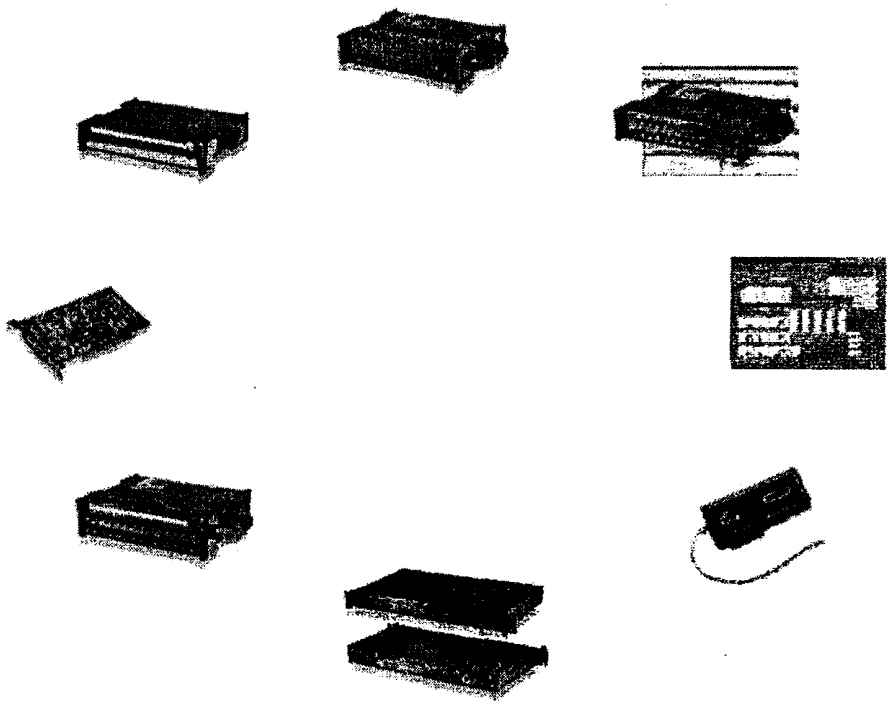
iOtech

The Global Leader of PC-Based Data Acquisition & Instrumentation



CONFIDENTIAL DRAFT

INFORMATION MEMORANDUM

July 2005

Confidential Memorandum

This Confidential Memorandum (the "Memorandum") is being provided in connection with the potential sale of IOtech (the "Company"). The Memorandum has been prepared by , from information supplied to it by the Company. This Memorandum is being furnished by as the Company's exclusive financial advisor to assist in identifying potential purchasers of the Company. The Memorandum is being released to qualified parties who have expressed an interest in a transaction involving the Company and is subject to the Confidentiality Agreement entered into by its recipient.

This Memorandum does not purport to be all-inclusive or contain all information that a prospective purchaser, investor or partner may desire in evaluating a transaction involving the company. In all cases, interested parties should conduct their own investigation and analysis of the company and the data set forth in this Memorandum. has not independently verified any of the information, including the financial projections contained herein; neither nor the Company has made any representation or warranty as to the accuracy or completeness of this Memorandum and shall have no liability for any representation or warranty as to the accuracy or completeness of this Memorandum and shall have no liability for any representations (expressed or implied) contained in, or for any omissions from, this Memorandum or any other written or oral communications transmitted to the recipient in the course of its evaluation of the Company.

The Company reserves the right to negotiate with one or more interested parties at any time without prior notice to you or interested parties. The company also reserves the right to terminate, at any time, further participation in the investigation and proposal process by any party and to modify other procedures without assigning any reasons thereof.

By accepting the Memorandum, you acknowledge that: (1) the information will be used by you solely for the purpose of evaluating a transaction involving the Company; (2) you will not reproduce the Memorandum in whole or in part and will not distributed all or any portion of the Memorandum to any person other than a limited number of your employees or representatives who have a need to know such information for the purpose set forth in (1) above and who are informed by you of the confidential nature of such information and agree to be bound by the Confidentiality Agreement; and (3) if you do not wish to pursue a transaction involving the Company, you will return the Memorandum to together with any copies of the Memorandum or other material relating to the Company which you may have received from or the Company.

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1.1 Company Overview

IOtech, Inc. ("IOtech" or the "Company"), based in the Cleveland, Ohio suburb of Bedford Heights, designs, manufactures and sells a broad range of PC-based data acquisition and measurement instrumentation. The products are used in a wide variety of test applications, and serve a diverse set of industries including automotive, aerospace, communication, power generation, research and electronics. Engineers, scientists and technicians are among the users of its products, in applications ranging from research and product development to production monitoring and quality control.

All of the Company's products are manufactured and assembled in the Midwest, within a few hours of Cleveland. A team of 21 in house engineers design all of its products. The Company's products include PC-based data acquisition (daq) systems for portable, desktop, distributed and OEM/embedded applications including waveform capture, temperature measurement, strain measurement, vibration measurement, data logging and IEEE 488 (GPIB) control. The Company's products are designed according to stringent guidelines, resulting in solutions that are versatile, expandable, economical to own, and easy to use. The Company is well known in its industry for its history of product innovation. For example, the Company introduced the industry's first portable notebook-based data acquisition products and the industry's first USB daq products.

The Company engages with sales reps and distributors throughout the world who are generally exclusive in their territory. The Company also employs sales and support engineers located outside of its Cleveland headquarters, including California, Michigan and Maryland, as well as in Europe. In 2003 the Company opened its first wholly-owned subsidiary in the UK. For the year 2004, approximately 30% of the Company's sales were outside of North America, primarily in Asia and Europe. The Company is an S-Corp. incorporated in Delaware and began business in 1985. Today the Company has 75 employees and is wholly owned by Tom Desantis, President and founder.

IOtech's Headquarters

1.2 Summary Historical and Projected Financial Information

The following table highlights the Company's past and projected performance.

Summary Historical and Projected Financial Performance							
	Historical			Projected			
	2002	2003*	2004	2005	2006	2007	2008
Sales	$ 10,799	$ 11,603	$ 12,559	$ 13,086	$ 15,878	$ 19,604	$ 23,581
Sales Growth	*-9.4%*	*7.4%*	*8.2%*	*4.2%*	*21.3%*	*23.5%*	*20.3%*
Gross Profit	$ 6,381	$ 7,253	$ 7,969	$ 8,412	$ 10,321	$ 12,880	$ 15,611
Gross Margin	*59.1%*	*62.5%*	*63.5%*	*64.3%*	*65.0%*	*65.7%*	*66.2%*
EBIT	$ 212	$ 1,222	$ 1,744	$ 1,876	$ 2,472	$ 3,405	$ 4,394
EBIT Margin	*2.0%*	*10.5%*	*13.9%*	*14.3%*	*15.6%*	*17.4%*	*18.6%*
EBITDA	$ 329	$ 1,302	$ 1,839	$ 1,942	$ 2,538	$ 3,471	$ 4,460
EBITDA Margin	*3.0%*	*11.2%*	*14.6%*	*14.8%*	*16.0%*	*17.7%*	*18.9%*

* FY '03 excludes the impact of a $121k one time write down of bad debt from a bankrupt UK distributor.

For the year ended December 31, 2004 the business generated EBITDA of approximately $1.8 million on sales of $12.6 million. Margins have steadily improved since year 2000 as a result of the introduction of higher-margin products, improved procurement processes, higher yields from sub-contract manufacturers, and absorption of fixed overhead costs spread over increasing sales volumes.

For the fiscal year ending 2005, the business is projecting revenue and EBITDA of $13.1 million and $1.9 million, respectively. It should be noted that substantial growth from newer product lines over the past three years has been offset by declining sales in mature product lines. With the majority of the decline in the mature product lines now complete as they near the end of their product life cycle, growth in newer product lines going forward will substantially accelerate the Company's revenue growth from 2006 – 2008. The Company expects sales to reach over $23 million by fiscal year end 2008 with EBITDA of over $4 million.

1.3 Investment Considerations

Product Innovator:	The Company is recognized in the industries which it serves as a product innovator. The Company has developed many "industry first products" such as the first portable notebook-based data acquisition products.
Engineering Culture & Technical Workforce:	Half of the Company's 75 employees have engineering degrees. The highly-efficient product development team is constantly challenged to design high-performing products at the lowest possible cost-to-build, and with short development cycles due to a high degree of leveraging. The Company has won numerous industry design awards and has historically spent 14-17% of its sales on new product development, even during industry downturns like 2001.
Core Technologies:	The Company's core technology competencies include: signal conditioning, acquisition engines, high-throughput PC interfaces, software device drivers, vibration analysis, and *out-of-the-box* data logging application software.
Product Breadth:	The Company's PC-based data acquisition and instrumentation product offering includes several product families accompanied by dozens of associated signal conditioning and expansion options for each product family. Most products include application-level software, drivers for industry-standard programming environments, and optional application-specific software packages.
Diverse & Established Customer Base:	The Company serves a broad customer base and has created many long term customer relationships. Approximately 70% of the Company's 2004 sales were in North America with the balance in Europe and Asia. No single customer accounted for more than 5% of sales in 2004.

