UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO.: 0-30907

MOBILITY ELECTRONICS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	86-0843914
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7955 EAST REDFIELD ROAD SCOTTSDALE, ARIZONA	85260
(Address of principal executive offices)	(Zip Code)

(480) 596-0061
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, $.01 PAR VALUE
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as computed by reference to the average of the closing bid and asked prices of such stock, as reported by the Nasdaq, on March 28, 2002 ($1.50) was $23,504,225. Shares of voting stock held by each officer and director and by each person who owns 10% or more of the Company's outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock as of March 28, 2002 was: 15,669,483 shares of common stock.

Portions of the registrant's definitive Proxy Statement relating to its Annual Meeting of Stockholders to be held on May 22, 2002 are incorporated by reference into Part III hereof.

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PART I

DISCLOSURE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements under the captions "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- loss of, and failure to replace, any significant customers;

- timing and success of new product introductions;

- product developments, introductions and pricing of competitors;

- timing of substantial customer orders;

- availability of qualified personnel;

- performance of suppliers and subcontractors;

- market demand and industry and general economic or business conditions;

- the "Risk Factors" set forth in our Registration Statement on Form S-1 (No. 333-30264), dated February 11, 2000; and

- other factors to which this report refers.

ITEM 1. BUSINESS

THE COMPANY

Mobility Electronics' mission is to provide innovative mobile computing solutions for notebook computer, PDA, pocket PC, Tablet PC and other mobile computing device users. We currently pursue this mission through the design, development and marketing of products and technologies in four major categories: power products and accessories, Split Bridge(TM) technology and related CardBus docking products, expansion products, and handheld connectivity and accessory products. For the year ended December 31, 2001, our revenues were derived primarily from sales of power products and accessories and expansion products.

Our major competitive advantage is the development and marketing of unique products that combine proprietary technology with innovative features and capabilities. We offer our solutions through a broad range of distribution channels and we have significant technology and intellectual property in each of our product categories.

Our objective is to be the leading provider of a broad range of innovative mobile computing products and technologies. Key elements of our strategy include:

Leverage Technological Leadership. We intend to continue to exploit the development and use of our Split Bridge(TM) technology, power product technology, expansion technology, CardBus technology, and handheld technology and invest in research and development of appropriate related advanced technologies. We intend to use this technological leadership position to develop and market highly differentiated products.

Maximize Penetration in the Mobile Computing Market. We intend to capitalize on our current strategic position in the mobile computing market by continuing to introduce high-technology products that suit the needs of a broad range of users in each of our major product areas. It is our goal to be a market leader in each of the product solution categories in which we will compete, and to offer mobile users unique, innovative solutions that provide value-add that previously did not exist. To effectively leverage our product portfolio, we also intend to actively pursue corporate and product branding initiatives.

Establish Licensing and Strategic Partnerships. We have licensed and intend to continue to license our Split Bridge(TM) technology and to enter into strategic alliances in order to realize the market potential of the technology. These activities will specifically include exploiting existing licensing and strategic relationships we currently have with 2C Computing, Inc. Cybex Computer Products Corporation, LSI Logic Corporation, Philips Semiconductors, Inc., Molex Incorporated, National Instruments Corporation and others, as well as expanding current strategic partnerships and establishing a wide variety of additional relationships.

Broaden Distribution Capabilities Worldwide. We currently sell our products worldwide through distributors, value-added resellers, retailers and private label partners. We believe that broadening the distribution of our products through strategic alliances with a variety of companies within the computer industry is a critical element in establishing our technology and products as industry standards.

Expand OEM Relationships. We intend to provide a broad range of products for computer original equipment manufacturers, or OEMs, by partnering with OEMs globally in a manner that meets their current and future connectivity and remote PCI bus requirements. We will also work with both OEMs and other industry partners, such as chip makers and power product technology partners to design and implement solutions that can meet the integrated requirements of OEMs.

Pursue Strategic Acquisitions. We intend to evaluate opportunities to acquire complementary businesses, technologies and products that can benefit from a broad portfolio of technologies. We also plan to pursue acquisitions that will enable us to offer products and features, in keeping with our mobile computing solutions mission, to better serve our customers or to more fully realize the market potential of our technology base, to more rapidly develop and bring to market advanced technology, to expand distribution capabilities and to penetrate other targeted markets or geographic locations.

In February 2002, we acquired Portsmith, Inc., an industry leader in providing connectivity solutions for handheld computing devices. This acquisition provides us with an entrance into the rapidly growing handheld computing device market and reinforces our focus on delivering powerful mobile computing solutions. Portsmith currently provides a range of Ethernet, modem, and other connectivity products for the most popular handheld devices such as Palm, Handspring Visor, Compaq IPAQ, and other mainstream PDA products, and intends to undertake a number of important product development programs that expand on these solutions.

On March 25, 2002, we announced our execution of a definitive agreement to acquire iGo Corporation, a leading mobile computer solution provider. The closing of this transaction is subject to certain material conditions precedent being satisfied, including without limitation, approval by the iGo stockholders and the declared effectiveness by the Securities and Exchange Commission of a registration statement, which registers the issuance of the shares of our common stock to be issued to the iGo stockholders in such transaction.

We were formed as a limited liability company under the laws of the State of Delaware in May 1995, and were converted to a Delaware corporation by a merger effected in August 1996, in which we were the surviving entity. We changed our name from "Electronics Accessory Specialists International, Inc." to "Mobility Electronics, Inc." on July 23, 1998. Our principal executive offices are located at 7955 East Redfield Road, Scottsdale, Arizona 85260, and our telephone number is (480) 596-0061. Unless otherwise indicated in this Report, references to "Mobility," "us," "we" and "our" refer to Mobility Electronics, Inc. and shall include our predecessor, Electronics Accessory Specialists International, L.L.C.

INDUSTRY BACKGROUND AND THE MOBILITY SOLUTIONS

PCI COMPUTER ARCHITECTURE AND SPLIT BRIDGE(TM) TECHNOLOGY

Today the most prevalent computer architecture, which is incorporated into virtually all computer systems and in many related embedded processor applications, uses the peripheral component interface, or PCI, bus. However, the PCI bus has a number of key limitations, most notably a constraint on the number of lines, or circuits, and loads that can be attached to it. Historically, these limitations have been mitigated to some extent by attaching a bridge chip to the PCI bus, which in turn permits a number of additional loads or peripherals to be attached to a secondary PCI bus, which is also connected to the bridge chip. This procedure

has the major limitation of requiring the secondary PCI bus to be located on the main PCI bus printed circuit board, or PCB, or attached physically by a connector which enables extension of the secondary PCI bus to a maximum of approximately three inches from the main PCB. Consequently, the industry today faces a number of physical and electrical constraints when designing a computer system, and has been unable to move the secondary PCI bus more than a few inches from the primary PCI bus. Additionally, traditional communication protocols, such as USB, IEEE 1394, Ethernet and SCSI, which attempt to address these limitations, have numerous disadvantages since they generally require a processor, extensive software and other related items.

Our Split Bridge(TM) technology addresses the limitations of traditional PCI bus technology and architecture by allowing the primary PCI bus of most portable computer models to be extended to a remote location. This is accomplished through the use of our Split Bridge(TM) chips, which are like any other bridge chip, except they are divided into two halves separated by a high speed link. This allows one or more Split Bridge(TM) chips to be attached to the primary computer PCI bus, with the mating Split Bridge(TM) chips installed at a remote location along with the secondary PCI bus. Consequently, our Split Bridge(TM) technology eliminates the requirement of having the secondary PCI bus on the primary PCI bus PCB, and thus eliminates many of the electrical constraints thereon. Additionally, Split Bridge(TM) technology substantially reduces the physical space requirements on the primary PCB by eliminating the need for multiple traditional bridge chip connections and allows the connecting cable to be small and flexible. The first generation Split Bridge(TM) chips were designed for distances of up to 15 feet. We believe future generations may extend this distance substantially.

The following summarizes the advantages of Split Bridge(TM) architecture:

- Gigabit speed
- Bi-directional
- PCI superset (transfers bus, not data)
- Full PCI bus compatibility
- No processor requirements
- No storage requirements
- Minimal size, heat and power requirement
- Highly upgradeable technology migration path
- Small, flexible cable
- Cost effective

The introduction of Split Bridge(TM) technology now enables architectural designs of computer systems and applications that previously were not feasible. The implementation of such new solutions can potentially include replacing current bridge chips with Split Bridge(TM) chips, integrating Split Bridge(TM) technology into other chips and technologies or using Split Bridge(TM) technology to create new products and product categories in a variety of potential applications. We have licensed our Split Bridge(TM) technology to a number of industry parties, including Cybex Computer Products Corporation, 2C Computing, Inc., LSI Logic Corporation, Philips Semiconductors, Inc., Molex Incorporated, MiTac International Corporation, National Instruments Corporation, Asustek Computer Inc., Innolabs Corp. and Intel Corporation.

SPLIT BRIDGE(TM) DOCKING PRODUCTS

The portable computer market, which is a rapidly growing segment of the personal computer industry, could benefit from solutions that address the inherent limitations on PCI bus architecture. Demand in this market has been fueled by advances in computer technology and the demand for computer mobility. According to IDC, a leading industry source, the market for portable computers, excluding handheld devices, is expected to grow at a compounded annual growth rate of 10.5% from 26.1 million units in 2001 to approximately 43.0 million units in 2005. Coupled with this trend toward portability, there has been an

increased demand for portable computers in small and light form factors to accommodate the user's desire for greater portability convenience when traveling and/or working in mobile settings.

Although portable computers provide users maximum portability and flexibility in mobile settings, portable computers alone are insufficient in providing users an ideal computing environment for prolonged usage in a fixed setting, when compared to the comfort of a traditional desktop setup. As a result, portable computing OEMs created docking products, port replicators and docking stations, that when used with a portable computer create a workstation that resembles the setup of a desktop computer. Port replicators are simple devices that provide users with a cable management system for peripherals such as full−sized keyboards, power cords, mice and monitors. Docking stations include basic port replicator features, as well as more advanced capabilities such as networking, PCI card slots and storage expansion devices. Attaching and releasing a portable computer from a port replicator or docking station is typically a one−step procedure that takes seconds to complete compared to the burdensome task of attaching or releasing each external devices separately. More important, when used with a full sized keyboard, external mouse, and an external monitor properly positioned at an ergonomically correct distance, a workstation is created to maximize user comfort and productivity.

To date, there has not been a provider of a broadly compatible docking solution for use with many brands and models. OEMs have historically designed port replicators and docking stations that restricted use only within their own brands, and in many cases, for use with only a select number of models. OEM designed port replicators and docking stations connect to their respective portable computers via a mechanical connection, which often limits user flexibility in user workstation setup. The majority of the mechanical port replicators and docking stations offered by portable computing OEMs also restrict access to the ports of the notebook given that their respective devices are designed to merely replicate ports resident on the respective notebook attached to the device.

Additionally, many leading portable computer OEMs are removing mechanical docking connectors from "value" priced portable computers, i.e., portable computer models typically priced below $1,499 which computers are marketed as ideal solutions for individuals, education users, and small and medium sized business use. As a result, these users do not have a docking product option offered by the respective portable computer OEM.

We believe that the incorporation of our Split Bridge(TM) technology in CardBus interfaced docking products can provide docking product users greater functionality and value compared to docking products offered by portable computing OEMs. Given that Split Bridge(TM) extends the PCI bus of portable computers, Mobility docking products add new hardware ports and offer users expansion via industry standard drive bays and PCI slots, whereas docking products from portable computer OEMs merely replicate the functionality on their respective portable computer attached. Additionally, by using the industry standard CardBus interface available on majority of portable computers, Mobility docking products provide users greater flexibility in their workstation setup without the restrictions of mating a docking product to a proprietary connector.

Our docking products offer mobile users greater compatibility by using the industry standard CardBus interface connection to a notebook computer. Given this type of connectivity, our products are enabled for use with multiple brands and models, providing broad compatibility greater than traditional mechanical interfaced docking products offered by portable computing OEMs. Our docking products also provide a solution for portable computer users lacking an option from the respective portable computer OEM.

The primary CardBus interfaced docking product we currently offer is the EasiDock(R) 1000EV. This product enables users to connect most portable computers to a docking peripheral at a speed of 1.25 + gigabits, which is approximately 100 times faster than a USB peripheral. The EasiDock(R) 1000EV offers users key port replicator functionality providing connectivity via mouse, keyboard, serial, parallel, and USB ports. Additionally, the EasiDock(R) 1000EV includes 10/100 base T Ethernet networking and external video support for use with Windows 98SE, Millennium, 2000, and XP operating systems. We currently market our EasiDock(R) 1000EV to a variety of distributors, including Ingram Micro Inc., and to value added resellers. We also intend to continue to pursue Split Bridge(TM) docking solutions with computer OEMs, which products may be privately labeled at the request of the OEM.

POWER PRODUCTS AND ACCESSORIES

A major issue for the portable computer user is the requirement to power their portable computer or handheld device on the road. Many portable devices offer designs and form factors that support great portability and travel comfort; however, battery life limits prolonged usage in mobile settings. This problem is compounded particularly for mobile users that travel frequently via air or road. Current solutions require the use of multiple, model-specific charging devices for different models, different computing devices, and different power sources. For the mobile user with several devices such as notebook computers, mobile phones and PDAs, there is extreme inconvenience to carry multiple power adapters and having access to a power source.

Mobile users face several additional issues relating to powering mobile computing devices. First, mobile devices have limited battery life, which necessitates the need to frequently connect to a power source to recharge batteries and negatively impacts productivity. Second, power adapters shipped with notebook computers only offer power and charging from a wall outlet (AC source), which limits power source access for mobile users. Truly mobile users need access to power anywhere and everywhere -- office, air and auto. Third, the mobile user is inconvenienced given that notebook computers typically provide a single power adapter. Without a second "travel" adapter mobile users must crawl under their desks and grab their adapter when they are at home or on the road. Fourth, there are space constraints for frequent travelers. Mobile users typically carry a mobile phone and/or a PDA in addition to their notebook computer. Each device requires a separate power adapter. These adapters consume valuable space in users' notebook computer bags. Last, power connectors and device requirements are proprietary. As a result users must typically purchase their adapters from notebook computer, mobile phone and PDA manufacturers. This has a tendency to keep price points artificially high and limit easy access to adapter solutions.

We believe that our company is well positioned to provide a variety of power solutions to mobile computing users. We currently offer a range of DC to DC, more commonly known as Auto/Air, power adapters that allow mobile computer users to power their computing device in a car, a boat, or an airplane. Our current major customers for these products include the computer original equipment manufacturers or OEM's, such as Compaq Computer Corporation, Gateway, Inc., Hewlett-Packard Company, IBM Corporation, Toshiba Corporation and others. We are also developing a variety of complementary power products that we plan to introduce in the latter part of 2002.

In addition to power products, we also market a number of accessory products, such as monitor stands, portable device bays and portable computer stands. We expect to increase this offering in the future.

HANDHELD PRODUCTS

Today's connectivity devices for handheld PCs, also known as cradles, are designed to support the handheld PC as a companion product for use with either a portable or desktop computer. This limited functionality restricts mobile users who desire to use their handheld PC as their only mobile computing device when traveling and or communicating to a network. Other challenges facing handheld PC users is the difficulty of data input and output, the size and quality of the handheld video display, and connectivity desired to update, share, and present data.

Handheld device OEMs, of both PDAs and pocket PCs, offer limited connectivity options that enable handheld PCs to communicate with networks, computer peripherals, and display devices without the presence of a portable or desktop computer.

We believe that our connectivity and accessory products effectively fill gaps in the accessory offering of the leading handheld device OEMs, such as Palm, Handspring and Compaq, among others. We are uniquely positioned to leverage technology developed internally that enables us to create a flexible product offering to satisfy a variety of connectivity needs. Our leading connectivity products for handheld computers provide ethernet and external video presentation capabilities that are not offered by the handheld device OEMs. We have enjoyed success with these types of solutions with customers in vertical markets that deploy handheld devices as a mobile user's primary computing device. We believe that the outlook for our products in the

handheld market is promising, and our technology is well suited to create both vertical market and mass market solutions that augment handheld computing as a viable alternative to portable computing.

Our current product offering for handheld computers includes cradles that power the device and connect to the internet over an integrated Ethernet or modem in the cradle. These products are marketed to major OEM's such as Symbol Technologies, Inc. and Palm, Inc. and to the distribution channel, as well as to customers in vertical markets that deploy handheld devices as a mobile user's primary computing device. We also have products that provide handheld users external video presentation capabilities that we plan to begin marketing in mid-2002.

EXPANSION PRODUCTS

The PCI bus has become the standard I/O bus on every modern personal computer, and simply put, one of the most successful bus standards ever developed. Because of this success, the proliferation of PCI cards has been nothing short of explosive. As a result, the demand for additional PCI slots for increased functionality has followed the tremendous growth of PCI card usage. In addition, the demand for increased portability, flexibility, and performance in computing has followed the trend of smaller form factors and faster processing speeds.

Despite the demands for additional PCI slots and smaller form factors, computer manufacturers are not increasing the number of PCI slots on their desktop computers. Even worse, the majority of growth in the personal computing industry will be driven by the introduction and adoption of more powerful, portable and flexible laptop computers as primary computer devices which will replace desktop machines. Because of their architecture and small form factor, laptop computers do not have any PCI slots, and thus cannot support the added functionality of PCI cards. In response, computer users in various industries have become increasingly frustrated with their computing alternatives.

Our acquisition of MAGMA in October 2000 solidified our market leadership position in the PCI expansion business by providing intellectual property, products, distribution channels, key customers, and additional resources that we believe will leverage our Split Bridge(TM) technology and accelerate our growth and development in this market segment.

Our family of PCI expansion products provides users of PCI-based systems the portability, flexibility, and performance needed for high-end computing applications. Users in industries such as audio/video editing, test and measurement, industrial automation, and telephony can now have scalable systems that could not previously be used in mobile settings because of system limitations. Hence, our products enable mobility for users and provide computing power and functionality not previously offered.

We offer a variety of PCI slot expansion products, ranging from 1 slot to 13 slot configurations, to provide users the expansion lacking in desktop and portable computing devices. With the recent completion of our second-generation Split Bridge(TM) chips, we began integrating our Split Bridge(TM) technology in the expansion product area. This integration is still underway, and encompasses the development of new, low cost expansion products, new CardBus expansion products, and the marketing of Split Bridge(TM) links in a variety of applications including test, measurement and printing. A Split Bridge(TM) link includes two Split Bridge(TM) chips, two connectors and a 1.25 gigabit bi-directional, high-speed cable.

We currently market our expansion products to a broad range of customers, including value added reseller and OEM's such as DigiDesign, a division of Avid Technology, Inc., and Media 100 Inc.

STRATEGIC RELATIONSHIPS

We have entered into a number of strategic relationships to develop and enhance our existing and future technology, product lines and market opportunities. We own or license all of our Split Bridge(TM) technology,

our expansion technology, our power product technology, and our card bus and handheld technology. These relationships include the following:

TECHNOLOGY

Cybex Computer Products Corporation and 2C Computing, Inc. Cybex is a leader in providing KVM switches in the server market. 2C Computing is affiliated with Cybex and focuses on developing, manufacturing and selling digital extension products. In March 2000, we entered into a strategic partnership agreement with Cybex to pursue the development of new server, desktop and KVM switch systems, technology and products. As part of this strategic relationship: (i) we entered into a private label agreement with Cybex to sell Cybex our universal docking products; (ii) we agreed with Cybex to cross-license certain of our respective technologies for permitted applications; and (iii) Cybex purchased $5.0 million of our Series D preferred stock. Subsequently, the Series D preferred stock was converted to common stock. In July 2000, we entered into a strategic partner agreement with 2C Computing. As part of this strategic partner agreement: (i) we agreed with 2C Computing to cross-license certain of our respective technologies for permitted applications; (ii) 2C Computing agreed to pay us a technology transfer fee of $2,000,000, payable over time, and (iii) we purchased a warrant from 2C Computing to acquire up to 10% of the fully-diluted capital stock of 2C Computing. Subsequently, we exercised this warrant. A major focus of our strategic partnership with Cybex and 2C Computing is the potential substantial extension of the distances over which Split Bridge(TM) technology can be used and the potential use of Split Bridge(TM) technology over a CAT 5 system. In March 2002, we signed an expanded license agreement with Cybex which will further facilitate these efforts. In addition, in March 2002, we sold certain of our assets to Cybex relating to such expanded licensing arrangement, and granted to Cybex an option to purchase our equity interest in 2C Computing.

LSI Logic Corporation. LSI is a major supplier of custom, high-performance semiconductors and is focused on building complete systems on a single chip. Pursuant to our strategic partnership, LSI completed development of two next generation chips, at its expense, which will enhance our docking products by eliminating the need for an external serialization/deserialization, or SerDes, chip. This development will reduce our costs and provide us expanded performance. Additionally, in October 2000, we entered into a license agreement with LSI pursuant to which we licensed to LSI the right to use our Split Bridge(TM) technology to make and sell Split Bridge(TM) chips, related to various royalty payments.

Molex Incorporated. Molex is a major developer and manufacturer of connectors and cable. Together with Molex, we developed our proprietary connector and 1.25 gigabit bi-directional cable and connector for use with our Split Bridge(TM) and docking technology. Molex is our sole supplier of certain system connectors for use with our universal docking products, has invested a significant amount of capital in this technology and continues to support the development of our Split Bridge(TM) technology.

Additionally, in December 2000, we entered into a license agreement with Molex, pursuant to which: (i) Molex was granted the right to make and sell Split Bridge(TM) and docking solution connectors and cables; and (ii) we were granted the exclusive right to use certain of Molex's connector technology in Split Bridge(TM) docking product applications.

Philips Semiconductors, Inc. Philips, formerly VLSI Technology, Inc., is a leading designer, developer and manufacturer of ASIC chips. Together with Philips, we developed our proprietary first generation digital ASIC chip, which incorporates our Split Bridge(TM) technology. Until the next generation chip is designed into all our products, Philips is our sole supplier of Split Bridge(TM) technology ASIC chips for certain products.

Arizona Digital, Inc. Arizona Digital is a developer of PCB boards that increase functionality of passive backplanes. Mobility intends to use this technology to reduce cost, increase performance and reliability of our expansion products, and to provide increased PCI slot expansion capabilities.

Hipro. Hipro is a leading designer, developer, and manufacturer of a variety of AC power products for the computer industry. We have teamed with Hipro to develop, manufacture and market a number of unique new power products for the mobile computing user. We expect to launch our first co-developed product in the second half of 2002.

National Instruments Corporation. National Instruments is a leading innovator of computer−based measurement and automation software and hardware. We entered into a cross−licensing agreement with National Instruments to leverage our Split Bridge(TM) and CardBus technologies and to strengthen our respective opportunities in Split Bridge(TM) technology, CardBus and test and measurement applications.

CONTRACT MANUFACTURERS

Solectron Corporation. Solectron is a leading, high quality contract manufacturer for the electronics industry. Solectron is currently the sole manufacturer of our Split Bridge(TM) docking products in its Malaysian facility.

Steman International. Steman is a leading manufacturer of high quality plastic injection molds and plastic components. Steman is currently the sole manufacturer of our Mobility branded monitor stands and private label monitor stands for our OEM customers.

Group West International. Group West is a Taiwanese contract manufacture specializing in the production of power products. Group West currently manufactures Mobility's branded and OEM auto/air products.

CUSTOMERS

Our customers currently include:

OEM CUSTOMERS	DISTRIBUTION CHANNEL CUSTOMERS
− Asustek	− Buy.com*
− Wistron (Acer)	− CDW*
− Compaq	− Circuit City
− Dell	− Comark
− Gateway	− CompUSA*
− Hewlett−Packard	− Ingram Micro
− Hitachi	− Insight*
− IBM	− MicroCenter
− Mitsubishi	− Microwarehouse*
− NEC	− Portable Add−ons
− Toshiba	− Primary Storage
	− Radio Shack Corporation

* These customers purchase from us through distributors

As a group, the OEMs and distributors listed in the chart above accounted for 72% and 13%, respectively, of net product sales for the year ended December 31, 2001. Targus accounted for 28% of our total net product sales for the year ended December 31, 2001. In 2001, Targus distributed a range of our power products, on a private label basis, primarily to major retail outlets and certain OEM fulfillment outlets worldwide. However, in December 2001 we came to an agreement with Targus to terminate our relationship. It is our intention going forward to market our power products under our own brand through the distribution channels we have developed. IBM, who buys brand labeled monitor stands, power products, a portable device bay, and USB docking stations, accounted for 30% of our net product sales for the year ended December 31, 2001. Our distributors sell a wide range of our products to value−added resellers, system integrators, cataloguers, major retail outlets and certain OEM fulfillment outlets worldwide.

SALES, MARKETING AND DISTRIBUTION

We have dedicated, senior level OEM sales people who, along with senior management, focus on developing and expanding relationships with top tier computer OEMs on a worldwide basis. We are pursuing

the sale of our standard products, whether Mobility branded or private labeled, and the sale of custom products and chips on board with OEMs on a worldwide basis.

In North America, we use an internal sales organization and sales representative organizations to penetrate the traditional two-tier distribution channel. We leverage major catalog houses such as CDW Computer Centers, Inc. and OEM catalog programs such as Dell, top retailers such as CompUSA and Radio Shack and a broad range of value-added resellers and dealers such as Insight Enterprises, Inc. and Comark, Inc. We also work with major corporations and key accounts as part of our strategic efforts.

We also plan to pursue markets outside North America by establishing strategic sales representatives and distribution or private label arrangements in each significant geographic region. We plan to execute bundling programs with major OEMs, drive manufacturers, selected related vendors and synergistic suppliers to our market. We have also established an e-commerce capability and marketing program, which will include, in the future, build-to-order capability. In Europe, we use an internal sales organization and we distribute our products through a distributor located in the United Kingdom.

We implemented a variety of marketing activities in 2001 to aggressively market our family of products. Such activities included participation in major user groups and trade shows, key OEM and distribution catalogs, distribution promotions, value-added reseller and information technology manager advertising, on-line advertising and banner ads, direct mail and telemarketing and bundle advertisements with OEMs and related product partners. In addition, we implemented a strong public relations program to continually educate the market about us, our Split Bridge(TM) technology and our products, with a major emphasis on timely product and news releases, speaking opportunities and feature stories. We also utilize our web site as a major marketing and direct sales mechanism.

MANUFACTURING

The proprietary components of our Split Bridge(TM) technology are manufactured by our strategic partners. Philips Semiconductors supplies us with our Split Bridge(TM) technology chips, and Molex supplies us with our high-speed cable and connectors. In the future LSI will supply us with our next generation chips. Our power products and monitor stands are supplied by contract manufacturers in Taiwan. Solectron is our primary contract manufacturing source for our EasiDock(R) 1000EV product.

Steman currently manufactures all of our Mobility branded monitor stands and private label monitor stands for our OEM customers. Group West currently manufactures Mobility's branded and OEM auto/air power adapter products.

In-house manufacturing activity has primarily been reduced to packaging and fulfillment activity. Some product is shipped to us in bulk quantities, which is not packaged for delivery to our customers. We package these products in the appropriate box with the corresponding operations manual and other product documentation. We currently assemble one mechanical port replicator under a contract with NEC and a portable device bay under a contract with IBM. The volume levels on these products are too small to outsource economically. We will continue to build these products in-house for the foreseeable future.

COMPETITION

Competition for our Split Bridge(TM) technology primarily comes from traditional communication protocols, such as USB, IEEE 1394, Ethernet and SCSI. These protocols are generally well established, particularly in certain applications, and thus will provide competition for our Split Bridge(TM) technology depending upon the application.

Additionally, our docking products, handheld products and accessory products compete primarily with the internal design efforts of mobile computing device OEMs. These OEMs, as well as a number of our potential non-OEM competitors, have larger technical staffs, more established and larger marketing and sales organizations and significantly greater financial resources than we have. We believe that we have a proprietary position with respect to our Split Bridge(TM) docking technology, CardBus technology and handheld connectivity

technology, which could pose a competitive barrier for companies seeking to develop similar products or sell competing products in our markets.

Our power products primarily compete with third party mobile computing accessory companies. Although some of these competitors enjoy greater distribution coverage, we believe that our power technologies and co-development relationships will enable us to effectively compete against the products offered by those competitors. We also believe that our technological leadership will enable us to secure business from many leading mobile computing device OEMs.

Our expansion products primarily compete with solutions provided by SBS Communications, a provider of low cost PCI expansion solutions. Our products are differentiated with cooling performance and chassis durability not offered by SBS Communications' PCI expansion products. We also license our bridging technology to SBS Communications for use in several of their PCI expansion products.

Generally speaking, the market for computer products in general is intensely competitive, subject to rapid change and sensitive to new product introductions or enhancements and marketing efforts by industry participants. The principal competitive factors affecting the markets for our product offerings include corporate and product reputation, innovation with frequent product enhancement, breadth of integrated product line, product design, functionality and features, product quality, performance, ease-of-use, support and price. Although we believe that our products compete favorably with respect to such factors, there can be no assurance that we can maintain our competitive position against current or potential competitors, especially those with greater financial, marketing, service, support, technical or other competitive resources.

PROPRIETARY RIGHTS

Our success and ability to compete is dependent in part upon our proprietary technology. We rely primarily on a combination of patent protection, copyright and trademark laws, trade secrets, nondisclosure agreements and technical measures to protect our proprietary rights. We currently have fourteen patents issued and over forty patents pending pertaining to Split Bridge(TM) technology, CardBus technology, power technology, expansion technology, and other technology areas. We currently license different aspects of our proprietary rights to third parties pursuant to strategic alliances, which often include cross-licensing arrangements.

We will continue to vigorously pursue patent protection for all our product categories. We expect to file several new patents relating to handheld technology in the next year.

In addition, we currently have eleven United States trademark registrations, three pending applications for United States trademark registration, eleven foreign trademark registrations, and twelve pending applications for foreign trademark registration. We have obtained and are continuing to seek trademark protection abroad in Brazil, Canada, China, the European Community, France, Germany, Japan, Malaysia, Mexico, Taiwan, and the United Kingdom. The scope of our trademark protection is comprehensive and covers all of the company's significant trademarks and service marks.

We typically enter into confidentiality agreements with our employees, distributors, customers and potential customers, and limit access to, and distribution of, our product design documentation and other proprietary information. Moreover, we enter into noncompetition agreements with employees, whereby the employees are prohibited from working for and sharing confidential information with our competitors for a period of two years after termination of their employment. Additionally, we believe that, due to the rapid pace of innovation within the computer industry, the following factors also represent protection for our technology:

- technological and creative skill of personnel;

- knowledge and experience of management;

- name recognition;

- maintenance and support of products;

- the ability to develop, enhance, market and acquire products and services; and

- the establishment of strategic relationships in the industry.

RESEARCH AND DEVELOPMENT

Our future success depends on our ability to enhance existing products and develop new products that incorporate the latest technological developments. Our research and development efforts will focus primarily on enhancing our current technologies for use in a variety of innovative mobile computing solutions. We work with customers and prospects, as well as partners and industry standards organizations, to identify and implement new solutions that meet the current and future needs of our customers. Whenever possible, our products are designed to meet and drive industry standards to ensure interoperability.

Currently, our research and development group consists of 34 people who are responsible for both hardware and software design, test and quality assurance. Amounts spent on research and development for the years ended December 31, 2001, 2000 and 1999 were $5.6 million, $5.9 million and $3.4 million, respectively.

EMPLOYEES

As of December 31, 2001, we had 126 full-time employees, 122 of which are located in the United States and 4 of which are located in Europe, including 35 employed in operations, 34 in engineering, 35 in sales and marketing ad 22 in administration. We engage temporary employees from time to time to augment our full time employees, generally in operations. None of our employees are covered by a collective bargaining agreement. We believe we have good relationships with our employees.

ITEM 2. PROPERTIES

Our executive offices and operations are located in Scottsdale, Arizona. This facility consists of approximately 38,712 square feet of leased space pursuant to a lease for which the current term expires on January 31, 2003. Additionally, we lease an office in San Diego, California, which houses the executive and operational activities of our wholly-owned subsidiary, MAGMA, for which the current term expires on December 31, 2004. We also lease facilities in Boise, Idaho and Orange County, California, which house the executive and operational activities of Portsmith. We believe our facilities are suitable and adequate for our current business activities for the remainder of the lease terms.

ITEM 3. LEGAL PROCEEDINGS

Mobility Electronics, Inc. v. SBS Technologies, Inc. No. CIV01-0409 PHX JAT was filed on March 5, 2001 in the United States District Court for the District of Arizona. In this lawsuit, the Company alleges patent infringement against SBS Technologies on two patents owned by the Company; U.S. Patent No. 6,070,214 entitled "Serially Linked Bus Bridge for Expanding Access Over a First Bus to a Second Bus" and U.S. Patent No. 6,088,752 entitled "Method and Apparatus for Exchanging Information Between Buses and a Portable Computer and Docking Station Through a Bridge Employing a Serial Link." In its Original Complaint, the Company alleges that certain products designed, manufactured and/or sold by SBS infringe these two patents. SBS has filed an answer denying infringement and a counterclaim seeking a declaratory judgment of non-infringement of patents and a declaratory judgment of patent invalidity and unenforceability, as well as tortious interference with prospective contractual relations. The Company in its answer to SBS's counterclaims has denied any such liability. The parties after commencing discovery, have reached an agreement in principle to settle the case. If the settlement is not consummated, the Company intends to vigorously pursue its claims and defend against the counterclaims.

Mobility Electronics, Inc. v. Comarco, Inc. and Comarco Wireless Technologies, Inc. was filed on August 10, 2001 in the United States District Court for the District of Arizona. In this lawsuit, the Company alleges infringement of U.S. Patent No. 5,347,211 entitled "Selectable Output Power Converter." The Company has amended its Complaint to further seek declaratory judgments of non-infringement, patent invalidity and/or patent unenforceability of three patents allegedly owned by Comarco: U.S. Patent

Nos. 6,172,884, 6,091,661 and 5,838,554. The Defendants have filed a motion to dismiss, to which the Company has responded, and the motion is set for hearing April 15, 2002. The Company intends to vigorously pursue its claims in this litigation.

Richard C. Liggitt v. Portsmith, Inc., et al., Case No. 02CC03308 was filed on February 22, 2002 in the Superior Court of the State of California, County of Orange, Central Judicial District. In this lawsuit the plaintiff alleges fraud in connection with merger negotiations that led to the execution of a merger agreement between a company owned by the plaintiff and Portsmith. The plaintiff also alleges wrongful termination of his employment with Portsmith and breach of the implied covenant of good faith and fair dealing under his employment agreement with Portsmith. Finally, the plaintiff alleges that Portsmith was the alter ego of certain of Portsmith's former directors. The plaintiff is seeking general and special damages, punitive damages, attorney's fees and costs. This lawsuit is in the initial stages and we cannot express an opinion as to the outcome of this action. Our failure to express an opinion at this stage should not be construed as an indication that we believe the defendants may ultimately be liable for any damages. The Company intends to vigorously defend itself against the claims in this lawsuit.

We are from time to time involved in various legal proceedings incidental to the conduct of our business. We believe that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on our business, financial condition, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of our executive officers are as follows:

NAME	AGE	POSITION
Charles R. Mollo.....	50	President, Chief Executive Officer and Chairman of the Board
Jeffrey S. Doss.....	40	Executive Vice President and Director
Joan W. Brubacher.....	48	Vice President and Chief Financial Officer
Donald W. Johnson.....	55	Executive Vice President and Chief Operating Officer

Charles R. Mollo is one of our founders and has been our Chief Executive Officer and Chairman of our Board of Directors since our formation in May 1995, and our President since July 1999, having previously served as our President between March 1997 and June 1998. From September 1992 to May 1995, Mr. Mollo was the director of the Wireless Telephone Products Division of Andrew Corporation, a communications equipment services and systems company. From September 1986 to July 1992, Mr. Mollo was the Vice President of Corporate Development of Alliance Telecommunications Corporation, a wireless telecommunications company. Between 1980 and 1986, Mr. Mollo was a Vice President of Meadows Resources, Inc., where he managed a venture capital and investment portfolio of approximately $150 million. In the past, he has served on the boards of a number of companies, including Alliance Telecommunications Corporation, and he currently serves on the board of an internet startup company, SuperGroups.com. Mr. Mollo has a B.S.E.E. from Manhattan College, an M.S.E.E. from Newark College of Engineering, and an M.B.A. from the University of New Mexico.

Jeffrey S. Doss is one of our founders, served as our President from our formation until March 1997 and has served as an Executive Vice President since that time. Mr. Doss has served as a director since May 1995. From May 1994 to December 1999, Mr. Doss was the owner of Doss Enterprises, which provided consulting services to various companies in the consumer electronics industry. From March 1994 through May 1995, Mr. Doss served as a consultant for cellular accessories for Andrew Corporation, a communications equipment company. From January 1991 to April 1994, Mr. Doss held various positions, including Vice President of

Operations and President and Chief Executive Officer of Unitech Industries, Inc., a manufacturer of cellular telephone accessories.

Joan W. Brubacher has served as a Vice President and our Chief Financial Officer since August 2001, and previously served as our Corporate Controller from August 1998 until August 2001 and as our Senior Financial Analyst from May 1995 until August 1998. From 1993 to 1998, Ms. Brubacher served as chief financial officer for Phase Laser Systems, an electronics development/manufacturing firm. From 1990 to 1993, she served as chief financial officer and then was appointed to the position of chief operating officer of Laserex, Inc., a laser pointer manufacturing company. Ms. Brubacher began her career at the international public accounting firm of Ernst & Whinney (now Ernst & Young). Ms. Brubacher holds a CPA certificate in the state of Kansas and received a bachelor's degree in Business Administration with concentration in Accounting from Kansas State University.

Donald W. Johnson has served as our Executive Vice President and Chief Operating Officer since January 2001, and previously served as our Executive Vice President of Worldwide Sales, Marketing and Operations since April 2000. From 1998 until March 2000, Mr. Johnson served in various capacities for UNISYS Corporation, most recently as Vice President and General Manager of the enterprise server business. From 1980 to 1998, Mr. Johnson served in various capacities for IBM, including Director of Servers and Commercial Systems, Product Marketing, Brand Management and Product Development in IBM's PC business, and worldwide sales manager and product manager. Mr. Johnson has a B.S. Degree in Business Administration from the University of California at Berkeley.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been traded on the Nasdaq National Market under the symbol "MOBE" since June 30, 2000, the date of our initial public offering. Prior to that time, there was no public market for our common stock. The following sets forth, for the period indicated, the high and low bid prices for our common stock as reported by the Nasdaq National Market.

	HIGH	LOW
Quarter Ended September 30, 2000	$16.50	$7.75
Quarter Ended December 31, 2000	$10.00	$1.88
Quarter Ended March 31, 2001	$ 3.63	$1.88
Quarter Ended June 30, 2001	$ 3.99	$1.81
Quarter Ended September 30, 2001	$ 2.84	$0.84
Quarter Ended December 31, 2001	$ 1.85	$0.66

On March 28, 2002, the last reported sale price for our common stock on the Nasdaq National Market was $1.50 per share. As of December 31, 2001, there were approximately 440 holders of record of our common stock.

RECENT SALES OF UNREGISTERED SECURITIES.

