

CORPORATE PROFILE



Leading the Router Revolution™

ImageStream Internet Solutions, Inc.

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Executive Summary

Description of the Business

ImageStream was founded in 1995 as a partnership between J.C. Utter and Scott Yoder. In the early years, ImageStream provided network engineering and contracting services with a focus on Linux-based systems. In January 1996, ImageStream installed its first Linux-based router and firewall at Plymouth Schools in Plymouth, Indiana.

ImageStream grew as a regional networking company, and continued to develop more advanced Linux-based solutions for businesses, schools, and ISPs in Indiana, Illinois, and Ohio. In early 1996, ImageStream began to consult Skye/net Internet Services, the largest regional ISP in northern Indiana. Responding to Skye/net's need for dependable, affordable routers, ImageStream began development of its first line of WAN routing solutions. By the end of 1996, ImageStream had deployed its first disk-based routers for Skye/net. By mid-1997, Skye/net had migrated to ImageStream's disk-based routers across their entire network.

After its initial success deploying low-cost Linux routers throughout Skye/net's network and with other regional customers, ImageStream intensified its focus on developing flash-based routers. In March 1999, ImageStream shipped the industry's first commercial Linux routers. The price and performance of the new flash-based routers made them an immediate success, and the company began its transition from a regional networking company into a manufacturer of high-performance routers.

As ImageStream expanded its router offerings, the company also continued to develop its OEM market for Linux networking solutions. In 2000, ImageStream earned a major design win with a high-density T1/E1 multiplexing solution for Ericsson's cellular telephone equipment offerings. This design win made it possible for Ericsson to multiplex digital cellular telephone calls over T1 and E1 lines using low-cost PC hardware. ImageStream's partnership with Ericsson, coupled with other design wins in the U.S., helped the company develop record revenues and profits in 2000. The

momentum from this project ensured ImageStream's continued profitability and unit shipment growth through the market downturn in 2001.

ImageStream's market success with the redesigned Rebel Router, coupled with new OEM design wins, resulted in record router sales and unit shipments in both 2002 and 2003. These design successes led to significant market opportunities with ISPs, telephone companies, and military customers that continued to drive revenues throughout 2004 and 2005.

As a market-driven company, ImageStream has continued to refine its products to win new customers in the midrange and high-end router markets. This competitive process has led ImageStream to include the first year of 24/7 technical support and the company's exclusive 31-day performance and compatibility guarantee with every router sold. In response to customer demand, the company has also introduced Extended Service Plans. ImageStream's competitive efforts have also included the introduction of new software features, new hardware including the TransPort, new T1/E1 cards, new high-bandwidth optical LAN and WAN interface cards, and performance enhancements to the Inetics™ driver component architecture for Linux.

Today, ImageStream has distribution and reseller partners that cover most of the world. ImageStream routers and WAN cards are proven in the field with installations in more than 75 countries. The company has developed a reputation for providing superior technical support and a high level of customer satisfaction. ImageStream's success in the router market has been driven by a focus on real-world customer requirements, and by a value proposition that delivers more router for the money. These accomplishments have given ImageStream the market position and experience required to capture a significant share of the midrange and high-end router market through direct competition with Cisco Systems, and through OEM partnerships that will allow ImageStream to supply other manufacturers with the technology required enter the router market.

ImageStream Internet Solutions, Inc.: Business Summary

Founders:	J.C. Utter and Scott Yoder	
Type of Business:	Manufacturer of LAN/WAN networking hardware and software	
Founded	1995	
Tax Status/Election Date:	S-Corporation / September 1999	
Products by Percentage Of Revenue:	Router Product Sales	47%
	OEM Product Sales	39%
	Service and Service Plans	6%
	Taps and Monitoring Hardware Sales	5%
	Software Programming	2%
	Other	1%
Historical Units Shipped	> 30,000 in 75+ countries since inception	
Headquarters	Plymouth, Indiana	
Key Markets	Distributors/Resellers Enterprise Financial Services Government Healthcare Internet Service Providers Military OEM Manufacturers Telecommunications Providers	
Major OEM Customers	Lockheed Martin Northrop Grumman Network Instruments	
Repeat Business	Percentage of customers/Percentage of revenue	50%/85%
Web site	www.imagestream.com	
Marketing/Promotions	Sales Reps, Distributors/Resellers, Print Advertisements, Trade Shows, Seminars, Web site, Referrals, Brochures, Press releases, Mailing lists, E-mail	

Success Drivers

Operational

Supplier Relationships: ImageStream has excellent and growing relationships with major OEM equipment suppliers including Nagasaki, Intel, and Crucial Technologies. ImageStream also maintains close relationships with numerous contract fabricators that produce ImageStream routers and components.