Brand Recognition:	The Company has always kept a high profile in the marketplace. A 2003 market study conducted by Reed Research Group shows that almost one half of respondents were aware of the IOtech brand name, well ahead of all other competitors except for National Instruments and Keithley Instruments.
Vendor Independence:	No single vendor is critical to the design or manufacture of the Company's products.
History of Profitability:	Although its business participates in and is influenced by general economic trends both domestically and internationally, the Company has been profitable in all but one of the past six fiscal years, notwithstanding significant fixed costs like engineering, sales support, administrative, advertising and marketing. The Company's margins have steadily increased over the past four years.
Well Positioned Distribution & Sales:	The North American sales force is organized into four geographic regions with senior Regional Managers located in California, Michigan, Ohio and Maryland. While the majority of the Company's sales are currently in North America, the market potential for the Company's products overseas is of equal or greater size than the North American market. Investment by the Company in overseas sales has thus far been modest, through a network of independent distributors. With the large market potential for the Company's products overseas, an acquiring company with direct overseas sales channels could experience substantial growth, even with the existing product portfolio.
Operational Leverage & Capacity:	The business model is scalable. The Company out-sources PC board assembly to local sub-contract manufacturers. As such, the Company estimates that its revenues could double without requiring the addition of significant infrastructure or major capital expenditures relating to the manufacturing process.
Growth Opportunities:	Several aspects of the Company are poised for growth without substantial changes to the business model. Growth opportunities include: 1) a stream of new products, the first of which will be introduced in Q3 2005 2) newly established OEM customer relationships in the sales pipeline 3) continued strong growth in a new strategic data acquisition business area 4) increased domestic sales effectiveness and 5) China, where a recently established distributor grew sales by 500% from 2003 to 2004.
Dynamic Leadership:	The senior managers work extremely well together as a team, and require very little supervision. The post-acquisition value of the options owned by the management team will not enable retirement by the option holders. Tom DeSantis, the founder, Chief Executive

and sole stockholder is not interested in retiring and is willing to serve with the Company for a 5+ year period post acquisition.

Systems and Infrastructure: Sophisticated systems for customer relationship management (CRM) and Enterprise Resource Planning (ERP) contribute to the Company's on-time shipping rate of 98%. The Company uses the latest version of a CRM software package (Goldmine) for tracking valuable contact information on all prospects and customers. The Company also uses a sophisticated ERP software system (Exact Macola) system for its financial and manufacturing systems that provides forecasting, MRP, supply chain management, and production scheduling.

1.4 Transaction Overview

At the request of Mr. DeSantis, has been engaged to advise Mr. DeSantis and his Advisory Board regarding strategic options including an outright sale, joint venture, merger, growth capital infusion or recapitalization. Inasmuch as the Company is an S Corporation, the Company and its sole shareholder have maximum flexibility in structuring a transaction as a sale of assets, sale of stock, merger for cash, stock or hybrid instrument or a recapitalization transaction. While ; Mr. DeSantis is neither entertaining nor soliciting an investment in the Company at the present time and in no way is the Company's consideration of strategic options a "stalking horse" or validation exercise by the Board of Advisors or the sole stockholder.

While the sole stockholder has instructed to conduct a process that permits all participants an equal opportunity to present their views on valuation, structure and terms, the Company reserves the right to deal preemptively with one or more parties. At all times, the Company reserves the right to cease the process and remove the Company from the marketplace. Inasmuch as the exploration of strategic alternatives is highly distracting for a small company like IOtech, has been instructed to conduct a highly controlled and speedy process. A timetable is set forth below.

Timetable of Events	
Date	**Action**
July 11th	Participants sign confidentiality agreement
July 14th	Information Memorandum supplied to participants
July 29th	Written indication of price, terms, structure and due diligence hurdles
August 8th	Final participants selected, management presentations and due diligence commences
August 26th	Final bids, mark up of Purchase Agreement
August 26th – September 15th	Negotiations leading to definitive agreement
September 22nd	Closing

2. Industry Overview

Industry Overview - (Summarized from "Industrial Test and Measurement," Baird M&A Market Analysis, Winter 2004 / 2005.)

The global Test and Measurement ("T&M") industry is large and highly fragmented. Broadly defined, T&M companies develop and produce instruments that make manufacturing processes and product deployments possible and economical. T&M instruments measure and control electrical signals, such as voltage, current power and physical phenomena, such as temperature, pressure, speed, flow, volume, torque and vibration. These instruments generally perform three basic functions: data acquisition and control, data analysis, and presentation of results. In recent years, T&M equipment continued to expand beyond the research laboratory onto the shop floor, becoming and integral part of most manufacturing processes.

Industrial T&M manufacturers provide a variety of specialized test, measurement, and monitoring and process control solutions. Products include weighing instruments, machine vision equipment, sensors, material testers, dimensional measurement equipment, and simulation software. Applications include quality control, environmental compliance, manufacturing automation and product design.

Analysts estimate that T&M products in the U.S. will exceed $18 billion in 2004. The U.S. is the largest producer of Industrial T&M equipment accounting for approximately half of global shipments, followed by the U.K., Germany, Japan and France. According to data from the U.S. Department of Commerce, from 1993 to 2000, sales of Industrial T&M equipment rose at a compound annual growth rate ("CAGR") of approximately 4.4% reaching a peak of $18.6 billion. As a result of the global economic recession in 2001 and 2002 and the decline in industrial production, sales of Industrial T&M equipment declined by approximately 13.0% from their peak.

During the second half of 2003, as a result of strengthening economic conditions and renewed growth in industrial production, sales of Industrial T&M equipment began to recover. Analysts estimate that U.S. sales will exceed $18 billion in 2004, a level close to the historical peak recorded in 2000. Industry analysts believe that following this return of Industrial T&M sales to their trend-line levels, the sector will grow over the long term at an annual rate of approximately 5.0%.

While each sub sector of the Industrial T&M market has unique demand drivers such as evolving regulations, end-market growth and changes in technology, the overall demand for Industrial T&M instruments is generally correlated to capital spending on plant and equipment, which in turn is dependent on the level of industrial production.

The Industrial T&M sector possesses several characteristics that are driving consolidation, including fragmentation, high barriers to entry, global competitive pressures and attractive financial metrics. Despite a healthy level of M&A activity over the past ten years – an average of approximately 80 transactions annually – it is expected that consolidation of Industrial T&M companies will accelerate over the next three years.

Industry Participants

The Industrial T&M sector is highly fragmented with participants serving multiple niche markets. It is estimated that in the U.S. alone there are more than 2,000 Industrial T&M companies and an additional 1,000 companies in Europe and Asia. Each niche is typically composed of one or two market leaders and several smaller competitors. Many of these companies have developed attractive technologies but remain small, with narrow product lines, underdeveloped distribution networks and have limited financial resources. It is estimated that only a small percentage of the global universe of companies has annual sales in excess of $50 million.

Key Industry Demand Drivers

T&M products are vital tools for companies competing in a global arena to introduce the most technologically advanced, highest quality, and lowest cost products possible, T&M equipment enables manufacturers to do all this, while enhancing their productivity and increasing profitability. It is believed that a number of favorable demand drivers will continue to generate above-average growth rates in the Industrial T&M sector over the longer term.

Key Industry Demand Drivers	
• Automated Manufacturing	• Accelerating Time to Market
• Networking the Factory Floor	• Expanding T&M Applications
• Importance of Quality & Efficiency	• Increasing Importance of Service
• Increasing Environmental Concerns	• Globalization

Globalization

While industrialized nations such as the U.S., Germany and Japan have historically represented the largest markets for Industrial T&M products, emerging markets in the Far East and Eastern Europe have become increasingly important. The growing significance of these markets is attributable to the removal of trade barriers, a shift in global manufacturing to lower-cost regions of the world and robust economic growth in a number of emerging countries, such as China. The expansion of research and manufacturing in emerging markets in recent years requires a large investment in T&M equipment and represents a significant opportunity for many Industrial T&M companies. Furthermore, as companies are increasingly manufacturing products in disparate regions of the world, they are demanding consistency in test results and service in all locations. Industrial T&M companies that are unable to provide global access to their products and services are finding themselves increasingly at a disadvantage.

Consolidation Drivers

The Industrial T&M sector possesses several characteristics that are driving consolidation including fragmentation, high barriers to entry, global competitive pressures, attractive growth potential and high profit margins. Analysts expect the pace of consolidation – an annual average of approximately 80 transactions – to accelerate over the next five years as (i) the growth prospects and profitability of sellers improve and they can garner higher valuations for their businesses, (ii) global competitive pressures continue to make it harder for small companies to compete and (iii) strategic buyers with

strong balance sheets and high growth expectations pursue acquisition–led strategies. The barriers to entry in most Industrial T&M businesses are high, serving as another important driver to M&A activity. These barriers include:

High R&D Investment – The Industrial T&M industry requires high levels of R&D investment, which generally translates into strong new product pipelines and differentiated products. It would be a very expensive proposition for a market entrant to catch up on years of substantial R&D investment.

Symbiotic Relationship with Customers – The customer relationship typically includes cooperation in the product development process, which sometimes extends to sharing technologies and R&D investment. Industrial T&M companies can act as design partners and gain insight into customers' future needs, thereby improving the profit potential of their next-generation T&M products.

Highly Technical Workforce – Industrial T&M companies employ a relatively high percentage of engineers and individuals with an advanced technical degree. This represents a significant barrier to entry considering the scarcity of highly skilled engineers available in the labor market and the cost associate with training.

Complexity of Product Requirements – In order to differentiate their products in the marketplace, Industrial T&M companies often rely on proprietary technologies and know-how.

Importance of Brand Recognition – Strong brands are built on the basis of history, repeat sales, service, upgrade-ability and product performance. Many Industrial T&M companies have established strong brand names in their served markets. These trade names have a large degree of goodwill associated with them, a large installed customer base and can translate into recurring revenue streams. In addition, a company with a strong and well-known brand name may find it easier to enter a new market or geographic region based on the reputation of the brand.

3.1 Historical Overview

A timeline of the Company's significant events can be found in the table below.

Timeline of Significant Events	
1983	IOtech started in the basement of Tom Desantis
1985	Company's first full year of business with the industry's 1st Macintosh IEEE 488 Interface
1987	Company's first IBM - PC Compatible IEEE 488 Interfaces
1989	Company's first data acquisition products based on IEEE 488
1992	Industry's first notebook PC-based data acquisition with the Daqbook
1993	Industry's first "virtual instruments" with the TempScan with TempView Software
1995	Industry's first 1MHz notebook PC-based data acquisition with the WaveBook
1996	Company becomes ISO-9000 certified
1997	Industry's first USB data acquisition product with the Personal DAQ
1999	Company's first acquisition, Strawberry Tree
2001	Acquired Zonic for their vibration software expertise
2002	Acquired ADAC for their low-cost PCI daq designs
2003	Opened Company's first wholly-owned subsidiary in the UK
2005	Introduction of the Daq3000 Series of high-performance/low cost USB & PCI daq products

The Company's first full year of business was 1985, where the company offered the first IEEE 488 instrumentation interface for Macintosh computers. While IEEE 488 is a small part of the Company's business today, the concept of offering PC-attached hardware along with software to provide a test and measurement solution remains the sole focus of the Company today. All of the Company's products leverage the power of the latest mainstream PC computing capabilities into low-cost, highly flexible hardware/software solutions for test and measurement applications.