Each issuance set forth below was made in reliance upon the exemptions from registration requirements of the Securities Act of 1933, as amended, contained in Section 4(2) on the basis that such transactions did not involve a public offering. When appropriate, the Company determined that the purchasers of securities described below were sophisticated investors who had the financial ability to assume the risk of their investment in the Company's securities and acquired such securities for their own account and not with a view to any distribution thereof to the public. The certificates evidencing the securities bear legends stating that the securities are not to be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act or an exemption from such registration requirements.

Effective as of March 2, 2001, we issued 68,966 shares of common stock to each of Jeffrey S. Doss, Donald W. Johnson and La Luz Enterprises, L.L.C., an affiliate of Charles R. Mollo, at a purchase price of $2.90 per share. Each of the purchasers paid $690 in cash and executed and delivered to us a three-year promissory note, in the original principal amount of $199,311, and bearing interest at the rate of 6.33% per annum. Each promissory note is secured by the shares of common stock so issued, and in addition, the promissory note issued by La Luz Enterprises, L.L.C. is guaranteed by Mr. Mollo.

In August 2001, we entered into a consulting agreement with Chesapeake Ventures L.P. Under the terms of the agreement, we retained Chesapeake to assist us in our marketing and sales efforts. As compensation therefor, we agreed to pay Chesapeake monthly fees and we issued Chesapeake 60,000 shares of our common stock at a purchase price of $1.28 per share, for which Chesapeake paid $600 in cash and executed and delivered to us a three year promissory note in the original principal amount of $76,200, bearing interest at the rate of 6% per annum, with principal due on September 11, 2004, and interest payable annually. The promissory note is secured by the shares of common stock so issued. We have certain repurchase rights to the shares of common stock issued to Chesapeake in the event certain events are not satisfied.

In December 2001, we entered into a cross-licensing agreement with National Instruments Corporation, an innovator of computer-based measurement and automatic software and hardware. Under the terms of the agreement, both companies now will license Split Bridge and CardBus technology from each other to strengthen their respective opportunities in Split Bridge technology, PCI expansion, portable computer docking, CardBus and test measurement applications. In connection with the cross-licensing agreement we issued a warrant to National Instruments to purchase 75,000 shares of our common stock at an exercise price of $1.38 per share, which expires on December 12, 2004.

In February 2002, we acquired all of the issued and outstanding stock of Portsmith, Inc., an industry leader in providing connectivity solutions for handheld computing devices. The compensation we paid to the Portsmith stockholders was comprised of 800,000 shares of our common stock, of which 400,000 shares were placed in escrow for the Portsmith stockholders pending measurement of certain performance criteria of Portsmith on the first anniversary of the date of this transaction, and contingent earn-out payments are to be made depending on Portsmith's future performance on the first anniversary of the acquisition, which payments may be made in cash and/or shares of our common stock, subject to certain limitations. In addition, as part of this transaction our previous $3 million loan to Portsmith was converted into an equity contribution in Portsmith.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other information contained in this Form 10-K. The selected financial data presented below under the captions "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" as of and for each of the years in the five-year period ended December 31, 2001 are derived from the consolidated financial statements of the Company, which consolidated financial statements have been audited by KPMG LLP, independent certified public accountants. The consolidated financial statements as of December 31, 2001 and 2000 and for each of the years in the three-year period ended December 31, 2001, are derived from our consolidated financial statements, included elsewhere in this Form 10-K.

	YEARS ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
REVENUE:					
Net product sales	$ 27,925	$ 25,905	$ 13,952	$ 21,072	$ 12,744
Technology transfer fee	400	2,100	--	--	--
Total revenue	28,325	28,005	13,952	21,072	12,744
COST OF REVENUE:					
Product sales	25,703	20,015	11,751	23,530	13,335
Technology transfer	--	200	--	--	--
Total cost of revenue	25,703	20,215	11,751	23,530	13,335
Gross profit (loss)	2,622	7,790	2,201	(2,458)	(591)
OPERATING EXPENSES:					
Sales and marketing	8,129	8,323	5,208	5,131	2,625
Research and development	5,598	5,882	3,377	4,361	2,951
General and administrative	9,957	6,776	3,651	4,446	1,907
Total operating expenses	23,684	20,981	12,236	13,938	7,484
Loss from operations	(21,062)	(13,191)	(10,035)	(16,396)	(8,075)
Other (expense) income:					
Interest, net	1,313	570	(1,456)	(1,005)	(587)
Non-cash deferred loan cost amortization	--	(2,527)	(4,840)	(633)	(89)
Other, net	65	(138)	(126)	1	(24)
Loss before provision for income taxes	(19,684)	(15,286)	(16,457)	(18,033)	(8,775)
Provision for income taxes	--	--	--	--	--
Net loss	(19,684)	(15,286)	(16,457)	(18,033)	(8,775)
Cumulative dividends on Series B preferred Stock	--	--	--	--	(317)
Beneficial conversion cost of preferred stock	--	(49)	(1,450)	--	--
Net loss attributable to common stockholders	$(19,684)	$(15,335)	$(17,907)	$(18,033)	$ (9,092)
Net loss per share:					
Basic and diluted	$ (1.33)	$ (1.55)	$ (3.59)	$ (4.36)	$ (3.45)
Weighted average common shares outstanding:					
Basic and diluted	14,809	9,885	4,994	4,136	2,639
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents	$ 14,753	$ 30,369	$ 4,792	$ 2,433	$ 2,216
Working capital (deficit)	19,392	37,013	5,483	(3,511)	1,928
Total assets	35,038	55,674	14,899	12,735	12,250
Long-term debt, less current installments	--	--	8,051	3,587	3,919
Total stockholders' equity (deficiency)	30,148	48,904	2,310	(3,496)	430

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto contained in this Report.

OVERVIEW

Mobility Electronics, Inc. designs, develops and markets connectivity devices and accessories for the computer industry and for a broad range of related microprocessor applications. Our major focus has been on developing remote peripheral component interface, or PCI bus, technology and products using our proprietary Split Bridge(TM) technology. We also design, develop and market a range of other products for portable computers. To date, our revenues have come predominantly from monitor stands, in air/in car chargers and expansion products. We expect revenues from those products to continue and we also expect to see increasing Split Bridge(TM) revenues from both product and technology sales as we further expand our markets and strategic relationships in this area.

In 2001, we completed development of our fundamental Split Bridge(TM) technology and first generation docking products based thereon. As a result, we have been able to free up resources to capitalize on the emerging opportunities we have in other areas of our business. Early in 2002, we adopted an evolved corporate strategy to leverage our strong intellectual property holdings and unique products to create a broader base of innovative mobile computing solutions that are natural extensions of our current applications.

Going forward, our efforts will be centered around four core product lines: portable computer universal docking products based on Split Bridge(TM) technology; expansion products that increase the functionality and capabilities of desktop and portable computers; unique products and solutions for powering and recharging the batteries of portable devices, such as in air/in car chargers; and innovative products and solutions for handheld computing devices such as personal digital assistants (PDAs) and pocket PC's.

The PCI bus is the electrical transmission path linking the computer's central processing unit with its memory and other peripheral devices, such as modems, disk drives and local area networks, or LANs. Our proprietary Split Bridge(TM) technology consists of a Split Bridge(TM) link, typically two customized semiconductors, known as application-specific integrated circuits, or ASIC chips, two connectors and a high-speed, bi-directional cable. Our technology for the first time allows the primary PCI bus of any computer to be extended to a remote location, up to 17 feet, with virtually no software requirements or performance degradation, thereby enabling architectural designs of computer systems and applications that previously were not feasible. We currently have two Split Bridge(TM) patents that are issued by the U.S. Patent and Trademark Office. Our first major application for Split Bridge(TM) technology has been the creation of a new universal docking product category which allows users of portable computers to configure a flexible, high performance docking solution that meets their individual needs. However, we intend to pursue the further commercialization of Split Bridge(TM) technology so that we are able to expand our product offerings to include additional applications and markets.

In October 2000, we acquired all of the assets of Mesa Ridge Technologies, Inc. d/b/a MAGMA, a privately held company. MAGMA provides a range of PCI expansion products for the computer industry which utilize traditional PCI bridge technology and MAGMA's patented expansion technology. The acquisition of MAGMA solidified Mobility's market leadership position in the PCI expansion business by providing products, distribution channels, key customers, and additional resources that can leverage our Split Bridge(TM) technology and accelerate our growth and development in this market segment.

In February 2002, we acquired Portsmith, Inc., an industry leader in providing connectivity solutions for handheld computing devices. This acquisition provides us with an entrance into the rapidly growing handheld computing device market and reinforces our focus on delivering powerful mobile computing solutions. Portsmith currently provides a range of Ethernet, modem, and other connectivity products for the most popular handheld devices such as Palm, Handspring Visor, Compaq IPAQ, and other mainstream PDA

products, and intends to undertake a number of important product development programs that expand on these solutions.

We sell our products directly to OEMs and the retail channel, as well as through distributors. We have also established a few select worldwide private label accounts, most notably IBM, NEC and Targus. A substantial portion of our net product sales are concentrated among a number of OEMs, including Compaq, Dell, Hewlett−Packard, IBM, NEC, Targus and Toshiba. A portion of our sales to IBM are made through Kingston Technologies, who acts as their fulfillment hub manager for sales in the United States and Malaysia. Direct sales to OEMs accounted for approximately 71.9% of net product sales for the year ended December 31, 2001 and 71.5% of net product sales for the year ended December 31, 2000. Direct sales to OEMs have increased as a percentage of net product sales as we have successfully promoted our power products and monitor stands in the OEM market. We expect that we will continue to be dependent upon a number of OEMs for a significant portion of our net product sales in future periods, although no OEM is presently obligated to purchase a specified amount of products. Effective December 2001, we came to an agreement with Targus to terminate our relationship. In the future, we intend to market our products previously sold through Targus under our own brand directly through distribution channels we have established and are continuing to develop.

In March 2002, we announced our execution of a definitive agreement to acquire iGo Corporation, a leading computer solutions provider. iGo distributes its products through distributors and directly through its catalog operations and e−commerce web site, and is a well−recognized brand name in the portable computer power products and accessories market. We believe the acquisition of iGo will greatly strengthen our distribution capabilities. The closing of this transaction is subject to the satisfaction of certain material conditions precedent, including without limitation, approval by the iGo stockholders and the declared effectiveness by the Securities and Exchange Commission of a registration statement which registers the issuance of the shares of our common stock to be issued to the iGo stockholders in such transaction.

A portion of our sales to distributors and resellers is generally under terms that provide for certain stock balancing return privileges and price protection. Accordingly, we make a provision for estimated sales returns and other allowances related to those sales using historical experience. Returns, which have been netted in the product sales presented herein, were approximately 5.5% of net product sales for the year ended December 31, 2001 and 5.8% of net product sales for the year ended December 31, 2000. The major distributors are allowed to return up to 15% of their prior quarter's purchases under the stock balancing programs, provided that they place a new order for equal or greater dollar value of the stock balancing return.

We derive a significant portion of our net product sales outside the United States, principally in France, Germany and the United Kingdom, to OEMs, retailers and a limited number of independent distributors. International sales accounted for approximately 31% of our net product sales for the year ended December 31, 2001. We expect product sales outside the United States to continue to account for a large portion of our future net product sales. International sales are generally denominated in the currency of our foreign customers. A decrease in the value of foreign currencies relative to the U.S. dollar could result in a significant decrease in U.S. dollar sales received by us for our international sales. That risk may be increased as a result of the introduction in January 1999 of the new "Euro" currency in European countries that are part of the European Monetary Union, or EMU. During 2002, all EMU countries are expected to completely replace their national currencies with the Euro. However, we cannot determine the impact this may have on our business because a significant amount of uncertainty exists as to the effect the Euro will have on the marketplace and because all of the final rules and regulations have not yet been defined and finalized by the European Commission regarding the Euro currency. We intend to develop and implement a plan to mitigate this risk once the final rules and regulations are established. We have not engaged in hedging transactions with respect to our net foreign currency exposure. To the extent that we implement hedging activities in the future with respect to foreign currency transactions, there can be no assurance that we will be successful in such hedging activities.

Various factors have in the past affected and may continue in the future to affect our gross profits, including but not limited to, our product mix, lower volume production and higher fixed costs for newly

introduced product platforms and technologies, market acceptance of newly introduced products and the position of our products in their respective lifecycles. The initial stages of our product introductions are generally characterized by lower volume production, which is accompanied by higher costs, especially for specific products, which are initially purchased in small volumes during the development lifecycle.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of its financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make a number of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, warranty obligations, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

REVENUE RECOGNITION

Revenue from product sales is recognized upon shipment and transfer of ownership from us or contract manufacturer to the customer. Allowances for sales returns and credits based on historical experience are provided for in the same period the related sales are recorded. Should the actual return or sales credit rates differ from our estimates, revisions to the estimated allowance for sales returns and credits may be required.

Revenue from technology transfer fees, consisting of the licensing and transferring of Split Bridge(TM) and other technology and architecture, and related training and implementation support services, is recognized over the term of the respective sales or license agreement. Certain license agreements contain no stated termination date, whereby we recognize the revenue over the estimated life of the license. Should the actual life differ from the estimates, revisions to the estimated life may be required.

ACCOUNTS RECEIVABLE

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is assessed on a regular basis by management and is based upon management's periodic review of the collectibility of the receivables with respect to historic experience. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is primarily determined using the first-in first-out method. We monitor usage reports to determine if the carrying value of any items should be adjusted due to lack of demand for the items. We adjust down the inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

WARRANTY COSTS

We provide limited warranties on certain of its products for periods generally not to exceed three years. We accrue for the estimated cost of warranties at the time revenue is recognized. The accrual is based on the

Company's actual claims experience. Should actual warranty claim rates, or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required.

DEFERRED INCOME TAXES

To date, our deferred tax assets have been offset by a valuation allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to the valuation allowance and deferred tax benefit would increase income in the period such determination was made.

RESULTS OF OPERATIONS

The following table sets forth certain consolidated financial data for the periods indicated expressed as a percentage of total revenue for the periods indicated:

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
REVENUE:			
Net product sales	98.6%	92.5%	100.0%
Technology transfer fees	1.4%	7.5%	--
Total revenue	100.0%	100.0%	100.0%
COST OF REVENUE:			
Product sales	90.7%	71.5%	84.2%
Technology transfer	--	0.7%	--
Total cost of revenue	90.7%	72.2%	84.2%
Gross profit	9.3%	27.8%	15.8%
OPERATING EXPENSES:			
Sales and marketing	28.7%	29.7%	37.3%
Research and development	19.8%	21.0%	24.2%
General and administrative	35.1%	24.2%	26.2%
Total operating expenses	83.6%	74.9%	87.7%
Loss from operations	(74.3)%	(47.1)%	(71.9)%
OTHER EXPENSE:			
Interest, net	4.6%	2.0%	(10.4)%
Non-cash deferred loan cost amortization	--	(9.0)%	(34.7)%
Other income (expense), net	0.2%	(0.5)%	(0.9)%
Loss before provision for income taxes	(69.5)%	(54.6)%	(117.9)%
Provision for income taxes	--	--	--
Net loss	(69.5)%	(54.6)%	(117.9)%

YEARS ENDED DECEMBER 31, 2001 AND 2000

Net product sales. Net product sales consist of sales of product, net of returns and allowances. We recognize sales at the time goods are shipped and the ownership of the goods is transferred to the customer. Allowances for returns and credits are made in the same period the related sales are recorded. Net product sales increased 7.8% to $27.9 million for the year ended December 31, 2001 from $25.9 million for the year ended December 31, 2000. Approximately $3.3 million of the increase was due to sales of PCI expansion

products through our MAGMA subsidiary, which we acquired in October 2000. Approximately $1.9 million of the increase was due to an increase in sales of our power adapter and monitor stand product lines. These increases were partially offset by a decrease of approximately $3.0 million in sales of our universal serial bus (USB) docking products in 2001. We anticipate completely exiting the USB product line during 2002. Due to the termination of our distribution agreement with Targus, Inc. in December 2001, we anticipate a reduction in sales of our power products in the first half of 2002. However, we anticipate that the reduction will be offset by increases in sales of our other products.

Technology transfer fees. Technology transfer fees consist of revenue from the licensing and transferring by the Company of its Split Bridge(TM) technology and architecture. Revenue from technology transfer fees is recognized ratably over the term of the sales agreement. During the year ended December 31, 2001, we recognized a technology transfer fee of $400,000 or 1.4% of total revenues. Technology transfer fees represented revenue of $2.1 million, or 7.5% of total revenues, for the year ended December 31, 2000.

Cost of revenue -- product sales. Cost of revenue -- product sales consists primarily of costs associated with components, outsourced manufacturing and in-house labor associated with assembly, testing, packaging, shipping and quality assurance, and depreciation of equipment and indirect manufacturing costs. Cost of revenue -- product sales increased 28.4% to $25.7 million for the year ended December 31, 2001 from $20.0 million for the year ended December 31, 2000. The increase in cost of revenue -- product sales was due in part to the 7.8% volume increase in net product sales. The balance of the increase was due to a $3.8 million charge to cost of revenue -- product sales for excess and obsolete inventory and abandoned tooling. Cost of revenue -- product sales as a percentage of net product sales increased to 92.0% for the year ended December 31, 2001 from 77.3% for the year ended December 31, 2000. Excluding the $3.8 million charge recorded in 2001, cost of revenue -- product sales as a percentage of net product sales for the year ended December 31, 2001 increased to 78.6% from 72.2%, excluding a $1.3 million charge to write off obsolete inventory, for the year ended December 31, 2000.

Cost of revenue -- technology transfer. Cost of revenue -- technology transfer consists of engineering expenses related to the Split Bridge(TM) technology. There were no costs of revenue -- technology transfer for the year ended December 31, 2001, as the technology transfer fees for the period consisted solely of fees for existing technology. Cost of revenue -- technology transfer was $200,000 for the year ended December 31, 2000.

Gross profit. Gross profit decreased to 9.3% of total revenue for the year ended December 31, 2001 from 27.8% of total revenue for the year ended December 31, 2000. The gross profit rate decline was the result of the $3.8 million charge to cost of revenue -- product sales for excess and obsolete inventory and abandoned tooling, and the decrease in technology transfer fee revenues. Excluding the $3.8 million charge, gross profit decreased to 22.5% of total revenues for the year ended December 31, 2001 from 32.5% of total revenue for the year ended December 31, 2000 excluding a $1.3 million charge to write off obsolete inventory.

Sales and marketing. Sales and marketing expenses generally consist of salaries, commissions and other personnel related costs of our sales, marketing and support personnel, advertising, public relations, promotions, printed media and travel. Sales and marketing expenses decreased 2.3% to $8.1 million for the year ended December 31, 2001 from $8.3 million for the year ended December 31, 2000. The decrease is primarily the result of a reduction in marketing programs resulting from our decision to focus our marketing efforts on what we have deemed to be the most productive sales channels. As a percentage of total revenue, sales and marketing expenses decreased to 28.7% for the year ended December 31, 2001 from 29.7% for the year ended December 31, 2000.

Research and development. Research and development expenses consist primarily of salaries and personnel-related costs, facilities, outside consulting, lab costs and travel related costs of our product development group. Research and development expenses decreased 4.8% to $5.6 million for the year ended December 31, 2001 from $5.9 million for the year ended December 31, 2000. Research and development expenses as a percentage of total revenue decreased to 19.8% for the year ended December 31, 2001 from 21.0% for the year ended December 31, 2000. The decrease is due to the reductions in engineering costs, primarily personnel, in 2001 relating to Split Bridge(TM) technology, which was largely developed during 2000

and the early part of 2001. We expect to see further decreases in research and development expenses as a result of the completion of the fundamental development of our Split Bridge(TM) technology.

General and administrative. General and administrative expenses consist primarily of salaries and other personnel-related expenses of our finance, human resources, information systems, corporate development and other administrative personnel, as well as professional fees, depreciation and amortization and related expenses. General and administrative expenses also include non-cash compensation, which is the result of the issuance of common stock, warrants and stock options at a price deemed to be less than market value to employees and outside consultants for services rendered, and goodwill amortization which relates to the acquisition of Magma in October, 2000. General and administrative expenses increased 47.0% to $10.0 million for the year ended December 31, 2001 from $6.8 million for the year ended December 30, 2000. The increase is due primarily to the write-off of a $3.0 million loan to a strategic partner, Portsmith, Inc., that we believed had become uncollectible. Excluding the write-off, general and administrative expenses as a percentage of total revenue increased to 24.6% for the year ended December 31, 2001 from 24.2% for the year ended December 31, 2000. As we begin to recognize increased revenues from the sales of our products, we anticipate that general and administrative expenses, as a percentage of revenue, will decrease.

Interest, net. Interest, net consists primarily of interest earned on our cash balances and short-term investments, net of interest expense. For the year ended December 31, 2000, net interest expense consists of interest on our bank revolving lines of credit and promissory notes as well as our subordinated debt and convertible debentures, partially offset by interest earned on our cash balances and short-term investments. Net interest income for year ended December 31, 2001 was $1.3 million compared to $0.6 million for the year ended December 31, 2000. The change was primarily due to the payoff of debt with our IPO proceeds during 2000 and interest earned on our IPO proceeds during 2000 and 2001.

Non-cash deferred loan costs. Non-cash deferred loan costs decreased to zero for the year ended December 31, 2001 from $2.5 million for the year ended December 31, 2000. The decrease was the result of the balance of deferred loan costs that were expensed in 2000 when the associated debt was repaid with a portion of our IPO proceeds.

Income taxes. We have incurred losses from inception to date; therefore, no provision for income taxes was required for the years ended December 31, 2001 or 2000.

YEARS ENDED DECEMBER 31, 2000 AND 1999

Net product sales. Net product sales increased 85.7% to $25.9 million for the year ended December 31, 2000 from $14.0 million for the year ended December 31, 1999. The increase was primarily due to increased sales of power products and monitor stands to OEM customers. Sales of power products and monitor stands grew 91.7% to $16.8 million for the year ended December 31, 2000 from $8.8 million for the year ended December 31, 1999. In addition, sales of our universal docking products, which includes products built on USB and Split Bridge(TM) technology platforms, totaled $5.4 million in 2000 following introduction to the market in December 1999. Other contributors were sales of Magma's expansion products, which totaled $2.3 million. These increases were offset in part by a $3.6 million reduction in sales of mechanical docks during the year 2000.

Technology transfer fees. Technology transfer fees represented revenue of $2.1 million for the year ended December 31, 2000. The technology transfer fees consist of revenue from the licensing and transferring by the Company of its Split Bridge(TM) technology and related training and implementation support services. The fees are amortized over the life of the agreements. This represents a new revenue stream created by the commercialization of our Split Bridge(TM) technology.

Cost of revenue-product sales. Cost of revenue-product sales for the year ended December 31, 2000 increased 70.3% to $20.0 million from $11.8 million for the year ended December 31, 1999. The increase was due to the increase in net product sales.

Gross profit. Gross profit increased to 27.8% of total revenue for the year ended December 31, 2000 from 15.8% of total revenue for the year ended December 31, 1999. The increase was due primarily to our

decision to outsource the manufacture of our products. In addition to the cost savings obtained from outsourcing, the universal docking products, which include products based upon both USB and Split Bridge(TM) technologies have higher gross profit rates.

Sales and marketing. Sales and marketing expenses increased 59.8% to $8.3 million for the year ended December 31, 2000 from $5.2 million for the year ended December 31, 1999. The increase was due to the expansion of our internal infrastructure and increased marketing efforts to promote our new Split Bridge(TM) based products. We added regional sales managers, a telemarketing group, a customer service group and funded approximately $450,000 in increased sales efforts by our European representative resulting in a $1.9 million increase in selling expenses. Our marketing expenses also increased $1.2 million, primarily as a result of an increase in spending on trade shows of approximately $272,000 and increased advertising of approximately $342,000.

Research and development. Research and development expenses increased 74.2% to $5.9 million for the year ended December 31, 2000 from $3.4 million for the year ended December 31, 1999. Salaries, related expenses and employee recruiting increased approximately $786,000 due to increases in general engineering staffing and the addition of an internal ASIC development team to pursue the next generation of Split Bridge(TM) technology. Prototype expenses also increased approximately $457,000 as a result of ongoing new product development. In addition, we wrote off $540,000 of tooling expense and $400,000 in pre-production inventory costs related to an uncompleted product that was abandoned.

General and administrative. General and administrative costs increased 85.6% to $6.8 million for the year ended December 31, 2000 from $3.6 million for the year ended December 31, 1999. Approximately $1.5 million of the increase was attributed to staffing and infrastructure additions to support the higher sales volume and anticipated launch of the universal connectivity products. Consulting and legal fees, investor relation expenses and various other filing fees increased $397,000 as a result of entering the public equity market. Non-cash expenditures included in general and administrative expenses included $155,000 of goodwill amortization expense resulting from the acquisition of Magma in October 2000 and an increase in non-cash compensation to $1.5 million for the year ended December 31, 2000 from $561,000 for the year ended December 31, 1999. This increase was due primarily to the write-off of the remaining value of options issued to consultants that vested fully with the completion of our IPO in June 2000, as well as to the fact that we recorded a full year's amortization on employee options, many of which were issued late in 1999.

Interest, net. Interest, net increased to $570,000 interest income, net for the year ended December 31, 2000 from $1.5 million interest expense, net for the year ended December 31, 1999. The decrease in interest expense and corresponding increase in interest income was the result of paying off all our debt with a portion of our IPO proceeds and investing the remaining proceeds in interest-bearing accounts.

Non-cash deferred loan costs. Non-cash deferred loan costs decreased 47.8% to $2.5 million for the year ended December 31, 2000 from $4.8 million for the year ended December 31, 1999. The decrease was the result of 1999 costs being largely due to the issuance of convertible bridge loan debt that included warrants which resulted in non-cash deferred loan expense of $4.8 million. No such debt was issued in 2000, although the balance of deferred loan costs were all expensed in 2000 when the associated debt was repaid with a portion of our IPO proceeds.

Income taxes. We have incurred losses from inception to date; therefore, no provision for income taxes was required for the years ended December 31, 2000 or 1999.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2000, our registration statement on Form S-1 registering our initial public offering, or IPO, of 4,000,000 shares of common stock became effective. At the offering price of $12.00 per share, we received proceeds of approximately $43.1 million, net of underwriting discounts, commissions and other expenses, from the IPO. As part of the IPO, we granted the underwriters a 30-day option to purchase up to 600,000 additional shares of common stock to cover over-allotments, if any. On July 28, 2000, the underwriters exercised their

30-day option in full and purchased 600,000 additional shares of common stock, resulting in additional IPO proceeds of approximately $6.7 million, net of underwriting discounts, commissions and other expenses.

Since inception, we have funded our operations primarily through debt and equity financing, as the cash consumed by our operating activities has exceeded cash generated by revenues. Our operating activities used cash of $12.8 million, $14.2 million and $11.5 million for the years ended December 31, 2001, 2000 and 1999, respectively. Net cash used in operating activities for the year ended December 31, 2001 was primarily attributed to our net loss and increases in inventories, prepaid expenses and other assets and reductions in accounts payable and accrued expenses. Cash used in operating activities was offset, in part, by a decrease in accounts receivable, non-cash expenses such as depreciation of property and equipment, write-off of a note receivable, which has become uncollectible, amortization of deferred compensation and intangibles, and provision for obsolete inventory.

Our investing activities used cash of $2.8 million, $6.2 million and $0.7 million for the years ended December 31, 2001, 2000 and 1999, respectively. For the year ended December 31, 2001, cash used in investing activities was for the purchase of property and equipment, cash paid for a note receivable which was written off in its entirety during the year ended December 31, 2001, and cash paid to exercise a stock purchase warrant.

Our net financing activities used cash of $17,000 for the year ended December 31, 2001 and generated cash of $46.0 million and $14.6 million for the years ended December 31, 2000 and 1999, respectively. Net cash used in financing activities for the year ended December 31, 2001 was primarily used to pay down capital lease obligations.

Our cash and cash equivalents decreased to $14.8 million at December 31, 2001 compared to $30.4 million at December 31, 2000. Our net working capital at those same dates was $19.4 million and $37.0 million, respectively. At December 31, 2001 our available sources of liquidity were our cash and cash equivalents.

Our future capital requirements include funding operations, financing the growth of working capital items such as accounts receivable and inventories, and the purchase of equipment and fixtures to accomplish future growth. We believe that our cash and cash equivalents on hand will be sufficient to satisfy our expected cash and working capital requirements for the next twelve months.

At December 31, 2001, we had approximately $65.0 million of federal, foreign and state net operating loss carryforwards which expire at various dates. We anticipate that the sale of common stock in the IPO coupled with prior sales of common stock will cause an annual limitation on the use of our net operating loss carryforwards pursuant to the change in ownership provisions of Section 382 of the Internal Revenue Code of 1986, as amended. This limitation is expected to have a material effect on the timing of our ability to use the net operating loss carryforward in the future. Additionally, our ability to use the net operating loss carryforward is dependent upon our level of future profitability, which cannot be determined.

At December 31, 2001, we had future commitments relating to various non-cancelable operating leases totaling $1.0 million dollars, payable over the next three years, with $0.6 million payable in 2003, $0.2 million payable in 2004, and $0.2 million payable in 2005.

INFLATION

We do not believe that inflation has a material effect on the Company's operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement No. 141, Business Combinations ("Statement 141"), and Statement No. 142, Goodwill and Other Intangible Assets ("Statement 142"). Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and

reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

We are required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, which it expects to account for using the pooling-of-interests method, and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that we evaluate our existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, we will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, we will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require us to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this we must identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. We will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. In the second step, we must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of it assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our statement of operations.

Finally, any unamortized negative goodwill existing at the date Statement 142 is adopted must be written off as the cumulative effect of a change in accounting principle.

As of the date of adoption, we have unamortized goodwill in the amount of $5.6 million, which will be subject to the transition provisions of Statements 141 and 142. At that same date, we will have no unamortized identifiable intangible assets and no unamortized negative goodwill. Amortization expense related to goodwill was $621,000 and $155,000 for the years ended December 31, 2001 and 2000, respectively. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on our financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations ("Statement 143"). Statement 143 requires that the fair value of a liability for an asset retirement obligation be recorded in the period in which it is incurred. We are required to adopt the provisions of Statement 143 as of January 1, 2003. The adoption of Statement 143 is not expected to have a material effect on our consolidated financial statements.

In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("Statement 144"). Statement 144 supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Statement 144 also supercedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. We are required to adopt the provisions of Statement 144 as of January 1, 2002. The adoption of Statement 144 is not expected to have a material effect on our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

The above discussions contain forward-looking statements based on current expectations, and we assume no obligation to update these statements. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. These statements are based on our estimates, projections, beliefs, and assumptions, and are not guarantees of future performance. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by us. These factors include: reduced demand for our products; the loss of one or more of our significant customers; an inability to increase our market share; difficulties in maintaining our technology and supplier alliances; and a continued downturn in general economic conditions.

These factors and the other matters discussed above under the heading "Disclosure Concerning Forward-Looking Statements" in Part I of this Report may cause future results to differ materially from historical results, or from results or outcomes we currently expect or seek.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks in the ordinary course or our business. These risks result primarily from changes in foreign currency exchange rates and interest rates. In addition, our international operations are subject to risks related to differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

To date we have not utilized derivative financial instruments or derivative commodity instruments. We do not expect to employ these or other strategies to hedge market risk in the foreseeable future. We invest our cash in money market funds, which are subject to minimal credit and market risk. We believe that the market risks associated with these financial instruments are immaterial.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Mobility Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Mobility Electronics, Inc. and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mobility Electronics, Inc. and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Phoenix, Arizona
March 1, 2002, except for the second
paragraph of Note 18, which is as of March 25, 2002

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,753	$ 30,369
Accounts receivable, net	6,035	6,906
Inventories	3,385	6,371
Prepaid expenses and other current assets	108	137
Total current assets	24,281	43,783
Property and equipment, net	1,869	1,683
Goodwill, less accumulated amortization of $776 and $155 at December 31, 2001 and 2000, respectively	5,627	6,055
Other assets, net	3,260	4,153
	$ 35,037	$ 55,674
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,540	$ 4,479
Accrued expenses and other current liabilities	1,349	2,254
Current installments of capital lease obligations	--	37
Total current liabilities	4,889	6,770
Total liabilities	4,889	6,770
Commitments, contingencies and subsequent events (notes 3, 7, 10, 12, 14, 15 and 18)		
Stockholders' equity:		
Convertible preferred stock -- Series C, $.01 par value; authorized 15,000,000 shares; 682,659 and 1,263,708 issued and outstanding at December 31, 2001 and 2000, respectively	7	13
Common stock, $.01 par value; authorized 90,000,000 Shares; 15,128,641 and 14,323,100 shares issued and outstanding at December 31, 2001 and 2000, respectively	151	143
Additional paid-in capital	113,127	113,614
Accumulated deficit	(81,630)	(61,946)
Stock subscription and deferred compensation	(1,484)	(2,920)
Accumulated other comprehensive loss	(23)	--
Total stockholders' equity	30,148	48,904
	$ 35,037	$ 55,674

See accompanying notes to consolidated financial statements.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Revenue:			
Net product sales	$ 27,925	$ 25,905	$ 13,952
Technology transfer fees	400	2,100	--
Total revenue	28,325	28,005	13,952
Cost of revenue:			
Product sales	25,703	20,015	11,751
Technology transfer	--	200	--
Total cost of revenue	25,703	20,215	11,751
Gross profit	2,622	7,790	2,201
Operating expenses:			
Marketing and sales	8,129	8,323	5,208
Research and development	5,598	5,882	3,377
General and administrative	9,957	6,776	3,651
Total operating expenses	23,684	20,981	12,236
Loss from operations	(21,062)	(13,191)	(10,035)
Other income (expense):			
Interest income (expense), net	1,313	570	(1,456)
Non-cash deferred loan cost amortization	--	(2,527)	(4,840)
Other, net	65	(138)	(126)
Loss before provision for income taxes	(19,684)	(15,286)	(16,457)
Provision for income taxes	--	--	--
Net loss	(19,684)	(15,286)	(16,457)
Beneficial conversion costs of preferred stock	--	(49)	(1,450)
Net loss attributable to common stockholders	$(19,684)	$(15,335)	$(17,907)
Loss per share:			
Basic and diluted	$ (1.33)	$ (1.55)	$ (3.59)
Weighted average common shares outstanding:			
Basic and diluted	14,809	9,885	4,994

See accompanying notes to consolidated financial statements.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)

	PREFERRED STOCK	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	STOCK SUBSCRIPTIONS AND DEFERRED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE LOSS	NET STOCKHOLDERS EQUITY (DEFICIENCY)
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)							
Balances at December 31, 1998	$ 6	4,563,806	$ 46	$ 26,665	$(30,203)			
Conversion of convertible debentures to common stock	--	296,342	3	2,368	--			
Issuance of common stock for cash	--	394,063	4	3,033	--			
Warrants exercised	--	681,093	7	183	--			
Issuance of warrants	--	--	--	5,634	--			
Issuance of preferred stock through private placements	15	--	--	8,070	--			
Issuance of preferred stock for cash	1	--	--	931	--			
Issuance of preferred stock to VLSI	1	--	--	998	--			
Issuance of common stock in settlement agreement	--	38,500	--	308	--			
Stock options granted	--	--	--	3,180	--			
Issuance of common stock to consultant	--	4,875	--	51	--			
Preferred stock subscribed	1	--	--	299	--			
Deferred compensation	--	--	--	--	--			
Amortization of deferred compensation	--	--	--	--	--			
Comprehensive income (loss):								
Foreign currency translation adjustment	--	--	--	--	--			
Net loss	--	--	--	--	(16,457)			
Total comprehensive loss								
Balances at December 31, 1999	24	5,978,679	60	51,720	(46,660)			
Issuance of common stock for warrants exercised	--	1,710,083	17	104	--			
Issuance of common stock for options exercised	--	88,332	1	311	--			
Issuance of warrants	--	--	--	578	--			
Issuance of Series C preferred stock for cash	1	--	--	268	--			
Issuance of Series D preferred stock for cash	5	--	--	4,722	--			
Conversion of Series D preferred stock into common	(5)	438,595	4	1	--			
Conversion of Series C preferred stock into common	(12)	816,917	8	4	--			
Common stock issued for cash and note receivable	--	100,000	1	1,199	--			
Initial public offering of common stock, net of registration Costs	--	4,600,000	46	49,757	--			
Issuance of common stock upon conversion of bridge loans	--	28,685	--	327	--			
Issuance of common stock upon conversion of debentures	--	1,086	--	8	--			
Issuance of common stock for services	--	4,875	--	51	--			
Issuance of common stock for acquisition, net of $100,000 registration costs	--	562,098	6	4,614	--			
Repurchase and retirement of common stock	--	(6,250)	--	(50)	--			
Amortization of deferred compensation	--	--	--	--	--			
Net loss	--	--	--	--	(15,286)			
Balances at December 31, 2000	13	14,323,100	143	113,614	(61,946)			
Issuance of common stock for warrants exercised	--	76,500	1	1	--			
Issuance of common stock for options exercised	--	25,000	--	--	--			
Issuance of common stock under Employee Stock Purchase Plan	--	25,795	--	17	--			
Value of warrants issued under license agreement	--	--	--	71	--			
Conversion of Series C preferred stock into common	(6)	400,264	4	2	--			
Cancellation of common stock issued for cash and note receivable in 2000	--	(100,000)	(1)	(1,199)	--			
Common stock issued for cash and note receivable	--	267,127	3	702	--			
Issuance of common stock for a prior -- year acquisition	--	110,855	1	130	--			
Write-off of deferred compensation	--	--	--	(211)	--			
Amortization of deferred compensation	--	--	--	--	--			
Comprehensive income (loss):								
Foreign currency translation adjustment	--	--	--	--	--			
Net loss	--	--	--	--	(19,684)			
Total comprehensive loss								
Balances at December 31, 2001	$ 7	15,128,641	$151	$113,127	$(81,630)			

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

Balances at December 31, 1998	$ --	$(10)	$ (3,496)
Conversion of convertible debentures to common stock	--	--	2,371
Issuance of common stock for cash	--	--	3,037
Warrants exercised	--	--	190
Issuance of warrants	--	--	5,634
Issuance of preferred stock through private placements	--	--	8,085
Issuance of preferred stock for cash	--	--	932
Issuance of preferred stock to VLSI	--	--	999
Issuance of common stock in settlement agreement	--	--	308
Stock options granted	--	--	3,180
Issuance of common stock to consultant	--	--	51
Preferred stock subscribed	(300)	--	--
Deferred compensation	(2,775)	--	(2,775)
Amortization of deferred compensation	241	--	241
Comprehensive income (loss):			
Foreign currency translation adjustment	--	10	10
Net loss	--	--	(16,457)
Total comprehensive loss			(16,447)
Balances at December 31, 1999	(2,834)	--	2,310
Issuance of common stock for warrants exercised	--	--	121
Issuance of common stock for options exercised	--	--	312
Issuance of warrants	--	--	578
Issuance of Series C preferred stock for cash	--	--	269
Issuance of Series D preferred stock for cash	--	--	4,727
Conversion of Series D preferred stock into common	--	--	--
Conversion of Series C preferred stock into common	--	--	--
Common stock issued for cash and note receivable	(1,199)	--	1
Initial public offering of common stock, net of registration Costs	--	--	49,803
Issuance of common stock upon conversion of bridge loans	--	--	327
Issuance of common stock upon conversion of debentures	--	--	8
Issuance of common stock for services	--	--	51
Issuance of common stock for acquisition, net of $100,000 registration costs	--	--	4,620
Repurchase and retirement of common stock	--	--	(50)
Amortization of deferred compensation	1,113	--	1,113
Net loss	--	--	(15,286)
Balances at December 31, 2000	(2,920)	--	48,904
Issuance of common stock for warrants exercised	--	--	2
Issuance of common stock for options exercised	--	--	--
Issuance of common stock under Employee Stock Purchase Plan	--	--	17
Value of warrants issued under license agreement	--	--	71
Conversion of Series C preferred stock into common	--	--	--
Cancellation of common stock issued for cash and note receivable in 2000	1,199	--	(1)
Common stock issued for cash and note receivable	(675)	--	30
Issuance of common stock for a prior -- year acquisition	--	--	131
Write-off of deferred compensation	211	--	--
Amortization of deferred compensation	701	--	701
Comprehensive income (loss):			
Foreign currency translation adjustment	--	(23)	(23)
Net loss	--	--	(19,684)
Total comprehensive loss			(19,707)
Balances at December 31, 2001	$(1,484)	$(23)	$ 30,148

See accompanying notes to consolidated financial statements.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Cash flows from operating activities:			
Net loss	$(19,684)	$(15,286)	$(16,457)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provisions for doubtful accounts and sales returns and credits	284	867	955
Provision for obsolete inventory	3,543	1,305	1,734
Depreciation and amortization	1,695	954	982
Amortization on deferred loan costs	9	2,527	4,840
Write-off of tooling equipment	216	540	--
Loss on sale of subsidiary	--	--	134
Write-off of note receivable	3,000	--	--
Amortization of deferred compensation	701	1,505	253
Expense for stock subscription and/or stock granted to consultant	21	51	51
Changes in operating assets and liabilities, net of acquisition			
Accounts receivable	587	(3,938)	(1,151)
Inventories	(557)	(4,913)	71
Prepaid expenses and other assets	(764)	353	282
Accounts payable	(939)	1,028	(2,851)
Accrued expenses and other current liabilities	(905)	787	(342)
Net cash used in operating activities	(12,793)	(14,220)	(11,499)
Cash flows from investing activities:			
Purchase of property and equipment	(1,379)	(944)	(724)
Cash paid for acquisition, net of cash received	--	(1,897)	--
Cash paid for note receivable	(640)	(2,200)	--
Cash paid for warrant to purchase preferred stock	(764)	(1,200)	--
Net cash used in investing activities	(2,783)	(6,241)	(724)
Cash flows from financing activities:			
Net repayment on lines of credit	--	(2,729)	(2,402)
Borrowings under long-term debt	--	--	5,166
Repayment of long-term debt and capital lease obligations	(37)	(6,417)	(319)
Expenses related to conversion of debt into common stock	--	--	(116)
Net proceeds from issuance of preferred stock	--	4,996	9,017
Net proceeds from sale of common stock	17	49,804	3,037
Proceeds from exercise of warrants and options	3	434	190
Cash paid for treasury stock	--	(50)	--
Net cash (used in) provided by financing activities	(17)	46,038	14,573
Effects of exchange rates on cash and cash equivalents	(23)	--	10
Net (decrease) increase in cash and cash equivalents	(15,616)	25,577	2,360
Cash and cash equivalents, beginning of year	30,369	4,792	2,432
Cash and cash equivalents, end of year	$ 14,753	$ 30,369	$ 4,792
Supplemental disclosure of cash flow information:			
Interest paid	$ 26	$ 827	$ 1,224
Supplemental schedule of noncash investing and financing activities			
Common stock issued in connection with acquisition, net of accrued registration costs	$ 131	4,620	$ --
Warrants issued in connection with the execution and/or extension of long-term debt	$ --	$ 578	$ 5,634
Conversion of debentures and accrued interest to shares of			

common stock	$ --	$ 327	--
Conversion of bridge loans to shares of common stock	$ --	$ 8	$ 2,371
Retirement of treasury stock	$ --	$ 50	$ --
Issuance of 166,666 shares of Series C preferred stock for settlement of accounts payable and inventory purchases	$ --	$ --	$ 1,000
Issuance of 38,500 shares of common stock as settlement for contingent purchase price	$ --	$ --	$ 308
Options or warrants issued for services	$ 71	$ --	$ 3,180
Stock subscription receivable	$ 675	$ 1,199	$ 300
Conversion of Series C and D preferred stock to shares of common stock	$ 6	$ 17	$ --
Refinance of bridge loan interest payable	$ --	$ 160	$ --

See accompanying notes to consolidated financial statements.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 13, 2001, 2000 AND 1999

(1) NATURE OF BUSINESS

Mobility Electronics, Inc. and subsidiaries (collectively, "Mobility" or "the Company") formerly known as Electronics Accessory Specialists International, Inc. was formed on May 4, 1995. Mobility was originally formed as a limited liability corporation; however, in August 1996 the Company became a C Corporation incorporated in the State of Delaware.

