and a bar on issuance of toxic preferreds or other death spiral convertible securities, all as negotiated between the undersigned and the Required Holders. During the term of the bridge notes, Neonode shall not issue any equity securities or securities convertible into, exercisable to purchase or exchangeable for equity securities without offering to holders of the bridge notes rights to purchase up to a percentage (the "Percentage") of such issue equal to the ratio of (A) the aggregate principal amounts of the senior secured notes then outstanding divided by (B) the sum of \$15.3 million and such aggregate principal amounts, and shall not permit Neonode AB to issue any such securities or incur any indebtedness other than reasonable accounts payable.

In February 2007, we completed an additional \$5.0 million convertible bridge note financing package that was offered proportionally to our Shareholders. Prior holders of bridge notes had first right to any subscription amounts not taken by other existing shareholders. The terms and conditions of these notes are substantially the same as for the existing bridge notes as amended on January 19,

As of March 31, 2007, Neonode had \$2.9 million in cash and is not operating at cash breakeven. Unless Neonode is able to increase its sales to get to cash breakeven, Neonode will not have sufficient cash generated from its business activities to support its operations for the next twelve months.

#### **Quantitative and Qualitative Disclosures About Market Risk**

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

### **FINANCIAL STATEMENTS - SBE, INC.**

The unaudited balance sheet for SBE as of April 30, 2007 and the related unaudited statements of operations and cash flows for each of the three and six months ended April 30, 2007 and 2006 are attached to this proxy statement as Annex E. You are encouraged to review such financial statements in their entirety.

### **FINANCIAL STATEMENTS - NEONODE INC.**

The audited balance sheets for Neonode Inc. as of December 31, 2006 and 2005 and the related audited statements of operations, stockholders' equity and cash flows for each of the years ended December 31, 2006 and 2005 and the ten months ended December 31, 2004, together with the report of their independent registered public accounting firm, Öhrlings PricewaterhouseCoopers AB, are attached to this proxy statement as Annex F. The unaudited balance sheet for Neonode as of March 31, 2007 and the related unaudited statements of operations and cash flows for each of the three months ended March 31, 2007 and 2006 are attached to this proxy statement as Annex E. You are encouraged to review such financial statements in their entirety.

### **UNAUDITED PRO FORMA FINANCIAL STATEMENTS**

The unaudited pro forma condensed combined balance sheet as of March 31, 2007 is presented as if the proposed transaction with Neonode had occurred on the date of the balance sheet presented. The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2006 and three months ended March 31, 2007 are presented as if the proposed transaction with Neonode had occurred at the beginning of their fiscal years. After the merger transaction with Neonode is completed, Neonode will be the acquirer for accounting purposes.

### **COMPARATIVE PER SHARE DILUTION AND DIVIDEND INFORMATION**

The following table sets forth the historical per share information of us and Neonode and the combined per share data on an unaudited pro forma basis after giving effect to the merger. Also presented is Neonode's equivalent pro forma per share data for one share of Neonode common stock. The pro forma information is presented for illustrative purposes only. You should not rely on the pro forma financial information as an indication of the combined financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during the periods presented.

The unaudited pro forma per share information combines our financial information for our fiscal year ended October 31, 2006 with the financial information of Neonode for the Neonode fiscal year ended December 31, 2006, assuming the merger had occurred on the first day of the respective periods.

Historical book value per common share for us is computed by dividing stockholders' equity (deficit) attributable to common stockholders by the number of shares of common stock outstanding at October 31, 2006 and for Neonode by dividing stockholders' equity (deficit) attributable to common stockholders by the number of shares of common stock outstanding at December 31, 2006. Our unaudited pro forma combined per share data is derived from the unaudited pro forma combined financial statements that are included elsewhere in this proxy statement. The Neonode equivalent pro forma per share data is calculated by applying the exchange ratio of Neonode common shares to our common shares received.

**Year Ended  
October 31, 2006  
(SBE) or  
December 31, 2006  
(Neonode)  
(unaudited)**

SBE Historical Per Share Data: (adjusted for a one for five reverse stock split effective April 2, 2007)	
Basic and diluted net loss per common share	\$ (7.85)
Book value per common share	\$ 1.51
Neonode Historical Per Share Data:	
Basic and diluted net loss per share	\$ (1.82)
Book value (deficiency) per common share	\$ (2.31)
SBE Pro Forma Combined:	
Basic and diluted net loss per common share	\$ (9.68)
Book value (deficiency) per share	\$ (1.59)
Neonode Equivalent Pro Forma Combined:	
Basic and diluted net loss per common share	\$ (7.47)
Book value (deficiency) per share	\$ (1.15)

### COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Our common stock is quoted on the Nasdaq Capital Market under the symbol SBEI. The following table presents quarterly information on the price range of our common stock, indicating the high and low bid prices reported by the Nasdaq Capital Market. These prices do not include retail markups, markdowns or commissions. As of December 31, 2006, there were approximately 1,039 holders of record of our common stock.