Following the success of the Macintosh product, the Company introduced a succession of IEEE 488 interfaces and accessories, many of which are still viable products today, although with declining sales as the market for 488 equipment is being supplanted by newer technologies. In the late 80's the Company introduced its first IBM PC-compatible products, when it became evident that the PC would win over the Macintosh for test and measurement applications.

One of the Company's early strategies was to mimic the already-familiar Hewlett-Packard programming paradigm in a series of products that worked on the emerging IBM PC and workstation platforms. This resulted in an easy migration path for users from older-technology instrument controllers to the newest PC-based computing platforms. The Company's products gained wide acceptance in the engineering community. One of the Company's first OEM customers was Black Box Corporation, who began selling private-labeled versions of the Company's products in 1986, and continues to be an OEM customer today. DEC (now HP) offered private label versions of the Company's products for use with their workstations. At this same time the Company's strength in offering a wide variety of comprehensive software drivers began and is still a strategic part of their product offering today.

The Company's first data acquisition products brought basic analog and digital I/O capability to IEEE 488-based systems via "black box" instruments in 1989. These products, named DAI for

Data Acquisition Instruments, were used as components of a larger test system that always included instruments from other vendors such as Hewlett Packard (now Agilent), Tektronix, and Keithley, to name a few. Keithley Instruments was an OEM for these products, which are still marketed today under the Keithley name.

In the early 90's the Company introduced the industry's first "virtual instruments". These instruments differed from other instruments in their time because the user I/O was via software on the PC, vs. knobs and buttons on the box's front panel. These products included a software application that enabled their use without having to program. The Windows operating system made this possible, and the Company became known as the company that included *"out-of-the-box"* software with their "black box" instruments.

In 1992 when the first notebook PCs became affordable, the Company introduced the first portable notebook-based data acquisition products. That product line, named DaqBook, and its higher-speed cousin, WaveBook, have become industry standards for portable notebook-based PC data acquisition. Tens of thousands of these products are in use today in everything from automobiles to yachts to space craft. The "Book" products originally used the PC's parallel port for communication, and have since been enhanced with high-speed Ethernet interfaces. The "Book" family of notebook PC-based portable products now include the DaqBook (multi-function daq), WaveBook (high-speed daq), LogBook (stand-alone daq), ZonicBook (vibration measurements), and recently introduced StrainBook (strain gage daq).

Recognizing that a key aspect of any data acquisition system is its signal conditioning, the Company began developing dozens of signal conditioning options in the mid-90's for the various product platforms, including the capability to measure temperature, vibration, sound, strain, position, frequency, and more. Today signal conditioning remains a key differentiator between the Company and most of the other general purpose data acquisition suppliers.

When the USB standard was introduced in 1997, the Company introduced the industry's first USB data acquisition product, the Personal Daq. Even today, sales of the original Personal Daq product family continue to grow and the introduction of the next-generation personal Daq family in the third quarter of 2005 is expected to fuel additional growth for many years to come. One of the first corporate-acquisitions in the PC daq marketplace was a result of the impact of the Personal Daq, which led to the Company's acquisition of Strawberry Tree (STC) in 1999. The Company continued to offer STC products after the acquisition, however most customers were transitioned to newer USB and Ethernet technology via the Personal Daq and DaqBook product lines.

In 2000 the Company introduced the DaqBoard/2000 family of PCI boards, which changed the landscape of PCI data acquisition. Prior to the 2000 Series, most multi-function DAQ boards did not offer synchronous multifunction performance, and were typically priced in the $1,000 and above range for high-performance boards. At the time there were dozens of PCI daq suppliers with relevant product offerings. The 2000 Series from the Company offered high-performance at a price point that set a standard by which other suppliers scrambled to match. One supplier, ADAC, was late to the market with competitive products, and was acquired by the Company in 2002. Several other suppliers' product offerings were relegated obsolete by the 2000 Series, which led to their exit from the PCI daq board race.

In 2001 the Company acquired Zonic Corporation which brought a wealth of vibration analysis capabilities to the Company. The first two years post-acquisition were focused on enhancing the software and transitioning the near-obsolete hardware to a new Ethernet-based platform. Today the new low-cost, high-performance Zonic platform is growing in sales substantially and has gained recognition as a serious new contender in the vibration community.

In 2001 and 2002 the Company enhanced its parallel port-based product families to new high-performance Ethernet-based platforms. The addition of Ethernet expanded the application reach of these products, from point-to-point portable applications, to distributed multi-point applications such as monitoring strain and vibration at multiple locations within a facility, or even across the globe via the internet.

In 2004 and the first half of 2005 the Company introduced additional families of PCI daq boards, as well as enhancements to many of its existing portable product offerings. During this same period the Company embarked on the development of new product "platforms" which will debut in the 2nd half of 2005.

3.2 Business Description

Overview of IOtech

IOtech, Inc. based in the Cleveland, Ohio suburb of Bedford Heights, designs, manufactures and sells a broad range of PC-based data acquisition and measurement instrumentation. The Company provides PC-based hardware and software that enable their customers to develop custom solutions for their data acquisition (DAQ) applications. The products are used in a wide range of environments, including in-vehicle, industrial, embedded/OEM, rack and stack, portable, and laboratory. The Company's signal conditioning is especially strong at measuring physical parameters such as temperature, vibration and strain.

The products are used in a wide variety of test applications, and serve a diverse set of industries including automotive, aerospace, chemical, power generation, communication, electronics and many others. Engineers, scientists and technicians are among the users of its products, in applications ranging from research and product development to production monitoring and quality control. A summary table of the Company's industries and applications can be found in the table below.

Industries and Applications Summary			
Industries			
Aerospace/Avionics	Automotive	Manufacturing	Military
Materials Development	Field Service	Power/Energy/Utilities	Transportation
Battery Industries	Industrial	University / Research Labs	TV Broadcast
Biomedical/Medical	Litigation	Petroleum Exploration	Paper Mill
Building Materials	Truck	Non-Destructive Testing	
Examples of Test & Measurement Applications			
Remote Turbine Monitoring	Hearing Implants	Engine Endurance	Extrusion Machine
Oil & Gas Well Drilling	Optical Fiber Testing	Space Simulator Chamber	Steam Turbine Rotor
Airbags/Transmissions/Brakes	Vehicle Crash	Bridge Monitoring	Injection-Molding
Military Vehicle Off Road	Gearbox Testing	Pharmaceutical Control	Atmospheric Research
Rocket Engine Testing	Power Quality	Lumber Research	Glass Production
Electric Window Testing	Wind Tunnel Testing	Electric Car Battery Testing	Aluminium Welding

3.3 Product Offering Overview

PC-based data acquisition products from the Company are designed to the following guidelines, resulting in solutions that are versatile and expandable, economical to own, and easy to use.

1. PC-leveraged architecture that gets better over time

The Company's products leverage as much of the PC's processing, display, communication, and data storage capability as possible. The Company recognizes that PCs will continue to evolve and improve at a much faster pace than data acquisition hardware, and thus they design their PC-based data acquisition solutions to leverage the built-in capabilities of the PC. As a result, when a user upgrades a PC over time, the IOtech-based data acquisition solution improves as well.

2. Signal conditioning and expansion capacity that's built-in from the start

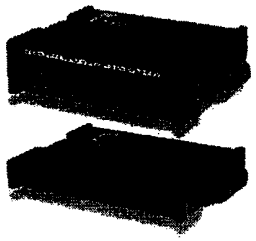
The Company's data acquisition equipment can accommodate new signal conditioning and expansion hardware for many years after the initial purchase. The Company incorporates expansion capability into all of its base products, reducing the cost of ownership by enabling the products to be used on new applications, long after the initial application for which it was purchased is complete.

3. Open software architecture to match the Customer's preference, not IOtech's

The Company's approach to software is to make it as easy to get started as possible. That's best accomplished by making the hardware compatible with the software environment with which the customer is already familiar, vs. limiting the customer to use a single software environment. In contrast, many suppliers require the customer to use the suppliers' software package, leaving the customer with few alternatives if the software doesn't fit all of its future needs.

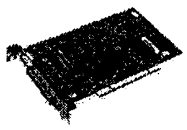
Below are descriptions of the Company's primary product segments.

Portable – The Company entered the portable daq market when notebook PCs first emerged in 1992, with the introduction of the DaqBook product – the industry's first notebook PC-based data acquisition device. The Portable product line is used by a variety of customers in field applications, most commonly for in-vehicle measurements in automobiles, tractors, trains, boats and aircraft. The Company's original product line, DaqBook, and its higher-speed cousin, WaveBook, have become industry standards for portable notebook-based PC data acquisition. The "Book" products originally used the PC's parallel port for communication, and have since been upgraded and enhanced with high-speed Ethernet interfaces. Products in the portable category include the DaqBook (multi-function daq), WaveBook (high-speed daq), LogBook (stand-alone daq), StrainBook (strain gage daq), and ZonicBook (vibration daq and analysis). Also in this segment are dozens of DBK-Series and WBK-Series signal conditioning options.



DaqBook/2020 & Daq Book/2001

PCI Boards – The Company entered the PCI Daq market in 2000 with the introduction of the DaqBoard/2000 line. Prior to the PCI line, the Company offered a family of ISA plug-in boards that were targeted solely at signal-conditioning applications. The current PCI products serve end-users and OEMs and include a wide selection of signal connectivity, expansion and signal conditioning options. Products in this category include the DaqBoard family of PCI boards and the DBK-Series of expansion options.



DaqBoard/2000 Series

USB Daq – The Company was the first supplier in the marketplace with multifunction USB data acquisition products in 1997 with the Personal Daq/50-Series of products. These products are used primarily in lab applications for measuring voltage, temperature and frequency.