Mobility manufactures and/or distributes in-car and in/out DC power adapters, portable computer docking stations, port replicators, monitor stands and other portable computing products and solutions. Mobility also designs, develops and markets connectivity and remote PCI bus technology and products for the computer industry and a broad range of related embedded processor applications. Mobility distributes products in the U.S., Canada and Europe.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventories, warranty obligations, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes its critical accounting policies, consisting of revenue recognition, accounts receivable, inventories, warranty costs, and deferred income taxes affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. These policies are discussed below.

(b) PRINCIPLES OF CONSOLIDATION

The 1999 consolidated financial statements include the accounts of Mobility and its wholly owned subsidiary, Mobility Electronics L.L.C. including its three operating subsidiaries, up to October 1999, being the date of the sale of this subsidiary. The 2000 consolidated financial statements include the accounts of Mobility and its wholly owned subsidiary, Magma, Inc., from October 2, 2000 (date of acquisition) to December 31, 2000. The 2001 consolidated financial statements include the accounts of Mobility and its wholly-owned subsidiaries, Magma, Inc. and Mobility Europe Holdings, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) REVENUE RECOGNITION

Revenue from product sales is recognized upon shipment and transfer of ownership from the Company or contract manufacturer to the customer. Allowances for sales returns and credits, based on historical experience, are provided for in the same period the related sales are recorded. Should the actual return or sales credit rates differ from the Company's estimates, revisions to the estimated allowance for sales returns and credits may be required.

Revenue from technology transfer fees, consisting of the licensing and transferring of Split Bridge(TM) and other technology and architecture, and related training and implementation support services, is recognized over the term of the respective sales or license agreement. Certain license agreements contain no stated

termination date, whereby the Company recognizes the revenue over the estimated life of the license. Should the actual life differ from the estimates, revisions to the estimated life may be required.

(d) CASH AND CASH EQUIVALENTS

All short-term investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents include cash on hand and amounts on deposit with financial institutions.

(e) ACCOUNTS RECEIVABLE

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance is assessed on a regular basis by management and is based upon management's periodic review of the collectibility of the receivables with respect to historical experience. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(f) INVENTORIES

Inventories consist of component parts purchased partially and fully assembled for computer accessory items. The Company has all normal risks and rewards of its inventory held by contract manufacturers. Inventories are stated at the lower of cost (first-in, first-out method) or market. Finished goods and work-in-process inventories include material, labor and overhead costs. Overhead costs are allocated to inventory manufactured in-house based upon direct labor. The Company monitors usage reports to determine if the carrying value of any items should be adjusted due to lack of demand for the items. The Company adjusts down the inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

(g) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Equipment held under capital leases is stated at the present value of future minimum lease payments. Depreciation on furniture, fixtures and equipment is provided using the straight-line method over the estimated useful lives of the assets ranging from two to seven years. Tooling is capitalized at cost and is depreciated over a two-year period. Equipment held under capital leases and leasehold improvements are amortized over the shorter of the lease term or estimated useful lives of the assets.

(h) DEFERRED LOAN COSTS

Deferred loan costs, consisting primarily of the value of warrants issued in conjunction with certain debt financings, are included in other assets and amortized over the term of the related debt.

(i) PATENTS, TRADEMARKS AND NON-COMPETE AGREEMENT

The cost of patents, trademarks and a non-compete agreement are included in other assets and amortized on a straight-line basis over their estimated economic lives of two to five years.

(j) GOODWILL

Goodwill represents the excess of purchase price over fair value of net assets acquired and is amortized on a straight-line basis over the estimated economic life of ten years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of goodwill balance over its remaining life can

be recovered through undiscounted future operating cash flows of the acquired operation. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

(k) IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(l) WARRANTY COSTS

The Company provides limited warranties on certain of its products for periods generally not exceeding three years. The Company accrues for the estimated cost of warranties at the time revenue is recognized. The accrual is based on the Company's actual claim experience. Should actual warranty claim rates, or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required. The Company's warranty accrual was $178,000 and $291,000 as of December 31, 2001 and 2000, respectively.

(m) INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to the valuation allowance and deferred tax benefit would increase income in the period such determination was made.

(n) NET LOSS PER COMMON SHARE

Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted to common stock or resulted in the issuance of common stock that then shared in the earnings or loss of the Company. The assumed exercise of outstanding stock options and warrants have been excluded from the calculations of diluted net loss per share as their effect is antidilutive.

(o) EMPLOYEE STOCK OPTIONS

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for its employee stock options and to adopt the "disclosure only" alternative treatment under Statement of Financial Accounting Standards

No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). SFAS No. 123 requires the use of fair value option valuation models that were not developed for use in valuing employee stock options. Under SFAS No. 123, deferred compensation is recorded for the excess of the fair value of the stock on the date of the option grant, over the exercise price of the option. The deferred compensation is amortized over the vesting period of the option.

(p) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of accounts receivable, accounts payable, and accrued expenses approximates the carrying value due to the short-term nature of these instruments.

(q) RESEARCH AND DEVELOPMENT

The cost of research and development is charged to expense as incurred.

(r) FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiary are measured using the local currency as the functional currency. Assets and liabilities of this subsidiary are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. The resulting cumulative translation adjustments have been recorded as comprehensive income (loss), a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in consolidated net loss for the years ended December 31, 2001, 2000 and 1999. These foreign currency transaction gains and losses were not considered material and, thus, are not separately disclosed on the face of the accompanying consolidated statements of operations.

(s) SEGMENT REPORTING

The Company has only one operating business segment, the sale of peripheral computer equipment.

(t) RECLASSIFICATIONS

Certain amounts included in the 2000 and 1999 consolidated financial statements have been reclassified to conform to the 2001 financial statement presentation.

(u) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement No. 141, Business Combinations ("Statement 141"), and Statement No. 142, Goodwill and Other Intangible Assets ("Statement 142"). Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company adopted the provisions of Statement 141 on July 1, 2001, and Statement 142 is effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized,

but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of it assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

Finally, any unamortized negative goodwill existing at the date Statement 142 is adopted must be written off as the cumulative effect of a change in accounting principle.

As of the date of adoption, the Company has unamortized goodwill in the amount of $5.6 million, which will be subject to the transition provisions of Statements 141 and 142. At that same date, the Company will have no unamortized identifiable intangible assets and no unamortized negative goodwill. Amortization expense related to goodwill was $621,000 and $155,000 for the years ended December 31, 2001 and 2000, respectively. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued Statement No. 143, Accounting for Asset Retirement Obligations ("Statement 143"). Statement 143 requires that the fair value of a liability for an asset retirement obligation be recorded in the period in which it is incurred. The Company is required to adopt the provisions of Statement 143 as of January 1, 2003. The adoption of Statement 143 is not expected to have a material effect on our consolidated financial statements.

In October 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("Statement 144"). Statement 144 supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Statement 144 also

supercedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. The Company is required to adopt the provisions of Statement 144 as of January 1, 2002. The adoption of Statement 144 is not expected to have a material effect on our consolidated financial statements.

(3) ACQUISITIONS AND SALE

(a) CNF MOBILE SOLUTIONS

On May 18, 2001 the Company acquired certain assets, including a product line, inventory related to that product line, and patent rights, of CNF Mobile Solutions, a manufacturer of computer peripheral products, for $685,000 cash. $585,000 of the total purchase price has been capitalized as inventory and intangibles and the remaining $100,000 has been recorded as a component of operating expenses. The acquisition has been accounted for as a purchase and, accordingly, the purchase price has been allocated to the assets acquired based upon the estimated fair values at the date of acquisition. No goodwill resulted from the purchase.

(b) MOBILITY EUROPE HOLDINGS, INC.

On January 1, 2001, the Company purchased essentially all of the assets of its European distributor for $282,000 cash and assumed its leases, employee contracts and other business contracts in order to better facilitate the sale of the Company's products in Europe. The European operations have been organized as a subsidiary of Mobility Europe Holdings, Inc., which was formed in January 2001 under the laws of the state of Delaware and is owned entirely by the Company. The acquisition has been accounted for as a purchase and, accordingly, the purchase price has been allocated to the assets acquired based upon the estimated fair values at the date of acquisition. No goodwill resulted from the purchase.

(c) MESA RIDGE TECHNOLOGIES

On October 2, 2000, the Company acquired all of the outstanding stock of Mesa Ridge Technologies, Inc., doing business as MAGMA, a California corporation ("Magma"). Magma manufactures and markets connectivity products (serial products and PCI slot expansion systems) to the music, video and satellite communications industries. The purchase price consisted of $2,000,000 in cash and 562,098 shares of Common Stock, valued at $4,720,000. In addition, contingent earn out payments are to be made to the selling stockholders depending upon Magma's performance over the two years following the date of acquisition, which are measured and payable on each anniversary date of the acquisition. During 2001, the Company issued 110,855 shares of common stock (valued at $131,000) as settlement of the first earn out payment under this purchase agreement.

The acquisition has been accounted for as a purchase and, accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based upon the estimated fair values at the date of acquisition. The acquisition resulted in goodwill of $6,211,000 which is being amortized on a straight-line basis over ten years.

The purchase price of $6,719,000 plus acquisition costs of $197,000 was allocated as follows (amounts in thousands):

Purchase price:	
Cash consideration	$ 2,000
Common stock and additional paid-in capital	4,720
Costs of acquisition	197
	$ 6,917
Assets acquired and liabilities assumed:	
Current assets	$ 2,216
Equipment	26
Other assets	13
Goodwill	6,211
Current liabilities	(1,549)
	$ 6,917

The consolidated financial statements as of December 31, 2000 includes the accounts of Magma and results of operations since the date of acquisition. The following summary, prepared on a pro forma basis present the results of operations as if the acquisition had occurred on January 1, 1999 (amounts in thousands, except per share data).

	YEARS ENDED DECEMBER 31,	
	2000	1999
	(UNAUDITED)	(UNAUDITED)
Net revenue	$ 34,760	$ 20,514
Net loss	$(15,911)	$(16,492)
Net loss attributable to common stockholders	$(15,959)	$(17,941)
Basic and diluted loss per share	$ (1.53)	$ (3.23)

The pro forma results are not necessarily indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at the beginning of 1999 or as a projection of future results.

(d) MIRAM

On July 29, 1997, the Company acquired certain assets and assumed certain liabilities approximating $565,000 of Miram International, Inc. (Miram), a manufacturer of docking stations, in exchange for 55,000 shares of common stock valued at $425,000, with further consideration payable in future periods, contingent upon product sales revenue during these periods. The transaction was accounted for in accordance with the purchase method of accounting. During May 1999, the Company issued an additional 38,500 shares of common stock valued at $308,000 to settle and eliminate any contingent future consideration. This amount has been recorded as a component of general and administrative expense for 1999 and no additional payments to the seller will be required.

(e) SALE OF MOBILITY ELECTRONICS LLC

On October 1, 1999, the Company sold its European subsidiary (Mobility Electronics LLC, which maintained offices in the United Kingdom and France, and offices and a warehouse/distribution center in Germany through its three operating subsidiaries, Mobility Electronics (U.K.), Mobility Electronics GMBH and Mobility SARL). The stated value of net assets of approximately $134,000 was sold for nominal consideration resulting in a loss on sale of the subsidiary of approximately $134,000, which is recorded as a component of other loss for 1999.

(4) INVENTORIES

Inventories consist of the following (amounts in thousands):

	DECEMBER 31,	
	2001	2000
Raw materials	$1,494	$3,167
Finished goods	1,891	3,204
	$3,385	$6,371

(5) PROPERTY AND EQUIPMENT

Property and equipment consists of the following (amounts in thousands):

	DECEMBER 31,	
	2001	2000
Furniture and fixtures	$ 258	$ 244
Store, warehouse and related equipment	743	406
Computer equipment	1,477	1,159
Capital lease assets	--	582
Tooling	2,068	2,006
Leasehold improvements	67	63
	4,613	4,460
Less accumulated depreciation and amortization	2,744	2,777
Property and equipment, net	$1,869	$1,683

Capital lease assets consist of computers and furniture and fixtures. Capital lease assets were fully amortized during 2001.

(6) OTHER ASSETS

Other assets consist of the following (amounts in thousands):

	DECEMBER 31,	
	2001	2000
Note receivable	$ --	$2,200
Investment in warrant	--	1,200
Investment in preferred stock	1,964	--
Prepaid license fee	676	400
Patents, trademarks and designs	816	454
Other	213	144
	3,669	4,398
Less accumulated amortization	409	245
Net other assets	$3,260	$4,153

(7) NOTE RECEIVABLE

In August 2000, the Company entered into a Strategic Partner Agreement and Purchase and Development Agreement with a Portsmith, Inc. ("Portsmith") to develop, license and sell certain products. In conjunction with these agreements, the Company signed a subordinated promissory note ("Subordinated Note") to loan up to $3,000,000 to Portsmith. Interest on the Subordinated Note, which accrues at a rate of 8% per annum, is payable on each anniversary date of the note, with principal, together with all accrued but unpaid interest, due and payable on August 29, 2003. The principal balance of the Subordinated Note is convertible at any time into post-conversion equity interest in Portsmith. During 2000, the Company advanced $2,200,000 to Portsmith under the Subordinated Note, all of which was outstanding at December 31, 2000 and reflected as a component of other assets. During 2001, the Company advanced the remaining $800,000. In September 2001, the Company determined the Subordinated Note to be uncollectible and wrote-off the $3,000,000 balance.

In February 2002, the Company acquired Portsmith pursuant to the merger of Portsmith with the Company's subsidiary, Mobility Europe Holdings, Inc. See note 18.

(8) INVESTMENT IN PREFERRED STOCK

In September 2000, the Company paid $1,200,000 to purchase a warrant to purchase Series A preferred stock of a company. The warrant is initially exercisable to purchase shares of Series A preferred stock equal to 10% of the fully diluted capital stock at an aggregate exercise price of $764,000. However, the exercise price and number of shares to be acquired upon the exercise of the warrant is adjusted if the company issues any capital stock or stock equivalent other than with respect to the exercise of the warrant at a price of less than $2,750 per share. During 2001, the Company paid $764,000 to exercise the warrant and the investment in Series A preferred stock is stated at a cost of $1,964,000 as a component of other assets at December 31, 2001.

(9) OPERATING LEASE COMMITMENTS

The Company has entered into various non-cancelable operating lease agreements for its office facilities, automobile, and office equipment. Existing facility leases require monthly rents plus payment of property taxes, normal maintenance and insurance on facilities. Rental expense for the operating leases was $1,000,000, $675,000 and $478,000 during the years ended 2001, 2000, and 1999, respectively.

A summary of the minimum future lease payments for the years ending after December 31 follows (amounts in thousands):

2002	$ 622
2003	215
2004	183
	$1,020

(10) INCOME TAXES

The Company has generated net operating losses for both financial and income tax reporting purposes since inception. At December 31, 2001 and 2000, the Company had net operating loss carryforwards for federal income tax purposes of approximately $62,060,000 and $47,480,000, respectively, and approximately $2,580,000 and $0 for foreign income tax purposes, respectively, which, subject to annual limitations, are available to offset future taxable income, if any, through 2021 and net operating loss carryforwards for state income tax purposes of approximately $62,060,000 and $47,480,000, which are available to offset future taxable income through 2006.

The temporary differences that give rise to deferred tax assets and liabilities at December 31, 2001 and 2000 are as follows (amounts in thousands):

	DECEMBER 31,	
	2001	2000
Deferred tax assets:		
Net operating loss carryforward for federal income taxes	$ 23,162	$ 18,204
Net operating loss carryforward for foreign income taxes	775	--
Net operating loss carryforward for state income taxes	4,271	3,309
Depreciation and amortization	154	151
Section 263A inventory	63	63
Accrued liabilities	156	278
Reserves	175	205
Bad debts	31	89
Investment tax credits	181	181
Inventory obsolescence	2,006	801
Total gross deferred tax assets	30,974	23,281
Deferred tax liabilities	--	--
Net deferred tax assets	30,974	23,281
Less valuation allowance	(30,974)	(23,281)
Net deferred tax assets	$ --	$ --

The valuation allowance for deferred tax assets as of December 31, 2001 and 2000 was $30,974,000 and $23,281,000, respectively. The net change in the total valuation allowance for the years ended December 31, 2001 and 2000 was an increase of $7,693,000 and $6,249,000, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. In addition, due to the frequency of equity transactions within the Company, it is possible the use

of the net operating loss carryforward may be limited in accordance with Section 382 of the Internal Revenue Code. A determination as to this limitation will be made at a future date as the net operating losses are utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences.

(11) STOCKHOLDERS' EQUITY

In January 2000, the Board of Directors authorized the Company's certificate of incorporation to increase the number of authorized shares of common stock to 100,000,000 and increased the authorized shares of preferred stock to 15,000,000 shares. Additionally, in March 2000, the Company's Board of Directors authorized and the Company's stockholders approved a 1-for-2 reverse stock split and a post-split adjustment of the number of authorized shares of common stock to 90,000,000 shares. All share information included in the accompanying consolidated financial statements has been retroactively adjusted to reflect these amendments.

(a) CONVERTIBLE PREFERRED STOCK

Series C preferred stock is convertible into shares of common stock. The initial conversion rate was one for one, but was subject to change if certain events occur. Generally, the conversion rate will be adjusted if the Company issues any non-cash dividends on outstanding securities, splits its securities or otherwise effects a change to the number of its outstanding securities. The conversion rate will also be adjusted if the Company issues additional securities at a price that is less than the price that the Series C preferred stockholders paid for their shares. Such adjustments will be made according to certain formulas that are designed to prevent dilution of the Series C preferred stock. The Series C preferred stock can be converted at any time at the option of the holder, and will convert automatically, immediately prior to the consummation of a firm commitment underwritten public offering of common stock pursuant to a registration statement filed with the SEC having a per share price equal to or greater than $24.00 per share and a total gross offering amount of not less than $15.0 million.

The Company may not pay any cash dividends on its common stock while any Series C preferred stock remain outstanding without the consent of the Series C preferred stockholders. Holders of shares of Series C preferred stock are entitled to vote on all matters submitted for a vote of the holders of common stock. Holders will be entitled to one vote for each share of common stock into which one share of Series C preferred stock could then be converted. In the event of liquidation or dissolution, the holders of Series C preferred stock will be entitled to receive the amount they paid for their stock, plus accrued and unpaid dividends out of the Company's assets legally available for such payments prior to the time other holders of securities junior to the Series C preferred stock will be entitled to any payments.

During 1998, the Company issued 558,400 shares of Series C preferred stock for $3,354,000, net of legal and issuance costs of $415,000 through a Private Placement. During 1999, the remaining 176,900 shares relating to this Private Placement were issued for $1,058,000, net of issuance costs of $136,000. An additional 91,909 shares were issued as a result of repricing the Private Placement from $6.75 per share to $6.00 per share and 5,804 shares were issued as payment for broker commissions.

During 1999, the Company issued 1,182,744 shares of Series C preferred stock at $6.00 per share for $7,027,000 million, net of legal and Private Placement fees of $70,000, in conjunction with a Private Placement. During January 2000, the Company completed the Private Placement and issued an additional 48,706 shares of Series C preferred stock for $269,000, net of legal and issuance costs of $23,000. In conjunction with this Private Placement, the Company issued a warrant for each share of Series C preferred

stock to purchase one share of common stock. In addition, the Company issued warrants to purchase 72,584 shares of common stock as settlement of certain private placement fees. The total warrants issued of 1,292,594 and 11,440 are exercisable at $0.02 and $9.60, respectively, per common stock share and expire December 2004.

In April 1999, the Company entered into an agreement with Seligman Communications and Information Fund, Inc. (Seligman) under which the Company issued 166,666 shares of Series C preferred stock at $6.00 per share in exchange for a $1,000,000 investment in the Company for a total of $1,000,000. During September 2000, these shares were converted into 114,991 shares of common stock at a conversion rate of 1-to-0.68995.

In April 1999, the Company entered into an agreement with VLSI Technology, Inc. (VLSI) under which the Company issued 166,666 shares of Series C preferred stock at $6.00 per share in exchange for the settlement of liabilities of $406,000 with the Company and a prepayment for inventory purchases of $593,000, net of issuance costs of $68,000.

At the date of issuance of the Series C shares, a non-cash beneficial conversion adjustment of $49,000 and $1,450,000, which represents a 17% discount to the fair value of the common stock at the date of issuance, has been recorded in the 2000 and 1999 consolidated financial statements as an increase and decrease to additional paid-in capital, respectively.

On March 6, 2000, the Company signed a Strategic Partner Agreement with Cybex Computer Products Corporation (Cybex). The Company and Cybex have agreed to license certain technology to each other and the Company has agreed to sell certain of its products to Cybex on a private label basis. In conjunction with this agreement, the Company sold Cybex 500,000 shares of $0.01 par value Series D preferred stock for $4,727,000, net of issuance of costs of $273,000. The Series D preferred stockholders have voting rights consistent with common stockholders and have liquidation preference over common stockholders but subordinate to Series C preferred stockholders. The Series D preferred stock is convertible into shares of common stock. On June 30, 2000, the Series D preferred stock were converted to 438,595 shares of common stock at a conversion rate of 1-to-0.87719 ($10.00 divided by 95% of the $12.00 initial public offering price per share of common stock).

During 2000, 1,017,434 shares of Series C preferred stock sold under these Private Placements were converted into 701,926 shares of common stock at a conversion rate of 1-to-0.68995, Series C preferred stock to common stock.

During 2001, 581,049 shares of Series C preferred stock sold under these Private Placements were converted into 400,264 shares of common stock at an average conversion rate of 1-to-0.68886, Series C preferred stock to common stock.

(b) COMMON STOCK

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of the Company's stockholders. There is no right to cumulative voting for the election of directors. Holders of shares of common stock are entitled to receive dividends, if and when declared by the board of directors out of funds legally available therefore, after payment of dividends required to be paid on any outstanding shares of preferred stock. Upon liquidation, holders of shares of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the liquidation preferences of any outstanding shares of preferred stock. Holders of shares of common stock have no conversion, redemption or preemptive rights.

During 1999, the Company issued 4,875 shares of common stock valued at $51,000 for services performed by a third-party consultant, which was recorded as compensation expense in 1999.

During 1999, the Company issued 394,063 shares of common stock for $3,037,000, net of issuance costs of $116,000 under a private placement.

On June 30, 2000, the Company's registration statement on Form S-1 registering its initial public offering ("IPO") of 4,000,000 shares of common stock became effective. At the offering price of $12.00 per share, the Company received proceeds of $44,600,000 from the IPO, net of underwriting discounts and commissions of $3,400,000. Other offering expenses totaled $1,500,000. Net cash proceeds to the Company after the payment of total offering expenses of $4,900,000 was $43,100,000. As part of the IPO, the Company granted the underwriters a 30-day option from the effective date of the IPO to purchase up to 600,000 additional shares of common stock to cover over-allotments, if any. On July 28, 2000, the underwriters exercised their 30-day option in full and purchased 600,000 additional shares of common stock, resulting in additional IPO proceeds received by the Company of $6,700,000, net of underwriting discounts and commissions of $504,000. Including the underwriters' over-allotment option, the net cash proceeds received by the Company after deducting the total offering expenses of $5,400,000 was $49,800,000.

(c) STOCK SUBSCRIPTION AND DEFERRED COMPENSATION

During 1999, 75,000 incentive stock options to purchase common stock at a weighted average exercise price of $2.68 were issued to an officer. The Company recorded $400,000 of deferred compensation, which represents the intrinsic value of these stock options, related to the issuance of the options, which are charged to compensation expense over the vesting period through March 2002. The unamortized portion, which is recorded as a deduction from stockholders' equity, is $17,000 and $83,000 at December 31, 2001 and 2000, respectively.

During 1999, 441,250 incentive stock options to purchase common stock at a weighted average exercise price of $4.00 were issued to employees. The Company recorded $2,375,000 of deferred compensation expense, which represents the intrinsic value of these stock options, related to the issuance of the options, which are charged to compensation expense over the vesting period through periods ranging from December 2000 to December 2004. The unamortized portion, which is recorded as a deduction from stockholders' equity, is $492,000 and $1,338,000 at December 31, 2001 and 2000, respectively.

In December 1999, the Company entered into a promissory note in the principal sum of $300,000 with an executive of the Company to finance his purchase of 50,000 shares of Series C preferred stock at a composite purchase price of $6.00 for one share of preferred stock and one warrant for the purchase of 50,000 shares of common stock at an exercise price of $0.02.

In June 2000, the Company sold 100,000 shares of common stock at a price of $12.00 per share to a company in exchange for $1,000 in cash and $1,199,000 promissory note which bears interest at 6% per annum and is secured by these shares of common stock. Accrued but unpaid interest under the promissory note is due and payable on each anniversary date of the promissory note beginning June 30, 2001, with all unpaid principal and interest due and payable in full on June 30, 2003. As of December 31, 2000, the $1,199,000 outstanding principal balance is reflected as a component of deferred compensation and stock subscriptions. During 2001, the promissory note was canceled and the 100,000 shares of common stock were returned to the Company.

During 2001, the Company entered into a promissory note in the principal sum of $76,200 with a consultant to finance his purchase of 60,000 shares of common stock at a purchase price of $1.28 per share. The Company recorded compensation expense of $21,000 during 2001 as a result of this transaction.

During 2001, the Company entered into promissory notes in the principal sum of $598,000 with two executives of the Company and one related party to finance their purchase of 206,898 shares of common stock at a composite purchase price of $2.90 for one share of common stock.

(12) EMPLOYEE BENEFIT PLANS

(a) RETIREMENT PLAN

The Company has a defined contribution 401(k) plan for all employees. Under the 401(k) plan, employees are permitted to make contributions to the plan in accordance with IRS regulations. The Company may make discretionary contributions as approved by the Board of Directors. The Company contributed $36,000 during 2001. There were no Company contributions made during 2000 and 1999.

(b) INCENTIVE STOCK OPTION PLAN AND WARRANTS

In 1995, the Board granted stock options to employees to purchase 132,198 shares of common stock. Later in 1996, the Company adopted an Incentive Stock Option Plan (the Plan) pursuant to the Internal Revenue Code. During 2001, the Plan was amended to increase the aggregate number of shares of common stock for which options may be granted or for which stock grants may be made to 2,500,000. Options become exercisable over varying periods up to five years and expire at the earlier of termination of employment or up to seven years after the date of grant. The options under both the Plan and Board approved were granted at the fair market value of the Company's stock at the date of grant as determined by the Company's Board of Directors. There were 1,141,028 shares available for grant under the Plan as of December 31, 2001.

The per share weighted average fair value of stock options granted under the Plan for the years ended December 31, 2001, 2000 and 1999, was $2.77, $2.80 and $5.22, respectively, based on the date of grant using the Black-Scholes method for 2001 and 2000, and the minimum value method for 1999 with the following weighted average assumptions:

	DECEMBER 31,		
	2001	2000	1999
Expected life (years)	2.5	2.5	5.0
Risk-free interest rate	3.5%	6.1%	5.1%
Dividend yield	0.0%	0.0%	0.0%
Volatility	100.0%	50.0%	--

The following table summarizes information regarding stock option activity for the years ended December 31, 1999, 2000 and 2001:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding, December 31, 1998	478,214	$ 9.26
Granted	735,239	5.26
Canceled	(253,527)	11.33
Exercised	--	--
Outstanding, December 31, 1999	959,926	5.65
Granted	573,650	8.10
Canceled	(56,735)	7.74
Exercised	(88,332)	3.54
Outstanding, December 31, 2000	1,388,509	6.71
Granted	887,400	2.77
Canceled	(872,871)	7.26
Exercised	(25,000)	0.02
Outstanding, December 31, 2001	1,378,038	$ 3.91

The following table summarizes information about the stock options outstanding at December 31, 2001:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$0.95-$ 3.11	371,706	4.55	$2.53	68,954	$2.72
$3.15-$ 3.52	508,266	4.41	$3.18	120,039	$3.25
$4.00	351,651	2.91	$4.00	234,853	$4.00
$7.72-$12.65	146,415	2.31	$9.73	121,971	$9.62
$0.95-$12.65	1,378,038	3.84	$3.91	545,817	$4.93

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net loss and net loss per share would have been increased to the pro forma amount indicated below (amounts in thousands, except per share):

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Net loss applicable to common stockholders:			
As reported	$(19,684)	$(15,335)	$(17,907)
Pro forma	$(20,308)	$(16,129)	$(18,147)
Net loss per share -- basic and diluted:			
As reported	$ (1.33)	$ (1.55)	$ (3.59)
Pro forma	$ (1.37)	$ (1.63)	$ (3.63)

Pro forma net loss reflects only options granted since 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amount presented above because compensation cost is reflected over the options' vesting period of four to five years.

In January 1999, the Company issued 32,500 warrants to purchase common stock in connection with the Private Placement of Series C Preferred Stock. The warrants are exercisable at $12.00 per share and expire January 2004.

In March 1999, 525,000 warrants were issued to purchase common stock for an exercise price of $0.02. The warrants, valued at $4,200,000, were recorded as deferred loan costs in other assets and charged to interest expense over the term of the related debt.

In May 1999, the Company granted consultants 35,000 stock options for services performed. The options are exercisable at $8.00 per share and expire in May 2003. The Company recorded $37,000 of deferred compensation in other assets related to the issuance of the options. The value of these options was amortized to compensation expense resulting in non-cash compensation of $28,000 and $9,000 during 2000 and 1999, respectively.

In May 1999, in conjunction with the issuance of Bridge Notes in a Private Placement, 65,000 warrants were issued to purchase common stock for an exercise price of $0.02. The warrants, valued at $520,000, were included as deferred loan costs in other assets. The value of the warrants was charged to interest expense over the term of the related debt.

In June through August 1999, the Company issued warrants to purchase 384,200 shares of common stock at an exercise price of $0.02 per share in conjunction with the sale of common stock under a Private Placement. In addition, the Company issued warrants to purchase 53,000 shares of common stock at an exercise price of $0.02 per share that expire after five years as payment of broker fees associated with the sale of common stock under the Private Placement.

In December 1999, the Company granted a consultant 35,000 stock options for services performed. The options are exercisable at $4.00 per share and expire in December 2003. The Company recorded $368,000 of deferred compensation in other assets related to the issuance of the options. The value of these options was amortized to compensation expense resulting in non-cash compensation of $365,000 and $3,000 during 2000 and 1999, respectively.

In December 1999, the Company issued 1,255,327 warrants to purchase common stock in connection with the Private Placement of Series C preferred stock. 1,243,888 and 11,439 warrants are exercisable at $0.02 and $9.60, respectively, and expire October 1, 2002.

In November 1999, the Company issued 56,250 warrants to purchase common stock in connection with the extension of its $4,500,000 line of credit. The warrants were issued to certain stockholders as part of their personal guarantees and indemnification arrangements for this line of credit. The warrants, valued at $450,000, are exercisable at $4.00, expire November 1, 2004, were recorded as deferred loan costs in other assets and were charged to interest expense over the term of the line of credit.

In December 1999, the Company granted a consultant 50,000 warrants to purchase common stock for services performed in connection with the purchase of Series C preferred stock. The warrants are exercisable at $0.02 and expire December 2004.

During 1999, 655,843 and 25,250 warrants were exercised at $0.02 and $7.00 per share, respectively, for a total of $190,000.

In January 2000, the Company issued warrants to purchase 48,706 shares of common stock exercisable $0.02 per common stock share in conjunction with the completion of Private Placement of Series C preferred stock.

During 2000, the Company issued warrants to purchase 138,502 and 30,444 shares of common stock in connection with the extension of certain Bridge Promissory Notes and Promissory Notes, respectively. These warrants (valued at $213,000 and $365,000, respectively, for a total of $578,000) are exercisable at $11.40 and

$0.02 per share, respectively. The value of these warrants were recorded as deferred loan costs in other assets and charged to interest expense over the term of the related debt.

During 2000, 1,711,180 warrants were exercised to acquire 1,710,083 shares of common stock at a weighted average exercise price of $0.07 per share for total net proceeds of $121,000.

During 2001, the Company issued warrants to purchase 75,000 shares of common stock in connection with a technology license agreement. These warrants, valued at $71,000, using the Black-Scholes pricing model, are exercisable at $1.38 per share. The value of these warrants has been recorded as a component of other assets to be amortized to compensation expense over the term of the related license agreement.

During 2001, 76,500 warrants were exercised to acquire 76,500 shares of common stock at $0.02 per share for total net proceeds of $2,000.

During 2001, 564,944 warrants expired. At December 31, 2001, 526,666 unexercised warrants remained outstanding at exercise prices ranging from $0.01 to $7.00 per share.

(c) EMPLOYEE STOCK PURCHASE PLAN

The Company established an Employee Stock Purchase Plan (the "Purchase Plan") in October 2001, under which 2,000,000 shares of Common Stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's Common Stock at 85% of the market value at certain plan-defined dates. In 2001, 25,795 shares were issued under the Purchase Plan for net proceeds of $18,000. At December 31, 2001, 1,974,205 shares were available for issuance under the purchase plan.

(13) NET LOSS PER SHARE

The computation of basic and diluted net loss per share follows (in thousands, except per share amounts):

	YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Net loss	$(19,684)	$(15,286)	(16,457)
Beneficial conversion costs of preferred Stock	--	(49)	(1,450)
Net loss attributable to common Stockholders	$(19,684)	$(15,335)	$(17,907)
Weighted average common shares Outstanding -- basic and diluted	14,809	9,885	4,994
Net loss per share -- basic and diluted	$ (1.33)	$ (1.55)	$ (3.59)
Stock options and warrants not included in Diluted EPS since antidilutive	1,905	2,482	3,546
Convertible preferred stock not included in Diluted EPS since antidilutive	683	1,264	2,399

(14) CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with high credit quality financial institutions and generally limits the amount of credit exposure to the amount of FDIC coverage. However, periodically during the year, the Company maintains cash in financial institutions in excess of the FDIC insurance coverage limit of $100,000. The Company performs ongoing credit evaluations of its customers' financial condition but does not typically require collateral to support customer receivables. The

Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Two customers accounted for 34% and 33% of net sales for the year ended December 31, 2001 and 32% and 18% of net sales for the year ended December 31, 2000. One customer accounted for 26% of net sales for the year ended December 31, 1999.

Export sales were approximately 31%, 32% and 18% of the Company's net sales for the years ended December 31, 2001, 2000 and 1999, respectively. The principal international market served by the Company was Europe.

(15) CONTINGENCIES

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based on consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity. Accordingly, the accompanying consolidated financial statements do not include a provision for losses, if any, that might result from the ultimate disposition of these matters.

(16) RELATED PARTY TRANSACTIONS

The Company has an agreement with a related entity under which this entity provides management services. The Company paid the consultant approximately $20,000, $39,000 and $42,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

During 2000, the Company recognized $2,000,000 of revenue from an entity in which it has a preferred stock ownership.