Repeat Customers: From 2002 to 2004, ImageStream received repeat business from nearly 50% of its customers, generating 85% of the company's total revenues. The high percentage of repeat sales over a short period of time illustrates the quality and reputation of ImageStream and its products. In the next three years, ImageStream customers will add and update equipment and continue to grow as broadband and wireless deployments continue. As a result, management expects revenues from repeat customers to remain a major component of income and the percentage of repeat customers to continue its upward trend.

Management Team: ImageStream has an experienced management team in place to manage the daily operations of the business. Management focuses its efforts on revenue growth and the development of new products and services. Turn-over among senior managers is extremely low, and senior management had an average tenure of over 7 years as of January 2006.

Market Factors

Customer Base: ImageStream has achieved a growing, recognized position in the routing/switching market. The company has equipment installed in over 75 countries, distributed over 1,000 accounts with end customers, VARs, distributors, and OEMs. Virtually every market segment is represented in ImageStream's customer base, including healthcare, entertainment, financial services, legal services, education, government, military, network service providers, telephone companies, and telecommunications equipment manufacturers.

Industry Reputation: ImageStream has developed a solid reputation and competitive advantage in the network infrastructure equipment market. ImageStream developed the industry's most competitive routers by listening to customer feedback, and by using customer insights to guide development. As a result of these competitive efforts, ImageStream routers also provide market leadership in the areas of guarantee, warranty, upgrades, licensing, and technical support. ImageStream develops relationships with its customers through a consultative selling approach that leverages its knowledge of networking and network operations. The company follows this with comprehensive post-sales support for installation and operation of ImageStream equipment and software.

Limited Competition: While ImageStream faces a dominant competitor in Cisco Systems, the company experiences limited competition from other vendors in this market space. The company's router platform has little or no competition from other OEM router technology suppliers, because few manufacturers actively pursue licensing and/or rebranding of their router platforms in the midrange market.

Increasing Demand for ISP Services: The worldwide number of Internet users exceeded 1 billion in 2005, and is projected to reach 1.47 billion by the end of 2007, according to eTForecasts. This rate does not account for even greater potential growth in Internet-enabled appliances, phones, and other embedded devices.

Increasing Demand for ISP Equipment: Demand for Internet related computer hardware is expected to grow between 6% and 7% annually. Dell'Oro estimates the market for routers and switches will exceed \$23 billion by 2007.

Description of Products & Services

ImageStream offers the following products and services to its customers: (1) networking infrastructure equipment, (2) hardware and software infrastructure components for retail sale, (3) hardware and software infrastructure components for OEMs, and (4) technical support, warranty service, and training. Product data sheets are available on-line at www.imagestream.com.

Operating Strategy

ImageStream's mission is to provide leadership through quality network solutions, exceptional customer and supplier relationships, and innovative technology to achieve a high level of profitability, customer loyalty, and employee empowerment.

In addition to its mission, ImageStream follows several additional guiding principles:

- Position the company to profit from predictable advances in technology.
- Use commodity off-the-shelf architectures to develop highly competitive products.
- Develop products with long shelf lives that leverage proven technologies.
- Use customer feedback to drive new product and feature development.
- Design product features that create barriers to entry for potential competitors.

ImageStream has positioned itself to take advantage of the networking industry's march toward low-cost standards-based commodity products. For years, ethernet cards have been commodity products in a market with dozens of manufacturers. More recently, the market for entry-level fixed configuration DSL and 802.11 wireless broadband routers has also become commoditized.

The midrange router market is expected to become the next commoditized networking market, and ImageStream has put itself in a strong position to capitalize on this opportunity as the market moves. Management intends to utilize its early entry into the market to establish long-term relationships with growing telecommunications providers, enterprise customers, and other organizations that will have increasing equipment requirements, and to supply other manufacturers with the OEM hardware and software solutions required to compete in this market.