Personal Daq 50 Series

Vibration – The Company entered the vibration measurement market via its portable WaveBook product along with DASYLab Software in 1997. In 2000 the Company purchased Zonic Corporation, a company that offered PC-based vibration measurement and analysis products. Since the acquisition the Company has substantially enhanced the software and hardware offerings of Zonic and continues to develop new products in this segment. Current offerings include the ZonicBook Ethernet-based hardware, and four software packages targeted at different vibration applications. eZ-Analyst software is for interactive vibration analysis, eZ-TOMAS is for on-line vibration monitoring of rotating machines, eZ-Balance is for rotating machine balancing, and eZ-NDT is for non-destructive testing of components.

ZonicBook/618E & EZ Analyst Software

IEEE 488 – This market segment is where the Company began business in 1985. The IEEE 488 bus is still the backbone for many multi-vendor instrument-based systems today; however newer technologies are accelerating its decline. The Company offers three categories of products in this segment – instrument control boards, Data Acquisition Instruments, and IEEE 488 support products. The Company also offers its IEEE 488 custom ASIC, which is NEC7210-compatible, for sale to OEMs who embed it into their IEEE 488-based designs.

Personal 488

Scan Products – The Company entered this market segment in 1992 with the TempScan, followed shortly by the MultiScan and ChartScan products. During the 90's these products offered a unique solution for high channel-count laboratory and systems temperature and voltage data logging. These were the first 'virtual instruments' that included *out-of-the-box* software for instant data logging without having to program.

TempScan/1100 & MultiScan /1200

Other Products – This segment includes software, software upgrades, cables, calibration services, and repair services.

The Company occasionally works with a network of systems integrators who customize their products with hardware and software to address unique applications. All of the Company's data acquisition products are supplied with *Out-of-the-Box*™ software, for instant setup, signal verification,

and data collection. The Company continues to offer the most capable "out of the box" software at no extra cost to the customer. These packages are tailored to the capabilities of the particular product line, and thus are named "DaqView", "WaveView", "LogView" and "ChartView". The Company also supplies a wide selection of drivers for most popular languages and applications, including Microsoft's Visual Studio, Visual Studio.NET, Visual Basic, Visual C++, LabVIEW, MATLAB, DASYLab, and Linux.

Due to competitive reasons, the Company has combined several of the product lines for reporting. A more detailed report will be available in the due diligence process. The following table displays sales by product line for the fiscal year 2004:

Sales by Product Line 2004 (in $000)		
Product Line	**2004 Sales**	**% of Sales**
Portable, Vibration, PCI & USB	$ 8,839	70.4%
IEEE 488 and Scan	1,382	11.0%
Other	2,338	18.6%
Total	$ 12,559	100.0%

3.4 Research and Development

Core Competencies and Technologies

Multi-Function Acquisition Engines – The Company's acquisition engines are FPGA-based, synchronous designs that are the heart of all data acquisition products. The latest "daq3000" engine has the ability to synchronously measure 1MHz/16 bit analog voltages, read digital inputs and counter inputs, while simultaneously driving multiple channels of 1MHz/16 bit DACs and 16 bit pattern outputs. The daq3000 engine also has the capability of ultra low-latency control outputs, where any output can very quickly respond to an analog or digital or counter input. The Acquisition Engines are under constant enhancement so as to set the standard by which other suppliers must meet. This technology has led to the obsolescence and irrelevancy of several suppliers in the PCI data acquisition board market.

High speed Interface to the PC – A key element to leveraging the PC as much as possible, and thereby keeping hardware and product cost low, is to stream acquired data to the PC continuously in real time. This offers several benefits, including reducing the amount of memory required in the device, which keeps cost low. It also leads to long product life, since locating all of the intelligence to the PC means that as PCs increase in performance, the product's overall performance increases. The contrary is true with some competitive products, where too much of the intelligence is buried in the product's hardware, leading to high costs and premature obsolescence.

The Company has developed designs and techniques to optimize the streaming interface performance of their products, while insuring no data loss and minimizing cost. The first implementations of these techniques were via the Parallel Port, which enabled the Company's portable DaqBook and WaveBook products to have a unique place in the market for many years. Today this competency is employed on the Company's new Ethernet and USB products, which can stream acquired data and output waveforms and patterns from the PC simultaneously, at very high speeds.

Software Drivers – The Company adopted the strategy of offering strong support for a wide variety of software environments since the beginning days of PC-based data acquisition. The advantage of this approach is it enables the Company to sell its hardware to customers who already have a software environment-of-preference. Unlike many other daq suppliers, the software support for the Company's products is developed and supported internally. The most popular drivers today include support for Microsoft's Visual Studio, Visual Studio.NET, Visual Basic, Visual C++, LabVIEW, MATLAB, DASYLab, and Linux.

Signal Conditioning – The Company's products measure a wide range of signal types from a variety of sensors, enabling direct sensor connection to the Company's data acquisition products. The value of supporting all popular sensor types is to offer its customers 'one-stop' shopping, which also leads to a significant 'barrier to entry' against smaller or less-capable suppliers. Below is a description of a few of the most common signal types that the Company supports.

Company Supported Signal Types
• Thermocouples including: - High channel-count applications - Very low cost-per-channel applications - High accuracy applications - Under-hood in vehicle applications • RTD's (Resistance Temperature Devices) • Accelerometers, including support for T.E.D.S. (Transducer Electronic Data Sheet) • Strain Gages - Low-cost applications - Higher performance, 100% programmable applications • Frequency measurements, including rotational position encoders

***Out-of-the-box* Software** – The Company pioneered the concept of providing turnkey application software with its "virtual instrument" hardware back in the early 90's. The term *"out-of-the-box* software" was coined by the Company back then and remains a corporate identity symbol. The strategy was to make it easy for non-programmers to use PC-based data acquisition products without having to program. At the time, and even today, most other suppliers encourage or require a user to spend thousands of dollars on program development environments. While most other suppliers now offer some version of *out-of-the-box* software, today the Company still provides more capable software of this nature than other suppliers, which will be strengthened with the release of a new version of DaqView software in the third quarter of 2005 in conjunction with the new Daq3000-based products.

Packaging – The Company's instrument and modular "box" products are housed in custom-designed packaging, incorporating several technologies including bent-metal enclosures, metal extrusions, plastic extrusions, and custom-molded plastic enclosures. The advantage of this approach compared to purchasing off-the-shelf enclosures is it keeps cost down and gives the products a custom-designed look-and-feel. This is particularly true with the portable product lines (DaqBook, WaveBook, ZonicBook, LogBook, StrainBook), where the Company's "look" is widely recognized in the transportation testing community.

Product Innovation - The Company has a long history of developing innovative products that set the standard for other suppliers to match. Below is a partial list of "firsts" by the Company.

List of Product "Firsts"
• First IEEE 488 interface for the Macintosh
• First SCSI-based IEEE 488 interface for popular workstations
• First black-box PC-based *virtual instrument*
• First out-of-the-box software for PC-based data acquisition
• First notebook PC-based portable data acquisition
• First low-cost signal conditioning for PC-based portable data acquisition
• First USB-based data acquisition device
• First low-cost synchronous multifunction PCI data acquisition boards
• First high-speed multifunction Ethernet-based data acquisition-in-a-box

Product Development

The PC-based data acquisition industry requires high levels of R&D investment, which generally translates into strong new product pipelines and differentiated products. As such, the Company employs 21 hardware and software development engineers, whose primary focus is to innovate and develop new products. The Company has won numerous industry design awards and has historically spent 14-17% of its sales on new product development, even during industry downturns like 2001. The Company also publishes a significant number of articles in the trade magazines, and due to its product innovation, has been the cover story on approximately 30 occasions accompanied by the product being featured on the magazine cover.

The Company uses a platform approach to product development, where a platform becomes the core of several different products that address different market segments. Each year the engineering efforts are a blend of new platform development, and enhancements or extensions to existing platforms. For example, in 2000 the Company developed the "daq2000" platform, which became the basis for the PCI DaqBoard/2000 series of PCI and Compact PCI boards. Shortly afterwards the same platform became the basis of the Company's portable DaqBook/2000 series of Ethernet-based products. Today the same platform is also the basis for the Company's DaqScan/2000 series rack-system products, and DaqLab/2000 series lab-based products. This strategy enables the Company to compete in several segments of the PC-based data acquisition market, with relatively low development expenses. Software support is also leveraged across multiple extensions of a platform, and is nearly identical regardless of whether the product is based on USB, PCI or Ethernet – three of today's leading PC connection methods.

Software is a product feature by which the Company has maintained its high gross margins and strong differentiation in the marketplace. The Company offers drivers for the most current Microsoft programming paradigms, including new "dot-NET" support. Substantial effort has also gone into enhancing the Company's LabView support, which has been critiqued by power LabView users as being excellent. The Company pioneered the concept of "*out-of-the-box*" software, that is, software that enables users to be using their products within a short time after installation.

As a direct result of the Zonic acquisition, the Company offers well-recognized software for vibration monitoring and analysis, which is used by vibration experts in their consulting and training classes. Substantial effort is continuously expended to enhance the software with new features and functionality.