During 2001, the Company sold 206,898 shares of common stock to two officers of the Company and an affiliate of an officer at a purchase price of $2.90 per share. Each investor paid $690 in cash (or $2,070 in total) and executed and delivered to the Company a three-year Promissory Note, in the original principal amount of $199,311 each (or $597,933 in total), and bearing interest at a rate of 6.33% per annum. Each Promissory Note is secured by the shares of common stock so issued. The notes are reflected as contra equity on the statement of stockholders' equity.

(17) SUPPLEMENTAL FINANCIAL INFORMATION

A summary of additions and deductions related to the allowances for accounts receivable for the years ended December 31, 2001, 2000 and 1999 follows (amounts in thousands):

	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF YEAR
Allowance for doubtful accounts:				
Year ended December 31, 2001.....	$219	$(96)	$ 46	$ 77
Year ended December 31, 2000.....	$630	$262	$673	$219
Year ended December 31, 1999.....	$648	$219	$237	$630
Allowance for sales returns:				
Year ended December 31, 2001.....	$190	$380	$341	$229
Year ended December 31, 2000.....	$345	$605	$760	$190
Year ended December 31, 1999.....	$357	$766	$778	$345

(18) SUBSEQUENT EVENTS

In February 2002, the Company acquired Portsmith, Inc. pursuant to the merger of Portsmith with the Company's subsidiary, Mobility Europe Holdings, Inc. In accordance with terms of the acquisition agreement, the Company issued 800,000 shares of common stock to the Portsmith stockholders of which 400,000 shares are held in escrow for the Portsmith stockholders, the issuance of which is contingent upon certain performance criteria of Portsmith on the first anniversary of the acquisition. In addition, contingent earn out payments are to be made to the Portsmith stockholders depending upon Portsmith's future performance on the one year anniversary of the acquisition date. In addition, as part of this transaction, the Company's $3,000,000 loan to Portsmith (see Note 7), plus accrued interest, was converted into an equity contribution in Portsmith.

On March 25, 2002, the Company announced its execution of a definitive agreement to acquire iGo Corporation. The transaction is subject to certain material conditions precedent, including without limitation, approval by the stockholders of iGo and the declared effectiveness by the Securities and Exchange Commission of a registration statement, which registers the issuance of shares of the Company's common stock to be issued in the transaction.

(19) QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of the quarterly data for the years ended December 31, 2001 and 2000 follows (amounts in thousands, except per share amounts):

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Year ended December 31, 2001:				
Net revenue	$ 7,176	$ 7,005	$ 7,090	$ 7,054
Gross profit (loss)	$ 1,597	$ (236)	$ 420	$ 841
Operating expenses	$(5,747)	$(6,229)	$(7,991)	$(3,717)
Loss from operations	$(4,150)	$(6,465)	$(7,571)	$(2,876)
Net loss attributable to common Stockholders	$(3,662)	$(6,140)	$(7,260)	$(2,622)
Net loss per share:				
Basic and diluted	$ (0.25)	$ (0.41)	$ (0.49)	$ (0.17)
Year ended December 31, 2000:				
Net revenue	$ 5,002	$ 6,290	$ 7,605	$ 9,108
Gross profit	$ 1,395	$ 1,468	$ 2,431	$ 2,496
Operating expenses	$(3,350)	$(4,045)	$(5,913)	$(7,673)
Loss from operations	$(1,955)	$(2,577)	$(3,482)	$(5,177)
Net loss attributable to common Stockholders	(2,931)	(3,182)	(4,559)	(4,663)
Net loss per share:				
Basic and diluted	$ (0.46)	$ (0.46)	$ (0.37)	$ (0.33)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. EXECUTIVE OFFICERS, DIRECTORS AND KEY EMPLOYEES

The response to this Item regarding our directors and compliance with Section 16(a) of the Exchange Act by our officers and directors will be contained in the Proxy Statement for the 2002 Annual Meeting of Shareholders under the captions "Election of Directors" and Section 16(a) "Beneficial Ownership Reporting Compliance" and is incorporated by reference herein. The response to this Item regarding our executive officers is contained in the Supplemental Item -- "Executive Officers of the Registrant" found in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The response to this Item will be contained in the Proxy Statement for the 2002 Annual Meeting of Shareholders under the captions "How are directors compensated?" and "Executive Compensation" and is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this Item will be contained in the Proxy Statement for the 2002 Annual Meeting of Shareholders under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated by reference herein.

ITEM 13. CERTAIN TRANSACTIONS

The response to this Item will be contained in the Proxy Statement for the 2002 Annual Meeting of Shareholders under the caption "Certain Relationships and Related Transactions" and is incorporated by reference herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a)(1)(2) Financial Statements

See the Index to Consolidated Financial Statements and Financial Statement Schedule in Part II, Item 8.

(b) Forms 8-K

No form 8-K's were filed during the last quarter of the period covered by this Report.

(c) Exhibits

EXHIBIT NUMBER		DESCRIPTION
3.1	--	Certificate of Incorporation of the Company.(1)
3.2	--	Articles of Amendment to the Certificate of Incorporation of the Company dated as of June 17, 1997.(3)
3.3	--	Articles of Amendment to the Certificate of Incorporation of

the Company dated as of September 10, 1997.(1)

3.4 -- Articles of Amendment to the Certificate of Incorporation of the Company dated as of July 20, 1998.(1)

EXHIBIT NUMBER		DESCRIPTION
3.5	--	Articles of Amendment to the Certificate of Incorporation of the Company dated as of February 3, 2000.(1)
3.6	--	Certificate of Designations, Preferences, Rights and Limitations of Series C Preferred Stock.(1)
3.7	--	Amended Bylaws of the Company.(1)
3.8	--	Certificate of the Designations, Preferences, Rights and Limitations of Series D Preferred Stock.(2)
3.9	--	Articles of Amendment to the Certificate of Incorporation of the Company dated as of March 31, 2000.(3)
4.1	--	Specimen of Common Stock Certificate.(4)
4.2	--	Form of 12% Convertible Debenture of the Company.(1)
4.3	--	Registration Rights Agreement by and between the Company and Miram International, Inc. dated July 29, 1997.(1)
4.4	--	Form of Unit Purchase Agreement used in 1998 Private Placements for the Purchase of Up To 900 Units, Each Consisting of 1,000 shares of the Company's common stock.(1)
4.5	--	Form of Unit Purchase Agreement used in 1997 Private Placements for the Purchase of Up To 875 Units, Each Consisting of 2,000 shares of the Company's common stock and warrants to purchase 500 shares of the Company's and warrants to purchase 500 shares of the Company's Common Stock.(1)
4.6	--	Form of Warrant to Purchase Shares of common stock of the Company used with the 13% Bridge Notes and Series C Preferred Stock Private Placements.(3)
4.7	--	Form of 13% Bridge Promissory Note and Warrant Purchase Agreement used in March 1999 Private Placement.(1)
4.9	--	Form of 13% Bridge Note issued in July 1999 Private Placement.(1)
4.10	--	13% Bridge Note Conversion Notice expired June 30, 1999.(1)
4.11	--	Form of Series C Preferred Stock Purchase Agreement used in 1998 and 1999 Private Placements.(1)
4.12	--	Form of Series C Preferred Stock and Warrant Purchase Agreement used in 1999 and 2000 Private Placements.(1)
4.13	--	Series C Preferred Stock Purchase Agreement executed May 3, 1999, between the Company, Philips Semiconductors VLSI, Inc. (f/k/a VLSI Technology, Inc.) and Seligman Communications and Information Fund, Inc.(1)
4.14	--	Amended and Restated Stock Purchase Warrant issued by the Company to Finova Capital Corporation (f/k/a Sirrom Capital Corporation) dated as of March 25, 1998.(1)
4.15	--	Stock Purchase Warrant issued by the Company to Finova Capital Corporation (f/k/a Sirrom Capital Corporation) dated as of March 25, 1998.(1)
4.16	--	Series C Preferred Stock and Warrant Purchase Agreement dated October 29, 1999, between the Company and Seligman Communications and Information Fund, Inc.(1)
4.17	--	Contribution and Indemnification Agreement by and among Janice L. Breeze, Jeffrey S. Doss, Charles R. Mollo, Cameron Wilson, the Company and certain Stockholders of the Company dated April 20, 1998.(1)
4.18	--	Form of Warrant to Purchase common stock of the Company issued to certain holders in connection with that certain Contribution and Indemnification Agreement by and among Janice L. Breeze, Jeffrey S. Doss, Charles S. Mollo, Cameron Wilson, the Company and certain Stockholders of the Company dated April 20, 1998.(1)
4.19	--	Form of Warrant to Purchase common stock of the Company issued to certain holders in connection with that certain Contribution and Indemnification Agreement by and among Janice L. Breeze, Jeffrey S. Doss, Charles S. Mollo, Cameron Wilson, the Company and certain Stockholders of the Company dated November 2, 1999.(2)

EXHIBIT NUMBER		DESCRIPTION
4.20	--	Form of Warrant to Purchase Common Stock of the Company issued in the 1997 Private Placement.(2)
4.21	--	Form of 13% Bridge Note issued in March 1999 Private Placement.(2)
4.23	--	Investor Rights Agreement dated October 29, 1999 by and between the Company and Seligman Communications and Information Fund, Inc. entered into in connection with the Series C Preferred Stock and Warrant Purchase Agreement dated October 29, 1999.(2)
4.24	--	Form of Warrant to Purchase Shares of Common Stock issued in connection with the Loan Extension Agreement dated February 29, 2000.(2)
4.25	--	Investors' Rights Agreement executed May 3, 1999 between the Company, Philips Semiconductors VLSI, Inc. (f/k/a VLSI Technology, Inc.) and Seligman Communications and Information Fund, Inc.(3)
4.26	--	Registration Rights granted by the Company to Avocent Computer Products Corporation in connection with the Strategic Partner Agreement dated March 6, 2000.(3)
4.27	--	13% Bridge Note Conversion Notice used in July 1999 Private Placement.(5)
10.1	--	Form of Stock Purchase Agreement, dated as of March 2, 2001, by and between the Company and each of Jeffrey S. Doss, Donald W. Johnson and La Luz Enterprises, L.L.C.(5)
10.2	--	Form of Promissory Note, dated March 2, 2001, in the principal amount of $199,311, and issued by each of Jeffrey S. Doss, Donald W. Johnson and La Luz Enterprises, L.L.C. to the Company(5)
10.3	--	Form of Pledge and Security Agreement, dated as of March 2, 2001, by and between the Company and each of Jeffrey S. Doss, Donald W. Johnson and La Luz Enterprises, L.L.C.(5)
10.4	--	Guaranty, dated as of March 2, 2001, issued by Charles R. Mollo in favor of the Company(5)
10.5	--	Agreement and Plan of Merger dated as of February 20, 2002, by and among Portsmith, Inc., certain holders of the outstanding capital stock of Portsmith, Mobility Electronics, Inc. and Mobility Europe Holdings, Inc.*
10.6	--	Stock Escrow Agreement entered into as of February 20, 2002, by and among Holmes Lundt as the representative of the holders of outstanding capital stock of Portsmith, Inc., Mobility Electronics, Inc., and Jackson Walker L.L.P.*
10.7	--	Agreement and Plan of Merger, dated as of March 23, 2002 by and among Mobility Electronics, Inc., IGOC Acquisition, Inc. and iGo Corporation.*
10.8	--	Lock-up and Voting Agreement, dated as of March 23, 2002 entered into by and among Mobility Electronics, Inc., iGo Corporation, and certain stockholders of iGo Corporation.*
21.1	--	Subsidiaries. - Mobility 2001 Limited (United Kingdom) - MAGMA, Inc. (Delaware) - Portsmith, Inc. (Delaware) - IGOC Acquisition, Inc. (Delaware)
23.1	--	Consent of KPMG LLP.*

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* Filed herewith

(1) Previously filed as an exhibit to Registration Statement No. 333-30264 dated February 11, 2000.

(2) Previously filed as an exhibit to Amendment No. 1 to Registration Statement No. 333-30264 dated March 28, 2000.

(3) Previously filed as an exhibit to Amendment No. 2 to Registration Statement No. 333-30264 dated May 4, 2000.

(4) Previously filed as an exhibit to Amendment No. 3 to Registration Statement No. 333-30264 dated May 18, 2000.

(5) Previously filed as an exhibit to Form 10-Q for the quarter ended March 31, 2001.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOBILITY ELECTRONICS, INC.

By: /s/ CHARLES R. MOLLO

Charles R. Mollo
President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1934 this Report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
/s/ CHARLES R. MOLLO Charles R. Mollo	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	April 1, 2002
/s/ JOAN W. BRUBACHER Joan W. Brubacher	Chief Financial Officer and Vice President (Principal Financial and Accounting Officer)	April 1, 2002
/s/ JEFFREY S. DOSS Jeffrey S. Doss	Executive Vice President and Director	April 1, 2002
/s/ ROBERT P. DILWORTH Robert P. Dilworth	Director	April 1, 2002
/s/ WILLIAM O. HUNT William O. Hunt	Director	April 1, 2002
/s/ JERRE L. STEAD Jerre L. Stead	Director	April 1, 2002
/s/ JEFFREY R. HARRIS Jeffrey R. Harris	Director	April 1, 2002
/s/ LARRY M. CARR Larry M. Carr	Director	April 1, 2002

INDEX TO EXHIBITS

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(5) Previously filed as an exhibit to Form 10-Q for the quarter ended March 31, 2001.

EXHIBIT 10.5

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (the "Agreement"), dated as of February 20, 2002, is by and among Portsmith, Inc., a Delaware corporation (the "Company"), the holders of the outstanding capital stock of the Company who have signed the signature page hereto (collectively, the "Stockholders"), Mobility Electronics, Inc., a Delaware corporation ("Parent"), and Mobility Europe Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of Parent ("Merger Sub").

WITNESSETH:

WHEREAS, Parent, as the sole stockholder of Merger Sub, and the respective Boards of Directors of Merger Sub and the Company have each approved the merger of the Company with and into Merger Sub (the "Merger") in accordance with the Delaware General Corporation Law (the "DGCL") and the provisions of this Agreement; and

WHEREAS, it is intended for federal income tax purposes that the Merger qualify as a tax free reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code of 1986, as amended (the "Code").

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants, promises, representations, warranties and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 DEFINITIONS. Certain terms used in this Agreement are defined in Exhibit A attached hereto.

ARTICLE II
CONTROL EFFECTIVE TIME, THE MERGER, MERGER EFFECTIVE TIME AND MERGER CONSIDERATION

Section 2.1 CONTROL EFFECTIVE TIME. The parties hereto agree that as of February 1, 2002 (the "Control Effective Time"), for ease of accounting cut off, Mobility shall have the authority and responsibility for the operation and management of the business and assets of the Company, and that the Board of Directors of the Company shall not take any actions unless approved in writing by Mobility. In such capacity, Mobility shall have the power and authority to take, or refrain from taking, any actions in order to operate and manage the business and assets of the Company. Mobility agrees to operate and manage the Company in a lawful and prudent manner. The parties further agree that all losses and income of the Company from the Control Effective Time shall be deemed to be losses or income (as the case may be) of Merger Sub.

Section 2.2 EXERCISE OF OPTIONS AND WARRANTS. Prior to the Merger Effective Time, each holder of: (i) stock options of the Company issued under the Company's 2000 Management

Stock Option Plan and the Company's 2000 Stock Option Plan; and (ii) warrants to purchase shares of common stock, par value $0.001 per share, of Portsmith ("Portsmith Common Stock"), which stock options and warrants are identified on Schedule 3.2 attached hereto, shall have the option to exercise such stock options and warrants, as the case may be, and pay the exercise price by delivering to the Company cash and/or a promissory note, in substantially the form of Exhibit F attached hereto, aggregating in the amount of such exercise price (the "Election Option"). An option or warrant holder who does not elect the Election Option in accordance with the previous sentence (a "Non-Electing Securityholder") will be deemed not to be an Eligible Stockholder, and such Non-Electing Stockholder's options and/or warrants will be deemed to be canceled and terminated as of the Merger Effective Time. Notwithstanding anything in this Article II to the contrary, the Merger Consideration payable to the stockholders of the Company (excluding the Non-Electing Stockholders and the Dissenting Stockholders) shall be reduced by an amount equal to the product of the Merger Consideration multiplied by a fraction, the numerator of which shall be the number of Portsmith Shares held by the Non-Electing Stockholders and the Dissenting Stockholders immediately prior to the Merger Effective Time and the denominator which shall be the number of Portsmith Shares issued and outstanding immediately prior to the Merger Effective Time.

Section 2.3 THE MERGER. At the Merger Effective Time, in accordance with this Agreement and the DGCL, the Company shall be merged with and into Merger Sub, the separate existence of the Company shall cease, and Merger Sub shall continue as the surviving corporation (the "Surviving Corporation"). In connection with the Merger, the Surviving Corporation shall change its name to "Portsmith, Inc."

Section 2.4 EFFECT OF THE MERGER. At the Merger Effective Time, the Surviving Corporation shall thereafter possess all of the public and private rights, privileges, powers, assets, liabilities and obligations of Merger Sub and the Company.

Section 2.5 CONSUMMATION OF THE MERGER. As soon as practicable after the execution of this Agreement, the parties shall cause the Merger to be consummated by filing with the Secretary of State of Delaware a Certificate of Merger in such form as required by, and executed in accordance with, the relevant provisions of the DGCL (the date and time of such filing, or such later date as agreed by the parties and set forth therein, being the "Merger Effective Date").

Section 2.6 CERTIFICATE OF INCORPORATION; BYLAWS; DIRECTORS AND OFFICERS. The Certificate of Incorporation and Bylaws of the Surviving Corporation shall be the Certificate of Incorporation and Bylaws of Merger Sub as in effect immediately prior to the Merger Effective Time; provided, however, that, at the Merger Effective Time the name of the Surviving Corporation shall be changed to "Portsmith, Inc." The directors of Merger Sub immediately prior to the Merger Effective Time (i.e., Charles R. Mollo, William O. Hunt and Joan Brubacher) shall be the initial directors of the Surviving Corporation and shall serve until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Certificate of Incorporation and Bylaws and the DGCL. Immediately following the Merger, Holmes Lundt ("Lundt") and a designee of Lundt will be elected to the Board of Directors of the Surviving Corporation, and Lundt will be

elected CEO and President of Surviving Corporation. The officers of Merger Sub immediately prior to the Merger Effective Time shall be the initial officers of the Surviving Corporation.

Section 2.7 AGGREGATE MERGER CONSIDERATION. Exhibit B lists all the holders of Portsmith Common Stock and securities convertible or exercisable into shares of Portsmith Common Stock, and the portion of the Merger Consideration (as defined below) to be received by such securityholder, assuming such securityholder is an Eligible Stockholder. If any such securityholder is not an Eligible Stockholder, then the Merger Consideration shall be reduced in accordance with Sections 2.2 and 2.11. The aggregate consideration to be received by the Eligible Stockholders holding shares of Portsmith Common Stock (the "Portsmith Shares") in connection with the Merger shall be each Eligible Stockholder's share of the following (as determined by the percentages set forth in Exhibit B) (collectively, the "Merger Consideration"):

(a) SHARE CONSIDERATION. 800,000 shares of common stock, par value $0.01 per share (the "Parent Common Stock"), of Parent (the "Share Consideration").

(b) PERFORMANCE EARN OUT.

(i) No later than ten (10) business days following the date Portsmith FMV (as defined below) is determined pursuant to subpart (iv) or (v) below, Parent shall pay to the Eligible Stockholders an aggregate amount equal to the Performance Earn Out (as defined below), subject to the indemnification and offset rights of Parent and Merger Sub under Article VIII below.

(ii) As soon as reasonably practicable after December 31, 2002, but on or prior to April 1, 2003 (subject to extension as provided below), Parent shall determine in writing and deliver to the Eligible Stockholders (the "Earn Out Notice") the value of an earn out payment to be made to the Eligible Stockholders equal to 45.6% of Portsmith FMV (the "Performance Earn Out"), with payment, being in the form of cash and/or shares of Parent Common Stock (valued at the Current Market Price as of the date that Portsmith FMV has been finally determined). The mix of cash and Parent Common Stock paid to satisfy the Performance Earn Out shall be at Parent's sole discretion; provided, however, that the total cash portion of the Merger Consideration shall be limited to sixty percent (60%) thereof (the "Cash Cap"), subject to subsection (d) below.

(iii) As used herein, the term "Portsmith FMV" shall mean the value of the Surviving Corporation as of December 31, 2002. For purposes of determining Portsmith FMV: (1) the Surviving Corporation shall be considered as a stand-alone entity, and except for the fee payable to Parent for sales of

the Surviving Corporation's products as provided in Section 7.2 below, no expenses, overhead and/or costs of Parent shall be considered in such determination, unless approved by the Surviving Corporation's President; (2) only fifty percent (50%) of the bonuses payable to the executive management team of the Surviving Company (as discussed in Section 7.4 below) shall be considered as an expense in such calculation (the "Bonus Responsibility"); and (3) the value of Surviving Corporation's subsidiary, Mobility 2001 Limited, organized under the laws of the United Kingdom ("Subsidiary"), shall not be included in such calculation.

(iv) After delivery of the Earn Out Notice, Parent and Holmes Lundt ("Lundt"), or Lundt's successor, if chosen by a majority of the Stockholders, shall have sixty (60) days thereafter to: (i) mutually agree on Portsmith FMV using all commercially reasonable efforts to reach such an agreement; or (ii) designate a mutually agreeable Independent Financial Expert (as defined below), who shall determine the Portsmith FMV within such sixty (60) day period. Failing to do so, within ten (10) days following the expiration of such sixty (60) day period Parent, on the one hand, and Lundt, on the other hand, shall each designate an Independent Financial Expert to determine Portsmith FMV, and Parent shall pay any undisputed portion of the Performance Earn Out to the Eligible Stockholders. If either Parent or Lundt fails to designate an Independent Financial Expert within the time period specified, then the determination of the other Independent Financial Expert shall be deemed to be that of the Independent Financial Experts.

(v) In the event that the two Independent Financial Experts cannot agree on Portsmith FMV within twenty (20) days after their selection, then the two Independent Financial Experts shall, within five (5) days following such twenty (20) day period, mutually select a third Independent Financial Expert to determine Portsmith FMV within twenty (20) days following selection, and the value selected by such third Independent Financial Expert shall be binding on all parties. Each such Independent Financial Expert may use any customary method in determining Portsmith FMV.

(vi) The cost of the Independent Financial Expert selected by Parent or Lundt on behalf of the Eligible Stockholders (as

the case may be) shall be paid by such selecting party, and the cost of the third Independent Financial Expert, if any, selected by the two Independent Financial Experts shall be paid one-half by each party.

(vii) As used herein, "Independent Financial Expert" shall mean any investment bank which is registered as a broker-dealer under the Exchange Act of 1934, as amended (the "Exchange Act"), and has aggregate net capital of at least $5 million, which does not (and whose directors, officers, employees, affiliates or stockholders do not) have a material direct or indirect financial interest in the Company or Parent or any of their respective affiliates, which has not been, and, at the time it is called upon to give independent financial advice, is not (and none of whose directors, officers, employees, affiliates or stockholders is) a promoter, director, officer, stockholder of the Company or Parent or any of their respective affiliates and which does not provide any advice or opinions to the Company or Parent or any of their respective affiliates. As used in this Agreement, an "affiliate" of any person is a person controlling, controlled by or under common control with such person.

(c) REVENUE EARN OUT.

(i) No later than ten (10) business days following the date the Revenue Earn Out (as defined below) is determined, Parent shall pay to the Eligible Stockholders (subject to the indemnification and offset rights of Parent and Merger Sub under Article VIII below) an earn out equal to the following calculations (the "Revenue Earn Out"):

((2002 Revenue x .52) − $4.1 million) x PF, where PF = 2002 Profit Percentage/9%

For the above purposes: (i) "2002 Revenue" shall mean the revenue of the Company and the Surviving Corporation (excluding Subsidiary), net of returns and allowances, for calendar year 2002; and (ii) "2002 Profit Percentage" shall mean the net income of the Company and the Surviving Corporation (excluding Subsidiary) as a percentage of 2002 Revenues (taking into account the Bonus Responsibility), for calendar year 2002; in each case above, as determined in accordance with GAAP.

(ii) The Revenue Earn Out shall be determined by Parent as soon as practicable after December 31, 2002, but in no event later than April 1, 2003, which determination shall be in writing and delivered to the Eligible Stockholders (the "Revenue Earn Out Notice"). The Revenue Earn Out shall be payable in the form of cash and/or Parent Common Stock (valued at the Current Market Price as of the date that the Revenue Earn Out has been finally determined). The mix of cash and Parent Common Stock paid to satisfy the Revenue Earn Out shall be at Parent's sole discretion; provided, however, that the total cash portion of the Merger Consideration shall be limited to the Cash Cap, subject to subsection (d) below.

(iii) Any disputes by the Eligible Stockholders as to the determination of the Revenue Earn Out shall be handled by Parent and Lundt, on behalf of the Eligible Stockholders, in the same manner as set forth in subsections (iv)-(vii) of subsection (b) above; provided, however, that Parent shall pay any undisputed portion of the Revenue Earn Out to the Eligible Stockholders on or prior to April 15, 2003.

(d) LIMITATION OF SHARES OF PARENT COMMON STOCK. Notwithstanding anything in this Section 2.7 to the contrary, in no event shall Parent issue more than 3,023,863 shares of Parent Common Stock in the aggregate (i.e., 19.9% of the issued and outstanding shares as of the date hereof) under the provisions of subsections (a), (b) and (c) above (the "Share Cap"); it being agreed and understood that any excess over the Share Cap to be paid as Merger Consideration shall be paid in cash; provided further, however, in the event that the entire Performance Earn Out and/or Revenue Earn Out may not be paid due to the Share Cap and the Cash Cap, then Parent and Lundt, on behalf of the Eligible Stockholders, shall attempt to reach a satisfactory payment arrangement and, failing to do so, at any time, Lundt may request Parent to, and Parent shall, call a Special Meeting of its stockholders (the "Special Meeting") in order to request such stockholders to approve the issuance of shares of Parent Common Stock as Merger Consideration in excess of the Share Cap, and Parent shall use all commercially reasonable efforts to obtain such approval, and will file a proxy statement in connection therewith as soon as practicable, but no more than sixty (60) days after, Lundt's request; provided, however, that in lieu of calling the Special Meeting, Parent will give Lundt, on behalf of the Eligible Stockholders, the option to be paid cash in excess of the Cash Cap, which option can be accepted or rejected in Lundt's sole discretion.

(e) PLEDGE AGREEMENT. The parties hereto agree that payment of the Performance Earn Out and the Revenue Earn Out shall be secured by a security interest in the shares of capital stock of the Surviving Corporation pursuant to a Pledge Agreement, in substantially the form of Exhibit E attached hereto (the "Pledge Agreement").

(f) OTHER AMOUNTS. For purposes of determining only the Cash Cap, any cash paid under this Section 2.7, any cash paid for fractional shares under Section 2.8(d) and any cash paid pursuant to Section 2.11 shall be included in such calculation as cash paid as part of the Merger Consideration.

(g) INTEREST INCOME. A portion of the Performance Earn Out and the Revenue Earn Out payments made after the Merger Effective Date may be characterized as ordinary interest income for U.S. federal income tax purposes. The amount of such interest is determined under the deferred payment transaction rules of Section 483 of the Code. The portion of those payments that is treated as interest will generally equal the excess of the fair market value of the earn out payments on the date of receipt over the present value of those payments, determined as of the Merger Effective Date, discounted using the applicable federal rate in effect for the month in which the Merger closes. Any payments made by Parent in the form of cash will be allocated first to any imputed interest determined under Section 483.

Section 2.8 CONVERSION OF SECURITIES. At the Merger Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or the Stockholders:

(a) Each Portsmith Share issued and outstanding immediately prior to the Merger Effective Time (other than shares held in treasury of the Company) shall be canceled and retired and be converted into the right to receive the portion of the total Merger Consideration payable to the respective Eligible Stockholders as set forth on Exhibit B (as adjusted to exclude Dissenting Stockholders, if any).

(b) Each Portsmith Share which is issued and outstanding immediately prior to the Merger Effective Time and which is held in the treasury of the Company shall be canceled and retired and no payment shall be made with respect thereto.

(c) As a result of the Merger and without any action on the part of the Stockholders, all Portsmith Shares shall cease to be outstanding, shall be canceled and returned and shall cease to exist, and each holder of a certificate formerly representing any Portsmith Shares shall thereafter cease to have any rights with respect to such Portsmith Shares (a "Certificate"), except the right to receive, without interest, a pro-rata portion of the Merger Consideration in accordance with Section 2.7 and Exhibit B upon the surrender of such Certificate.

(d) No fractional shares of Parent Common Stock shall be issued in connection with the Merger. In lieu thereof, cash in the amount of such fractional share of Parent Common Stock will be paid for any fractional share that would have otherwise been issued.

(e) At the Merger Effective Time, each share of common stock, par value $0.01 per share, of Merger Sub issued and outstanding immediately prior to the Merger Effective Time as a result of the Merger shall be automatically converted into one

newly and validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation.

Section 2.9 ADJUSTMENT OF MERGER CONSIDERATION. In the event that, subsequent to the date of this Agreement but prior to the Merger Effective Time, the outstanding shares of Parent Common Stock or Portsmith Common Stock, respectively, shall have been changed into a different number of shares or a different class as a result of a stock split, reverse stock split, stock dividend, subdivision, reclassification, split, combination, exchange, recapitalization or other similar transaction, the shares of Parent Common Stock included in the Merger Consideration shall be appropriately adjusted.

Section 2.10 ESCROWED SHARES. Notwithstanding anything to the contrary in this Agreement, Parent shall withhold in the aggregate 400,000 shares of Parent Common Stock to be issued to the Eligible Stockholders pursuant to this Agreement (the "Escrowed Shares"), which Escrowed Shares shall be held pursuant to the terms of that certain Stock Escrow Agreement, substantially in the form attached hereto as Exhibit C.

Section 2.11 APPRAISAL RIGHTS. Notwithstanding anything in this Article II to the contrary: (i) any stockholder of the Company exercising appraisal rights in accordance with Section 262 of the DGCL (collectively, the "Dissenting Stockholders"), shall receive, in lieu of the Merger Consideration, the consideration determined by the Court of Chancery in the State of Delaware under such Section 262 of the DGCL; and (ii) the Merger Consideration payable to the stockholders of the Company (excluding the Non−Electing Stockholders and the Dissenting Stockholders) shall be reduced by an amount equal to the product of the Merger Consideration multiplied by a fraction, the numerator of which shall be the number of Portsmith Shares held by the Non−Electing Stockholders and the Dissenting Stockholders immediately prior to the Merger Effective Time and the denominator which shall be the number of Portsmith Shares issued and outstanding immediately prior to the Merger Effective Time.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and Merger Sub that the following are true and correct as of the date hereof:

Section 3.1 ORGANIZATION AND GOOD STANDING; QUALIFICATION. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to carry on the business in which it is engaged, to own the properties it owns, to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The Company is duly qualified and licensed to do business and is in good standing in all jurisdictions where the nature of its business makes such qualification necessary, which jurisdictions are listed in Schedule 3.1, except where the failure to be qualified or licensed would not have a material adverse effect on the business of the Company. The Company does not have any assets, employees or offices in any state other than the states listed in Schedule 3.1. All Schedules referenced in this Article III are contained in the Company Disclosure Letter of even date herewith.

Section 3.2 CAPITALIZATION. The authorized capital stock of the Company consists of (i) 2,000,000 shares of common stock, par value $0.001 per share, of which 1,415,361 shares are issued and outstanding and no shares of such capital stock are held in the treasury of the Company. All of issued and outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable. Except as set forth in Schedule 3.2, there exist no options, warrants, subscriptions or other rights to purchase, or securities convertible into or exchangeable for, the capital stock of the Company. The Company is not a party to or bound by, nor does it have any knowledge of, any agreement, instrument, arrangement, contract, obligation, commitment or understanding of any character, whether written or oral, express or implied, relating to the sale, assignment, encumbrance, conveyance, transfer or delivery of any capital stock of the Company. No shares of capital stock of the Company have been issued or disposed of in violation of the preemptive rights of any of the Company's stockholders. All accrued dividends on the capital stock of the Company, whether or not declared, have been paid in full.

Section 3.3 CORPORATE RECORDS. The copies of the Certificate of Incorporation and all amendments thereto and the Bylaws of the Company that have been delivered to Parent are true, correct and complete copies thereof, as in effect on the date hereof. Except as set forth in Schedule 3.3, the minute books of the Company, copies of which have been delivered to Parent, contain accurate minutes of all meetings of, and accurate consents to all actions taken without meetings by, the Board of Directors (and any committees thereof) and the stockholders of the Company since the formation of the Company.

Section 3.4 AUTHORIZATION AND VALIDITY. The execution, delivery and performance by the Company of this Agreement and the other agreements contemplated hereby, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by the Company, subject to the requisite stockholder approval. This Agreement and each other agreement contemplated hereby have been duly executed and delivered by the Company and constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or the availability of equitable remedies.

Section 3.5 SUBSIDIARIES. The Company does not own, directly or indirectly, any of the capital stock of any other corporation or any equity, profit sharing, participation or other interest in any corporation, partnership, joint venture or other entity.

Section 3.6 NO VIOLATION. Except as set forth in Schedule 3.6, neither the execution, delivery or performance of this Agreement or the other agreements contemplated hereby nor the consummation of the transactions contemplated hereby or thereby will (i) conflict with, or result in a violation of, any provision of, the Certificate of Incorporation or Bylaws of the Company; (ii) conflict with, or result in a violation or breach of the terms, conditions or provisions of, or constitute a default under, any agreement, indenture or other instrument under which the Company is bound or to which the Portsmith Common Stock or any of the assets of the Company are subject, or result in the creation or imposition of any security interest, lien, charge or encumbrance upon the Portsmith Common Stock or any of the assets of the Company; or (iii) violate or conflict with any judgment, decree, order, statute, rule or regulation of any court or any

public, governmental or regulatory agency or body having jurisdiction over the Company, the Portsmith Common Stock or the assets of the Company.

Section 3.7 CONSENTS. Except as set forth in Schedule 3.7, no consent, authorization, approval, permit or license of, or filing with, any governmental or public body or authority, any lender or lessor or any other person or entity is required to authorize, or is required in connection with, the execution, delivery and performance of this Agreement or the agreements contemplated hereby on the part of the Company.

Section 3.8 FINANCIAL STATEMENTS. The Company has furnished to Parent the unaudited balance sheet and related unaudited statements of income, retained earnings and cash flows for each of the twelve-months ended December 31, 1999 and 2000, and the draft balance sheet and related unaudited statement of income, retained earnings and cash flow for the twelve-months ended December 31, 2001, including in each case, the notes thereto, as well as unaudited balance sheet and related unaudited statement of income, retained earnings and cash flows for the month of January, 2002 (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated, except that the unaudited Financial Statements may not contain all footnotes required by generally accepted accounting principles. Except as set forth on Schedule 3.8, the Financial Statements fairly present the financial condition and operating results of the Company as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to January 31, 2002 and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under generally accepted accounting principles to be reflected in the Financial Statements, which, in either instance of (i) and (ii) above, individually or in the aggregate are not material to the financial condition or operating results of the Company.

Section 3.9 LIABILITIES AND OBLIGATIONS. Except as set forth in Schedule 3.9, the Financial Statements reflect all liabilities of the Company, accrued, contingent or otherwise (known or unknown and asserted or unasserted), arising out of transactions effected or events occurring on or prior to the date hereof. All reserves shown in the Financial Statements are appropriate, reasonable and sufficient to provide for losses thereby contemplated. Except as set forth in the Financial Statements, the Company is not liable upon or with respect to, or obligated in any other way to provide funds in respect of or to guarantee or assume in any manner, any debt, obligation or dividend of any person, corporation, association, partnership, joint venture, trust or other entity, and the Company does not know of any basis for the assertion of any other claims or liabilities of any nature or in any amount.

Section 3.10 EMPLOYEE MATTERS.

(a) COMPENSATION AND PLANS. Schedule 3.10(a) contains a complete and accurate list of the names, titles and cash compensation, including without limitation wages, salaries, bonuses (discretionary and formula) and other cash compensation (the "Cash Compensation") of (i) all employees of the Company and (ii) consultants who were paid in excess of $5,000 during the past twelve months. Schedule 3.10(a) contains a

complete and accurate list of all compensation plans, arrangements or practices (the "Compensation Plans") sponsored by the Company or to which the Company contributes on behalf of its employees, other than Employee Benefit Plans listed in Schedule 3.11. The Compensation Plans include without limitation employment agreements, noncompetition agreements, employee leasing agreements, plans, arrangements or practices that provide for severance pay, deferred compensation, incentive, bonus or performance awards, and stock ownership or stock options. Each of the Compensation Plans can be terminated or amended at will by the Company.

(b) EMPLOYEE POLICIES AND PROCEDURES. Schedule 3.10(b) contains a complete and accurate list of all employee manuals, policies, procedures and work−related rules created by the Company (the "Employee Policies and Procedures") that apply to employees of the Company. Each of the Employee Policies and Procedures can be amended or terminated at will by the Company.

(c) LABOR COMPLIANCE. Except as set forth in Schedule 3.10(c), the Company (i) has been and is in compliance with all laws, rules, regulations and ordinances respecting employment and employment practices, terms and conditions of employment and wages and hours, and (ii) is not liable for any arrears of wages or penalties for failure to comply with any of the foregoing. The Company has not engaged in any unfair labor practice or discriminated on the basis of race, color, religion, sex, national origin, age or handicap in its employment conditions or practices. There are no (i) unfair labor practice charges or complaints or racial, color, religious, sex, national origin, age or handicap discrimination charges or complaints pending or threatened against the Company before any federal, state or local court, board, department, commission or agency nor does any basis therefore exist or (ii) existing or threatened labor strikes, disputes, grievances, controversies or other labor troubles affecting the Company nor does any basis therefore exist.

(d) UNIONS; ALIENS. The Company has never been a party to any agreement with any union, labor organization or collective bargaining unit. No employees of the Company are represented by any union, labor organization or collective bargaining unit. To the best knowledge of the Company, the employees of the Company have no intention to and have not threatened to organize or join a union, labor organization or collective bargaining unit. All employees of the Company are citizens of, or are authorized to be employed in, the United States.

Section 3.11 EMPLOYEE BENEFIT PLANS.

(a) Schedule 3.11 contains a complete and accurate list of all employee benefit plans (the "Employee Benefit Plans") within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") sponsored by the Company or to which the Company contributes on behalf of its employees and all Employee Benefit Plans previously sponsored or contributed to on behalf of its employees within the three years preceding the date hereof. Each of the Employee Benefit Plans can be terminated or amended at will by the Company. No unwritten amendment exits with respect to any Employee Benefit Plan. Each Employee

Benefit Plan has been administered and maintained in compliance with all laws, rules and regulations. No Employee Benefit Plan is currently the subject of an audit, investigation, enforcement action or other similar proceeding conducted by any state or federal agency. No prohibited transaction (within the meaning of Section 4975 of the Code) have occurred with respect to any Employee Benefit Plan. No threatened or pending claims, suits or other proceedings exist with respect to any Employee Benefit Plan other than normal benefit claims filed by participants or beneficiaries.