Financial Highlights

Increasing Revenues: ImageStream has always managed explosive sales growth. In the first three years of operation, ImageStream doubled its revenues every year. In 2003, revenues grew by nearly 40%, and profits grew by almost 90%. With the introduction of its new low-cost T1/E1 router in 2006, management expects this explosive growth to continue.

Increasing Profitability: Despite the massive slowdown in technology spending from 2000 until early 2003, ImageStream management achieved operating profits each year. ImageStream is the only manufacturer in its segment to post annual profits in each year from 1999 through 2003.

Repeat Business: Because of the positive relationship ImageStream enjoys with its customers, the company has been able to generate significant repeat business opportunities. Nearly 50% of ImageStream customers who purchased equipment in 2002 or 2003 represented repeat customers. 85% of all revenue in 2002 and 2003 came from these repeat customers. In the future, ImageStream will have an opportunity to increase these revenue streams through the renewal of extended service plans, purchases of hardware upgrades and accessories, and purchases of new equipment as these customers grow.

Increasing Margins: As ImageStream increases shipment volumes, and moves into higher margin products and services, the company has the opportunity to realize significantly increased profit margins. The low cost basis created by the use of COTS products allows ImageStream to provide competitive products without resorting to discounts, which helps to maintain margins for the company and its resellers. In addition, as sales grow, fixed costs will decrease dramatically as a percentage of sales, which will also drive profitability.

Profitable Product Niche: Relative to other types of computer equipment, such as personal computers, servers, computer components, or consumer broadband products, network infrastructure equipment is a high-margin market. ImageStream also experiences minimal downward price pressure from its competitors.

Negligible Loss Due to Defects: Due to the Company's technical expertise, ImageStream maintains a defect rate of less than 2% on all router products. Due to the use of COTS hardware that carries standard warranties from component manufacturers, scrap rates have remained historically below 0.5%.

Growth in Profitability

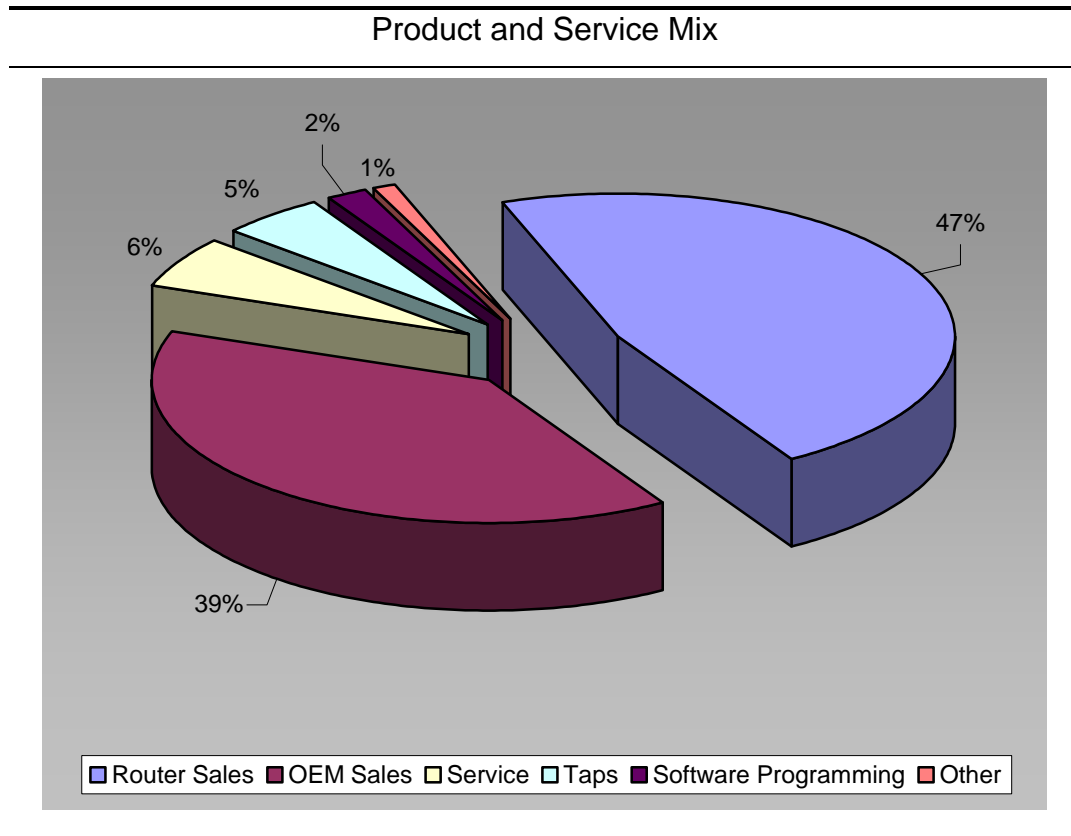
ImageStream has always applied its resources carefully, with a focus on opportunity cost and ROI. The company establishes future plans in a manner consistent with historical experience, following conservative projections for growth. Multiple opportunities exist for ImageStream to continue to increase its revenues and improve profitability. Trends that are expected to enhance bottom-line performance include:

- Expanding R&D to develop new products more quickly;
- Expanding marketing to introduce ImageStream products to new customers;
- Expanding manufacturing facilities and inventory to support growing sales;
- Expanding sales, engineering, and marketing staff to support growing sales;
- Purchasing inventory in larger volumes to garner additional discounts;
- Developing or licensing advanced software to attract additional sales;
- Offering self-financing and leasing options.

Products and Services

Products and Services Mix

ImageStream derives revenue from the sale of Linux router products and services including complete routers, standard and custom components for OEM manufacturers and system integrators, standalone LAN and WAN networking components for end users, technical support services, and extended service plans. The remainder of revenue is generated from the provision of programming services, and miscellaneous sales and services.



Source: ImageStream FY2005 Results

Product Position

ImageStream's success in the telecommunications equipment market can be attributed to its leadership. Unlike traditional router vendors such as Cisco, Juniper, and Huawei, ImageStream offers Linux solutions, with innovative hardware and software that can be customized for specific OEM requirements. And unlike component-only suppliers such as Interphase or Cyclone, ImageStream offers complete solutions that allow OEMs to integrate routing into their products without reinventing the router.

In the router market, ImageStream uses commodity off-the-shelf (COTS) components, the Linux operating system, and the Inetics™ driver component architecture to deliver best-of-class price, performance, and features. When it comes to price, the total cost of owning an ImageStream router can be one tenth the cost of owning other routers. In terms of performance, ImageStream routers are one of the only routers guaranteed to deliver wire-speed performance specifications. At the bottom line, no other router manufacturer can offer the advanced capabilities of the Inetics component architecture.

Advantages of COTS Network Infrastructure Products

The advantages of using commodity off-the-shelf components include:

- Easy access to the latest technology from vendors who are first-to-market.
- Minimized staff requirements for electrical and mechanical engineers.
- Limited design lock-in due to limited engineering amortization.
- Numerous competitive suppliers that keep component prices low.
- Just-in-time inventory practices that reduce inventory costs.

Quality Control

ImageStream recognizes that the quality of its products is as important as competitive pricing and features. ImageStream is committed to implementing the highest quality hardware and software solutions, as well as providing top-tier support and consulting services. ImageStream's commitment to quality also shows through its provision of the

industry's first and only Performance Guarantee. ImageStream guarantees that every router it makes will perform in accordance with published specifications.

Historically, the company has less than a 2% defect rate on its product lines. The company is also working toward TL9000 certification, which is expected to be completed by the end of 2006 or early 2007.

Product Roadmap

ImageStream is focused on the router and switch markets, and the company continues to gear its development toward the expressed needs of its customers.

Over the past few years, ImageStream has completed a number of important development projects including SoftCell™ ATM and IMA, which allows customers to run ATM and IMA on the same T1/E1 cards that are used for point-to-point and frame relay circuits; multi-link frame relay and multi-link PPP support for bonding multiple data circuits into a single faster connection; IP multicast support; SSL VPN support; channelized DS3 interface hardware; and POS OC3/STM1 interface hardware.

ImageStream continues to work toward the delivery of the following protocol stacks and hardware solutions:

1. Web-based router configuration software
2. New ImageStream Linux™ distribution with 2.6.x series Linux kernels
3. G.SHDSL interface hardware
4. Ultra low-cost embedded router
5. Ultra low-cost USB-based T1/E1 and sync serial WAN cards
6. Pro Series switch product line
7. MPLS and VPLS protocol support

The company has additional development objectives beyond the list provided above, but this list represents the most important projects that will be developed during 2006 and the first half of 2007.