Intellectual Property

The Company has no known Intellectual Property infringement issues. Trademarks are as follows:

Intellectual Property	
Registered Trademarks	
• IOtech	• Zonic
• Daqbook	• ADAC
Key Trademarks by Use (many not listed)	
• WaveBook	• DaqView
• DaqBoard	• LogBook
• PointScan	• EZ-Analyst
• ZonicBook	• MultiScan
• DaqCom	

3.5 Customers, Marketing and Sales

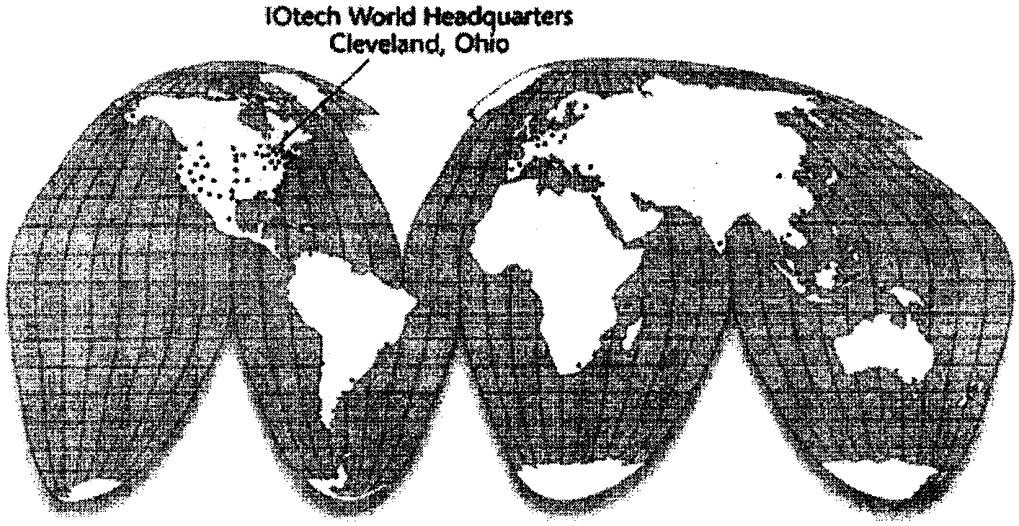
Sales Organization

Within the first year of operation the Company established a world-wide network of reps and distributors. A similar network is still in place today, although many of the sales partners have been replaced as the product lines evolved and the requirements of the sales channels have changed. The first territory where the company currently sells direct is in the UK, which has experienced 50% growth since opening in 2003. In North America the Company employs senior Regional Managers, all of whom reside in their territories and have many years of sales and applications experience. The Regional Managers are responsible for all sales in their territory, as well as rep management, training, customer seminars, etc.

The Company uses exclusive independent reps in each of its four territories in the U.S. Its four regional sales managers support the reps, spending more than half of their time in the field with customers. The regional sales managers are located in California, Michigan, Ohio and Maryland. The reps receive 11% commission on sales of most products in their territories. Exclusions include certain house accounts, and certain products such as low-cost plug-in boards which are handled direct from the factory or via the internet. Thirteen inside sales people handle lead qualification, pre-sales support, post-sales support, OEM sales, and lead follow-up in conjunction with the reps. All opportunities are managed using Goldmine CRM software. The Company's products are also supplied via several private-label distributors, such as Omega.

Independent distributors are used outside of the U.S., with one distributor in each country, except in Germany and South Korea where there are two distributors, and in the UK where the Company opened a direct sales office in 2003. Distributors generally purchase products at 30% below U.S.

list, and take title to the products. The largest international markets include Japan, Korea, Canada, UK, Germany and France. The Company currently has over 40 distributors throughout the world. The map below displays the Company's worldwide network of sales, support and distributor locations.



Sales Process

The engine that drives the sales activity is a lead generation and process system which has been refined over many years. The Company is recognized as having an inside sales and lead generation system that rivals companies many times their size. The Company's 1,000+ leads each month generally arrive via the internet as a result of several activities, including search engine advertising, magazine advertising, search engine listings, emailings to the qualified house list, and general mailings to rented and house lists.

The lead follow-up process starts with all leads, both domestic and international, entered into a Customer Relationship Management (CRM) system. International leads are automatically forwarded to the appropriate distributor for follow-up at the regional level, which are also monitored by the Company for follow-up. Domestic leads are mailed product literature and a catalog from the Company and are contacted via phone by the Company's inside telesales staff. Once a lead is qualified by the inside sales staff it is entered into the CRM system and automatically forwarded to the appropriate field sales rep and Regional Manager. The field sales people are required to follow-up on the lead in a timely manner, often resulting in a demo, and are required to report back to the factory. The system ensures that all leads are followed up in a timely and effective manner. The Company enforces a zero-tolerance policy regarding timely lead follow-up by its representatives. The CRM system is the back-bone of the system, and is used by the insides sales staff as well as the Regional Managers in the field.

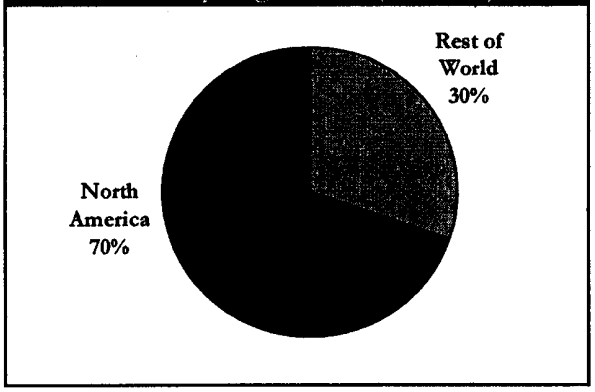
Customers

The Company sells to a broad base of end users and OEMs across many industries and geographic regions. The Company has longstanding relationships and has products designed into other OEM products, creating a substantial recurring revenue stream. For fiscal year 2004, the largest customer

represented less than 5% of the Company's sales and the top five customers for this time period represented less than 13% of sales. For fiscal year 2004, over 30% of the Company's sales were derived from outside of the U.S. The tables below display top customers ranked by % of sales and orders (not sales) by region for the fiscal year ending 2004.

Top Five Customers	
	2004
Customer	%
Customer A	5%
Customer B	5%
Customer C	1%
Customer D	1%
Customer E	1%
Total Top 5	**13%**
All other	87%
Total	100%

Orders by Region 2004 (not sales)



The Company's sales are also diversified by industry. The table below displays domestic orders (not sales) for the fiscal year 2004 by industry classification. It should be noted that this table excludes international orders as well as orders from OEM's and private label customers, as the nature of these accounts makes it difficult to determine the industry of the end user.

2004 Domestic Rep Orders by Classification	
	% of Sales
Classification	**2004**
Automotive Industry	10%
Military	8%
Contract Manufacturers	5%
Aerospace	4%
Medical	4%
University	4%
Other	65 ~~66%~~
Total	100%

Marketing

The Company has always kept a high profile in the marketplace as a result of extensive, full-color, full-page advertising in the U.S. trade magazines, as well as co-op advertising with distributors internationally. Additionally, the Company publishes a full color, 300+ page catalog that is distributed throughout the world. To promote the Company's signal conditioning expertise, the third edition of their Signal Conditioning Handbook was recently published. The handbook is sold to users as a reference and to universities as a teaching tool, and is used as a hand-out when the Company presents its Signal Conditioning Seminar at customer sites and meeting rooms throughout North America. A 2003 market study conducted by Reed Research Group shows that almost one

half of respondents were aware of the Company's brand name, well ahead of some major competitors. Please see attachment E for an excerpt from this study.

Every month the Company publishes 2-4 application notes in collaboration with actual user experiences with their products. All of the Company's collateral and lead generation activities, including advertising, magazine cover design, catalog design, application note development, web design, trade show management and web hosting, is performed in-house via the Company's marketing communications department. The only aspect of marketing that is outsourced is literature printing and mass mailings.

The Company's web site and web presence began in 1995 when the web started to gain acceptance in the engineering community. Today the Company's website is highly regarded by users as being easy to navigate and has high rankings from the popular search engines. The Company also publishes a significant number of articles in the trade magazines, and due to its product innovation, has been the cover story on approximately 30 occasions accompanied by the product being featured on the magazine cover.

3.6 Competition

The Company competes with a number of public companies, private companies and divisions of larger companies. The Company's competition varies according to region, industry and product offering.

PCI Competition - In 2000 the Company introduced the DaqBoard/2000 family of PCI boards, which set a new standard for PCI data acquisition by incorporating new features that were previously unavailable in the low-cost PCI board market. Two of the larger domestic suppliers at the time and early leaders in the marketplace, Data Translation and Keithley/Metrabyte, failed to respond to the 2000 Series and are now 2 technology cycles behind and very unlikely to ever catch up. Another supplier, ADAC, was late to the market with competitive products and was acquired by the Company in 2002. ADAC provided the Company with an installed base of OEM customers as well as a new, low-cost PCI board design which is currently employed in many OEM designs.

Today only one domestic supplier, National Instruments and their recent acquisition of Measurement Computing, offers competitive, relevant products in the PCI market space. It is unlikely that Measurement Computing will introduce new PCI Daq boards since National Instruments has superior technology. In the third quarter of 2005, the Company will introduce the new DaqBoard/3000 Series, which will set a new standard for price and performance in this market. Considering the high level of integration and feature sets incorporated into products in this market segment, it is unlikely that new competitors will emerge due to the high cost of product development. Several foreign suppliers also provide PCI boards in this market segment, and likely have a substantial market share overseas. However, they are not highly visible in the North American market, and are not perceived as having leading-edge technology as compared to IOtech and National Instruments.

USB Competition - The Company was the first supplier in the marketplace with USB data acquisition products in 1997 with the Personal Daq product family. The product line has grown every year since its introduction despite the emergence of several suppliers including National

Instruments/Measurement Computing and Data Translation. The Company will introduce a new family of products in this segment in Q3 05 which will set the new price/performance standard in the industry, followed by another new product family in this segment later in 2005. As is the case with PCI products, increasing barriers to entry in this product area will limit the number of relevant competitors to National Instruments and possibly one or two other companies. Several very small companies offer ultra-low cost and low-performance products in this segment, and are not perceived to be long-term threats.

Portable Competition - In the portable market place customers tend to purchase all of their equipment from one supplier, since everything needs to mechanically fit together for transportability and compactness. Consequently, to compete in this market a supplier has to be able to support a wide variety of measurements, including voltage, current, temperature, vibration, strain, frequency, position, vehicle network, and more. Because of the breadth of products required, there are only a few direct competitors in this market segment, and the barriers to entry are large. There is no dominant supplier in the portable market with most portable suppliers having <$10 million in sales. There are several foreign suppliers who mostly compete in their home market, and occasionally sell in the U.S. market, primarily in Michigan.