(b) The Company has received a favorable determination letter or ruling from the Internal Revenue Service for each Employee Benefit Plan intended to be qualified within the meaning of Section 401(a) of the Code and/or tax-exempt within the meaning of Section 501(a) of the Code. No proceedings exist or have been threatened that could result in the revocation of any such favorable determination letter or ruling. No accumulated funding deficiency (within the meaning of Section 412 of the Code), whether waived or unwaived, exists with respect to an Employee Benefit Plan. With respect to each Employee Benefit Plan described in Section 501(c)(9) of the Code, the assets of each such plan are at least equal in value to the present value of accrued benefits as of the date hereof. The Company does not have any liability to pay excise taxes with respect to any Employee Benefit Plan under applicable provisions of the Code or ERISA. No facts or circumstances exist that would result in the imposition of liability against Parent by the Pension Benefit Guaranty Corporation as a result of any act or omission by the Company.

Section 3.12 TITLE; LEASED ASSETS. A description of all interests in real property owned by the Company (collectively, the "Real Property") is set forth in Schedule 3.12(a). Except as set forth in Schedule 3.12(a), the Company has good, valid and marketable title to all the Real Property. Except as set forth in Schedule 3.12(b), the Company has good, valid and marketable title to all tangible and intangible personal property owned by them (collectively, the Personal Property"). A list and brief description of all leases of real and personal property to which the Company is a party, either as lessor or lessee, are set forth in Schedule 3.12(c). All such leases are valid and enforceable in accordance with their respective terms except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or the availability of equitable remedies.

Section 3.13 COMMITMENTS.

(a) COMMITMENTS; DEFAULTS. Except as set forth in Schedule 3.13, the Company has not entered into, nor are the Portsmith Common Stock, the assets or the business of the Company bound by, whether or not in writing, any

(i) partnership or joint venture agreement;

(ii) deed of trust or other security agreement;

(iii) guaranty or suretyship, indemnification or contribution agreement or performance bond;

(iv) employment, consulting or compensation agreement or arrangement, including the election or retention in office of any director or officer;

(v) labor or collective bargaining agreement;

(vi) debt instrument, loan agreement or other obligation relating to indebtedness for borrowed money or money lent or to be lent to another;

(vii) deed or other document evidencing an interest in or contract to purchase or sell real property;

(viii) agreement with dealers or sales or commission agents, public relations or advertising agencies, accountants or attorneys;

(ix) lease of real or personal property, whether as lessor, lessee, sublessor or sublessee;

(x) agreement between the Company and any affiliate of the Company;

(xi) any agreement for the acquisition of services, supplies, equipment or other personal property and involving more than $25,000 in the aggregate;

(xii) powers of attorney;

(xiii) contracts containing noncompetition covenants;

(xiv) any other contract or arrangement that involves either an unperformed commitment in excess of $5,000 or that terminates more than 30 days after the date hereof;

(xv) agreement relating to any material matter or transaction in which an interest is held by any person or entity referred to in Section 3.26;

(xvi) agreement providing for the purchase from a supplier of all or substantially all of the requirements of the Company of a particular product or service; or

(xvii) any other agreement or commitment not made in the ordinary course of business or that is material to the business or financial condition of the Company.

All of the foregoing are hereinafter collectively referred to as the "Commitments." True, correct and complete copies of the written Commitments have heretofore been delivered or made available to Parent, and true, correct and complete written descriptions of the oral Commitments, are set forth on Schedule 3.13. There are no existing defaults, events of default or events, occurrences, acts or omissions that, with the giving of notice or lapse of time or both, would constitute defaults by the Company, and no penalties have been incurred nor are amendments pending, with respect to the Commitments, except as described in Schedule 3.13. The Commitments are in full force and effect and are valid and enforceable obligations of the parties thereto in accordance with their respective terms, and no defenses, off-sets or counterclaims have been asserted or, to the best knowledge of the Company and Stockholders, may be made by any party thereto, nor has the Company waived any rights thereunder, except as described in Schedule 3.13. The Company has not received notice of any default with respect to any Commitment.

(b) NO CANCELLATION OR TERMINATION OF COMMITMENT. Except as contemplated hereby, the Company has not received notice of any plan or intention of any other party to any Commitment to exercise any right to cancel or terminate any Commitment or agreement, and the Company does not know of any fact that would justify the exercise of such a right. The Company does not currently contemplate, or have reason to believe, any other person or entity currently contemplates, any amendment or change to any Commitment.

Section 3.14 INSURANCE. A list and brief description of all insurance policies of the Company are set forth in Schedule 3.14. To the Company's knowledge, all of such policies are valid and enforceable policies, issued by insurers of recognized responsibility in amounts and against such risks and losses as is customary in the industry of the insured.

Section 3.15 PATENTS, TRADE-MARKS, SERVICE MARKS AND COPYRIGHTS. Except as set forth in Schedule 3.15, the Company owns or possesses sufficient title and ownership of or licenses to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and proprietary rights and processes (including, without limitation, products, tooling, technology, software, firmware and the like) necessary for its business as conducted and as currently proposed to be conducted (including, without limitation, the manufacture and sale of cradles for certain handheld devices produced by Symbol, Palm, Handspring, Compaq IPAQ, Sony and other key customers) without any conflict with, or infringement of, the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf' or standard commercial products. The Company has not received any communications alleging that the Company has violated or, by conducting its business, would violate any of the patents, trademarks, service marks, trade names, copyrights, trade secrets or other proprietary rights or processes of any other person or entity. The Company, to the best of its knowledge, is not aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of such employee's best efforts to

promote the interest of the Company or that would conflict with the Company's business. Neither the execution or delivery of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's business as currently proposed, will conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any contract, covenant or instrument under which any such employee is now obligated. The Company does not believe it is or will be necessary to use any inventions of any of its employees (or persons it currently intends to hire) made prior to their employment by the Company. The Company is not using or in any way making use of any confidential information or trade secrets of any third party, including without limitation, any past or present employees of the Company.

Section 3.16 TAXES. The Company has filed all tax returns and reports as required by law. These returns and reports are true and correct in all material respects. The Company has paid all taxes and other assessments due, other than those that are due but not yet required to be paid, which taxes are identified on Schedule 3.16. The Company has not made any elections pursuant to the Code (other than elections that relate solely to methods of accounting, depreciation or amortization) that would have a material effect on the Company, its financial condition, its business as presently conducted or proposed to be conducted or any of its properties or material assets. The Company had never had any tax deficiency proposed or assessed against it and has not executed any waiver of any statute of limitations on the assessment or collection of any tax or governmental charge. None of the Company's federal income tax returns and none of its state income or franchise tax or sales or use tax returns has ever been audited by governmental authorities. Since the date of the Financial Statements, the Company has not incurred any taxes, assessments or governmental charges other than in the ordinary course of business and the Company has made adequate provisions on its books of account for all taxes, assessments and governmental charges with respect to its business, properties and operations for such period. The Company has withheld or collected from each payment made to each of its employees, the amount of all taxes (including, but not limited to, federal income taxes, federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes) required to be withheld or collected therefrom, and has paid the same to the proper tax receiving officers or authorized depositories.

Section 3.17 COMPLIANCE WITH LAWS. The Company has complied with all laws, regulations and licensing requirements and has filed with the proper authorities all necessary statements and reports. There are no existing violations by the Company or Stockholders of any federal, state or local law or regulation that could affect the property or business of the Company. The Company possesses all necessary licenses, franchises, permits and governmental authorizations to conduct its business as now conducted.

Section 3.18 FINDER'S FEE. The Company has not incurred any obligation for any finder's, broker's or agent's fee in connection with the transactions contemplated hereby.

Section 3.19 LITIGATION. Except as set forth in Schedule 3.19, there is no action, suit, proceeding or investigation pending or, to the best knowledge of the Company, currently threatened against the Company that questions the validity of the Agreements or the right of the Company to enter into them, or to consummate the transactions contemplated hereby or thereby, or that might result, either individually or in the aggregate, in any material adverse changes in the

assets, condition or affairs of the Company, financially or otherwise, or any change in the current equity ownership of the Company, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions pending or to the best knowledge of the Company threatened in writing involving the prior employment of any of the Company's employees, their use in connection with the Company's business of any information or techniques allegedly proprietary to any of their former employers. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. There is no action, suit, proceeding or investigation by the Company currently pending or which the Company intends to initiate.

Section 3.20 ACCURACY OF INFORMATION FURNISHED. The information furnished to Parent by the Company hereby or in connection with the transactions contemplated hereby is true, correct and complete in all respects. Such information states all facts required to be stated therein or necessary to make the statements therein, in light of the circumstances under which such statements are made, true, correct and complete.

Section 3.21 CONDITION OF FIXED ASSETS. All of the plants, structures and equipment (the "Fixed Assets") owned by the Company are in good condition and repair (subject to normal wear and tear) for their intended use in the ordinary course of business and conform in all material respects with all applicable ordinances, regulations and other laws and there are no known latent defects therein.

Section 3.22 INVENTORY. All of the inventory owned by the Company is in good, current, standard and merchantable condition and is not obsolete or defective. Purchase commitments for merchandise are not in excess of normal requirements and, taken as a whole, are not at prices in excess of market prices. At the date of this Agreement, the Company has the types and quantities of inventories appropriate, taken as a whole, to conduct its business consistently with past practices.

Section 3.23 ACCOUNTS RECEIVABLE. Schedule 3.23 sets forth the accounts receivable of the Company from sales made as of the date of this Agreement and the payments and rights to receive payments related thereto. All such accounts receivable have arisen from bona fide transactions in the ordinary course of business and are valid and enforceable claims subject to no right of set−off or counterclaim.

Section 3.24 CUSTOMERS. Except as set forth on Schedule 3.24, no customer or supplier that was significant to the Company during the period from June 30, 2001 to December 31, 2001 (including, without limitation, Symbol), has terminated, materially reduced or, to the Company's knowledge, threatened to terminate or materially reduce its purchases from or provision of products or services to the Company, as the case may be, and the Company does not have any knowledge of any risks or issues with respect to any of its customers which could result in the Company not meeting its 2002 business plan, as previously delivered to Parent.

Section 3.25 PRODUCT WARRANTIES. Except as set forth on Schedule 3.25, there is no claim against or liability of the Company on account of product warranties or with respect to the manufacture, sale or rental of defective products and there is no basis for any such claim on account of defective products heretofore manufactured, sold or rented that is not fully covered by insurance.

Section 3.26 OWNERSHIP INTERESTS OF INTERESTED PERSONS. Except as set forth in Schedule 3.26, the Company is not indebted, directly or indirectly, to any of its officers or directors or to their respective spouses or children, in any amount whatsoever other than in connection with expenses or advances of expenses incurred in the ordinary course of business. Except as set forth in Schedule 3.26, none of the Company's officers or directors, or any members of their immediate families, are, directly or indirectly, indebted to the Company (other than in connection with purchases of the Company's stock) or to the best knowledge of the Company have any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or any firm or corporation which competes with the Company except that officers, directors and/or stockholders of the Company may own stock in (but not exceeding two percent of the outstanding capital stock of) any publicly traded company that may compete with the Company. Except as set forth in Schedule 3.26, none of the Company's officers or directors or any members of their immediate families are, directly or indirectly, interested in any material contract with the Company. Except as set forth in Schedule 3.26, the Company is not a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

Section 3.27 ENVIRONMENTAL MATTERS. The Company is not in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and to its knowledge, no material expenditures are or will be required in order to comply with any such existing statute, law or regulation.

Section 3.28 CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENTS. All officers of the Company, and substantially all current employees of the Company, have executed an agreement with the Company regarding confidentiality and proprietary information substantially in the form or forms delivered to the counsel for Parent. The Company is not aware that any of its employees or consultants is in violation thereof.

Section 3.29 CERTAIN PAYMENTS. To the best knowledge of the Company, neither the Company nor any director, officer or employee of the Company has paid or caused to be paid, directly or indirectly, in connection with the business of the Company: (a) to any government or agency thereof or any agent of any supplier or customer any bribe, kick-back or other similar payment; or (b) any contribution to any political party or candidate (other than from personal funds of directors, officers or employees not reimbursed by their respective employers or as otherwise permitted by applicable law).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS

Each Stockholder, as to itself, represents and warrants to Parent and Merger Sub that the following are true and correct as of the date hereof:

Section 4.1 AUTHORITY AND OWNERSHIP.

(a) Such Stockholder has the capacity to execute and deliver this Agreement and the Escrow Agreement and to consummate the transactions contemplated hereby. All necessary action required to have been taken by or on behalf of such Stockholder by applicable law or otherwise to authorize (i) the approval, execution and delivery on its behalf of this Agreement and the Escrow Agreement and (ii) its performance of its obligations under this Agreement and the Escrow Agreement and the consummation of the transactions contemplated hereby and thereby have been taken. This Agreement and the Escrow Agreement constitutes such Stockholder's valid and binding agreement, enforceable against such Stockholder in accordance with its terms, except (A) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights, including without limitation, the effect of statutory or other laws regarding fraudulent conveyances and preferential transfer, and (B) for the limitations imposed by general principles of equity.

(b) Except as set forth on Schedule 4.1(b), such Stockholder owns, beneficially and of record, good and marketable title to the Portsmith Common Stock listed opposite its name on Exhibit B, free and clear of all security interests, liens, adverse claims, encumbrances, equities, proxies, options, voting agreements, stockholders' agreements or restrictions.

Section 4.2 NO BREACH. The execution and delivery of this Agreement and the Escrow Agreement do not, and the consummation of the transactions contemplated hereby or thereby will not (i) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) or give rise to any lien, third party right of termination, cancellation, material modification or acceleration under any agreement, understanding or undertaking to which such Stockholder is a party or by which it is bound, or (ii) constitute a violation of any law, rule or regulation to which such Stockholder is subject.

Section 4.3 CONSENTS AND APPROVALS. Neither the execution and delivery by such Stockholder of this Agreement or the Escrow Agreement nor the consummation by such Stockholder of the transactions contemplated hereby or thereby will require such Stockholder to obtain any consent, approval, authorization or permit of, or to make any filing with or give any notification to, any governmental or regulatory authority, any lender or lessor or any other person or entity.

Section 4.4 BROKERS AND FINDERS. Such Stockholder has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finder's fees in connection with the transactions contemplated herein.

Section 4.5 STATUS OF STOCKHOLDER. Such Stockholder is knowledgeable in making investments and is able to bear the economic risk of loss of its investment in Parent. Except as provided in Schedule 4.5 attached hereto, such Stockholder is an "accredited investor", as that term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). Such Stockholder is acting on its own behalf in connection with the investigation and examination of Parent and its decision to execute this Agreement and all related documents, instruments and agreements. Such Stockholder is receiving the Merger

Consideration for its own account, and not with a view of distribution. Such Stockholder acknowledges that the Parent Common Stock will be unregistered and may not be sold or transferred in the absence of registration under the Securities Act and applicable state securities laws, unless an exemption exists therefore, and Parent has no obligation to effect such a registration.

Such Stockholder acknowledges Parent has made all documents pertaining to the transactions contemplated herein, in the Exhibits and Schedules attached hereto and as filed with the Securities and Exchange Commission available to such Stockholder and/or such Stockholder's representative and has allowed such Stockholder and/or its representative an opportunity to ask questions and receive answers thereto and to verify and clarify any information contained in such documents. Such Stockholder has relied upon advice of its representative and/or independent investigation made by such Stockholder and/or such Stockholder's representative, and acknowledges that no representations or agreements other than those set forth in this Agreement have been made to such Stockholder in respect thereto. For any Stockholder who is not an accredited investor, such Stockholder, by reason of its business or financial experience and/or that of its representative who is unaffiliated with Parent and who is not compensated by Parent or any affiliate of Parent, such Stockholder has the capacity to protect such Stockholder's own interest in connection with the transactions contemplated by this Agreement and the issuance of the Merger Consideration to such Stockholder with respect to the transactions contemplated herein. Such Stockholder expressly acknowledges and confirms that such Stockholder has evaluated and understands the risks and terms of investing in the securities of Parent to be issued to such Stockholder pursuant to this Agreement, and/or such Stockholder and its representative have, such knowledge and experience in financial and business matters in general and in particular with respect to this type of investment that such Stockholder is, or they are, capable of evaluating the merits and risks of an investment in the Parent Common Stock to be issued to such Stockholder in connection with the transactions contemplated herein.

Section 4.6 INVESTMENTS IN COMPETITORS. Such Stockholder does not own directly or indirectly any interests or has any investment in any corporation, business or other person that is a competitor of the Company, except that such Stockholder may own stock in (but not exceeding one percent of the outstanding capital stock of) any publicly traded company that may compete with the Company.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub represent and warrant to the Company and the Stockholders that the following are true and correct as of the date hereof:

Section 5.1 ORGANIZATION AND GOOD STANDING. Parent and Merger Sub are each corporations duly organized, validly existing and in good standing under the laws of the state of its incorporation, with all requisite corporate power and authority to carry on the business in which it is engaged, to own the properties it owns, to execute and deliver this Agreement and to consummate the transactions contemplated hereby.

Section 5.2 AUTHORIZATION AND VALIDITY. The execution, delivery and performance by Parent and Merger Sub of this Agreement and the other agreements contemplated hereby, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by Parent and Merger Sub. This Agreement and each other agreement contemplated hereby have been as of the date of this Agreement, duly executed and delivered by Parent and Merger Sub and constitute legal, valid and binding obligations of Parent and Merger Sub, enforceable against Parent and Merger Sub in accordance with their respective terms, except as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or the availability of equitable remedies.

Section 5.3 NO VIOLATION. Neither the execution, delivery or performance of this Agreement or the other agreements contemplated hereby nor the consummation of the transactions contemplated hereby or thereby will (i) conflict with, or result in a violation or breach of the terms, conditions and provisions of, or constitute a default under, the Certificate of Incorporation or Bylaws of Parent or Merger Sub or any agreement, indenture or other instrument under which Parent or Merger Sub is bound or (ii) violate or conflict with any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over Parent or Merger Sub or the properties or assets of Parent or Merger Sub.

Section 5.4 FINDER'S FEE. Neither Parent nor Merger Sub has incurred any obligation for any finder's, broker's or agent's fee in connection with the transactions contemplated hereby.

Section 5.5 LITIGATION. There is no action, suit, proceeding or investigation pending or, to the best knowledge of the Company, currently threatened against Parent or any of its subsidiaries that questions the validity of the Agreements or the right of Parent or Merger Sub to enter into them, or to consummate the transactions contemplated hereby or thereby. Neither Parent nor any of its subsidiaries is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality.

Section 5.6 SEC FILINGS; PARENT FINANCIAL STATEMENTS.

(a) Parent has filed all forms, reports and documents required to be filed by Parent with the SEC since the effective date of the registration statement of Parent's initial public offering, and has made available to Company such forms, reports, and documents in the form filed with the SEC. All such required forms, reports and documents (including those that Parent may file subsequent to the date hereof) are referred to herein as the "Parent SEC Reports". As of their respective dates, the Parent SEC Reports (i) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act of 1934, as amended (the "Exchange Act"), as the case may be, and the rules and regulations of the SEC thereunder applicable to such Parent SEC Reports, and (ii) did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein in the light of the circumstances under which they were made, not misleading, except to the extent corrected prior to the date of this Agreement by a subsequently filed Parent SEC Report. None of Parent's subsidiaries is required to file any forms, reports or other documents with the SEC.

(b) Each of the consolidated financial statements (including, in each case, any related notes thereto) contained in the Parent SEC Reports (the "Parent Financials"), including any Parent SEC Reports filed after the date hereof until the Closing, (i) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, (ii) was prepared in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto or, in the case of unaudited interim financial statements, as may be permitted by the SEC on Form 10-Q, 8-K or any successor form under the Exchange Act) and (iii) fairly presented the consolidated financial position of Parent and its subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows for the periods indicated, except that the unaudited interim financial statements may not contain footnotes and were or are subject to normal and recurring year-end adjustments. The balance sheet of Parent contained in Parent SEC Report as of September 30, 2001 is hereinafter referred to as the "Parent Balance Sheet."

Section 5.7 SECURITIES EXEMPTION. Based on the representations of Stockholders in Article IV above, the issuance of the securities pursuant to this Agreement are exempt from registration under the Securities Act.

ARTICLE VI
CLOSING DELIVERIES

Section 6.1 DELIVERIES OF THE COMPANY AND STOCKHOLDERS. Simultaneously with the execution of this Agreement, the Company and Stockholders shall deliver to Parent the following, all of which shall be in form and content satisfactory to Parent and its counsel:

(a) a copy of resolutions of the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement and all related documents and agreements, each certified by the Secretary of the Company as being true and correct copies of the originals thereof subject to no modifications or amendments;

(b) certificate, dated within five days prior to the date of this Agreement, of the Secretary of State of Delaware establishing that the Company is in existence, has paid all franchise taxes and otherwise is in good standing to transact business in its state of incorporation;

(c) all authorizations, consents, approvals, permits and licenses referenced in Schedule 3.7;

(d) executed noncompetition agreement between Merger Sub and Lundt in the form attached as Exhibit D (the "Lundt Noncompetition Agreement");

(e) executed Stock Escrow Agreement; and

(f) executed Pledge Agreement.

Section 6.2 DELIVERIES OF PARENT AND MERGER SUB. Simultaneously with the execution of this Agreement, Parent and Merger Sub shall deliver the following to the Company or the appropriate party:

(a) a copy of resolutions of the Board of Directors of Parent and Merger Sub authorizing the execution, delivery and performance of this Agreement and all related documents and agreements, certified by the Secretary of Parent and Merger Sub as being a true and correct copy of the original thereof subject to no modifications or amendments;

(b) executed Lundt Noncompetition Agreement;

(c) executed Stock Escrow Agreement; and

(d) executed Pledge Agreement.

ARTICLE VII
OTHER AGREEMENTS

Section 7.1 PAYMENT OF SHARE CONSIDERATION. As soon as practicable, but in no event later than ten (10) business days, after Closing, Parent shall deliver the Share Consideration (less the Escrowed Shares) to the Stockholders; provided, however, that for any Eligible Stockholder who is not a party hereto, Parent shall hold the Share Consideration payable to such Eligible Stockholder until the appraisal period under Section 262 of the DGCL has expired.

Section 7.2 SALES REPRESENTATIVE AGREEMENT. Effective as of the Closing, Parent will be the sole and exclusive representative of the Surviving Corporation for the sales of the Surviving Corporation's products (as the same are offered for sale by the Surviving Corporation from time to time (the "Products") for all non−original equipment manufacturer channel sales. Parent will solicit from its customers purchase orders for Products, and will submit such purchase orders to the Surviving Corporation. The Surviving Corporation may, in its sole discretion, accept or reject all or any portion of a purchase order. Parent will not take title to any of the Products, but will act as an independent sales representative of the Surviving Corporation. The parties understand and agree that Parent currently, and in the future will, market and sell its own products and products manufactured by other persons and entities, and nothing in this Agreement shall in anyway restrict or prohibit Parent from undertaking such activities. For each sale of Products sold by Parent, the Surviving Corporation will pay Parent a fee equal to seven percent (7%) of the sales price of such Product, net of returns and allowances, which fee shall be payable within fifteen (15) days after the end of each calendar month for amounts received by the Surviving Corporation from purchasing customers during such calendar month. The Products shall be co−branded as to the Surviving Corporation and Parent, as Parent and the Surviving Corporation may mutually agree. Parent shall be responsible for, and shall pay, all costs and expenses relating or pertaining to the marketing and sales of Product. The Surviving Corporation shall be responsible for, and shall pay, all costs and expenses relating or pertaining to the fulfillment of sales resulting from Parent's activities under this Section 7.2, including,

without limitation, all returns, market development funds, and other related costs of sales, unless otherwise agreed to in writing by Parent.

Section 7.3 PRODUCT DEVELOPMENT. The parties agree that the Surviving Corporation will continue to remain focused on its current handheld-centric business plan, as previously presented by the Surviving Corporation to Parent. Parent and the Surviving Corporation further agree that, in order for Parent and the Surviving Corporation to leverage their respective developed technologies, where possible, the parties will collaborate on product road maps, and use all commercially reasonable efforts to develop and implement mutually acceptable product plans; it being agreed and understood that the intent of such activities is to have the Surviving Corporation fulfill the market's requirements for a family of high-value products targeted at the handheld portable computer market.

Section 7.4 COMPENSATION ARRANGEMENTS. Following, but in no event more than thirty (30) business days after, the Closing, Parent shall devise a bonus plan for the executive management team of the Surviving Corporation and will also allocate and deliver to the employees of the Surviving Corporation options to purchase an aggregate of 200,000 shares of Parent Common Stock under Parent's Amended and Restated 1996 Long Term Incentive Plan; which options will be in the form of Exhibit G attached hereto. The above allocations shall be mutually agreeable to Parent and Lundt.

Section 7.5 CAPITAL INFUSION. Immediately following the Closing, Parent will make an additional $1,000,000 capital contribution to Surviving Corporation.

Section 7.6 CONVERSION OF NOTE. Effective as of the Merger Effective Time, the principal balance of, and all accrued but unpaid interest on, that certain Subordinated Convertible Promissory Note, dated August 29, 2002; in the original principal amount of up to $3,000,000, and with the Company as "Maker" and Parent as "Payee", shall be deemed to be a capital contribution by Parent to the capital stock of the Surviving Corporation, and the related Security Agreement shall be deemed to be cancelled and of no further force or effect.

Section 7.7 EXECUTION OF ASSIGNMENT OF INVENTIONS AGREEMENT. Prior to the Merger Effective Time, Dan Axtman, the Company's Chief Technology Officer, shall have executed and delivered to the Company an Assignment of Inventions Agreement, substantially in the form of Exhibit H attached hereto.

Section 7.8 FURTHER INSTRUMENTS OF TRANSFER. Following the Closing, at the request of Parent, Stockholders shall deliver any further instruments of transfer and take all reasonable action as may be necessary or appropriate to carry out more effectively the provisions of this Agreement and to establish and protect the rights created in favor of the parties hereunder or thereunder.

Section 7.9 PARENT COVENANTS REGARDING SURVIVING CORPORATION'S OPERATION. As a material inducement to the Company to enter into this Agreement, Parent hereby agrees that, during the time period beginning on the Merger Effective Date and ending on December 31, 2002 (the "Transition Period"), Parent hereby covenants and agrees with the Company that, at all times during the Transition Period, Parent shall:

(a) cooperate with the Surviving Corporation, regarding the recruitment, hiring, employment, management, compensation, retention and termination of employees and contractors of the Surviving Corporation during the Transition Period;

(b) not dissolve or liquidate the Surviving Corporation, nor sell or cause the Surviving Corporation to sell, transfer or otherwise dispose of any of the Surviving Corporation's assets other than in the ordinary course of the Surviving Corporation's business and other than the capital stock of Subsidiary, nor transfer any liabilities to the Surviving Corporation, nor merge or consolidate the Surviving Corporation with another entity or sell, distribute or otherwise dispose of the capital stock of the Surviving Corporation; provided, however, that this subpart (b) shall not in any way prohibit or impede the Surviving Corporation from becoming a party to, and receiving proceeds from, Parent's credit facility, and the assets of Surviving Corporation may be pledged under such a credit facility; provided further, however, that Parent shall use all commercially reasonable efforts to cause the lender under Parent's credit facility, with respect to Surviving Corporation, to only loan against Surviving Corporation's account receivables and inventory and to limit Surviving Corporation's liability to the borrowing percentage for such assets under such lender's borrowing base calculation;

(c) not relocate the Surviving Corporation's physical offices or operations;

(d) except as provided in this Article VII, provide that, with respect to any transactions between Parent (or any of its affiliates) and the Surviving Corporation in which the Surviving Corporation has agreed to undertake new or additional material responsibilities or obligations at the request of Parent (or any such affiliate), the revenue attributable to the Surviving Corporation shall be determined on terms no less favorable than if such transaction had been on an arm's length basis with an independent third party; provided, however, that neither the Surviving Corporation nor Parent shall be obligated to enter into any such transactions;

(e) not take any materially adverse action to interfere with the Surviving Corporation's revenue contracts or to discourage customers, employees, vendors, suppliers or other business associates of the Surviving Corporation from continuing to maintain their business relationship with the Surviving Corporation as in effect on the Control Effective Date; and

(f) except with respect to the Pledge Agreement, pledge or otherwise encumber any shares of capital stock of Surviving Corporation

Section 7.10 NASDAQ LISTING. If required by the rules of the Nasdaq stock market, Parent agrees to use its best efforts to cause the shares of Parent Common Stock issuable pursuant to this Agreement to be approved for listing on the Nasdaq National Market.

Section 7.11 INDEMNIFICATION OF PORTSMITH DIRECTORS AND OFFICERS. From the Merger Effective Date until the sixth anniversary of the Merger Effective Date, the Surviving Corporation shall fulfill and honor all obligations of the Company pursuant to the Company's

Certificate of Incorporation, Bylaws and indemnification agreements entered into with the directors and officers of the Company as they are in effect on the date hereof and pay all amounts that become due and payable under such provisions.

Section 7.12 SPIN-OUT OF SUBSIDIARY. Following the Merger Effective Date, Parent may cause Surviving Corporation to assign to Parent the equity interest owned by Surviving Corporation in Subsidiary for $10.00.

ARTICLE VIII
REMEDIES

Section 8.1 INDEMNIFICATION BY THE ELIGIBLE STOCKHOLDERS. Subject to the terms and conditions of this Article and Section 9.6, the Eligible Stockholders jointly and severally agree to indemnify, defend and hold Parent and Merger Sub and their respective directors, officers, agents, attorneys and affiliates (collectively, "Parent Indemnitees") harmless from and against all losses, claims, obligations, demands, assessments, penalties, liabilities, costs, damages, attorneys' fees and expenses (collectively, "Damages"), asserted against or incurred by any Parent Indemnitee by reason of or resulting from a breach of any representation, warranty or covenant of the Company or Stockholders contained herein, in any exhibit, schedule, certificate or financial statement delivered hereunder, or in any agreement executed in connection with the transactions contemplated hereby; provided, however, that no claim shall be made for Damages under this Section 8.1 until, and such claims may be made only to the extent that, the dollar amount of all such claims for Damages shall exceed in the aggregate $50,000 (the "Threshold"); and provided further, however, the aggregate liability of the Eligible Stockholders for Damages shall not exceed the greater of: (i) $500,000; or (ii) fifty percent (50%) of the Merger Consideration. All Damages in excess of the Threshold shall be apportioned among the Eligible Stockholders in accordance with the percentages of the Merger Consideration received or to be received by such Eligible Stockholders pursuant to Exhibit B, and no Eligible Stockholder will be required to pay more in Damages than the Merger Consideration that such Eligible Stockholder received and/or was entitled to receive. Any Damages under this Section 8.1 shall first be deducted from, and offset against, the Performance Earn Out and/or the Revenue Earn Out.

Section 8.2 INDEMNIFICATION BY PARENT. Subject to the terms and conditions of this Article and Section 9.6, Parent and Merger Sub agree to indemnify, defend and hold the Stockholders harmless from and against all Damages asserted against or incurred by the Stockholders by reason of or resulting from a breach of any representation, warranty or covenant of Parent or Merger Sub contained herein, in any exhibit, schedule, certificate or financial statement delivered hereunder, or in any agreement executed in connection with the transactions contemplated hereby; provided, however, that no claim shall be made for Damages under this Section 8.2 until, and such claims may be made only to the extent that, the dollar amount of all such claims for Damages shall exceed in the aggregate $50,000; and provided further, however, the aggregate liability of Parent and Merger Sub for Damages shall not exceed the greater of: (i) $500,000; or (ii) fifty percent (50%) of the Merger Consideration.

Section 8.3 CONDITIONS OF INDEMNIFICATION. The obligations and liabilities of the Eligible Stockholders, Parent and Merger Sub (the "indemnifying party") to the other (the "party

to be indemnified") under Sections 8.1 and 8.2 with respect to claims resulting from the assertion of liability by third parties ("Third Party Claims") shall be subject to the following terms and conditions:

(a) Within 20 days (or such earlier time as might be required to avoid prejudicing the indemnifying party's position) after receipt of notice of commencement of any action evidenced by service of process or other legal pleading, the party to be indemnified shall give the indemnifying party written notice thereof together with a copy of such claim, process or other legal pleading, and the indemnifying party shall have the right to undertake the defense thereof by representatives of its own choosing and at its own expense; provided that the party to be indemnified may participate in the defense with counsel of its own choice, the fees and expenses of which counsel shall be paid by the party to be indemnified unless (i) the indemnifying party has agreed to pay such fees and expenses, (ii) the indemnifying party has failed to assume the defense of such action or (iii) the named parties to any such action (including any impleaded parties) include both the indemnifying party and the party to be indemnified and the party to be indemnified has been advised by counsel that there may be one or more legal defenses available to it that are different from or additional to those available to the indemnifying party (in which case, if the party to be indemnified informs the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action on behalf of the party to be indemnified, it being understood, however, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for the party to be indemnified, which firm shall be designated in writing by the party to be indemnified).

(b) In the event that the indemnifying party, by the 30th day after receipt of notice of any such claim (or, if earlier, by the 10th day preceding the day on which an answer or other pleading must be served in order to prevent judgment by default in favor of the person asserting such claim), does not elect to defend against such claim, the party to be indemnified will (upon further notice to the indemnifying party) have the right to undertake the defense, compromise or settlement of such claim on behalf of and for the account and risk of the indemnifying party and at the indemnifying party's expense, subject to the right of the indemnifying party to assume the defense of such claims at any time prior to settlement, compromise or final determination thereof.

(c) Notwithstanding the foregoing, the indemnifying party shall not settle any claim without the consent of the party to be indemnified unless such settlement involves only the payment of money and the claimant provides to the party to be indemnified a release from all liability in respect of such claim. If the settlement of the claim involves more than the payment of money, the indemnifying party shall not settle the claim without the prior consent of the party to be indemnified.

(d) The party to be indemnified and the indemnifying party will each cooperate with all reasonable requests of the other.

Section 8.4 WAIVER. No waiver by any party of any default or breach by another party of any representation, warranty, covenant or condition contained in this Agreement, any exhibit or any document, instrument or certificate contemplated hereby shall be deemed to be a waiver of any subsequent default or breach by such party of the same or any other representation, warranty, covenant or condition. No act, delay, omission or course of dealing on the part of any party in exercising any right, power or remedy under this Agreement or at law or in equity shall operate as a waiver thereof or otherwise prejudice any of such party's rights, powers and remedies. All remedies, whether at law or in equity, shall be cumulative and the election of any one or more shall not constitute a waiver of the right to pursue other available remedies.

Section 8.5 REMEDIES EXCLUSIVE. The remedies provided in this Article shall be the exclusive rights and remedies available to one party against the other, either at law or in equity, except in the case of fraud.

Section 8.6 OFFSET. Any and all amounts owing or to be paid by Parent to Stockholders, hereunder shall be subject to offset and reduction pro tanto by any amounts that may be owing at any time by Stockholders to Parent in respect of any failure or breach of any representation, warranty or covenant of the Company or Stockholders under or in connection with this Agreement or any other agreement with Parent or any transaction contemplated hereby or thereby, as reasonably determined by Parent. If Parent determines that such offset is appropriate, notice shall be given to Stockholders of such determination at least 10 days prior to the due date of the payment to be reduced. If the conditions upon which the reduction is based are cured by Stockholders prior to such due date, as determined by Parent, the amount of such payment shall not be so reduced.

Section 8.7 COSTS AND EXPENSES. Whether or not the transactions contemplated hereby are consummated, each party hereto shall bear its own costs and expenses (including attorneys' fees and expenses and specifically, Stockholders shall be responsible for all costs and expenses of Stockholders and the Company in negotiating and consummating the transactions contemplated herein, including, without limitation, legal and accounting fees and expenses); provided, however, if the Merger is consummated, Parent shall pay up to a maximum of $50,000 of such costs and expenses of the Stockholders and the Company.

Section 8.8 SPECIFIC PERFORMANCE. The parties hereto acknowledge that a refusal by a party to consummate the transactions contemplated hereby will cause irreparable harm to the other parties hereto, for which there may be no adequate remedy at law and for which the ascertainment of damages would be difficult. Therefore, each party shall be entitled, in addition to, and without having to prove the inadequacy of, other remedies at law, to specific performance of this Agreement, as well as injunctive relief (without being required to post bond or other security).

ARTICLE IX
MISCELLANEOUS

Section 9.1 AMENDMENT. This Agreement may be amended, modified or supplemented only by an instrument in writing executed by all the parties hereto.

Section 9.2 ASSIGNMENT. Neither this Agreement nor any right created hereby or in any agreement entered into in connection with the transactions contemplated hereby shall be assignable by any party hereto.

Section 9.3 PARTIES IN INTEREST; NO THIRD PARTY BENEFICIARIES. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective heirs, legal representatives, successors and assigns of the parties hereto. Neither this Agreement nor any other agreement contemplated hereby shall be deemed to confer upon any person not a party hereto or thereto any rights or remedies hereunder or thereunder.

Section 9.4 ENTIRE AGREEMENT. This Agreement and the agreements contemplated hereby constitute the entire agreement of the parties regarding the subject matter hereof, and supersede all prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof.

Section 9.5 SEVERABILITY. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term hereof, such provision shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision never comprised a part hereof; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

Section 9.6 SURVIVAL OF REPRESENTATIONS, WARRANTIES AND COVENANTS. The representations, warranties and covenants contained herein shall survive the Closing and all statements contained in any certificate, exhibit or other instrument delivered by or on behalf of the Company, Stockholders, Parent or Merger Sub pursuant to this Agreement shall be deemed to have been representations and warranties by the Company and Stockholders, Parent and Merger Sub, as the case may be, and, notwithstanding any provision in this Agreement to the contrary, shall survive the Closing until the earlier of: (i) eighteen months after the Closing; or (ii) five (5) business days following the date of final determination of the Performance Earn Out and the Revenue Earn Out (the "Indemnification Period") except for representations and warranties with respect to any tax or tax−related matters, which shall survive the Closing until the running of any applicable statutes of limitation.

Section 9.7 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE SUBSTANTIVE LAWS (BUT NOT THE RULES GOVERNING CONFLICTS OF LAWS) OF THE STATE OF DELAWARE.

Section 9.8 CAPTIONS. The captions in this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the terms or provisions hereof.

Section 9.9 CONFIDENTIALITY; PUBLICITY AND DISCLOSURES. Each party shall keep this Agreement and its terms confidential, and shall make no press release or public disclosure, either written or oral, regarding the transactions contemplated by this Agreement without the prior knowledge and consent of the other parties hereto; provided that the foregoing shall not prohibit any disclosure (i) by press release, filing or otherwise that is required by federal securities laws or the rules of the Nasdaq National Market and (ii) to attorneys, accountants, investment bankers or other agents of the parties assisting the parties in connection with the transactions contemplated by this Agreement.

Section 9.10 NOTICE. All notices and other communications hereunder shall be in writing and shall be given by personal delivery, mailed by registered or certified mail (postage prepaid, return receipt requested), sent by facsimile transmission, sent by a nationally recognized overnight courier service or sent by electronic submission to the parties at the following addresses (or at such other address for a party as is specified by like change of address):

If to Parent:	Mobility Electronics, Inc. 7955 East Redfield Road Scottsdale, Arizona 85260 Attn: Chief Executive Officer Fax No.: 480−596−0349
If to the Company or Stockholder:	Portsmith, Inc. 960 Broadway Avenue, Suite 300 Boise, Idaho 83706 Attn: Holmes Lundt Fax No.: 650−470−2670

Notice shall be deemed received (a) on the business day following the date on which it is deposited with a nationally recognized and reputable overnight courier service, (b) on the date on which it is delivered personally, (c) when sent by facsimile with confirmation of receipt received by sender, or (d) on the third business day following the date on which it is deposited in the U. S. mail.