#### *Historical per share amounts*

Fiscal 2007	Fiscal quarter ended				
	January 31	April 30	(after 1 for 5 reverse stock split effective April 2, 2007)		
High	\$ 0.58	\$	4.00		
Low	0.33	0.48			
Fiscal 2006	January 31	April 30	July 31	October 31	
High	\$ 1.44	\$ 1.08	\$ 0.40	\$ 0.38	
Low	1.33	1.05	0.36	0.35	
Fiscal 2005	January 31	April 30	July 31	October 31	
High	\$ 4.59	\$ 3.55	\$ 3.65	\$ 3.50	
Low	3.03	2.30	2.09	2.17	

#### *Historical per share amounts adjusted for one for five reverse stock split effective April 2, 2007*

Fiscal 2007	Fiscal quarter ended	
	January 31	April 30
High	\$ 2.90	\$ 4.00
Low	1.65	2.40

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Fiscal 2006	January 31	April 30	July 31	October 31
High	\$ 7.20	\$ 5.40	\$ 2.0	\$ 1.90
Low	6.65	5.25	1.80	1.75
Fiscal 2005				
High	\$ 22.95	\$ 17.75	\$ 18.25	\$ 17.50
Low	15.15	11.50	10.45	10.85

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

No active trading or public market exists for Neonode common stock. The shares of Neonode common stock are not listed on any exchange and are not traded in the over-the-counter market. As of July 3, 2007, the record date, there were [\_\_\_\_\_] stockholders of record who held shares of Neonode common stock. Neonode has never paid any cash dividends on its common stock.

**DIRECTORS AND EXECUTIVE OFFICERS OF SBE  
FOLLOWING THE MERGER**

**Board of Directors**

Upon the completion of the merger, we expect our board of directors to be as follows:

NAME	AGE	POSITION
Per Bystedt	42	Chairman, Board of Directors
Susan Major	55	Director
John Reardon	44	Director
Johan Ihrfelt	39	Director
Magnus Goertz	37	Director

**Per Bystedt** - Mr. Bystedt served as the interim CEO of Neonode from October 2005 through July 2006. Since 1997, Mr. Bystedt has been the CEO of Spray AB, an internet investment company. From 1991 through 1997, Mr. Bystedt was the CEO of various television production and network companies including Trash Television, ZTV AB, TV3 Broadcasting Group Ltd and MTG AB. Since 1998 through the present, Mr. Bystedt has served as a member of the board of directors of Axel Johnson AB, since 2000 he has been a member of the board of directors of Eniro AB and since 2005 has been a member of the board of directors of Servera AB. Since 2004, Mr. Bystedt has been the chairman of the board of directors of AIK Fotboll AB. From 1997 through 2005 he served as a member of the board of directors of Ahlens AB, and from 1998 through 2000 he was the chairman of the board of directors of Razorfish, Inc.

**Susan Major** - Ms. Major is the co-founder and Managing Partner of DavenportMajor Executive Search. Her expertise working in the Technology industry spans more than 18 years with global high growth companies coupled with 10 additional years of search experience, including C-level executive placements for public and emerging, pre-IPO corporations. Ms. Major specializes in the wireless, telecom, software and semiconductor sectors and serves Fortune 500 companies like Motorola and Qualcomm. While at Motorola, Ms. Major introduced numerous technology products, including two-way radios, cellular handsets and a first generation PDA. At Ameritech, she led the marketing efforts that expanded their paging and wireless data services. Additionally, she has been awarded two patents in wireless messaging.

**John Reardon** -- Mr. Reardon has served as a director of SBE, Inc. (Nasdaq - SBEI) since February 2004. Mr. Reardon is the chairman of the compensation committee and member of the audit and nominating and governance committees of SBE, Inc. Mr. Reardon has served as President and member of the board of directors of The RTC Group, a technical publishing company since 1990. In 1994, Mr. Reardon founded a Dutch corporation, AEE, to expand the activities of The RTC Group into Europe. Mr. Reardon also serves on the board of directors of One Stop Systems, Inc., a computing systems and manufacturing company.

**Johan Ihrfelt** - Mr. Ihrfelt is currently the President and co-founder of O2 Energi, a renewable energy group in Sweden, designing, building and operating wind power plants as well as a reseller of environmentally friendly electricity. O2 also offers energy efficient solutions to businesses. Mr. Ihrfelt was one of the founders of Spray, a pioneer in internet service and portals. He served first as President of the parent company of Spray, and then as the CEO of the Spray portal group of companies with operations in eight countries. After the acquisition of Spray's portal business by the German and American owned Lycos Europe, Mr. Ihrfelt and three other partners continued with Spray developing the company's other operations. Other positions held by Mr. Ihrfelt include Vice President of Razorfish Inc., earlier listed on Nasdaq Stock Market, and Vice President of Lycos Europe NV, listed on the Frankfurt Stock Exchange. Mr. Ihrfelt also serves as a board member in a number of companies including Agent 25 Group AB,

Yogayama AB and Fjord Network AB.

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**Magnus Goertz** - Mr. Goertz co-founded Neonode in 2001 and served as CEO from 2001 through 2003. Since 2004 through the present, Mr. Goertz also served as a Vice President and business development manager. From 1999 through 2001, Mr. Goertz was a member of the board of directors of Repeatit AB, a company that specialized in radio design.

**Executive Officers**

Upon the completion of the merger, we expect our executive officers who are not also directors to be as follows:

<b>NAME</b>	<b>AGE</b>	<b>POSITION</b>
Mikael Hagman	39	