Vibration Competition - There are several domestic and European-based suppliers of vibration analysis equipment. The vibration test market is fragmented into several sub-categories that address different applications and different industries. The Company leverages its hardware and software capabilities from the general purpose DAQ market, and consequently offers the best price-performance solution in several of the vibration markets in which is competes. There is no single competitor against whom the Company competes regularly. Some of the occasional competitors include Dactron (division of LDS – a UK company), Prosig (UK company), Oros (French company), Bentley-Nevada (division of GE), Data Physics (California). The Company will introduce a new generation of Vibration products in 2006 which will set new standards in the industry for price and performance.

IEEE 488 Competition - This market segment is dominated by National Instruments, and is not important to the Company's long-term plans. The Company's product development in this segment has been nearly zero since the mid 90's. The general market for IEEE 488 is declining as newer technologies such as PXI and LXI replace IEEE 488.

Scan Products Competition - The market segment for this product family addresses large channel-count temperature and voltage logging. Today there are several strong competitors in this market, including Agilent and Keithley with their scanning digital multimeters, as well as National Instruments with their PXI-based systems. This market segment is not important to the Company's long-term plans.

3.7 Facilities, Operations and Fulfillment

The Company is located in a 28,636 square foot stand-alone building in Bedford Heights (an Eastern suburb of Cleveland, Ohio). The facility consists of 19,278 square feet of office space and 9,358 square feet of manufacturing and warehouse space. This leased facility includes engineering, manufacturing, sales, technical support, marketing and administrative space. Current monthly rent for the facility is $15,440. The term of this operating lease extends through September 30, 2005 and

can be extended at the same rate. The Company has a one-year lease for its new subsidiary in the UK. The estimated monthly cost is 800 pounds, or approximately $1,500.

All of the Company's products are manufactured in the Ohio area. The Company purchases all raw materials directly from distributors or manufacturers, which insures close contact with critical suppliers such as the semiconductor manufacturers, and avoids costly mark-ups by contract manufacturers. The top 20 vendors/suppliers comprised at least 90% of all the Company's purchases for inventory and outside assembly. The Company out-sources the board manufacturing to local contract assemblers which promotes a structure that makes it easy for the Company to change contract assemblers, if necessary to reduce costs or expand capacity. Other aspects of production, including purchasing, final assembly, calibration, and repair, are performed internally. The direct labor content of the Company is relatively a small portion of the selling price (<7%), and thus it is cost-effective to manufacture locally through outside contract assembly suppliers.

All of the Company's products are shipped from its main facility. The Company maintains on-time shipping in the 95-99% range each month, and has been achieving gross-margin improvement targets of 1% each year for the past several years. On-time shipping of customer orders is 98% for the first half of 2005. The Company has been ISO-9000 certified since 1996, and has on-going quality improvement initiatives that have substantially improved quality over the past several years.

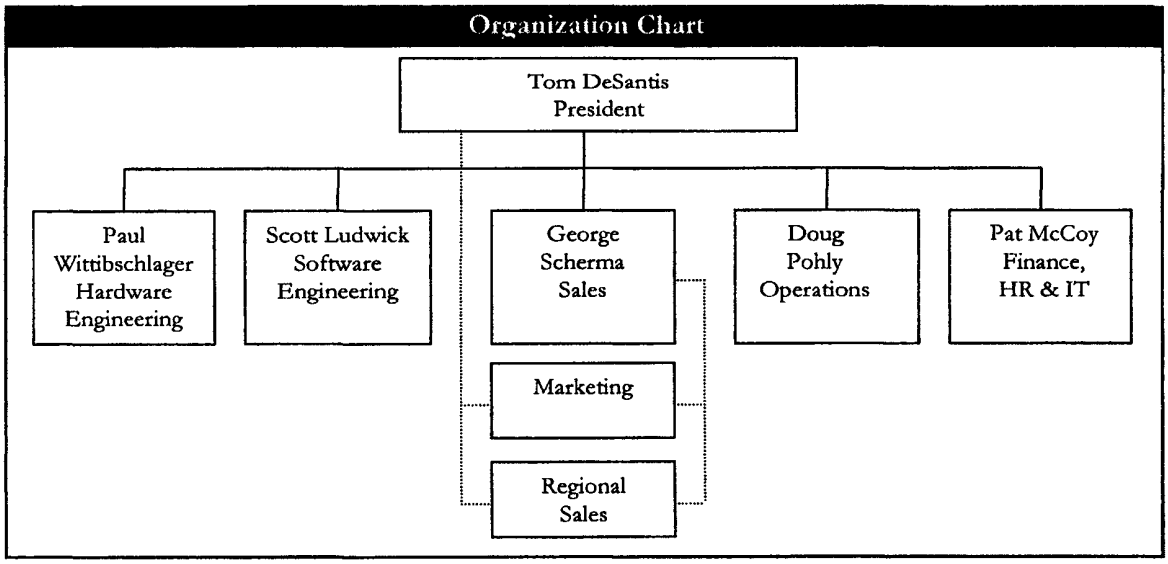
3.8 Management, Employees and Corporate Structure

The Company is an S corporation, incorporated in the state of Delaware. The Company is wholly owned by Tom DeSantis, President and founder since inception. The management team has outstanding options equaling less than 5% of the Company. There are no options with non-employees. The Company employs 75 people, including more than 30 employees with engineering or technology degrees. The business has no union personnel and has never been threatened with a collective bargaining or unionization effort. All employees are located in the Cleveland facility, except the following field sales representatives: one in the UK, one in California, one in Ohio, one in Michigan and one in Virginia. The following table displays a summary of personnel by department.

Employees by Department

Department	# Employees	% of Total
Manufacturing	21	28%
Engineering	21	28%
Sales, Marketing and Applications	24	32%
Accouting and Administration	9	12%
	75	100%

The following chart displays the organization chart for the Company.



The Company has a dedicated and experienced senior management team with extensive industry and Company experience. The following table lists the Company's key personnel.

Management Team Summary

Name	Title	Age	Company Experience
Tom DeSantis	President and Founder	50	20
Pat McCoy	Chief Financial Officer	47	8
Scott Ludwick	Director of Software Engineering	42	11
Paul Wittibschlager	Director of Hardware Engineering	40	8
Doug Pohly	Director of Operations	45	1
George Scherma	Sales Manager	48	12

Tom DeSantis, President and Founder - Tom DeSantis is President and CEO of IOtech. Tom founded the Company in 1983 while employed as an engineering manager for the data acquisition division of Keithley Instruments. With Keithley's permission, he worked off-hours on the Company while continuing his day-time responsibilities at Keithley. In 1987 he became a consultant to Keithley in order to devote full-time to the Company. Tom holds a bachelors degree in electrical engineering from Ohio Northern University.

Pat McCoy, Chief Financial Officer - Pat McCoy manages the Company's finance, human resources and internal technology functions. Before joining the Company, Pat worked for many years with Ernst & Young and has also served as CFO for other technology and manufacturing companies in Cleveland. In addition to his responsibilities identified above, Pat is skilled at

acquisitions and managed all three of the Company's acquisitions. Pat holds a bachelors degree in accounting from John Carroll University, and is a licensed CPA.

Scott Ludwick, Director of Software Engineering - Scott Ludwick and his team are responsible for all software planning, software development, and testing. Scott has a separate team responsible for post-sales technical support. Scott has eleven years experience with the Company. Prior to joining the Company, Scott worked as a programmer and software engineer for other Cleveland area companies. Scott holds a bachelor's degree in computer science from Akron University.

Paul Wittibschlager, Director of Hardware Engineering - Paul Wittibschlager is responsible for all hardware design. Paul's team includes hardware design engineers, mechanical design engineers, firmware designers, documentation control, and PC-layout. Paul joined the Company in 1997, and holds a bachelor's degree in electrical engineering from Akron University.

Doug Pohly, Director of Operations - Doug Pohly oversees the Company's manufacturing organization, including purchasing, production, and operations. Doug directs the Company's team efforts on continuously improving on-time delivery rates, gross margins, and inventory levels. Doug joined the Company in 2004 after serving as Director of Operations for an electronic manufacturer of printed circuit board assemblies. Under Doug's leadership, the Company has experienced record on-time delivery rates and improving gross margins. Doug also oversees the Company's product quality function and maintains the Company's ISO certification. Doug holds both a master's degree and bachelor's degree in business administration from Cleveland State University.

George Scherma, Sales Manager - George Scherma oversees the Company's sales organization and CRM system. George joined the Company in 1993 and earlier positions held with the Company include US Regional Sales manager and International Sales Manager. Prior to joining the Company, George worked for several years in sales for Gould Instruments. George holds a bachelor's degree in electrical engineering from Akron University.

The Company offers a competitive employee benefits package, including:

Employee Benefits	
• Vacation & Holidays	• Vision Discount Card
• Sick Pay	• SmartFlex Section 125 Plan
• Health Insurance	• Long term disability
• Dental Insurance Option	• Short term disability
• 401 (k) Savings Plan	• Life Insurance

3.9 Environment, Legal and Other

The Company has no pending or threatened litigation. The Company has no known environmental issues. There are no contingent liabilities and there is no business circumstance known to the management of the Company likely to give rise to any contingent liabilities in the future.

The Company's standard warranty policy is one year. The Company has one full-time repairperson and this employee handles primarily all repairs of the Company's products. The actual cost of in-

warranty repairs (material used and labor) is less than $50,000 per year. The Company has a $50,000 warranty reserve on its books to cover the one-year warranty expense.

4.1 Introduction

The historical financial information for fiscal years 2002 through 2004 presented throughout the Memorandum is based on financial reports reviewed by KPMG. The projections presented in this Memorandum have been prepared and or reviewed by the Company's management team and represent its assessment of the Company's expected financial performance. Projections, by their very nature, reflect estimates and assumptions that are subject to significant economic and competitive factors beyond the Company's control. While the Company believes that the projections are based on reasonable assumptions and are attainable, there can be no assurance that the projected results will be realized. Moreover, none of the Company, or their respective advisors assumes responsibility for the accuracy or completeness of these statements. Please refer to Attachment A for the Company's reviewed income statement balance sheet and cash flows and Attachment B for the Company's historical adjusted income statement.