Section 9.11 STOCKHOLDER RELEASES; CONSENT. Effective as of the Merger Effective Date, each Stockholder hereby irrevocably waives, releases, and discharges the Company and each affiliate of the Company and its subsidiaries from any and all liabilities and obligations to such Stockholder of any kind or nature whatsoever, whether as a stockholder, officer, director or employee of the Company, any of its subsidiaries or otherwise, existing as of the Merger Effective Time including without limitation liabilities or obligations relating to rights of contribution or indemnification, in each case whether absolute or contingent, liquidated or unliquidated, and whether arising at law or in equity, and each Stockholder hereby agrees that it will not seek to recover any amounts in connection therewith or thereunder from the Company, or any of its subsidiaries; provided that nothing in this Section 9.11 will constitute a waiver of any claims the Stockholders may have against the Parent or Merger Sub arising under this Agreement or the agreements contemplated hereby and hereby agrees that any and all agreements to which such Stockholder is a party and which relate to Stockholder's ownership or

voting of Portsmith Common Stock or options to acquire Portsmith Common Stock or the right to designate directors are terminated and of no further force or effect. By executing and delivering this Agreement the Stockholders irrevocably consent to this Agreement, the Merger, and all of the transactions contemplated by this Agreement, such consent to have the same effect as a vote by the Stockholders at a meeting duly called and held for the purpose of acting on proposals to approve this Agreement, the Merger, and the other transactions contemplated by this Agreement.

Section 9.12 COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

EXECUTED as of the date first above written.

PARENT:

MOBILITY ELECTRONICS, INC.

By: /s/ Charles R. Mollo
_____
Charles R. Mollo
Chief Executive Officer

MERGER SUB:

MOBILITY EUROPE HOLDINGS, INC.

By: /s/ Charles R. Mollo
_____
Charles R. Mollo
President

COMPANY:

PORTSMITH, INC.

By: /s/ Holmes Lundt
_____
Holmes Lundt,
Chief Executive Officer

STOCKHOLDERS:

/s/ Holmes Lundt
_____
Holmes Lundt

/s/ Leslie Lundt
_____
Leslie Lundt

/s/ Jesse Asla
_____
Jesse Asla

/s/ Rick Neff
_____
Rick Neff

EXHIBIT A

DEFINITIONS

"CERTIFICATE" shall have the meaning set forth in Section 2.6(c).

"CLOSING" shall mean the closing of the transactions contemplated by this Agreement, which shall occur at 10:00 a.m., local time, on the date hereof, in the offices of Jackson Walker L.L.P., 901 Main Street, Suite 6000, Dallas, Texas 75202, or at such other time and place as shall be mutually agreed in writing by the parties hereto.

"CODE" shall mean the Internal Revenue Code of 1986.

"COMMITMENTS" shall have the meaning set forth in Section 3.13.

"CONTROL EFFECTIVE TIME" shall have the meaning set forth in the preamble.

"CURRENT MARKET PRICE" shall mean (i) if the principal trading market for the Parent Common Stock is a United States national or regional securities exchange, the average closing price on such exchange for the thirty trading days prior to the day in question; or (ii) if sales prices for shares of Parent Common Stock are reported by the Nasdaq National Market or Small Cap Market (or a similar system then in use), the average last reported sales price so reported for the thirty trading days prior to the day in question; or (iii) if neither (i) nor (ii) above are applicable, and if bid and ask prices for shares of Parent Common Stock are reported in the over-the-counter market by Nasdaq (or, if not so reported, by the National Quotation Bureau), the average of the high bid and low ask prices so reported for the thirty trading days prior to the day in question. Notwithstanding the foregoing, if there is no reported closing price, last reported sales price, or bid and ask prices, as the case may be, for the thirty days prior to the day in question, then the current market price shall be determined as of the latest thirty consecutive trading days for which such closing price, last reported sales price, or bid and ask prices, as the case may be, are available, unless such securities have not been traded on an exchange or in the over-the-counter market for thirty (30) or more days immediately prior to the day in question, in which case the current market price shall be determined in good faith by, and reflected in a formal resolution of, the Board of Directors of Parent.

"DGCL" shall mean the Delaware General Company Law.

"DAMAGES" shall have the meaning set forth in Section 8.1.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ELIGIBLE STOCKHOLDERS" shall mean all stockholders of the Company, except Dissenting Stockholders and Non-Electing Securityholder.

"GAAP" shall mean United States generally accepted accounting principles applied on a consistent basis for all time periods.

"INDEMNIFICATION PERIOD" shall have the meaning set forth in Section 9.6.

"INDEMNIFYING PARTY" shall have the meaning set forth in Section 8.3.

"MERGER CONSIDERATION" shall have the meaning set forth in Section 2.7.

"MERGER EFFECTIVE DATE" shall have the meaning set forth in Section 2.5.

"ORDINARY COURSE OF BUSINESS" means the usual and customary way in which the Company or any Subsidiary, as the case may be, has conducted its business in the past.

"PARENT COMMON STOCK" shall have the meaning set forth in Section 2.5(a).

"PARTY TO BE INDEMNIFIED" shall have the meaning set forth in Section 8.3.

"PORTSMITH SHARES" shall have the meaning set forth in Section 2.7.

"SEC" shall mean the Securities and Exchange Commission.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SHARE CONSIDERATION" shall have the meaning set forth in Section 2.7(a).

"SUBSIDIARY" shall mean any corporation, partnership, joint venture or other legal entity of which the Company owns, directly or indirectly, 100% of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity; and shall include within the meaning of the term each Subsidiary, as defined above, of any Subsidiary of the Company.

"SURVIVING COMPANY" shall have the meaning set forth in Section 2.1.

"TAX" shall have the meaning set forth in Section 3.19.

"TAX RETURN" shall have the meaning set forth in Section 3.19.

"THIRD PARTY CLAIMS" shall have the meaning set forth in Section 8.3.

EXHIBIT B

Name of Stockholder	Portsmith Shares Owned		Merger Consideration		
	Number	Percentage	Share Consideration	Percentage of Performance Earn Out	Percentage of Revenue Earn Out
Holmes and Leslie Lundt	511,823	31.2015850%	249,613	14.2279228%	31.2015850%
Richard Liggitt	220,000	13.4115675%	107,293	6.1156748%	13.4115675%
Dan Axtman	192,425	11.7305494%	93,844	5.3491305%	11.7305494%
Jess Asla	158,315	9.6511468%	77,209	4.4009230%	9.6511468%
Jason Carnahan	139,605	8.5105540%	68,084	3.8808126%	8.5105540%
Richard Neff	121,545	7.4095862%	59,277	3.3787713%	7.4095862%
Ryan Adamson	87,500	5.3341462%	42,673	2.4323706%	5.3341462%
Amy Reino	74,505	4.5419492%	36,336	2.0711289%	4.5419492%
Mark Petersen	43,143	2.6300693%	21,041	1.1993116%	2.6300693%
Ethan Savage	20,500	1.2497142%	9,998	0.5698697%	1.2497142%
Bryan Capdeville	20,000	1.2192334%	9,754	0.5559704%	1.2192334%
Daren Nordhagen	12,500	0.7620209%	6,096	0.3474815%	0.7620209%
Christine Derheim	11,000	0.6705784%	5,365	0.3057837%	0.6705784%
Matthew Cole	8,000	0.4876934%	3,902	0.2223882%	0.4876934%
Diane Rigby	7,500	0.4572125%	3,658	0.2084889%	0.4572125%
Fenwick &West LLP	5,625	0.3429094%	2,743	0.1563667%	0.3429094%
Brenda Marcelin	2,639	0.1608778%	1,287	0.0733603%	0.1608778%
Cliff Weisgerber	2,500	0.1524042%	1,219	0.0694963%	0.1524042%
Joshua Wester	1,250	0.0762021%	610	0.0347482%	0.0762021%
Total:	1,640,375	100.0000000%	800,000	45.6000000%	100.0000000%

EXHIBIT 10.6

STOCK ESCROW AGREEMENT

This Stock Escrow Agreement (this "Agreement") is made and entered into as of February 20, 2002, by and among Holmes Lundt (the "Representative"), as the representative of the persons listed on Schedule I attached hereto (each, a "Stockholder" and collectively, the "Stockholders"), Mobility Electronics, Inc., a Delaware corporation ("Parent"), and Jackson Walker L.L.P. ("Escrow Agent"). Terms used herein but not otherwise defined shall have the meanings ascribed thereto in the Merger Agreement (as defined below).

WHEREAS, Mobility Europe Holdings, Inc., a Delaware corporation and wholly−owned subsidiary of Parent ("Merger Sub"), Parent, Portsmith, Inc., a Delaware corporation (the "Company"), and certain of the stockholders of the Company, have entered into that certain Agreement and Plan of Merger, of even date herewith (the "Merger Agreement "), pursuant to which, among other things, the Company merged with and into Merger Sub; and

WHEREAS, pursuant to Section 2.10 of the Merger Agreement, 400,000 of the shares of Parent Common Stock to be delivered to the Eligible Stockholders under Section 2.7(a) the Merger Agreement (the "Escrowed Shares") shall be deposited hereunder;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Appointment of Escrow Agent. Parent and Representative hereby designate Jackson Walker L.L.P., as Escrow Agent, and Escrow Agent accepts such appointment for the purposes set forth in this Agreement. The parties hereto acknowledge and agree that Escrow Agent serves as legal counsel to Parent and Merger Sub, and Escrow Agent is serving hereunder as a convenience for the parties hereto; and that Escrow Agent may serve as legal counsel to Parent and Merger Sub in connection with any dispute and/or procedure under this Agreement; it being acknowledged and agreed that any conflict with respect to such activities are hereby waived in their entirety.

2. Deposit into Escrow. Concurrently with the Closing, Parent shall deliver to Escrow Agent the Escrowed Shares. The Escrowed Shares shall be allocated among the Stockholders as provided in Schedule I (subject to forfeiture as provided in Sections 2.2 and 2.11 of the Merger Agreement). The Escrowed Shares shall be distributed by Escrow Agent only in accordance with Section 5 below.

3. Duties of Escrow Agent.

(a) The duties of Escrow Agent hereunder shall be limited to the safekeeping of the Escrowed Shares and to the transfer and distribution of the same in accordance with the provisions of this Agreement, and no implied duties or obligations shall be read into this Agreement against Escrow Agent. Escrow Agent shall be protected in acting in accordance with the provisions of this Agreement upon any written notice, request, waiver, consent, receipt, certificate or other document furnished to it, as to its validity, the effectiveness of its provisions, the identity or authority of the person executing or depositing the same, the truth and acceptability of any information therein contained, which Escrow Agent in good faith believes to

be genuine. Escrow Agent will not be liable for any error of judgment, or any act or step taken or omitted by it in good faith, or for any mistake of fact or law or for anything it might do or refrain from doing in connection herewith, except to the extent such action shall be proved to constitute gross negligence or willful misconduct on the part of Escrow Agent. Escrow Agent shall have no duties except those that are expressly stated herein, and it shall not be bound by any notice of any claim, or demand with respect thereto, or any waiver, modification, amendment or termination of this Agreement until written notice of the same shall have been received by it and approved by it.

(b) Escrow Agent shall have no responsibility or obligation of any kind in connection with this Agreement or the Escrowed Shares except as set forth herein and shall not be required to deliver the Escrowed Shares or any part thereof or take any action with respect to any matters that might arise in connection therewith, other than to receive, hold and deliver the Escrowed Shares as herein provided.

4. Determinations by Representative. Any and all determinations with respect to a Claim (as defined below) made by Representative on behalf of the Stockholders shall be made in accordance with the instructions received from the holders of a majority−in−interest of the Escrowed Shares. Any and all costs incurred by Representative in contesting a Claim made by Parent shall be borne pro rata by all Stockholders.

5. Distributions.

(a) Delivery of all of the Escrowed Shares to the Eligible Stockholders is contingent upon the Surviving Corporation having at least $8 million of revenues and $250,000 of net income for calendar year 2002 (which calculation shall use the revenues and net income of the Company prior to the Merger and the revenues and income of Merger Sub (excluding Subsidiary) following the Merger (the "Threshold"). As soon as reasonably practicable after December 31, 2002, but on or prior to April 1, 2003, Parent shall deliver to Representative and Escrow Agent written notice (the "Claim Notice") that the Surviving Corporation has not attained the Threshold, together with Parent's calculation of the revenue and net income of the Surviving Corporation for calendar year 2002 (the "Claim"). If the Threshold has not been met, once the Claim becomes a "Final Claim" as defined under subsection (b), (c), (d) or (e) below, then the Escrow Agent shall deliver a portion of the Escrowed Shares to Parent pursuant to the following guidelines:

2002 Revenue	2002 Net Income	Escrowed Shares to be delivered to Parent
Less than $8 million but $7 million or more	$ 250,000	100,000
Less than $7 million but $6 million or more	$ 187,500	200,000
Less than $6 million but $5 million or more	$ 125,000	300,000
Less than $5 million	$ 62,500	400,000

For purposes hereof: (i) "2002 revenue" shall mean the revenues of the Surviving Corporation, net of returns and allowances, for calendar year 2002; and (ii) "2002 Net Income" shall mean the net income of the Surviving Corporation, for calendar year 2002 (taking into account the Bonus Responsibility); in each case, as determined in accordance with GAAP. After delivery of the Escrowed Shares to Parent as provided above, Escrow Agent shall deliver all remaining Escrowed Shares to Representative for delivery to the Stockholders. All deliveries to the Stockholders under this Section 5 shall be apportioned among the Stockholders according to the percentages set forth in Schedule I (excluding any percentages held by Dissenting Stockholders).

(b) If Parent does not deliver the Claim Notice to the Representative on or prior to April 1, 2003, then upon written notice from the Representative, Escrow Agent shall, within five (5) business days, deliver all of the Escrowed Shares to the Representative for delivery to the Stockholders.

(c) If the Representative does not dispute the Claim, the Representative shall deliver to Escrow Agent a written notice to that effect. Upon receipt by Escrow Agent of such notice, the Claim shall be considered to be a "Final Claim" for purposes of subsection (a) above. If no notice is received by Escrow Agent from the Representative by the thirtieth day after the date of the Claim Notice, the Claim shall be considered to be a "Final Claim" for purposes of subsection (a) above.

(d) If the Representative disputes the Claim, the Representative shall deliver to the Escrow Agent a written notice to that effect within thirty days after the date of the Claim Notice and Parent and the Representative shall attempt to reach an agreement with respect to the Claim for a period of sixty (60) days after the date of the Claim Notice. In the event Parent and the Representative reach an agreement on the Claim (or any undisputed portion of a Claim), Parent and Representative shall deliver to Escrow Agent a joint written notice to that effect, which contains the information required under subsection (a) above. Upon receipt by Escrow Agent of such notice, the Claim or undisputed portion (as the case may be) shall be considered to be a "Final Claim" for purposes of subsection (a) above.

(e) In the event the Representative disputes all or a portion of the Claim and Parent and the Representative are unable to reach an agreement regarding the Claim within 90 (ninety) days after the date of the Claim Notice, the Claim will be submitted to binding arbitration in Scottsdale, Arizona (or such other venue as agreed to by Parent and the Representative), pursuant to the Commercial Rules of the American Arbitration Association. In the event that Parent and the Representative resolve the Claim after arbitration is commenced but prior to the issuance of the final arbitration decision, Parent and the Representative shall deliver to Escrow Agent a joint written notice to that effect, which contains the information required under subsection (a) above. Upon receipt by Escrow Agent of such notice from Parent and the Representative or receipt by Escrow Agent of a written arbitration decision that instructs Escrow Agent to pay the Claim to Parent and contains the information required under subsection (a) above, the Claim (as described in the joint written notice or arbitrator's decision) shall be considered to be a "Final Claim" for purposes of subsection (a) above.

6. Additional Rights and Obligations.

(a) The Escrowed Shares shall be registered in the name of the Escrow Agent, as escrow agent pursuant to this Agreement. Subject to the provisions of subsection (b) below, all stock dividends or stock splits with respect to the Escrowed Shares shall be paid directly to the Escrow Agent and shall be deemed to be Escrowed Shares.

(b) If the outstanding shares of Parent Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other shares of Parent or of another corporation, whether through reorganization, recapitalization, stock split, combination of shares, sale of assets, merger or consolidation, whether or not Parent is the surviving corporation, then Parent shall be obligated to substitute for the Escrowed Shares the number and kind of shares of stock or other securities or other consideration into which each outstanding share of Parent Common Stock shall be so changed. In such event, such additional or substituted securities shall be deemed "Escrowed Shares" as such term is used in this Agreement.

(c) During the time that the Escrowed Shares are held by Escrow Agent hereunder (the "Escrow Period"), the Stockholders shall be entitled to exercise the voting power with respect to the Escrowed Shares with respect to their proportionate share.

(d) During the Escrow Period, the Stockholders shall be not entitled to sell any of the Escrowed Shares.

7. Indemnification. Parent and the Representative, jointly and severally, hereby agree to indemnify and defend Escrow Agent against and hold Escrow Agent harmless from, any costs, damages, judgments, attorneys' fees, expenses, obligations and liabilities of any kind or nature that may be suffered or incurred by Escrow Agent as a result of, in connection with or hereby arising out of the acts or omissions of Escrow Agent in the performance of, or pursuant to, this Agreement. If any controversy arises between the parties or with any other person with respect to the subject matter of this Agreement, Escrow Agent shall not be required to determine the same or to take any action thereupon, but may await the settlement or disposition of any such controversy. In such event, Escrow Agent shall not be liable for interest or damages, except to the extent such action shall be proved to constitute gross negligence or willful misconduct on the part of Escrow Agent.

8. Right of Interpleader. Should any controversy arise involving the parties hereto or any of them or any other person, firm or entity with respect to this Agreement or the Escrowed Shares, or should a substitute escrow agent fail to be designated as provided in Section 12 hereof, or if Escrow Agent should be in doubt as to what action to take, Escrow Agent shall have the right, but not the obligation, either to (a) withhold delivery of the Escrowed Shares until the controversy is resolved, the conflicting demands are withdrawn or its doubt is resolved or (b) institute a petition for interpleader in any court of competent jurisdiction to determine the rights of the parties hereto. In the event Escrow Agent is a party to any dispute, Escrow Agent shall have the additional right to refer such controversy to binding arbitration.

9. Notices. All notices given by any party to any other party under this Agreement shall be in writing and shall either be delivered by facsimile, overnight courier or in person to the

intended addressee. For purposes of such notice, the addresses of the party shall be as set forth in the Agreement and Plan of Merger, and shall be deemed given as provided in the Agreement and Plan of Merger. The address of Escrow Agent is 2435 N. Central Expressway, Suite 600, Richardson, Texas 75080.

10. Governing Law. This Agreement and the obligations of the parties hereunder shall be governed and construed in accordance with the laws of the State of Delaware.

11. Entire Agreement; Amendments. This Agreement contains the entire agreement between the parties relating to the subject matter hereof. This Agreement may be amended, extended or changed only by appropriate written instrument or by instruments duly executed by each party to this Agreement.

12. Successors and Assigns. This Agreement and all of the terms, provisions and conditions hereof shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors and assigns. Escrow Agent may resign at any time by giving Parent and the Stockholders thirty (30) days prior written notice. In the event of such resignation, Parent and the Stockholders shall agree within fifteen (15) days of such notice upon a successor escrow agent, and failing such agreement, the successor escrow agent shall be any national banking association selected by Parent with deposits in excess of $100,000,000.00. In the event a successor escrow agent is not appointed by the end of such 30−day period, Escrow Agent may petition a court of competent jurisdiction for the appointment of a successor escrow agent, and Escrow Agent shall retain the Escrowed Shares until such appointment.

13. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year first above written.

MOBILITY ELECTRONICS, INC.

By: /s/ Charles R. Mollo

Charles R. Mollo
Chief Executive Officer

REPRESENTATIVE:

/s/ Holmes Lundt

Holmes Lundt,

ESCROW AGENT:

JACKSON WALKER L.L.P.

By: /s/Richard F. Dahlson

Richard F. Dahlson, Partner

SCHEDULE I

Stockholders	Percentage	Escrowed Shares
Holmes and Leslie Lundt	31.2015850%	124,806
Richard Liggitt	13.4115675%	53,646
Dan Axtman	11.7305494%	46,922
Jess Asla	9.6511468%	38,605
Jason Carnahan	8.5105540%	34,042
Richard Neff	7.4095862%	29,638
Ryan Adamson	5.3341462%	21,337
Amy Reino	4.5419492%	18,168
Mark Petersen	2.6300693%	10,520
Ethan Savage	1.2497142%	4,999
Bryan Capdeville	1.2192334%	4,877
Daren Nordhagen	0.7620209%	3,048
Christine Derheim	0.6705784%	2,682
Matthew Cole	0.4876934%	1,951
Diane Rigby	0.4572125%	1,829
Fenwick &West LLP	0.3429094%	1,372
Brenda Marcelin	0.1608778%	644
Cliff Weisgerber	0.1524042%	610
Joshua Wester	0.0762021%	305
TOTAL	100.0000000%	400,000

EXHIBIT 10.7

AGREEMENT AND PLAN OF MERGER

AMONG

MOBILITY ELECTRONICS, INC.

IGOC ACQUISITION, INC.

AND

IGO CORPORATION

DATED AS OF MARCH 23, 2002

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AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger, dated as of March 23, 2002 (this "Agreement"), is by and among Mobility Electronics, Inc., a Delaware corporation ("Parent"), IGOC Acquisition, Inc., a Delaware corporation and a direct, wholly−owned subsidiary of Parent ("Sub"), and iGo Corporation, a Delaware corporation (the "Company").

WHEREAS, the respective Boards of Directors of Parent, Sub and the Company have determined that it is advisable and would be fair to and in the best interests of their respective stockholders to consummate the merger of the Company with and into Sub, upon the terms and subject to the conditions set forth herein; and

WHEREAS, Parent, Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the transactions contemplated hereby and also to prescribe various conditions to the transactions contemplated hereby; and

WHEREAS, the Board of Directors of the Company has approved the transactions contemplated by this Agreement in accordance with the Delaware General Corporation Law (the "DGCL"); and

WHEREAS, as a condition and inducement to Parent entering into this Agreement and incurring the obligations set forth herein, concurrently with the execution and delivery of this Agreement, Parent is entering into a Voting Agreement, of even date herewith (the "Voting Agreement") with the Company, Institutional Venture Partners VIII, L.P., IVM Investment Fund VIII, LLC, IVM Investment Fund VIII−A, LLC, IVP Founders Fund I, L.P., Reid W. Dennis, Ken Hawk, Individually and as Trustee of the Kenneth W. Hawk Grantor Retained Annuity Trust, Peter Gotcher, Robert Darrell Boyle, Trustee UTA dated August 26, 1994, Lauren Reeves Boyle, Trustee UTA dated August 26, 1994, Ross Bott, PH.D., David Olson and Scott Shackelton (collectively, the "Company Stockholders"), pursuant to which, among other things, the Company Stockholders have agreed to vote all shares of Company Common Stock (as defined below) owned by them in favor of this Agreement, the Merger (as defined in Section 1.1) and the other transactions provide for herein;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein the parties hereto agree as follows:

ARTICLE I
THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the conditions of this Agreement, and in accordance with the DGCL, at the Effective Time (as defined in Section 1.2), the Company shall be merged with and into Sub (the "Merger"). As a result of the Merger, the separate corporate existence of the Company shall cease and Sub shall continue as the surviving corporation of the Merger (the "Surviving Corporation").

Section 1.2 Effective Time. Subject to the terms and conditions of this Agreement, the parties hereto shall cause the Merger to be consummated by filing, as soon as practicable after the Closing (as hereinafter defined), a Certificate of Merger (the "Certificate of Merger") with the Secretary of State of the State of Delaware, in such form as required by, and executed in accordance with the relevant provisions of, the DGCL. The date and time of acceptance of the filing of the Certificate of Merger with the Secretary of State of the State of Delaware (or such later time as shall be agreed to in writing by the parties hereto and specified in the Articles of Merger) will be the "Effective Time". The closing of the Merger (the "Closing") shall take place at 10:00 a.m. (Dallas, Texas time) on the second business day after the date on which all the conditions to Closing (other than conditions that, by their terms, cannot be satisfied until the Closing Date (as defined below)) set forth in Article VI hereto shall have been satisfied, at the offices of Jackson Walker L.L.P., 2435 N. Central Expressway, Suite 600, Richardson, Texas 75080, or such other time, date and place as the parties shall agree. The date of the Closing will be the "Closing Date."

Section 1.3 Effects of the Merger. The Merger shall have the effects set forth in the applicable provisions of the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, immunities, powers and franchises of the Company and Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Sub shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.4 Certificate of Incorporation; Bylaws.

(a) At the Effective Time and without any further action on the part of the Company or Sub, the certificate of incorporation of Sub as in effect immediately prior to the Effective Time shall be the certificate of incorporation of the Surviving Corporation until thereafter amended as provided therein and under the DGCL.

(b) At the Effective Time and without any further action on the part of the Company or Sub, the bylaws of Sub shall be the bylaws of the Surviving Corporation and thereafter may be amended or repealed in accordance with their terms or the terms of the certificate of incorporation of the Surviving Corporation and as provided by law.

Section 1.5 Directors and Officers. The directors of Sub immediately prior to the Effective Time, shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation, and the officers of Sub immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed (as the case may be) and qualified.

Section 1.6 Effect on Capital Stock.

(a) At the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, all shares of common stock, par value $0.001 per share, of the Company (the "Company Common Stock") issued and outstanding immediately prior to the Effective Time shall be cancelled, and in consideration therefore, the holders of Company

Common Stock shall be entitled to receive in the aggregate the following consideration (the "Merger Consideration"):

(i) 3,100,000 shares (the "Parent Shares") of common stock, par value $0.01 per share, of Parent (the "Parent Common Stock"), subject to the hold-back described in Section 1.7 below;

(ii) $6,100,000 cash (the "Cash Consideration"), subject to the hold-back described in Section 1.7 below (the hold-back amounts described in subsection (i) above and this subsection (ii) are sometimes collectively referred to herein as the "Potential Adjustment Amounts"); and

(iii) cash in lieu of fractional shares of Parent Common Stock as provided in Section 2.5 below.

The Merger Consideration shall be allocated among the holders of Company Common Stock pro rata based on the number of shares of Company Common Stock held by a holder as of the Effective Time as compared to the total number of shares of Company Common Stock issued and outstanding as of the Effective Time.

(b) All shares of Parent Common Stock issued as Merger Consideration shall be validly issued, fully paid and non-assessable. Subject to the terms and conditions of this Agreement, Parent shall take such action as shall be necessary to issue the shares of Parent Common Stock to be received as Merger Consideration and cause them to be registered on its share register in the names of the holders of Company Common Stock submitting Certificates (as defined in Section 1.6(c)) in exchange therefore in accordance with the terms hereof.

(c) As a result of the Merger and without any action on the part of the holders thereof, at the Effective Time, all shares of Company Common Stock shall cease to be outstanding and shall be canceled and retired and shall cease to exist, and each holder (other than Parent, Sub and the Company) of a certificate which, immediately prior to the Effective Time, represented any such shares of Company Common Stock (a "Certificate") shall thereafter cease to have any rights with respect to such shares of Company Common Stock, except the right to receive the applicable Merger Consideration in accordance with Article II upon the surrender of such Certificate.

(d) Each share of Company Common Stock issued and owned or held by Parent, Sub or the Company at the Effective Time shall, by virtue of the Merger, cease to be outstanding and shall be canceled and retired and no shares of Parent Common Stock or other consideration shall be delivered in exchange therefore.

(e) Each share of common stock, par value $0.01 per share, of Sub ("Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into and shall become one validly issued, fully paid and nonassessable share of common stock, par value $0.01 per share, of the Surviving Corporation ("Surviving Corporation

Common Stock") as of the Effective Time, and the Surviving Corporation shall become a wholly-owned subsidiary of Parent.

(f) At the Effective Time, each outstanding option to purchase, right to receive or other equity grant whose value is derived from Company Common Stock (a "Company Stock Option") issued pursuant to the (i) Amended and Restated 1996 Stock Option Plan of the Company, and (ii) the 1999 Employee Stock Purchase Plan (collectively, the "Company Stock Plans"), whether vested or unvested, shall be deemed to be cancelled and of no further force or effect.

Section 1.7 Hold-Back.

(a) Subject to Section 7.1(g) below, the parties hereto agree that 500,000 of the Parent Shares and $1,000,000 of the Cash Consideration shall be held-back by Parent under this Section 1.7 (the "Hold-Back Amount"). Under this arrangement the Hold-Back Amount shall be payable to the holders of Company Common Stock as follows:

(i) to the extent that for the period commencing on the date following the date of the Effective Time and ending on the first anniversary of the date of the Effective Time, the amounts received by the Company for the following:

(a) sales of inventory of the Company existing at the Effective Time (valued at the lower of cost or selling price); plus

(b) cash collections (or other form of satisfaction or offset accepted by the Surviving Corporation) of account receivables of the Company existing at the Effective Time;

exceeds an amount equal to the following:

(a) gross inventory of the Company as of the Effective Time; plus

(b) gross account receivables of the Company as of the Effective Time; less

(c) an aggregate reserve of $4,060,924 for inventory and account receivables; less

(d) an amount equal to 1% of the dollar amount of product sales made by the Company from January 1, 2002 through the date of the Effective Time (i.e., an additional inventory reserve); less

(e) an amount equal to .5% of the dollar amount of product sales made by the Company from January 1, 2002 through the date of the Effective Time (i.e., an additional account receivables reserve); plus

(f) write-offs to reserves for inventory and account receivables by the Company from January 1, 2002 through the effective Time (the "Threshold");

then an amount equal to 80% of such differential shall be paid to the holders of Company Common Stock (with the Parent Shares being valued at the FMV of the Parent Shares (as defined below);

(ii) on the first anniversary of the Effective Time, to the extent that the sum of (a) the fees and expenses incurred by the Company as of the date hereof for entering into the Second Amendment to the Gateway Lease (as defined in Section 5.1(s) below) (i.e., $360,000), plus (b) any other related fees and expenses incurred by the Company and the Surviving Corporation (excluding forfeiture of the Company's security deposit) in terminating the Gateway Lease following the date hereof but prior to the first anniversary of the Effective Time, is less than $510,000, then such differential shall be paid to the holders of Company Common Stock (with Parent Shares being valued at the FMV of Parent Shares); provided, however, that if there is no such differential in the calculation described in (i) above, then the amount of the shortfall from the Threshold shall be subtracted from the amounts otherwise payable in this subpart (ii);

(iii) notwithstanding (i) and (ii) above, any amounts payable to the holders of Company Common Stock pursuant to (i) and (ii) above shall be reduced by an amount equal to 75% of the dollar amount over $100,000 of any sales and use tax liability assessed against the Company by the State of Nevada as a result of its current audit of the Company; it being agreed and understood that the Company shall use all commercially reasonable efforts to settle such issues prior to the Effective Time; and

(iv) in addition to (iii) above, and notwithstanding (i) and (ii) above, to the extent that the consolidated financial statements included in the Company's 2001 Form 10-K filed with the SEC shows working capital (defined as current assets minus current liabilities) of less than

$2,010,204, excluding net receivables and net inventory, then 50% of such deficit shall be deducted from any amounts payable to the holders of Company Common Stock pursuant to (i) and (ii) above.

A worksheet and example of certain of the mechanics of this subsection 1.7(a) is attached hereto as Exhibit B.

In the event there is a dispute between Parent and the Representative Stockholder (as defined below) with respect to the Hold-Back Amount, Parent and the Representative Stockholder shall attempt in good faith to reconcile their differences, and any resolution by them as to any disputed amounts shall be final, binding and conclusive on the parties. If Parent and the Representative Stockholder are unable to reach a resolution of such dispute within thirty days after the one year anniversary of the Effective Time, Parent and Seller shall submit the items remaining in dispute for resolution to a mutually agreed upon independent public accountant, which shall act as arbitrator and shall promptly as practicable after submission, determine and report to the parties upon such remaining disputed items, and such report shall be final, binding and conclusive on the parties. Parent and the Representative Stockholder shall provide the independent public accountant with such information, and shall afford such accountants such access to books and records of the parties, as such accountants may reasonably request. The fees of the independent public accountant in connection with such determination shall be shared equally by Parent and the Company, with the Company's portion being deducted from the Hold-Back Amount.

In no event shall the amounts payable to the holders of Company Common Stock under this Section 1.7 exceed the Hold-Back Amount.

(b) Following the Effective Time, the Surviving Corporation shall use commercially reasonable efforts to collect the account receivables and sell the inventory referred to in subsection (a) above and at least the same efforts as it uses in its own affairs of a similar nature. In addition, following the Effective Time, if the Surviving Corporation sells the cellular business currently conducted by the Company, then the Surviving Corporation will allocate the sales price for the assets in such sale on a fair market value basis (including any account receivables and inventory included in such sale) (the "Asset FMV"). The Surviving Corporation will make a determination of the Asset FMV and deliver the same to the Representative Stockholder. The Representative Stockholder will thereafter have thirty days to accept or reject the Surviving Corporation's determination of Asset FMV (or during such period, the Surviving Corporation and Representative Stockholder shall have mutually agreed to a different Asset FMV). If within such thirty day period the Representative Stockholder rejects the Company's determination of Asset FMV or the Representative Stockholder and the Surviving Corporation do not mutually agree on an alternative Asset FMV, then the Representative Stockholder and the Surviving Corporation shall submit the agreement to a mutually acceptable appraiser (the "Appraiser"). The Appraiser will have 20 days thereafter to determine the Asset FMV, which determination shall be in writing and shall be considered final and binding on all parties.

(c) The determination of whether to take Parent Shares or Cash Consideration for any post-Effective Time payout as provided in this Section 1.7 shall be

determined by the Representative Stockholder. The Representative Stockholder shall have ten business days following written notice by Parent that an amount is owed to the holders of Company Common Stock under this Section 1.7, to make an election in writing to Parent as to taking Parent Shares and/or Cash Consideration from the held-back amounts under this Section 1.7. If the Representative Stockholder fails to make such election within such ten-day period, then Parent may, in its sole discretion, make such payment in Parent Shares and/or cash.

(d) (i) The Representative Stockholder shall initially be Peter Gotcher and may be changed by a majority of the then-existing Stockholder Representatives, in their sole discretion, upon notice to Parent by such persons, which written notice shall provide the address of such new Representative Stockholder. The Stockholder Representatives shall initially be the members of the Company's Board of Directors immediately prior to the Effective Time and may be changed by a majority of the then-existing Stockholder Representatives, in their sole discretion, upon written notice to Parent by such persons, which written notice shall provide the address(es) of any such new Stockholder Representative(s). The Representative Stockholder's address is set forth in Section 8.4(c) below.

(ii) The Representative Stockholder shall perform his or her functions under this Section 1.7 at the direction and upon the determination or agreement of a majority of the then-existing Stockholder Representatives (including the Representative Stockholder). Stockholder Representatives are authorized and empowered to construe this Agreement and their construction made in good faith shall be conclusive and binding upon the Company Stockholders and upon all parties hereto. Each Stockholder Representative shall always be protected and free from liability in acting upon any notice, request, consent, certificate, declaration, telegram, telex, facsimile, guarantee, affidavit or other paper or document or signature or signature believed by him, her or any of them to be genuine and to have been signed by the proper party or parties or by the party or parties purporting to have signed the same. No Stockholder Representative shall be liable for any error of judgment nor for any act done or omitted, nor for any mistake of fact or law nor for anything which he or she may do or refrain from doing in good faith consistent with the provisions of this Agreement, nor shall any Stockholder Representative have any accountability hereunder to Parent, the Surviving Corporation, the Company or to the Company Stockholders. The Stockholder Representatives may consult with legal counsel, which may be counsel to the Company prior to the Effective Time, and any action authorized by this Agreement, which is taken or suffered in good faith by the Stockholder Representatives in accordance with the advice of such counsel shall be conclusive upon the parties hereto, and the Stockholder Representatives shall be fully protected and be subject to no liability with respect thereto. For purposes of this Section, Parent, the Surviving Corporation and the Company hereby waive any conflict of interest that may arise in connection with the Stockholder Representatives' retention of counsel in connection with the interpretation and performance of this Agreement by reason of such counsel's representation of the Company prior to the Effective Time.

(iii) Any Stockholder Representative, employee or agent and any firm, corporation, partnership, trust, or association of which such Stockholder Representative may be a member, trustee, shareholder, director, officer, partner, agent or employee may contract with or be or become pecuniarily interested, directly or indirectly, in any matter or transaction to which Parent, the Surviving Corporation or any controlled or affiliated corporation may be a

party or in which it may be concerned, as fully and freely as though such Stockholder Representative were not a Stockholder Representative hereunder. Any Stockholder Representative, his or her employees or agents may act as directors and/or officers of Parent or the Surviving Corporation or of such controlled or affiliated corporation without regard to his or her status as a Stockholder Representative.

Section 1.8 Valuation of Parent Shares. The term "FMV of the Parent Shares" shall mean the average closing price of the Parent Common Stock for the 30 calendar day period immediately preceding the Effective Time.

ARTICLE II
EXCHANGE OF CERTIFICATES

Section 2.1 Exchange Fund. Prior to the Effective Time, Parent shall appoint an exchange agent hereunder for the purpose of exchanging Certificates for the Merger Consideration (the "Exchange Agent"). At or prior to the Effective Time, Parent shall deposit with the Exchange Agent, in trust for the benefit of holders of shares of Company Common Stock, certificates representing the shares of Parent Common Stock and the Cash Consideration (excluding the Potential Adjustment Amounts) issuable pursuant to Section 1.6(a) (collectively, the "Initial Consideration") in exchange for outstanding shares of Company Common Stock. Parent agrees to make available to the Exchange Agent, from time to time as needed, cash sufficient to make cash payments pursuant to Section 2.5 in lieu of issuing fractional shares of Parent Common Stock and to pay any dividends and other distributions pursuant to Section 2.3. Any cash and certificates representing Parent Common Stock deposited with the Exchange Agent shall hereinafter be referred to as the "Exchange Fund."

Section 2.2 Exchange Procedures. Promptly after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of a Certificate (i) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon due delivery of the Certificates and other required documents to the Exchange Agent, and which letter shall be in customary form and have such other provisions as Parent may reasonably specify and (ii) instructions for effecting the surrender of such Certificates in exchange for the applicable Merger Consideration. Upon surrender of a Certificate to the Exchange Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefore (A) a certificate representing one or more shares of Parent Common Stock representing, in the aggregate, the whole number of shares that such holder has the right to receive pursuant to Section 1.6(a) (after taking into account all shares of Company Common Stock then held by such holder), (B) a check in an amount that such holder has the right to receive pursuant to Section 1.6(a) (after taking into account all shares of Company Common Stock held by such holder), and (C) a check in the amount (after giving effect to any required tax withholdings) equal to the cash in lieu of any fractional share of Parent Common Stock pursuant to Section 2.5 and any unpaid dividends and other distributions to which such holder is entitled pursuant to Section 2.3, and the Certificate so surrendered shall forthwith be canceled. No interest will be paid or will accrue on any cash payable pursuant to Section 2.3 or Section 2.5. In the event of a transfer of ownership of Company Common Stock which is not registered in the

transfer records of the Company prior to the Effective Time, one or more certificates evidencing, in the aggregate, the proper number of shares of Parent Common Stock, a check in the proper amount of cash, and a second check in the proper amount of cash in lieu of any fractional share of Parent Common Stock pursuant to Section 2.5 and any dividends or other distributions to which such holder is entitled pursuant to Section 2.3 may be issued with respect to such Company Common Stock to such a transferee if the Certificate representing such shares of Company Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and the ownership of such shares of Company Common Stock by such transferee and to evidence that any applicable stock transfer taxes have been paid.