4.2 Historical Financial Performance Overview

The following table highlights the reported financial performance of the Company for the periods 2002 – 2004. It should be noted that fiscal year 2003 excludes the impact of a $121,000 one time write down of bad debt from the Company's UK distributor which went bankrupt in 2003. As such, SGA expenses for fiscal year 2003 were reduced by $121,000 compared to actual reported expenses.

Historical Performance Summary						
Income Statement	**2002**		**2003***		**2004**	
	$	%	$	%	$	%
Net sales	$ 10,799	100.0%	$ 11,603	100.0%	$ 12,559	100.0%
Cost of goods sold	4,418	40.9%	4,351	37.5%	4,590	36.5%
Gross profit	6,381	59.1%	7,253	62.5%	7,969	63.5%
SGA expenses	4,509	41.8%	4,286	36.9%	4,476	35.6%
Product development	1,685	15.6%	1,751	15.1%	1,762	14.0%
Other Income	25	0.2%	6	0.1%	14	0.1%
EBIT	**212**	**1.7%**	**1,222**	**10.5%**	**1,744**	**13.8%**
Depr. & Amort.	117	1.1%	79	0.7%	94	0.8%
EBITDA	**$ 329**	**3.0%**	**$ 1,302**	**11.2%**	**$ 1,839**	**14.6%**
Capital Expenditures	$ 54		$ 31		$ 78	
Key Growth Rates						
Sales		-9.4%		7.4%		8.2%
Gross Profit		-5.1%		13.7%		9.9%
EBIT		-151.4%		477.1%		42.7%
EBITDA		-223.4%		295.3%		41.3%

* FY '03 excludes the impact of a $121k one time write down of bad debt from a bankrupt UK distributor.

The Company's singular focus on offering PC-attached hardware along with software with a synergistic product development process is why the Company continues to maintain high gross margins 20+ years into its life despite consolidation in the industry and the emergence of low-cost

suppliers from around the globe. The Company has experienced modest sales growth since the market decline in 2001, which was a result of the decline in the general technology market. Over the past three years, the Company's net sales have increased from $10.8 million in 2002 to $12.6 million for 2004, a 17% increase. Over this same time period, the Company's EBITDA has increased substantially from $0.3 million to $1.8 million. The Company's sales growth has been driven by new products that had been under development during the market decline. However, much of the growth in newer product lines over this time period has been offset by a decline in more mature product lines. The Company's increase in profitability has been a result of the introduction of higher-margin products, improved procurement processes, higher yields from sub-contract manufacturers, and absorption of fixed overhead costs spread over increasing sales volumes.

4.3 Projected Financial Performance Overview

Over its 20 year history, the Company has demonstrated it ability to generate stable and growing profit margins and sales by its disciplined business practices and by its ability to constantly innovate. The Company has many new product and new market opportunities that will drive the forecast provided in this Memorandum. The following table displays management's projections for the period 2005 – 2008.

Projected Performance Summary								
Income Statement	**2005**		**2006**		**2007**		**2008**	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Net sales	$ 13,086	100.0%	$ 15,878	100.0%	$ 19,604	100.0%	$ 23,581	100.0%
Cost of goods sold	4,674	35.7%	5,557	35.0%	6,724	34.3%	7,970	33.8%
Gross profit	8,412	64.3%	10,321	65.0%	12,880	65.7%	15,611	66.2%
SGA expenses	4,594	35.1%	5,466	34.4%	6,534	33.3%	7,679	32.6%
Product development	1,835	14.0%	2,382	15.0%	2,941	15.0%	3,537	15.0%
EBIT	1,876	14.3%	2,472	15.6%	3,405	17.4%	4,394	18.6%
Depr. & Amort.	66	0.5%	66	0.4%	66	0.3%	66	0.3%
EBITDA	$ 1,942	14.8%	$ 2,538	16.0%	$ 3,471	17.7%	$ 4,460	18.9%
Capital Expenditures	$ 49		$ 49		$ 61		$ 66	
Key Growth Rates								
Sales		4.2%		21.3%		23.5%		20.3%
Gross Profit		5.6%		22.7%		24.8%		21.2%
EBIT		7.6%		31.8%		37.7%		29.1%
EBITDA		5.6%		30.7%		36.7%		28.5%

Growth Drivers

Several aspects of the Company are poised for significant growth without substantial changes to the business model. These include:

Product Pipeline – As a direct result of the Company's highly-leveraged and efficient product development process, a stream of new products are in the pipeline which will fuel significant growth in the years to come. The first of the next "wave" of products is slated for third quarter 2005

introduction. A product launch schedule for the remainder of 2005 and 2006 along with estimated launch dates by fiscal quarter can be found in the table below.

Product Launch Schedule 2005 - 2006
Q3/Q4 2005
• 1MHz/16 bit PCI board
• 1MHz/16 bit USB modules and board
• Low-cost high-resolution USB product
• Additional 1MHz/16 bit PCI board
Q1/Q2 2006
• High-resolution portable vibration product
• Additional high-resolution vibration product launch
Q3/Q4 2006
• New portable family product

New OEM Relationships - Several newly established OEM customer relationships will fuel future sales growth as these OEMs grow their business using the Company's products.

New Business Area - The Company has made strides in the vibration market which has significant barriers-to-entry and enjoys very high-margins. Substantial growth from this business area is expected, where the market potential is world-wide.

Domestic Sales Effectiveness - During the past 18 months the Company has made substantial improvements to its sales team – both with the addition of senior Regional Managers who reside in their territories, and improvements to the Rep network. New Rep sales are up 50% in 2005 over 2004, and the Company expects continued growth domestically as the new Reps and Regional Managers develop their territories.

Asian Sales Partners - A new distributor in China was established in 2003 and has already demonstrated that there is significant growth opportunity for the Company's products. New initiatives in other Asian territories that have received minimal attention in the past also offer significant growth opportunities. Although still a small part of the Company's overall sales, orders for China were up 500% in 2004 compared to 2003.

Forecast by Product Line

A forecast for the Company by product line can be found in the table below along with a description of key growth drivers for each product line. It should be noted that due to competitive reasons, the Company has decided to combine several of the product lines. A more detailed forecast by product line will be available through the due diligence process.

Sales by Product Line 2005 - 2008								
Product Line	**2005**		**2006**		**2007**		**2008**	
	$	%	$	%	$	%	$	%
Portable, Vibration, PCI & USB	9,742	74%	12,403	78%	15,900	81%	19,300	82%
IEEE 488 and Scan	1,058	8%	850	5%	550	3%	400	2%
Other	2,286	17%	2,625	17%	3,154	16%	3,881	16%
Total	13,086	100%	15,878	100%	19,604	100%	23,581	100%
Growth Rates								
Portable, Vibration, PCI & USB		10%		27%		28%		21%
IEEE 488 and Scan		-23%		-20%		-35%		-27%
Other		-2%		15%		20%		23%
Total		4%		21%		23%		20%

Portable - The overall portable product family sales have grown and are projected to grow, particularly as the competition in the automotive market continues to be intense, and suppliers have the need for increased testing to insure quality and reduce costs. One of the largest suppliers of portable instrumentation to the automotive industry now private labels a portion of IOtech's portable product family. Presuming this customer meets its expectations over the coming years, they would become the largest single customer for this product family. Because of the unique use-case for these products by the OEM, their success will not impact the Company's other end-user sales of the same products. In addition to growth from existing products, including new Ethernet-based offerings in this segment, the Company has plans to introduce a new platform in 2006 that will continue the growth of the Portable Product line.

Vibration - Since the acquisition of Zonic in 2001, the Company has focused on maintaining customer loyalty and enhancing and improving the software. These efforts have paid off, as the new low-cost, high-performance Zonic platform is growing sales by >50% and has gained recognition as a serious contender in the vibration community. In the second quarter of 2004, the Company introduced a new hardware platform, the Ethernet-based ZonicBook/618 and has since experienced significant growth and momentum in the marketplace. Although the Company's Zonic vibration product line has experienced strong growth, the Company is still a small player in a larger vibration and maintenance industry. The Company believes that its addressable market is $50 million+ in size, leaving it with substantial room for expansion. Another new hardware platform is planned for early 2006 introduction along with software enhancements which is expected to result in much more penetration in the vibration market. The Company's product offering is particularly well suited for a specific vertical segment of the vibration market, which is contributing to the current growth in the Company's vibration business. The Company also expects significant international expansion of the vibration product line in the next several years.

PCI Boards - The Company is forecasting substantial growth in the Plug-in PCI multifunction Daq board market due to 1) two new products families introduced in 2005 which will fuel growth in 2006 and beyond 2) additional other new higher-performance products introduced in the 4th quarter of 2005 and the first quarter of 2006 and 3) less competitors as the result of consolidation and technology obsolescence of several past competitors.

In the third quarter of 2005, the Company will introduce the first products resulting from the new "daq3000"platform, based on a 1M Hz/16 bit A/D and multiple 1M Hz/16 bit D/As, plus high-performance digital I/O and enhanced counter features starting at $500. The first products based on this platform will be the PCI DaqBoard/3000 series, USB PersonalDaq/3000 Series, and specifically for OEMs - the DaqBoard/3000USB series. The Company believes that the new /3000 Series will set a new standard for price and performance in this market.

USB Daq - The USB product line for the Company has grown every year since its introduction, despite the emergence of several suppliers, including National Instruments/Measurement Computing and Data Translation. The market for USB products will continue to grow substantially as PCs become more closed-box and their PCI expansion lots become less prevalent. The Company is forecasting significant growth in this product line resulting from the introduction of the 3000 Series of PersonalDaq products which is slated for introduction in the second half of 2005 and will set a new price/performance standard in this market segment. Also introduced in the second half of 2005 will be a board-level, OEM offering of USB products targeted at embedded/OEM USB applications. Later in 2005 an additional family of USB products will be introduced to address another segment of the market.

Scan Products - This product segment peaked for the Company in year 2000, and continues to decline as alternate solutions have come onto the market, including new solutions provided by the Company. Since the architecture of this product family is mature, no further development in this product line will occur. The Company will continue to offer the current Scan products to recurring customers, and new customers requiring similar solutions will be directed to the Company's new Ethernet-based DaqScan/2000 or DaqLab/2000 family of solutions.

IEEE 488 Products - The IEEE 488 market has been declining for the Company since year 2000 and the Company has no plans to develop new products in this segment due to the overall market decline.

Other Products - This segment will continue to grow at a pace commensurate with the Company's growth rate as a whole.

Attachment A:

Historical Reviewed Financials 2002 – 2004

Iotech, Inc.
Balance Sheet (in $000)

	Year End 2002	Year End 2003	Year End 2004
Current assets			
Cash and cash equivalents	$ 6	$ 60	$ 38
Accounts receivable	1,503	1,532	1,542
Inventories (includes refurbished)	3,021	2,974	3,219
Prepaid expenses and other	161	59	104
Total current assets	4,691	4,625	4,903
Property and equipment			
Furniture and equipment	978	1,009	1,087
Less accumulated depreciation and amort	(802)	(881)	(976)
Net, PPE	176	128	111
Other assets			
Deposits and Demonstration Inventory	215	253	267
Total assets	5,082	5,006	5,282
Current liabilities			
Debt in current liabilites	1,800	1,350	470
Trade accounts payable	386	210	249
Accrued expenses	614	838	857
Total current liabilites	2,800	2,398	1,575
Long-term debt, excluding current installments	132	-	-
Total liabilities	2,931	2,398	1,575
Stockholder equity			
Common stock	80	80	80
Retained earnings	2,070	2,528	3,627
Total stockholder's equity	2,150	2,608	3,707
Total liabilities and stockholder's equity	$ 5,082	$ 5,006	$ 5,282

Iotech, Inc.
Income Statement (in $000)

	Year End 2002	Year End 2003	Year End 2004
Net Sales	$ 10,799	$ 11,603	$ 12,559
Cost of goods sold	4,418	4,351	4,590
Gross profit	6,381	7,253	7,969
Selling, general and administrative expenses	4,509	4,407	4,476
Product development expenses	1,685	1,751	1,762
Operating income	186	1,095	1,730
Other income (expense):			
Interest, net	(113)	(76)	(44)
City income tax	(2)	(20)	(34)
Other	25	6	14
Net Income	$ 97	$ 1,005	$ 1,667

Iotech, Inc.
Cash Flow (in $000)

	Year End 2002	Year End 2003	Year End 2004
Cash flows from operating activities:	$ 97	$ 1,005	$ 1,667
Net income			
Adjustments			
Depreciation and amortization	117	79	94
Gain on sale of assets	-	-	-
Changes in assets and liablities:			
Trade accounts receivable	405	(29)	(11)
Inventories	235	127	(222)
Prepaid expenses	(13)	-	-
Prepaid expenses and deposits	2	99	(45)
Demonstration and refurbished inventory	39	(106)	(37)
Trade accounts payable	(18)	(176)	39
Accrued expenses	(47)	224	19
Net cash used by operating activities	817	1,224	1,505
Cash flows from investing activities:			
Capital expenditures	(54)	(31)	(78)
ADAC acquisition	(24)	-	-
Net cash used by investing activities	(78)	(31)	(78)
Cash flows from financing activities:			
Principal repayments on long-term debt	(27)	(162)	-
Repayments of short-term debt	(670)	(420)	(880)
Payment to former shareholder	(19)	-	-
Dividends paid	(23)	(558)	(555)
Net cash provided (used) by financing activities	(739)	(1,139)	(1,435)
Effects of currency exchange on cash	-	12	(13)
Net increase (decrease) in cash and cash equivale	1	53	(22)
Cash and cash equivalents at beginning of year	6	6	60
Cash and cash equivalents at end of year	$ 6	$ 60	$ 38
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 123	$ 75	$ 44

Attachment B:

Income Statement and Adjusted EBITDA

IOtech, Inc.
Income Statement and Adjusted EBITDA (in $000)

Income Statement

	2002		2003		2004	
	$	%	$	%	$	%
Net sales	10,799	100.0%	11,603	100.0%	12,559	100.0%
Cost of goods sold	4,418	40.9%	4,351	37.5%	4,590	36.5%
Gross profit	6,381	59.1%	7,253	62.5%	7,969	63.5%
SGA expenses	4,509	41.8%	4,407	38.0%	4,476	35.6%
Product development	1,685	15.6%	1,751	15.1%	1,762	14.0%
Operating income (EBIT)	186	1.7%	1,095	9.4%	1,730	13.8%
Other operating income	25	0.2%	6	0.1%	14	0.1%
Adjustments (see schedule)	-	-	121	1.0%	-	-
Adjusted EBIT	**212**	**2.0%**	**1,222**	**10.5%**	**1,744**	**13.9%**
Depreciation & amortization	117	1.1%	79	0.7%	94	0.8%
Adjusted EBITDA	**329**	**3.0%**	**1,302**	**11.2%**	**1,839**	**14.6%**

Key Growth Rates

Sales	-9.4%	7.4%	8.2%
Gross Profit	-5.1%	13.7%	9.9%
Adjusted EBIT	-151.4%	477.1%	42.7%
Adjusted EBITDA	-223.4%	295.3%	41.3%

Adjustments

SGA Adjustments			
Writedown of bad debt	-	121	-
Item 2	-	-	-
Total SGA Adjustments	-	121	-
Total Adjustments	-	121	-

Recasted Income Statement

Net sales	10,799	100.0%	11,603	100.0%	12,559	100.0%
Cost of goods sold	4,418	40.9%	4,351	37.5%	4,590	36.5%
Gross profit	6,381	59.1%	7,253	62.5%	7,969	63.5%
SGA expenses	4,509	41.8%	4,286	36.9%	4,476	35.6%
Product development	1,685	15.6%	1,751	15.1%	1,762	14.0%
Other Operating Income	25	0.2%	6	0.1%	14	0.1%
Adjusted EBIT	**212**	**1.7%**	**1,222**	**10.5%**	**1,744**	**13.8%**
Depreciation & amortization	117	1.1%	79	0.7%	94	0.8%
Adjusted EBITDA	**329**	**3.0%**	**1,302**	**11.2%**	**1,839**	**14.6%**

Attachment C:

IOtech in the News: Top Headlines 2004 – 2005

IOtech in the News: Top Headlines 2004 - 2005

May 2005	IOtech Inc. has released the DBK100/T™, a new signal conditioning module that provides temperature measurement capability in harsh environments, such as under the hood of a vehicle.
May 2005	IOtech, Inc. is introducing DBK48™, the latest addition to their extensive line of signal conditioning options. The DBK48 uses new, low-cost 8B isolated signal conditioning modules, providing up to 16 channels of I/O with 250V isolation from channel-to-channel.
April 2005	IOtech announces a major feature enhancement to its eZ-Analyst™ vibration analysis software package.
March 2005	IOtech has introduced the newest addition to its family of high-speed, portable, PC-based data acquisition systems — the StrainBook/616™.
February 2005	IOtech has introduced the Personal Daq/54™ portable USB data acquisition module, offering 10 single-ended or 5 differential voltage or thermocouple input channels.
January 2005	IOtech introduces the industry's lowest priced 16-bit, 200-kHz data acquisition boards. These new boards present a significant cost savings to OEMs and end-users looking for low cost PCI data acquisition.
December 2004	IOtech makes the cover of *Evaluation Engineering* magazine with an article on "Avoiding the Obsolescence Trap.
November 2004	IOtech has announced the new Ethernet-based DaqLab/2000™ Series, which provides low-cost, high-speed data acquisition capability for bench-top applications.
October 2004	IOtech has completed the publication of a new *Signal Conditioning & PC-Based Data Acquisition Handbook* – a 144 page guide to making sensor-based measurements using PC-based data acquisition equipment.
August 2004	IOtech has announced the introduction of the DaqScan/2000 series of Ethernet-based system components, providing high-performance analog, digital, and frequency I/O capability.
July 2004	IOtech, Inc. has introduced three new modules to its extensive line of signal conditioning options. The addition of the DBK55™, DBK65™, and the DBK85™ provide data acquisition users with even more signal conditioning capabilities.
June 2004	IOtech has introduced three new Ethernet-based data acquisition devices to its family of portable data acquisition products.
June 2004	IOtech article "System Records Tiny Taps on Big Parts" published in *Machine Design.*
June 2004	IOtech's Latest Product Catalog Now Available!
May 2004	IOtech introduces the most technically advanced 16-bit, PCI-based data acquisition board available for under $400.
April 2004	IOtech publishes "Better Data Acquisition Leads to Better Products" in *Medical Design News.*
March 2004	IOtech has introduced a new full-featured vibration analyzer, the portable ZonicBook/618E™. Vibration analysis and monitoring has never been easier than with the new ZonicBook/618E with the eZ-Series™ analysis and monitoring software.

Attachment D:

Brand Awareness: Visibility Study

The following table has been copied from a Market Insight Study of the Data Acquisition market. The study was sponsored by Test and Measurement World and Conducted by Reed Research Group in June 2003.

Question: For the vendors listed below, please indicate all that you are aware of, currently using, and/prefer.

Vendor Awareness, Usage and Preference
PC-based Systems

	% of Respondents Base: All Responding, Multiple Response		
	Aware of	**Currently Use**	**Prefer**
National Instruments	85%	53%	28%
Keithley	67%	20%	3%
Iotech	**49%**	**13%**	**3%**
Gould Instruments	47%	6%	3%
Data Translation	46%	15%	3%
Dataq Instruments	46%	10%	1%
Racal Instruments	36%	3%	1%
Nicolet Instrument Tech	38%	4%	4%
CyberResearch	33%	5%	1%
Measurement Computing	33%	11%	5%
Quatech	22%	1%	-
Gage Applied Sci	20%	2%	1%
Adlink	19%	2%	1%
United Electronic Industries	19%	3%	-
KineticSystems	18%	1%	-
Microstar Laboratories	17%	2%	-
No Answer/Don't Know	0%	28%	63%