Section 2.3 Distributions with Respect to Unexchanged Stock. No dividends or other distributions declared or made with respect to the Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock that such holder would be entitled to receive upon surrender of such Certificate pursuant to the Merger and no cash payment, or cash payment in lieu of a fractional share of Parent Common Stock, shall be paid to any such holder pursuant to Section 2.5 until such holder shall surrender such Certificate in accordance with Section 2.2. Subject to the effect of applicable law, following surrender of any such Certificate, there shall be paid to such holder, without interest, (a) promptly after the time of such surrender, the amount of any cash payable pursuant to Section 2.5 in lieu of issuing fractional shares of Parent Common Stock to which such holder would be entitled and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such shares of Parent Common Stock.

Section 2.4 No Further Ownership Rights in Company Common Stock. All shares of Parent Common Stock issued and cash paid upon conversion of shares of Company Common Stock in accordance with the terms of Article I and this Article II (including any stock dividends or cash paid pursuant to Section 2.3 or cash paid pursuant to Section 2.5) shall be issued or paid in full satisfaction of all rights pertaining to the shares of Company Common Stock.

Section 2.5 No Fractional Shares of Parent Common Stock.

(a) No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a holder of Parent Common Stock.

(b) Notwithstanding any other provision of this Agreement (other than the last sentence of this Section 2.5(b)), each holder of shares of Company Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Certificates delivered by such holder) shall be entitled to receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a share of Parent Common Stock and (ii) the average

closing price of the Parent Common Stock on the Nasdaq National Market System ("Nasdaq") for the 20 trading days prior to and ending on the trading day immediately preceding the Closing Date (the "Average Price"). As promptly as practicable after the determination of the amount of cash, if any, to be paid to holders of fractional interests, the Exchange Agent shall so notify Parent, and Parent shall deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof. Notwithstanding the foregoing contained in this Section 2.5(b), Parent shall be entitled at its option to deliver a full share of Parent Common Stock in lieu of any fractional share of Parent Common Stock otherwise deliverable to a holder of shares of Company Common Stock pursuant to the terms of this Agreement.

Section 2.6 Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of Certificates for 12 months after the Effective Time shall be delivered to Parent or otherwise on the instruction of Parent, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to Parent for payment of the Merger Consideration, without any interest thereon. Any such portion of the Exchange Fund remaining unclaimed by holders of shares of Company Common Stock immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity (as defined in Section 3.4) shall, to the extent permitted by applicable law, become the property of Parent free and clear of any claims or interest of any person previously entitled thereto.

Section 2.7 No Liability. None of Parent, Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any person in respect of any Merger Consideration or any cash in respect of dividends or other distributions from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

Section 2.8 Investment of the Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Parent on a daily basis. Any interest and other income resulting from such investments shall be paid to Parent. Parent shall ensure that the Exchange Fund is at all times sufficient to satisfy Parent's obligations under this Agreement and shall promptly and proportionately replenish the Exchange Fund upon its suffering of any losses resulting from the Exchange Agent's investment activities with respect thereto if necessary to ensure sufficient funds.

Section 2.9 Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed, and if required by Parent, the posting by such person of a bond in such reasonable amount as Parent may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby (including any cash in lieu of fractional shares of Parent Common Stock), and any unpaid dividends and distributions on shares of Parent Common Stock deliverable in respect thereof, pursuant to this Agreement.

Section 2.10 Withholding Rights. Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended (the "Code") and the rules and regulations promulgated thereunder, or any other provision of applicable law. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be.

Section 2.11 Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Sub, any other actions and things to vest, perfect or confirm of record or otherwise in Parent or in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by Parent or the Surviving Corporation as a result of, or in connection with, the Merger.

Section 2.12 Stock Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company. From and after the Effective Time, the holders of Certificates shall cease to have any rights with respect to the shares of Company Common Stock formerly represented thereby, except the right to receive the Merger Consideration and as otherwise provided herein. Subject to Sections 2.6 and 2.7, on or after the Effective Time, any Certificates presented to the Exchange Agent or Parent for any reason shall be converted into the Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby (including any cash in lieu of fractional shares of Parent Common Stock to which the holders thereof are entitled pursuant to Section 2.5) and shall represent the right to receive dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.3.

Section 2.13 Certain Adjustments. If, between the date of this Agreement and the Effective Time, the outstanding shares of Parent Common Stock shall have been changed into a different number of shares or different class of stock by reason of any reclassification, recapitalization, stock split, split−up, combination or exchange of shares, or a stock dividend or dividend payable in any other securities shall be declared with a record date within such period, or any similar event shall have occurred, the shares of Parent Common Stock included in the Merger Consideration, and the 3,100,000 figure, $1.00 share price and Average Closing Price set forth in Section 7.1(g) shall be appropriately adjusted to provide the holders of Company Common Stock the same economic effect, voting rights and other terms and designations as contemplated by this Agreement prior to any such event.

Section 2.14 Appraisal Rights.

(a) The parties acknowledge that the Company's stockholders are currently not entitled to appraisal rights under Section 262 of the DGCL. However, to the extent that at

any point such appraisal rights become available in connection with the transactions contemplated by this Agreement, the parties intend for paragraphs (b) and (c) below to apply.

(b) Notwithstanding anything to the contrary contained in this Agreement, any shares of capital stock of the Company for which, as of the Company stockholders' meeting called to approve the Merger (the "Company Stockholders' Meeting"), the holder thereof has demanded an appraisal of their value in accordance with applicable law ("Dissenting Shares") shall not be converted into or represent the right to receive the applicable Merger Consideration in accordance with Section 1.6, and the holder or holders of such shares shall be entitled only to such rights as may be granted to such holder or holders under applicable law; provided, however, that if the status of any such shares as Dissenting Shares shall not be perfected in accordance with applicable law, or if any such shares shall lose their status as Dissenting Shares then, as of the later of the Effective Time or the time of the failure to perfect such status or the loss of such status, such shares shall automatically be converted into and shall represent only the right to receive (upon the surrender of the certificate or certificates representing such shares) the applicable Merger Consideration in accordance with Section 1.6. In the event of any Dissenting Shares, the aggregate Merger Consideration will be deemed to be reduced by the proportional share of the Merger Consideration that the holders of such Dissenting Shares would be entitled to receive absent the appraisal.

(c) The Company shall give Parent (i) prompt notice of any written demand received by the Company at or prior to the Company Stockholders' Meeting to require the Company to purchase Dissenting Shares pursuant to applicable law and of any other demand, notice or instrument delivered to the Company prior to the Effective Time pursuant to the DGCL, and (ii) the opportunity to participate in all negotiations and proceedings with respect to any such demand, notice or instrument. The Company shall not make any payment or settlement offer prior to the Effective Time with respect to any such demand unless Parent shall have consented in writing to such payment or settlement offer.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and Merger Sub that the statements contained in this Article III are true and correct, except as set forth in the disclosure statement delivered by the Company to Parent and Merger Sub concurrently herewith (the "Company Disclosure Statement"). All exceptions noted in the Company Disclosure Statement shall be numbered to correspond to the applicable Sections to which such exception refers.

Section 3.1 Organization. Each of the Company and its subsidiaries is a corporation or other business organization duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization. Each of the Company and its subsidiaries (i) is qualified or licensed in all jurisdictions where such qualification or license is required to own and operate its properties and conduct its business in the manner and at the places presently conducted; (ii) holds all franchises, grants, licenses, certificates, permits, consents and orders, all of which are valid and in full force and effect, from all applicable United States and foreign regulatory authorities necessary to own and operate its properties and to conduct its business in the manner and at the places presently conducted; and (iii) has full power

and authority (corporate and other) to own, lease and operate its respective properties and assets and to carry on its business as presently conducted and as proposed to be conducted, except where the failure to be so qualified or licensed or to hold such franchises, grants, licenses, certificates, permits, consents and orders or to have such power and authority would not, when taken together with all other such failures, reasonably be expected to have a Material Adverse Effect (as hereinafter defined) with respect to the Company. The Company has furnished to Parent complete and correct copies of its and its subsidiaries' certificates of incorporation and bylaws as in effect on the date hereof. Such certificate of incorporation and bylaws are in full force and effect and no other organizational documents are applicable to or binding upon the Company. When used in connection with any person or any of its subsidiaries, the term "Material Adverse Effect" means any change or effect that, either individually or in the aggregate with all other related changes or effects, (i) is materially adverse to the business, operations, assets, liabilities (including contingent liabilities), condition (financial or otherwise), results of operations or prospects of such person and its subsidiaries taken as a whole or (ii) could reasonably be expected to materially impair the ability of such person to consummate the Merger and to perform its other obligations hereunder on a timely basis.

Section 3.2 Capital Structure.

(a) The authorized capital stock of the Company consists of 50,000,000 shares of Company Common Stock and 5,000,000 shares of preferred stock ("Preferred Stock"). As of the date hereof, 25,386,438 shares of Company Common Stock were issued and outstanding, (ii) 29,132 shares of Company Common Stock were reserved for issuance upon exercise of outstanding warrants and non-plan stock options (iii) 1,762,363 shares of Company Common Stock were reserved for issuance under outstanding Company Stock Options issued under the Amended and Restated 1996 Stock Option Plan of the Company, (iv) 327,028 shares of Company Common Stock were reserved for issuance under the 1999 Employee Stock Purchase Plan of the Company and (v) no shares of Preferred Stock were issued and outstanding. All the outstanding shares of the Company's capital stock are duly authorized, validly issued, fully paid and non-assessable. There are no bonds, debentures, notes or other indebtedness having voting rights (or convertible or exchangeable into securities having such rights) ("Voting Debt") of the Company or any of its subsidiaries issued and outstanding. There are no shares of Company Common Stock held in the treasury of the Company. Except as set forth above, as set forth in Section 3.2(a) of the Company Disclosure Statement and for the transactions contemplated by this Agreement, (i) there are no shares of capital stock of the Company authorized, issued or outstanding and (ii) there are no existing (A) options, warrants, calls, preemptive rights, subscriptions or other rights, convertible or exchangeable securities, agreements, arrangements or commitments of any character, relating to the issued or unissued capital stock of the Company or any of its subsidiaries, obligating the Company or any of its subsidiaries to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or Voting Debt of, or other equity interest in, the Company or any of its subsidiaries, (B) securities convertible into or exchangeable for such shares or equity interests or (C) obligations of the Company or any of its subsidiaries to grant, extend or enter into any such option, warrant, call, preemptive right, subscription or other right, convertible security, agreement, arrangement or commitment.

(b) All of the outstanding shares of capital stock of each of the Company's subsidiaries are beneficially owned by the Company, directly or indirectly, and all such shares have been validly issued and are fully paid and nonassessable and are owned by either the Company or one of its subsidiaries free and clear of all Liens.

(c) Other than the Voting Agreement, there are no voting trusts or other agreements or understandings to which the Company or any of its subsidiaries is a party with respect to the voting of the capital stock of the Company or any of its subsidiaries. None of the Company or its subsidiaries is a party to any agreement or obligation, contingent or otherwise, to redeem, repurchase or otherwise acquire or retire shares of capital stock of the Company or any of its subsidiaries, whether as a result of the transactions contemplated by this Agreement or otherwise.

(d) Since January 1, 2002, the Company has not (i) made or agreed to make any stock split or stock dividend, or issued or permitted to be issued any shares of capital stock, or securities exercisable for or convertible into shares of capital stock, of the Company other than pursuant to and as required by the terms of any Company Stock Option, (ii) repurchased, redeemed or otherwise acquired any shares of capital stock of the Company or (iii) declared, set aside, made or paid to the stockholders of the Company dividends or other distributions on the outstanding shares of capital stock of the Company.

Section 3.3 Corporate Authorization; Validity of Agreement; Company Action.

(a) The Company has full corporate power and authority to execute and deliver this Agreement and, subject to obtaining the necessary approval of its stockholders as contemplated by Section 5.2(b) with respect to the Merger, to consummate the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly and validly authorized by its Board of Directors and, except for obtaining the approval of its stockholders as contemplated by Section 5.2(b) with respect to the Merger, no other corporate action or proceedings on the part of the Company are necessary to authorize the execution and delivery by the Company of this Agreement, and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company and, assuming this Agreement constitutes valid and binding obligations of Parent and Sub, as applicable, constitutes valid and binding obligations of the Company enforceable against the Company in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, fraudulent conveyance, moratorium or other similar laws, now or hereafter in effect, affecting creditor' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

(b) The Board of Directors of the Company has duly and validly approved and taken all corporate action required to be taken by the Board of Directors (in each case by a unanimous vote of all the directors in office at such time) for the consummation of the transactions contemplated by this Agreement, including, but not limited to, (i) having determined that this Agreement, and the transactions contemplated hereby, taken together, are advisable and

are fair to and in the best interests of the stockholders of the Company, (ii) having resolved to recommend that the holders of the shares of Company Common Stock adopt this Agreement and approve the Merger and (iii) having taken all actions necessary to render the provisions of Section 203 of the DGCL inapplicable to this Agreement. The affirmative vote in favor of the adoption of this Agreement by stockholders holding a majority of the outstanding shares of Company Common Stock (the "Company Stockholder Approval") is the only vote of the holders of any class or series of Company capital stock necessary to approve this Agreement and the Merger.

Section 3.4 Consents and Approvals; No Violations. Except as set forth in Section 3.4 of the Company Disclosure Statement and for all filings, permits, authorizations, consents and approvals as may be required under, and compliance with other applicable requirements of, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), state securities or "blue sky" laws, and for the approval of this Agreement by the Company's stockholders and the filing and recordation of this Agreement or the Certificate of Merger as required by the DGCL, neither the execution, delivery or performance of this Agreement nor the consummation by the Company of the transactions contemplated hereby or thereby nor compliance by the Company with any of the provisions hereof will (i) result in any breach or violation of any provision of the certificate of incorporation or bylaws or similar organizational documents of the Company or of any of its subsidiaries, (ii) require any filing with, or permit, authorization, consent or approval of, any United States or foreign court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority, body, commission or agency (a "Governmental Entity"), except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings would not have a Material Adverse Effect with respect to the Company, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation, acceleration or increase in the rate of interest) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, guarantee, other evidence of indebtedness, lease, license, contract, agreement or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which any of them or any of their properties or assets may be bound (a "Company Agreement") or result in the creation of a Lien upon any of the properties or assets of the Company or any of its subsidiaries for violations, breaches, defaults, or rights of termination, amendment, cancellation or acceleration or Liens, which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect with respect to the Company or (iv) violate any order, writ, injunction, judgment, decree, statute, rule, regulation or law ("Law") applicable to the Company, any of its subsidiaries or any of their properties or assets.

Section 3.5 SEC Filings; Financial Statements.

(a) The Company has filed all forms, reports, statements, schedules, registration statements and other documents required to be filed with the Securities and Exchange Commission (the "SEC") since October 13, 1999 (the "Company SEC Documents"), each of which complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations promulgated thereunder, or the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the date so filed. No subsidiary of the Company is required to file any form, report,

statement, schedule, registration statement or other document with the SEC. No Company SEC Document, when filed (or, if amended or superseded by a filing prior to the Closing Date, then on the date of such filing) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Each of the audited and unaudited consolidated financial statements of the Company (including any related notes thereto) included in the Company SEC Documents have been prepared in accordance with United States generally accepted accounting principles ("GAAP"), applied on a consistent basis during the relevant periods (except as may be disclosed in the notes thereto), and present fairly the consolidated financial position and consolidated results of operations and changes in cash flows of the Company and its subsidiaries as of the respective dates or for the respective periods reflected therein, except, in the case of the unaudited interim financial statements, for normal and recurring year−end adjustments that are not material.

(c) Except to the extent set forth on the consolidated balance sheet of the Company and its subsidiaries as of September 30, 2001, included in the Company SEC Documents (the "Latest Balance Sheet"), or in the notes thereto, neither the Company nor any of its subsidiaries has any liabilities, debts, claims or obligations of any nature (whether accrued, absolute, direct or indirect, contingent or otherwise, whether due or to become due), and there is no existing condition or set of circumstances which would reasonably be expected, individually or in the aggregate, to result in such a liability, except for liabilities or obligations incurred in the ordinary course of business consistent with past practice since September 30, 2001, none of which would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect with respect to the Company.

Section 3.6 Absence of Certain Changes. Since September 30, 2001, there has not occurred any event, change, circumstance, condition or effect (including the incurrence of any liabilities of any nature, whether or not accrued, contingent or otherwise) having or reasonably likely to have, in the aggregate, a Material Adverse Effect with respect to the Company. Since September 30, 2001, the Company and its subsidiaries have conducted their respective businesses in the ordinary course consistent with past practice. Since September 30, 2001, neither the Company nor any of its subsidiaries have taken any action which if taken after the date hereof but prior to Closing would have been prohibited by Section 5.1 (a), (b), (c)(ii), (c)(iii), (c)(iv), (c)(v), (e), (f)(ii), (g), (h), (l), (m), (o), (p) or (q) (except that with respect to 5.1(q) the dollar amount shall be increased to $150,000) hereof.

Section 3.7 Information Supplied. None of the information supplied by the Company for inclusion in (i) the registration statement on Form S−4 to be filed with the SEC by Parent in connection with the issuance of the Parent Common Stock in the Merger (such Form S−4, as amended or supplemented, is herein referred to as the "Form S−4") will, at the time the Form S−4 is filed with the SEC, and at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) the proxy statement to be sent to the stockholders of the Company in connection with the Stockholders Meeting (as defined in Section 5.2(b)) (such proxy statement,

as amended or supplemented, is herein referred to as the "Proxy Statement/Prospectus") will, at the date the Proxy Statement/Prospectus is first mailed to the Company's stockholders or at the time of the Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading, or contain any statement which at the time and in the light of the circumstances under which it is made is false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the Stockholders Meeting which has become false or misleading. No representation is made by the Company with respect to statements made or incorporated by reference in the Form S-4 or the Proxy Statement/Prospectus based on information supplied in writing by Parent specifically for inclusion or incorporation in the Form S-4 or the Proxy Statement/Prospectus.

Section 3.8 Employee Benefit Plans.

(a) Set forth in Section 3.8 of the Company Disclosure Statement is a complete and correct list of all of the Company's "employee benefit plans" as defined by Section 3(3) of the Employee Retirement Income Security Act of 1974 (the "ERISA"), all specified fringe benefit plans as defined in Section 6039D of the Code, and all other bonus, incentive compensation, deferred compensation, profit sharing, stock option, stock appreciation right, stock bonus, stock purchase, employee stock ownership, savings, severance, change in control, supplemental unemployment, layoff, salary continuation, retirement, pension, health, life insurance, disability, accident, group insurance, vacation, holiday, sick leave, fringe benefit or welfare plan, and any other employee compensation or benefit plan, agreement, policy, practice, commitment, contract, or understanding (whether qualified or nonqualified, currently effective or terminated, written or unwritten), and any trust, escrow or other agreement related thereto, that (i) is maintained or contributed to by the Company or any other corporation or trade or business controlled by, controlling, or under common control with the Company (within the meaning of Section 414 of the Code or Section 4001(a)(14) or 4001(b) of ERISA) ("ERISA Affiliate") or has been maintained or contributed to in the last six years by the Company or any ERISA Affiliate, or with respect to which the Company or any ERISA Affiliate has or may have any liability, and (ii) provides benefits, or describes policies or procedures applicable to any current or former director, officer, employee, or service provider of the Company or any ERISA Affiliate, or the dependents of any thereof, regardless of how (or whether) liabilities for the provision of benefits are accrued or assets are acquired or dedicated with respect to the funding thereof (collectively the "Employee Plans"). No Employee Plan is (w) a "Defined Benefit Plan" (as defined in Section 414(l) of the Code), (x) a plan intended to meet the requirements of Section 401(a) of the Code, (y) a "Multiemployer Plan" (as defined in Section 3(37) of ERISA), or (z) a plan subject to Title IV of ERISA, other than a Multiemployer Plan. Also set forth in Section 3.8 of the Company Disclosure Statement is a complete and correct list of all ERISA Affiliates of the Company during the last six years.

(b) The Company has delivered to Parent true, accurate and complete copies of (i) the documents comprising each Employee Plan (or, with respect to any Employee Plan which is unwritten, a detailed written description of eligibility, participation, benefits, funding arrangements, assets and any other matters which relate to the obligations of the

Company or any ERISA Affiliate), (ii) all trust agreements, insurance contracts or any other funding instruments related to the Employee Plans, (iii) all rulings, determination letters, no-action letters or advisory opinions from the IRS, the U.S. Department of Labor, or any other Governmental Entity that pertain to each Employee Plan and any open requests therefore, (iv) the most recent actuarial and financial reports (audited and/or unaudited) and the annual reports filed with any Governmental Entity with respect to the Employee Plans during the current year and each of the three preceding years, (v) all collective bargaining agreements pursuant to which contributions to any Employee Plan(s) have been made or obligations incurred (including both pension and welfare benefits) by the Company or any ERISA Affiliate, and all collective bargaining agreements pursuant to which contributions are being made or obligations are owed by such entities, (vi) all securities registration statements filed with respect to any Employee Plan, (vii) all contracts with third-party administrators, actuaries, investment managers, consultants, and other independent contractors that relate to any Employee Plan, and (viii) all summary plan descriptions, summaries of material modifications and memoranda, employee handbooks and other written communications regarding the Employee Plans.

(c) Except as disclosed in Section 3.8 of the Company Disclosure Statement, full payment has been made of all amounts that are required under the terms of each Employee Plan to be paid as contributions with respect to all periods prior to and including the last day of the most recent fiscal year of such Employee Plan ended on or before the date of this Agreement and all periods thereafter prior to the Closing Date. The Company has paid in full all required insurance premiums, subject only to normal retrospective adjustments in the ordinary course, with regard to the Employee Plans for all policy years or other applicable policy periods ending on or before the Effective Date.

(d) The Company has, at all times, complied, and currently complies, in all material respects with the applicable continuation requirements for its welfare benefit plans, including (1) Section 4980B of the Code (as well as its predecessor provision, Section 162(k) of the Code) and Sections 601 through 608, inclusive, of ERISA, which provisions are hereinafter referred to collectively as "COBRA" and (2) any applicable state statutes mandating health insurance continuation coverage for employees.

(e) The form of all Employee Plans is in compliance with the applicable terms of ERISA, the Code, and any other applicable laws, including the Americans with Disabilities Act of 1990, the Family Medical Leave Act of 1993 and the Health Insurance Portability and Accountability Act of 1996, and such plans have been operated in compliance with such laws and the written Employee Plan documents. Neither the Company nor any fiduciary of an Employee Plan has violated the requirements of Section 404 of ERISA. All required reports and descriptions of the Employee Plans (including Internal Revenue Service ("IRS") Form 5500 Annual Reports, Summary Annual Reports and Summary Plan Descriptions and Summaries of Material Modifications) have been (when required) timely filed with the IRS, the U. S. Department of Labor, or other Governmental Entity and distributed as required, and all notices required by ERISA or the Code or any other legal requirement with respect to the Employee Plans have been appropriately given.

(f) Each Employee Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS, and the Company

does not have any knowledge of any circumstances that will or could result in revocation of any such favorable determination letter.

(g) There is no material pending or, to the Company's knowledge, threatened proceeding relating to any Employee Plan, nor is the Company aware of any basis for any such proceeding. Neither the Company nor any fiduciary of an Employee Plan has engaged in a transaction with respect to any Employee Plan that, assuming the taxable period of such transaction expired as of the date hereof, could subject the Company or Parent to a Tax or penalty imposed by either Section 4975 of the Code or Section 502(l) of ERISA or a violation of Section 406 of ERISA. The transactions contemplated by this Agreement will not result in the potential assessment of a tax or penalty under Section 4975 of the Code or Section 502(l) of ERISA nor result in a violation of Section 406 of ERISA.

(h) The Company has maintained workers' compensation coverage as required by applicable state law through purchase of insurance and not by self−insurance or otherwise except as disclosed to Parent in Section 3.8 of the Company Disclosure Statement.

(i) The consummation of the transactions contemplated by this Agreement will not accelerate the time of vesting or the time of payment, or increase the amount, of compensation due to any director, employee, officer, former employee or former officer of the Company. There are no contracts or arrangements providing for payments that could subject any person to liability for tax under Section 4999 of the Code.

(j) Except for the continuation coverage requirements of COBRA, the Company does not have any obligations or potential liability for benefits to employees, former employees or their respective dependents following termination of employment or retirement under any of the Employee Plans that are Employee Welfare Benefit Plans.

(k) None of the transactions contemplated by this Agreement will result in an amendment, modification or termination of any of the Employee Plans. No written or oral representations have been made to any employee or former employee of the Company promising or guaranteeing any employer payment or funding for the continuation of medical, dental, life or disability coverage for any period of time beyond the end of the current plan year (except to the extent of coverage required under COBRA). No written or oral representations having the effect of an Employee Plan amendment have been made to any employee or former employee of the Company concerning the employee benefits of the Company.

Section 3.9 Compliance. Neither the Company nor any of its subsidiaries is in default or violation of (and no event has occurred which with notice or lapse of time or both would constitute a default or violation of) (i) its certificate of incorporation or bylaws or other governing document, (ii) any Law applicable to the Company or any of its subsidiaries or by which any of their respective properties or assets is bound or affected, or (iii) any Company Agreement, except for any defaults or violations of Law or Company Agreements that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect with respect to the Company. The Company and its subsidiaries have and are in compliance with all material licenses, permits, and other authorizations, domestic or foreign, necessary to conduct their respective businesses.

Section 3.10 Material Contracts. Except as set forth in Section 3.10 of the Company Disclosure Statement:

(a) All of the contracts of the Company and its subsidiaries that are required to be described in the Company SEC Documents or to be filed as exhibits thereto (the "Material Contracts") are described in the Company SEC Documents or filed as exhibits thereto and are in full force and effect. Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any other party thereto has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of any Material Contract.

(b) Neither the Company nor any of its subsidiaries is party to any agreement containing any provision or covenant limiting in any material respect the ability of the Company or any of its subsidiaries to (i) sell any products or services of or to any other person, (ii) engage in any line of business in any geographical area or (iii) compete with or obtain products or services from any person or limiting the ability of any person to provide products or services to the Company or any of its subsidiaries.

(c) Subject to obtaining the consents referred to in Section 3.4, neither the Company nor any of its subsidiaries is a party to or bound by any contract, agreement or arrangement which would cause the rights or obligations of any party thereto to change upon the consummation of the Merger.

Section 3.11 Absence of Litigation. Except as set forth in Section 3.11 of the Company Disclosure Statement, there is no claim, suit, action, proceeding or investigation pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries, or any property or asset of the Company or any of its subsidiaries, before any court, arbitrator or administrative, governmental or regulatory authority or body, domestic or foreign. Neither the Company nor any of its subsidiaries nor any of their respective properties or assets is subject to any order, writ, judgment, injunction, decree, determination or award having, or which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to the Company. There are no pending or, to the knowledge of the Company, threatened claims for indemnification by the Company in favor of directors, officers, employees and agents of the Company.

Section 3.12 Tax Matters.

(a) The Company and each of its subsidiaries, and any consolidated, combined, unitary or aggregate group for Tax (as defined below) purposes of which the Company or any of its subsidiaries is or has been a member, have properly completed and timely filed all Tax Returns (as defined below) required to be filed by them. All Taxes due and owing by the Company or any subsidiary of the Company (whether or not shown on a return) have been paid and adequate reserves are provided in the Company's financial statements for Taxes owing but not yet due. There is (i) no material claim for Taxes that is a lien (as herein defined) against the property of the Company or any or its subsidiaries or is being asserted against the Company or any of its subsidiaries other than liens for Taxes not yet due and payable, (ii) no audit of any Tax Return of the Company or of any of its subsidiaries is presently being conducted by a Tax

Authority (as defined below) and (iii) no extension of the statute of limitations on the assessment of any Taxes granted by the Company or any of its subsidiaries is currently in effect. Neither the Company nor any of its subsidiaries is a party to any agreement, contract or arrangement that may result in the payment of any amount that would not be deductible by reason of Section 280G or Section 404 of the Code or similar provisions under other Tax Laws. Neither the Company nor any of its subsidiaries has been or will be required to include any material adjustment in Taxable income for any Tax period (or portion thereof) pursuant to Section 481 or 263A of the Code or any comparable provision under state or foreign Tax laws as a result of transactions, events or accounting methods employed prior to the Merger. Neither the Company nor any of its subsidiaries has filed or will file any consent to have the provisions of paragraph 341(f)(2) of the Code (or comparable provisions of any state Tax laws) apply to the Company or any of its subsidiaries. Neither the Company nor any subsidiary of the Company is a party to any Tax sharing or Tax allocation agreement nor does the Company or any subsidiary have any liability or potential liability to another party under any such agreement. The Company has not ever been a member of a consolidated, combined or unitary group of which the Company was not the ultimate parent corporation. All monies that the Company and its subsidiaries are required by law to withhold in connection with amounts paid or owing to any person have been withheld and either timely paid to the proper Tax Authority, or, if not yet due, set aside in accounts for such purposes and accrued on the books of the Company and any subsidiary, as applicable. Neither the Company nor any of its subsidiaries are aware of any investigation pending, threatened, or likely to be commenced by any Tax Authority for any jurisdiction where the Company and its subsidiaries do not file Tax Returns with respect to a given Tax that may lead to an assertion by such Tax Authority that the Company or any subsidiary is or may be subject to such Tax in such jurisdiction, and none of the Company and its subsidiaries is aware of any meritorious basis for such an investigation.

(b) For purposes of this Agreement, the following terms have the following meanings: "Code" means the U.S. Internal Revenue Code of 1986, as amended, or any successor law. "Tax" (and, with correlative meaning, "Taxes" and "Taxable") means any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty, social security, compensation, disability, export, import, estimated or other similar tax (including any fee, assessment, or other charge in the nature of or in lieu of any tax) or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount imposed by any Governmental Entity (a "Tax Authority") responsible for the imposition of any such tax (domestic or foreign). As used herein, "Tax Return" shall mean any return, statement, report or form (including, without limitation, estimated tax returns and reports, withholding tax returns and reports and information reports and returns) required to be filed with respect to Taxes, including any attachments, exhibits, or other materials submitted with any of the foregoing, and including any amendments or supplements to any of the foregoing. As used herein, "Treasury Regulations" means the Treasury Regulations promulgated under the Code.

Section 3.13 Title to Properties; Leases. The Company has good and marketable title to, and is the lawful owner of, or has the right to use pursuant to a license or otherwise, all of the tangible and intangible assets, properties and rights reflected in the Latest Balance Sheet or

acquired since the date of the Latest Balance Sheet, free and clear of all Liens and material defects in title, in each case except where the failure to have title, be the owner or have the right to use would not reasonably be expected to interfere in any material respect with the conduct of the business of the Company as currently conducted. The Company has provided Parent with a copy or an accurate summary of the material terms of all material real property and personal property leases of the Company. All such leases are valid, binding and enforceable against the Company (and, to the knowledge of the Company, each other party thereto) in accordance with their respective terms, and there does not exist under any lease of real property or personal property any material defect in title or any event which, with notice or lapse of time or both, would constitute a material default by the Company or, to the knowledge of the Company, by any other party thereto.

Section 3.14 Intellectual Property.

(a) Section 3.14 of the Company Disclosure Statement sets forth, with respect to Intellectual Property (as defined below) owned, held or used by the Company ("Company IP"), all patents, registrations and applications relating thereto, all material unregistered Intellectual Property and all licenses, consents, royalty and other agreements concerning Company IP to which the Company is a party ("IP Licenses").

(b) Except as disclosed on Section 3.14 of the Company Disclosure Statement (i) the Company owns or has the right to use all the Intellectual Property necessary or desirable to conduct the business as is currently conducted, free of all encumbrances; (ii) all of the Company IP is valid, enforceable, not abandoned and unexpired; (iii) to the Company's knowledge, the Company IP does not infringe or otherwise impair the Intellectual Property of any third party and is not being infringed or impaired by any third party; (iv) the Company takes all reasonable steps to protect and maintain the Company IP, including executing all appropriate confidentiality agreements and filing for all appropriate patents and registrations; (v) no party to an IP License is, or is alleged to be, in breach or default thereunder; and (vi) the transactions contemplated by this Agreement shall not impair the rights of the Company under any IP License, or cause any payments to be due thereunder.

For the purposes of this Section 3.14, "Intellectual Property" shall mean all U.S., state and foreign intellectual property, including without limitation all (i) (a) patents, inventions, discoveries, processes, designs, techniques, developments, technology, and related improvements and know−how; (b) copyrights and works of authorship in any media, including computer programs, firmware, software, applications, web site content, files, databases, documentation and related items; (c) trademarks, service marks, trade names, brand names, corporate names, domain names, logos, trade dress, the goodwill of any business symbolized thereby, and all common−law rights relating thereto; (d) trade secrets and other confidential or proprietary documents, files, analyses, lists, ways of doing business and/or information; (ii) registrations, applications and recordings related thereto; and (iii) rights to obtain renewals, extensions, continuations, continuations−in−part, reissues, divisions or similar legal protections related thereto.

Section 3.15 Environmental Laws. Except to the extent that any inaccuracy in any of the following representations, individually or in the aggregate with any other inaccuracy under the respective following representations, would not reasonably be expected to have a Material

Adverse Effect with respect to the Company, (a) each of the Company and each of its subsidiaries is in compliance with all Environmental Laws (as herein defined) applicable to the properties, assets or businesses of the Company and its subsidiaries, and possesses and complies with and has possessed and complied with all Environmental Permits (as herein defined) required under such laws; (b) none of the Company and its subsidiaries has received any Environmental Claim, and none of the Company and its subsidiaries is aware after reasonable inquiry of any threatened Environmental Claim or of any Environmental Claim (as herein defined) pending or threatened against any entity for which the Company or any of its subsidiaries may be responsible; (c) none of the Company and its subsidiaries has assumed, contractually or by operation of law, any liabilities or obligations under any Environmental Laws; (d) there are no present or, to the best knowledge of the Company, past events, conditions, circumstances, practices, plans or legal requirements that would reasonably be expected to result in liability to the Company or any of its subsidiaries under Environmental Laws, prevent, or reasonably be expected to increase the burden on the Company or any of its subsidiaries of, complying with Environmental Laws or of obtaining, renewing, or complying with all Environmental Permits required under such laws; (e) there are and, to the best knowledge of the Company, there have been no Hazardous Materials (as herein defined) or other conditions at or from any property owned, operated or otherwise used by the Company or any of its subsidiaries now or, to the best knowledge of the Company, in the past that would reasonably be expected to give rise to liability of the Company or any of its subsidiaries under any Environmental Law; and (f) the Company has provided to Parent all Environmental Reports (as herein defined) in the possession or control of the Company or any of its subsidiaries. For purposes of this Agreement, the following terms shall have the following meanings:

"Environmental Claim" means any written or oral notice, claim, demand, action, suit, complaint, proceeding or other communication by any person alleging liability or potential liability arising out of, relating to, based on or resulting from (i) the presence, discharge, emission, release or threatened release of any Hazardous Materials at any location, whether or not owned, leased or operated by the Company or any of its subsidiaries or (ii) circumstances forming the basis of any violation or alleged violation of any Environmental Law or Environmental Permit or (iii) otherwise relating to obligations or liabilities under any Environmental Laws; provided, however, that the term "Environmental Claim" shall not include any such claim, demand, action, suit, complaint, proceeding or other communication under an insurance or reinsurance policy issued by the Company.

"Environmental Laws" means all applicable statutes, rules, regulations, ordinances, orders, decrees and common law, in each case of any Governmental Entity, as they exist at the date hereof, relating in any manner to contamination, pollution or protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act, the Solid Waste Disposal Act, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act, the Toxic Substances Control Act, the Occupational Safety and Health Act, the Emergency Planning and Community-Right-to-Know Act, the Safe Drinking Water Act, all as amended, and similar state laws.

"Environmental Permits" means all permits, licenses, registrations and other governmental authorizations required for the Company and its subsidiaries and the operations of the Company's and its subsidiaries' facilities to conduct its business under Environmental Laws.

"Environmental Report" means any report, study, assessment, audit, or other similar document that addresses any issue of noncompliance with, or liability under, any Environmental Law that may affect the Company or any of its subsidiaries.

"Hazardous Materials" means any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, asbestos, pollutants, contaminants, radioactivity, and any other substances of any kind, whether or not any such substance is defined as hazardous or toxic under any Environmental Law, that is regulated pursuant to or could give rise to liability under any Environmental Law.

Section 3.16 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement.

Section 3.17 Takeover Statutes. No "fair price", "moratorium", "control share acquisition" or other similar anti-takeover statute or regulation enacted under any law applicable to the Company is applicable to this Agreement, the Merger or the other transactions contemplated hereby. The Company has taken all steps necessary to irrevocably exempt the transactions contemplated by this Agreement from any applicable provisions of the Company's certificate of incorporation or bylaws and from Section 203 of the DGCL.

Section 3.18 Employees. Neither the Company nor any of its subsidiaries is a party to any collective bargaining agreement. Since September 30, 2001, neither the Company nor any of its subsidiaries has had any employee strikes, work stoppages, slowdowns or lockouts or received any requests for certifications of bargaining units or any other requests for collective bargaining. There is no unfair labor practice, employment discrimination or other complaint against the Company or any of its subsidiaries pending or, to the knowledge of the Company, threatened.

Section 3.19 Accounts Receivable. Section 3.19 of the Company Disclosure Statement sets forth the accounts receivable of the Company and its subsidiaries as of March 22, 2002. All such accounts receivable have arisen from bona fide transactions in the ordinary course of business and are valid and enforceable claims subject to no right of set-off or counterclaim, except for reasonable reserves for bad debts.

Section 3.20 Inventory. Except for reserve amounts disclosed to Parent, the inventory of the Company is in good, current, standard and merchantable condition and is not obsolete or defective.

Section 3.21 Certain Payments. Neither the Company nor any of its subsidiaries nor any director, officer or employee, of the Company or any of its subsidiaries has paid or caused to

be paid, directly or indirectly, in connection with the business of the Company or any of its subsidiaries (a) to any government or agency thereof or any agent of any supplier or customer any bribe, kick−back or other similar payment; or (b) any contribution to any political party or candidate (other than from personal funds of directors, officers or employees not reimbursed by their respective employers or as otherwise permitted by applicable law).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT AND SUB

Parent and Sub, jointly and severally represent and warrant to the Company that the statements contained in this Article IV are true and correct, except as set forth in the disclosure statement delivered by Parent to the Company concurrently herewith (the "Parent Disclosure Statement"). All exceptions noted in the Parent Disclosure Statement shall be numbered to correspond to the applicable Sections to which such exception refers.

Section 4.1 Organization. Each of Parent and Sub is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Each of Parent and its subsidiaries (i) is qualified or licensed in all jurisdictions where such qualification or, license is required to own and operate its properties and conduct its business in the manner and at the places presently conducted; (ii) holds all franchises, grants, licenses, certificates, permits, consents and orders, all of which are valid and in full force and effect, from all applicable United States and foreign regulatory authorities necessary to own and operate its properties and to conduct its business in the manner and at the places presently conducted; and (iii) has full power and authority (corporate and other) to own, lease and operate its respective properties and assets and to carry on its business as presently conducted and as proposed to be conducted, except where the failure to be so qualified or licensed or to hold such franchises, grants, licenses, certificates, permits, consents and orders or to have such power and authority would not, when taken together with all other such failures, reasonably be expected to have a Material Adverse Effect with respect to Parent.

Section 4.2 Capital Structure. As of the date hereof, the authorized capital stock of Parent consists of 90 million shares of Parent Common Stock and 15 million shares of preferred stock. As of February 28, 2002, 15,995,292 shares of Parent Common Stock were issued and outstanding and 632,953 shares of Parent's Series C preferred stock were issued and outstanding. All the outstanding shares of Parent's capital stock are duly authorized, validly issued, fully paid and non−assessable. The Parent Common Stock to be issued in the Merger, when issued in accordance with the terms hereof and the Form S−4, will be (a) duly authorized, validly issued and fully paid and nonassessable and not subject to preemptive rights and (b) freely tradable without restriction upon receipt by the Company's stockholders and any subsequent transferees.

Section 4.3 Corporate Authorization; Validity of Agreement; Necessary Action.

(a) Each of Parent and Sub has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Parent and Sub of this Agreement and the consummation by Parent and Sub of the transactions contemplated hereby have been duly and validly authorized by their respective boards of directors, and no other corporate action or

proceedings on the part of Parent or Sub are necessary to authorize the execution and delivery by Parent or Sub of this Agreement and the consummation by Parent and Sub of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and Sub, and, assuming this Agreement constitutes a valid and binding obligation of the Company, constitutes a valid and binding obligation of each of Parent and Sub, enforceable against each of them in accordance with its terms, except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, fraudulent conveyance, moratorium or other similar laws, now or hereafter in effect, affecting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

(b) The Boards of Directors of each of Parent and Sub have duly and validly approved and taken all corporate action required to be taken by each of them for the consummation of the transactions contemplated by this Agreement, including having determined that this Agreement and the transactions contemplated hereby, taken together, are fair to and in the best interests of Parent.

Section 4.4 No Prior Activities. Sub has not incurred, directly or indirectly, any liabilities or obligations, and has acquired no assets of any kind, except those incurred or acquired in connection with its incorporation or with the negotiation of this Agreement and the consummation of transactions contemplated hereby. Sub has been formed solely to facilitate the transactions contemplated in this Agreement and has not engaged, directly or indirectly, in any business or activity of any type or kind, or entered into any Agreement or arrangement with any person or entity, and is not subject to or bound by any obligation or undertaking, that is not contemplated by or in connection with this Agreement and the transactions contemplated thereby.

Section 4.5 Consents and Approvals; No Violations. Except for filings, permits, authorizations, consents and approvals as may be required under, and compliance with other applicable requirements of, the Exchange Act, the Securities Act, state securities or "blue sky" laws, and for the filing or recordation of this Agreement or the Certificate of Merger as required by the DGCL, neither the execution, delivery or performance of this Agreement by Parent and Sub nor the consummation by Parent and Sub of the transactions contemplated hereby nor compliance by Parent and Sub with any of the provisions hereof will (i) result in any breach or violation of any provision of the memorandum or articles of association or similar organizational documents of Parent or any of its subsidiaries, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings would not have a Material Adverse Effect with respect to Parent, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or increase in the rate of interest) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, guarantee, other evidence of indebtedness, lease, license, contract, agreement or other instrument or obligation to which Parent or any of its subsidiaries is a party or by which or any of their properties or assets may be bound (a "Parent Agreement") or result in the creation of a Lien upon any of the properties or assets of Parent for violations, breaches, defaults, or rights of

termination, amendment, cancellation or acceleration, which would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect with respect to Parent or (iv) violate any Law applicable to Parent, any of its subsidiaries or any of their properties or assets.

Section 4.6 SEC Filings; Financial Statements.

(a) Parent has filed all forms, reports, statements, schedules, registration statements and other documents required to be filed with the SEC since July 1, 2000 (the "Parent SEC Documents"), each of which complied in all material respects with the applicable requirements of the Securities Act, and the rules and regulations promulgated thereunder, or the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the date so filed. No subsidiary of Parent is required to file any form, report, statement, schedule, registration statement or other document with the SEC. No Parent SEC Document, when filed (or, if amended or superseded by a filing prior to the Closing Date, then on the date of such filing) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Each of the audited and unaudited consolidated financial statements of Parent (including any related notes thereto) included in the Parent SEC Documents have been prepared in accordance with GAAP applied on a consistent basis during the relevant periods (except as may be disclosed in the notes thereto), and present fairly the consolidated financial position and consolidated results of operations and changes in cash flows of Parent and its subsidiaries as of the respective dates or for the respective periods reflected therein, except, in the case of the unaudited interim financial statements, for normal and recurring year−end adjustments that are not material.

(c) Except to the extent set forth on the consolidated balance sheet of Parent and its subsidiaries as of September 30, 2001 included in the Parent SEC Documents (the "Latest Parent Balance Sheet"), or in the notes thereto, neither Parent nor any of its subsidiaries has any liabilities, debts, claims or obligations of any nature (whether accrued, absolute, direct or indirect, contingent or otherwise, whether due or to become due), and there is no existing condition or set of circumstances which would reasonably be expected, individually or in the aggregate, to result in such a liability, except for liabilities or obligations incurred in the ordinary course of business consistent with past practice since September 30, 2001, none of which would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect with respect to Parent.

Section 4.7 Absence of Certain Changes. Except as set forth in the Parent SEC Documents or publicly filed press releases in either case filed prior to the date of this Agreement, since September 30, 2001, there has not occurred any event, change, circumstance, condition or effect (including the incurrence of any liabilities of any nature, whether or not accrued, contingent or otherwise) having or reasonably likely to have, in the aggregate, a Material Adverse Effect with respect to Parent. Since September 30, 2001, Parent and its subsidiaries have conducted their respective businesses in the ordinary course consistent with past practice.

Section 4.8 Information Supplied. None of the information supplied by Parent or Sub for inclusion in (i) the Form S-4 will, at the time the Form S-4 is filed with the SEC, and at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) the Proxy Statement/Prospectus will, at the date it is first mailed to the Company's stockholders or at the time of the Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading or contain any statements which at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the Stockholders Meeting which has become false or misleading. The Form S-4 will, as of its effective date, and the prospectus contained therein will, as of its date, comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations promulgated thereunder. The Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder. No representation is made by Parent with respect to statements made or incorporated by reference in the Form S-4 based on information supplied in writing by the Company specifically for inclusion or incorporation in the Form S-4.

Section 4.9 Absence of Litigation. Except as set forth in the Parent SEC Documents or publicly filed press releases in either case filed within the twelve (12) months prior to the date of this Agreement, there is no claim, suit, action, proceeding or investigation pending or, to the knowledge of Parent, threatened against Parent or any of its subsidiaries, or any property or asset of Parent or any of its subsidiaries, before any court, arbitrator or administrative, governmental or regulatory authority or body, domestic or foreign which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to Parent. Neither Parent nor any of its subsidiaries nor any of their respective properties or assets is subject to any order, writ, judgment, injunction, decree, determination or award having, or which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to Parent. There are no pending or, to the knowledge of Parent, threatened claims for indemnification by Parent in favor of directors, officers, employees and agents of Parent.

Section 4.10 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement.

ARTICLE V
COVENANTS

Section 5.1 Conduct of Business of the Company. During the period from the date of this Agreement to the Effective Time, the Company will, and will cause its subsidiaries to, conduct their operations, only in, and not take any action except in, the ordinary and usual course of business and consistent with past practice, and the Company will, and will cause its subsidiaries to, use its and their best efforts to preserve intact their business organization, to keep

available the services of their officers and employees and to maintain advantageous relationships with customers, creditors, licensors, licensees, suppliers, contractors, business partners and others having business relationships with the Company and its subsidiaries. Without limiting the generality of the foregoing, prior to the Effective Time, the Company will not, and will not permit any of its subsidiaries to without the prior written consent of Parent (which may be withheld in its sole discretion except as to Sections 5.1(c)(i), (f)(i), (j) and (q) in which case consent shall not be unreasonably withheld):

(a) split, combine or reclassify any shares of its capital stock; declare, pay or set aside for payment any dividend or other distribution payable in cash, stock, property or otherwise in respect of its capital stock; or directly or indirectly redeem, purchase, repurchase or otherwise acquire any shares of its capital stock or any securities or obligations convertible into or exchangeable for any shares of its capital stock;

(b) authorize for issuance, issue, sell, pledge, dispose of or encumber, deliver or agree or commit to issue, sell, pledge or deliver (whether through the issuance or granting of any options, warrants, commitments, subscriptions, rights to purchase or otherwise) any of its capital stock or any securities convertible into or exercisable or exchangeable for shares of its capital stock, except in accordance with the terms, as in effect on the date hereof, of any Company Stock Options.

(c) (i) incur or assume any debt or issue any debt securities except for borrowings under existing lines of credit (not to exceed in the aggregate $50,000) and the incurrence of trade payables or other purchase commitments (in either case, not to exceed in the aggregate $50,000 to any single vendor or entity) including any trade payables, (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, (iii) make any loans or advances to any person, or make any capital contributions to, or investments in, any other person, (iv) pledge or otherwise encumber shares of capital stock of any of its subsidiaries, or (v) mortgage or pledge any of its assets, tangible or intangible, or create any material Lien thereupon;

(d) except as may be required by Law, enter into, adopt, amend or terminate any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, stock equivalent, stock purchase agreement, pension, retirement, deferred compensation, employment, severance or other Company Stock Plan; or enter into or amend any employment or severance agreement with, increase in any manner the salary, wages, bonus, commission, or other compensation or benefits of any director or officer of the Company or any of its subsidiaries; or increase in any manner the salary, wages, bonus, commission or other compensation or benefits of any other employee or agent of the Company or any of its subsidiaries except, in the case of employees other than directors or officers of the Company, for salary increases and employee promotions in the ordinary course of business consistent with past practice; or hire employees at the vice president level or higher except to fill vacancies; or pay any benefit not required by any plan and arrangement as in effect as of the date hereof (excluding the granting of stock options, stock appreciation rights or performance units);

(e) acquire (by merger, amalgamation, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or make any investment either by purchase of stock or securities, contributions to capital, property transfer or acquisition (including by lease) of any material amount of properties or assets of any other individual or entity;

(f) except as expressly required herein, (i) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted contingent or otherwise) other than the payment, discharge or satisfaction in the ordinary course of business consistent with past practice or in accordance with their terms as in effect on the date hereof (provided that purchases of inventory in excess of $50,000 in the aggregate to any single entity or vendor shall require the prior written consent of Parent, which shall not be unreasonably withheld) including the purchase of any inventory or any other payment of cash, or (ii) waive, release, grant or transfer any rights of material value or modify or change in any material respect any existing license, lease, contract or other document;

(g) amend the certificate of incorporation or by−laws of the Company or any of its subsidiaries;

(h) adopt a plan of complete or partial liquidation or resolutions providing for the complete or partial liquidation, dissolution, merger (other than the Merger), consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries;

(i) enter into any new lines of business or otherwise make material changes to the operation of its business;

(j) sell (whether by merger, consolidation or otherwise), lease, encumber, transfer or dispose of any assets that in the aggregate have a fair market value in excess to $50,000, or enter into any commitment or transaction with a value in excess of $50,000;

(k) authorize or make or commit to make any capital expenditures, except for transactions in the ordinary course of business consistent with past practice (but in no event in excess of $50,000 in the aggregate);

(l) make, revoke or amend any Tax elections, make or change any method of Tax accounting (except as may be required by Law), file any amended Tax Returns, settle or compromise any material Tax liability, or waive or extend the statute of limitations for imposing or assessing any material Taxes;

(m) settle or compromise any suits or claims of liability against the Company, its directors, officers, employees or agents;

(n) take any action likely to materially decrease or diminish the assets or net worth of the Company, except that the Company's continued operation of its business at an operating loss in the ordinary course consistent with past practices but otherwise in a manner

consistent with the other provisions of this Section 5.1 shall not be deemed a violation of the provisions of this paragraph;

(o) except as may be required as a result of a change in Law or in GAAP (with the written concurrence of the Company's independent accountants), change any of the accounting principles or practices used by it;

(p) enter into any agreement providing for the acceleration of payment, vesting or performance or other consequence as a result of a change in control of the Company;

(q) enter into, amend, terminate or waive any provision of any oral or written agreement to which the Company is a party with a value in excess of $50,000;

(r) take any action or agree, in writing or otherwise, to take any of the foregoing actions or any action which would make any representation or warranty in Article III hereof materially untrue or incorrect; or

(s) incur a monetary default under the Standard Industrial Lease, fully executed on December 15, 1999, by and among Dermody Family Limited Partnership I, Guila Dermody Turville and the Company, as amended (the "Gateway Lease").

Section 5.2 Preparation of Form S−4 and the Proxy Statement/Prospectus; Stockholders Meetings.

(a) Promptly following the execution of this Agreement, Parent shall prepare and file with the SEC the Form S−4, in which the Proxy Statement/Prospectus will be included and the Company shall cooperate with Parent in providing the information reasonably requested by Parent in preparing the Form S−4. Each of Parent and the Company shall use its reasonable best efforts to have the Form S−4 declared effective under the Securities Act as promptly as practicable after such filing and to keep the Form S−4 effective as long as is necessary to consummate the Merger. Parent shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or filing a general consent to service of process) required to be taken under any applicable state securities laws in connection with the issuance of the Parent Common Stock in the Merger and the Company shall furnish all information concerning the Company and the holders of Company Common Stock as may be reasonably requested in connection with any such action. The parties shall promptly provide copies, consult with each other and prepare written responses with respect to any written comments received from the SEC with respect to the Proxy Statement/Prospectus and the Form S−4 and advise one another of any oral comments with respect to the Proxy Statement/Prospectus and the Form S−4 received from the SEC. The parties will cooperate in preparing and filing with the SEC any necessary amendment or supplement to the Proxy Statement/Prospectus or the Form S−4. No amendment or supplement to the Proxy Statement/Prospectus shall be filed without the approval of both parties, which approvals shall not be unreasonably withheld or delayed. The Company will cause the Proxy Statement/Prospectus to be mailed to the Company's stockholders as promptly as practicable after the Form S−4 is declared effective under the Securities Act.

(b) Whether or not the Board of Directors of the Company shall take any action permitted by the third sentence of this Section 5.2(b), the Company shall cause a meeting of its stockholders (the "Stockholders Meeting") to be duly called and held as soon as practicable after the date of this Agreement for the purpose of voting on the adoption of this Agreement. The Board of Directors of the Company shall (i) include in the Proxy Statement/Prospectus the recommendation described in Section 3.3(b)(ii) (the "Company Board Recommendation") (ii) use its reasonable best efforts to obtain the necessary vote in favor of the adoption of this Agreement by its stockholders. The Board of Directors of the Company shall not withdraw, amend, modify or qualify in a manner adverse to Parent the Company Board Recommendation (or announce publicly its intention to do so), except that prior to the receipt of the Company Stockholder Approval, the Board of Directors of the Company shall be permitted to withdraw, amend, modify or qualify in a manner adverse to Parent the Company Board Recommendation (or publicly announce its intention to do so), upon three business days prior notice to Parent, but only if (i) the Company has complied with Section 5.7, (ii) an unsolicited bona fide written Transaction Proposal (as defined in Section 5.7) with respect to the Company shall have been made after the date of this Agreement by any person other than Parent or its affiliates and such proposal is pending at the time of such action, and (iii) the Board of Directors of the Company shall have concluded in good faith that such Transaction Proposal is a Superior Proposal (as defined in Section 5.7), and, on the basis of advice of its outside legal counsel (confirmed in writing to the Board of Directors), that the Board of Directors is required to withdraw, amend or modify the Company Board Recommendation in order to prevent it from breaching its fiduciary duties to the stockholders of the Company under the DGCL.

Section 5.3 Access to Information.

(a) The Company shall (and shall cause each of its subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other representatives of Parent reasonable access, during normal business hours, during the period prior to the Effective Time, to all of its and its subsidiaries' personnel, offices and other facilities, books, contracts, commitments and records (including any Tax Returns or other Tax related information pertaining to the Company and its subsidiaries) and, during such period, the Company shall (and shall cause each of its subsidiaries to) furnish promptly to Parent (i) a copy of each report, schedule, registration statement and other document filed or received by it during such period relating to the federal securities laws and (ii) all other information, including financial and operating data, concerning its business, properties and personnel as Parent may reasonably request (including any Tax Returns or other Tax related information pertaining to the Company and its subsidiaries). Parent will hold any such information which is nonpublic in confidence in accordance with the provisions of the existing confidentiality agreement between the Company and Parent, dated January 25, 2002 (the "Confidentiality Agreement").

(b) Parent shall (and shall cause each of its subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other representatives of the Company reasonable access, during normal business hours, during the period prior to the Effective Time, to all of its and its subsidiaries' personnel, offices and other facilities books, contracts, commitments and records, and, during such period, Parent shall (and shall cause each of its subsidiaries to) furnish promptly to the Company (i) a copy of each material report, schedule, registration statement and other document filed or received by it during such period

relating to the federal securities laws and (ii) all other information, including financial and operating data, concerning its business, properties and personnel as the Company may reasonably request (including any Tax Returns or other Tax related information pertaining to Parent and its subsidiaries). The Company will hold any such information which is nonpublic in confidence in accordance with the provisions of the Confidentiality Agreement.

(c) Nothing in this Section 5.3 or Section 5.12 shall require either Parent or the Company to disclose to the other any books or records concerning such parties' consideration, evaluation, processes or other activities undertaken relating to the transactions contemplated by this Agreement.

Section 5.4 Consents and Approvals.

(a) Each of the Company, Parent and Sub will use its reasonable best efforts to comply promptly with all legal requirements which may be imposed on it with respect to this Agreement and the transactions contemplated hereby, which actions shall include furnishing all information in connection with approvals of or filings with any Governmental Entity, and will promptly cooperate with and furnish information to each other in connection with any such requirements imposed upon any of them or any of their subsidiaries in connection with this Agreement and the transactions contemplated hereby. Each of the Company, Parent and Sub will, and will cause its subsidiaries to, use its reasonable best efforts to obtain any consent, authorization, order or approval of, or any exemption by, any Governmental Entity or other public or private third party required to be obtained or made by Parent, Sub, the Company or any of their subsidiaries or necessary in the reasonable opinion of Parent, Sub or the Company in connection with the Merger or the taking of any action contemplated thereby or by this Agreement.

(b) Subject to the terms and conditions herein provided, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable, whether under applicable laws and regulations or otherwise, or to remove any injunctions or other impediments or delays, legal or otherwise, (i) to cause the conditions to closing set forth in Article VI to be satisfied, and (ii) otherwise to consummate and make effective the Merger and the other transactions contemplated by this Agreement. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of Parent and the Surviving Corporation shall use all reasonable efforts to take, or cause to be taken, all such necessary actions.

Section 5.5 Supplemental Information. Except where prohibited by applicable statutes and regulations, each party shall promptly provide the other (or its counsel) with copies of all filings, material notices or material communications made by such party with any Governmental Entity (including the SEC or the National Association of Securities Dealers (the "NASD")) in connection with this Agreement or the transactions contemplated hereby.

Section 5.6 Letters of Accountants.

(a) The Company shall use its reasonable best efforts to cause to be delivered to Parent a letter of Deloitte & Touche, LLP ("D&T"), the Company's independent public accountants, dated a date within two business days before the date on which the Form S−4 shall become effective and addressed to Parent, in form and substance reasonably satisfactory to Parent and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the Form S−4. In connection with the Company's efforts to obtain such letter, if requested by Deloitte & Touche, LLP, Parent shall provide a representation letter to D&T complying with SAS 72, if then required.

(b) Parent shall use its reasonable best efforts to cause to be delivered to the Company a letter of KPMG, LLP, Parent's independent public accountants, dated a date within two business days before the date on which the Form S−4 shall become effective and addressed to the Company, in form and substance reasonably satisfactory to the Company and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the Form S−4. In connection with Parent's efforts to obtain such letter, if requested by KPMG, LLP, the Company shall provide a representation letter to KPMG, LLP complying with SAS 72, if then required.

Section 5.7 No Solicitation. From and after the date hereof, neither the Company nor any of its subsidiaries shall (whether directly or indirectly through its or their officers, directors, agents, representatives, advisors or other intermediaries (collectively, "Representatives")), nor shall the Company or any of its subsidiaries authorize or permit any of its or their Representatives to, (a) solicit, initiate, encourage (including by way of furnishing information) or take any action knowingly to facilitate the submission of any inquiries, proposals or offers (whether or not in writing) from any person relating to, (i) any acquisition or purchase of 15% or more of the consolidated assets of the Company and its subsidiaries or of 15% or more of any class of equity securities of the Company or any of its subsidiaries, (ii) any tender offer (including a self tender offer) or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of the Company or any of its subsidiaries (including through the ownership of securities convertible or exercisable into or exchangeable for equity securities of the Company), (iii) any merger, consolidation, business combination, sale of substantially all the assets, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its subsidiaries whose assets, individually or in the aggregate, constitute 15% or more of the consolidated assets of the Company, or (iv) any other transaction the consummation of which would or would reasonably be expected to impede, interfere with, prevent or materially delay the Merger (any of the foregoing, a "Transaction Proposal"), or agree to or endorse any Transaction Proposal, or (b) enter into or participate in any discussions or negotiations regarding any of the foregoing, or furnish to any other person any information with respect to its business, properties or assets in connection with any of the foregoing, or otherwise cooperate in any way with, or knowingly assist or participate in, facilitate or encourage, any effort or attempt by any other person to do or seek any of the foregoing; provided, however, that the foregoing shall not prohibit the Company, prior to the receipt of the Company Stockholder Approval, (A) from complying with Rule 14e−2 and Rule 14d−9 under the Exchange Act with regard to a bona fide tender offer or exchange offer or (B) from participating in negotiations or discussions with or furnishing information to any person in

connection with an unsolicited bona fide Transaction Proposal which is submitted in writing by such person to the Board of Directors of the Company after the date of this Agreement and prior to the Company Stockholder Approval; provided further, however, that prior to participating in any such discussions or negotiations or furnishing any information, (i) the Company receives from such person an executed confidentiality agreement on terms not less favorable to the Company than the Confidentiality Agreement, a copy of which shall be provided to Parent, and (ii) the Board of Directors of the Company shall have concluded in good faith, that such Transaction Proposal is reasonably likely to be or to result in a Superior Proposal, and based on the written advice of its outside legal counsel, that participating in such negotiations or discussions or furnishing such information is required in order to prevent the Board of Directors of the Company from breaching its fiduciary duties to the stockholders of the Company under the DGCL; and provided, further, that the Board of Directors of the Company shall not take any of the foregoing actions unless it provides Parent with contemporaneous notice thereof. If the Board of Directors of the Company receives a Transaction Proposal, then the Company shall promptly inform Parent in writing of the terms and conditions of such proposal and the identity of the person making it. The Company agrees that it will keep Parent informed, on a current basis, of the terms of any such proposals or offers and, to the extent disclosure is not prohibited by the terms of any confidentiality agreement with the party making such Transaction Proposal, the status of any such material discussions or negotiations. The Company agrees to immediately cease and cause its Representatives to cease any and all existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing, and shall use its reasonable best efforts to cause any such parties in possession of confidential information about the Company that was furnished by or on behalf of the Company to return or destroy all such information in the possession of any such party or in the possession of any agent or advisor of any such party. The Company agrees not to release any third party from, or waive any provisions of, any confidentiality or standstill agreement to which such party or its subsidiaries is a party. The Company shall ensure that its officers, directors and employees and any investment banker or other Representative retained by it are aware of the restrictions described in this Section 5.7. "Superior Proposal" means any of the transactions described in clause (i), (ii) or (iii) of the definition of Transaction Proposal (with all of the percentages included in the definition of such term raised to 51% for purposes of this definition) with respect to which any required financing is committed or, in the good faith judgment of the Board of Directors of the Company, is reasonably capable of being financed by the person making the proposal, and with respect to which the Board of Directors of the Company shall have concluded in good faith is reasonably capable of being completed, taking into account all legal, financial, regulatory and other aspects of the Transaction Proposal and the person making the proposal, and would, if consummated, result in a transaction more favorable to the Company's stockholders from a financial point of view than the transactions contemplated by this Agreement.

Section 5.8 Publicity. So long as this Agreement is in effect, neither the Company nor Parent nor their affiliates shall issue or cause the publication of any press release or other public statement or announcement with respect to this Agreement or the transactions contemplated hereby without prior approval of the other party, except as may be required by law or by obligations pursuant to any agreement with the NASD, and in such case shall use all reasonable efforts to consult with the other party prior to such release or announcement being issued.

Section 5.9 Notification of Certain Matters. The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, of (a) the occurrence or non−occurrence of any event the occurrence or non−occurrence of which would cause any representation or warranty of the Company or Parent and Sub, as the case may be, contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time and (b) any material failure of the Company or Parent, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 5.9 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

Section 5.10 Directors' and Officers' Insurance and Indemnification.

(a) The Surviving Corporation shall, and Parent shall cause the Surviving Corporation to, (i) indemnify and hold harmless, and provide advancement of expenses to, all past and present directors and officers of the Company and its subsidiaries to the same extent such persons are indemnified or have the right to advancement of expenses as of the date of this Agreement by the Company pursuant to the Company's certificate of incorporation, bylaws and indemnification agreements with such officers and directors as in existence on the date hereof for acts or omissions occurring at or prior to the Effective Time (including for acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated hereby) and (ii) ensure that the certificate of incorporation and bylaws of the Surviving Corporation following the Merger shall contain provisions identical with respect to elimination of personal liability and indemnification to those set forth in the certificate of incorporation and bylaws of the Company, which provisions shall continue in full force and effect and shall not (except as otherwise required by applicable law) be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would adversely affect the rights thereunder of individuals who at or immediately prior to the Effective Time were directors, officers, agents or employees of the Company.

(b) In the event that any action, suit, proceeding or investigation relating hereto or to the transactions contemplated by this Agreement is commenced, whether before or after the Effective Time, the parties hereto agree to cooperate and use their respective reasonable best efforts to vigorously defend against it and respond thereto.

Section 5.11 Cancellation of Company Stock Plans and Other Convertible Securities. Prior to the Effective Time, the Company shall have taken all actions necessary or advisable in order to cancel the Company Stock Plans and all other options, warrants, stock appreciation rights, performance units and any other securities convertible into Company Common Stock, effective prior to the Effective Time.

Section 5.12 Transition Plan. Upon the execution of this Agreement, the Company and Parent shall work diligently together to develop and implement a mutually agreed upon transition plan for the Company's operations, which shall be in accordance with the plan outlined in Exhibit A (the "Transition Plan"). The Company agrees that its CEO shall work directly with Parent's executive team on a day−to−day basis to implement the Transition Plan and other mutually agreeable action. Approval of a request of either party will be not be unreasonably withheld. Parent's executive team shall have full access, subject to the limitation in Section

5.3(c) to all of the books, records and employees of the Company and shall be permitted to office at the Company's office in Reno, Nevada until the Effective Date or the termination of this Agreement pursuant to Article VII. The Company shall cooperate fully and take all steps necessary to implement the Transition Plan as soon as possible after the execution of the Agreement.

Section 5.13 Press Release. The Company and Parent agree that they shall announce the execution of this Agreement pursuant to a mutually agreeable Press Release before the market opens on Monday, March 24, 2002 consistent with the rules of the Nasdaq National Market.

ARTICLE VI
CONDITIONS

Section 6.1 Conditions to the Obligations of Each Party. The obligations of the Company, on the one hand, and Parent and Sub, on the other hand, to consummate the Merger are subject to the satisfaction (or, if permissible, waiver by the party for whose benefit such conditions exist) of the following conditions:

(a) Company Stockholder Approval. The Company Stockholder Approval shall have been received.

(b) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other Governmental Entity of competent jurisdiction or other legal restraint or prohibition preventing or making illegal the consummation of the Merger shall be in effect; provided, however, that the parties hereto shall use their reasonable best efforts to have any such injunction, order, restraint or prohibition vacated.

(c) Form S-4. The Form S-4 shall have been declared effective under the Securities Act and no stop order suspending the effectiveness thereof shall be in effect and no procedures for such purpose shall be pending before or threatened by the SEC.

(d) Governmental and Regulatory Approvals. All regulatory approvals and other actions or approvals by any Governmental Entity required to permit the consummation of the Merger shall have been obtained (without any terms or conditions to such approvals which would impose material and adverse limitations on the ability of Parent and its subsidiaries (including the Surviving Corporation following the Merger) to conduct their business after the Effective Time, which would require changes to the terms of this Agreement or which would change the consideration payable to stockholders of the Company in the Merger) and such approvals shall be in full force and effect.

(e) Listing. The shares of Parent Common Stock to be issued in the Merger shall have been approved for listing on the Nasdaq, subject to official notice of issuance.

Section 6.2 Conditions to the Obligations of Parent and Sub. The obligations of Parent and Sub to consummate the Merger are subject to the satisfaction (or waiver by Parent) of the following further conditions:

(a) Representations and Warranties. The representations and warranties of the Company qualified as to materiality shall be true and accurate (and those not so qualified shall be true and accurate in all material respects) as of the Effective Time as if made at and as of such time (except for those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time which need only be true and accurate (or true and accurate in all material respects) as of such date or with respect to such period). Parent shall have received a certificate of the chief executive officer and the chief financial officer of the Company to such effect.

(b) Performance of Obligations. The Company and its subsidiaries shall have performed or complied with all agreements and covenants required to be performed or complied with by them under this Agreement at or prior to the Closing Date that are qualified as to materiality and shall have performed or complied in all material respects with all other agreements and covenants required to be performed by them under this Agreement at or prior to the Closing Date that are not so qualified, and Parent shall have received a certificate of the chief executive officer and the chief financial officer of the Company to such effect.

(c) Closing Documents. Parent shall receive customary closing documents in form and substance reasonably satisfactory to it.

(d) Consents, etc. Parent shall have received evidence, in form and substance reasonably satisfactory to it, that all licenses, permits, consents, approvals, authorizations, qualifications and orders of all third parties listed on Section 3.4 of the Company Disclosure Statement have been obtained without, in the case of third parties, the payment or imposition of any material costs or obligations.

(e) Termination of Stock Options and Plan. Parent shall have received evidence, in form and substance reasonably satisfactory to it, that each of the Company Stock Plans shall have been terminated and all stock options issued thereunder and all other options, warrants or other convertible securities of the Company shall either have been converted or cancelled without any liability or obligation of the Company (excluding the issuance of shares of Company Common Stock prior to the Effective Time to the holders of stock options or otherwise in accordance with such stock options).

(f) Transition Plan. The Company shall have performed or complied in all material respects with the Transition Plan.

(g) Preferred Power Technology. Parent shall have received evidence that the Company shall have executed a settlement agreement with Preferred Power Technology pursuant to which the maximum required inventory purchased over the next 15 months by the Company shall not exceed $320,000 and no material settlement payments shall be made by the Company; with such settlement agreement otherwise being in form and substance reasonably satisfactory to Parent.

(h) Filing of Form 10-K; Minimum Working Capital. The Company shall have filed with the SEC a Form 10-K for the fiscal year ended December 31, 2001 (the "2001 Form 10-K"). The consolidated financial statements included in the 2001 Form 10-K

shall show: (i) working capital (defined as current assets minus current liabilities) of at least $1,810,204, excluding net receivables and net inventory; and (ii) net receivables and net inventory of at least $5,576,525; provided, however, that the condition in this sentence shall be deemed satisfied unless: (x) such thresholds have not been met and (y) Parent shall have provided written notice to the Company of its intention to not consummate the Merger as a result of such non-satisfaction within thirty (30) calendar days following the date on which the 2001 Form 10-K is filed with the SEC.

Section 6.3 Conditions to the Obligations of the Company. The obligations of the Company to consummate the Merger are subject to the satisfaction (or waiver by the Company) of the following further conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Sub qualified as to materiality shall be true and accurate (and those not so qualified shall be true and accurate in all material respects) as of the Effective Time as if made at and as of such time (except for those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time which need only be true and accurate (or true and accurate in all material respects) as of such date or with respect to such period. The Company shall have received a certificate of the chief executive officer and the chief financial officer of Parent to such effect.

(b) Performance of Obligations. Parent and its subsidiaries shall have performed or complied with all agreements and covenants required to be performed or complied with by them under this Agreement at or prior to the Closing Date that are qualified as to materiality and shall have performed or complied in all material respects with all other agreements and covenants required to be performed by them under this Agreement at or prior to the Closing Date that are not so qualified, and the Company shall have received a certificate of the chief executive officer and the chief financial officer of Parent to such effect.

(c) Closing Documents. The Company shall receive customary closing documents in form and substance reasonably satisfactory to it.

ARTICLE VII
TERMINATION

Section 7.1 Termination. Anything herein or elsewhere to the contrary notwithstanding, this Agreement may be terminated and the Merger contemplated herein may be abandoned at any time prior to the Effective Time, whether before or after the Company Stockholder Approval shall have been received:

(a) by the mutual written consent of Parent and the Company;

(b) by either Parent or the Company if any Governmental Entity (i) shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable or (ii) shall have failed to issue an order, decree or ruling or to take any other action, as applicable, and such denial of a request to issue such order, decree, ruling or take such other action shall have become

final and nonappealable, in the case of each of (i) and (ii) which is necessary to fulfill the conditions set forth in Sections 6.1(b) and 6.1(d); provided, however, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose failure to comply with Section 5.4 has been the cause of such action or failure to act; or

(c) by either Parent or the Company if the Merger shall not have been consummated on or before August 31, 2002 (the "Termination Date"); provided, that the right to terminate this Agreement under this Section 7.1(c) shall not be available to the party whose failure to fulfill any of its obligations under this Agreement has been the cause of or resulted in the failure of the Merger to occur on or before such date; or

(d) by Parent or the Company, if the Company Stockholder Approval shall not have been obtained at a duly held meeting of stockholders or at any adjournment thereof; or

(e) by Parent, if the Company or its Board of Directors shall have (i) withdrawn, modified or amended in any respect adverse to Parent its recommendation of the adoption of this Agreement, (ii) failed as promptly as practicable after the Form S-4 is declared effective to mail the Proxy Statement/Prospectus to its stockholders, unless such failure was caused by the actions or inactions of Parent or its representatives, or failed to include in such statement the Company Board Recommendation, (iii) approved, recommended or entered into an agreement with respect to, or consummated, any Transaction Proposal from a person other than Parent or any of its affiliates, (iv) resolved to do any of the foregoing or (v) in response to the commencement of any tender offer or exchange offer for 10% or more of the outstanding the Company Common Stock, not recommended rejection of such tender offer or exchange offer within ten business days after the commencement thereof (as such term is defined in Rule 14d-2 under the Exchange Act); or

(f) (i) by the Company, if Parent breaches any of its representations, covenants or agreements contained in this Agreement and such breach (A) would permit the Company not to consummate the Merger pursuant to Sections 6.3(a) or 6.3(b), and (B) either by its terms cannot be cured by the Closing Date or with respect to any such breach that is reasonably capable of being remedied, the breach is not remedied within 20 days after the Company has furnished Parent with written notice of such breach; or (ii) by Parent, if the Company breaches any of its representations, covenants or agreements contained in this Agreement and such breach (A) would permit Parent not to consummate the Merger pursuant to Sections 6.2(a) or 6.2(b), and (B) either by its terms cannot be cured by the Closing Date or with respect to any such breach that is reasonably capable of being remedied, is not remedied within 20 days after Parent has furnished the Company with written notice of such breach; or

(g) by the Company, if the average closing price of the Parent Common Stock for either the thirty-trading-day or ten-trading-day periods ending on the second trading day immediately preceding the Effective Time (the "Average Closing Price") is less than $1.00, unless: (i) Parent agrees to decrease the Hold-Back Amount by an amount equal to 3,100,000 multiplied by the difference between $1.00 and the Average Closing Price; or (ii) Parent and the Company mutually agree in writing on an alternative arrangement.

Section 7.2 Effect of Termination. In the event of the termination of this Agreement as provided in Section 7.1, written notice thereof shall forthwith be given to the other party or parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall forthwith become null and void, and there shall be no liability on the part of Parent, Sub or the Company except (a) for fraud or for willful breach of this Agreement, (b) for the payment of the Termination Fee and Expenses in accordance with Section 7.3 and (c) as set forth in this Section 7.2, in Article VIII hereof and in the last sentence of Section 5.3.

Section 7.3 Termination Fees and Expenses.

(a) In addition to any other amounts which may be payable pursuant to any other paragraph of this Section 7.3, the Company shall, following the termination of this Agreement pursuant to Section 7.1(e) promptly, but in no event later than one business day following written notice thereof, together with reasonable supporting documentation, reimburse Parent, for all out−of−pocket expenses and fees (including fees payable to all counsel, accountants, financial advisors, financial printers, experts and consultants), whether incurred prior to, concurrently with or after the execution of this Agreement, in connection with the Merger and the consummation of all transactions contemplated by this Agreement (collectively, the "Expenses").

(b) In the event that this Agreement is terminated by Parent pursuant to Sections 7.1(e), the Company shall pay to Parent by wire transfer of immediately available funds to an account designated by Parent on the next business day following such termination an amount equal to $1,500,000 (the "Termination Fee").

(c) If all of the following events have occurred:

(i) a Transaction Proposal is publicly disclosed, publicly proposed or otherwise communicated to the Company at any time on or after the date of this Agreement and prior to the termination hereof, and either (A) Parent or the Company terminates this Agreement pursuant to Sections 7.1(c) or 7.1(d) or (B) Parent terminates this Agreement pursuant to Section 7.1(f)(ii); and

(ii) thereafter, within 18 months of the date of such termination, the Company enters into a definitive agreement with respect to, or consummates, such Transaction Proposal (or any other Transaction Proposal commenced in response to and during the pendency of a Transaction Proposal noted in subpart (i) above);

then, the Company shall in the event not already paid pay to Parent an amount equal to the Termination Fee and Expenses concurrently with the earlier of the execution of such definitive agreement or the consummation of such Transaction Proposal. In the event that subpart (i) above is not applicable, but following the termination of this Agreement the Company enters into a

definitive agreement with respect to, or consummates, any Transaction Proposal, then no Termination Fee or Expenses shall be payable by the Company to Parent.

ARTICLE VIII
MISCELLANEOUS

Section 8.1 Costs and Expenses. All costs and expenses incurred in connection with this Agreement and the consummation of the transactions contemplated hereby shall be paid by the party incurring such expenses.

Section 8.2 Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified and supplemented in any and all respects, whether before or after any vote of the stockholders of the Company contemplated hereby, by written agreement of the parties hereto, pursuant to action taken by their respective Boards of Directors, at any time prior to the Effective Time with respect to any of the terms contained herein; provided, however, that after the approval of this Agreement by the stockholders of the Company, no such amendment, modification or supplement shall reduce or change the consideration to be received by the Company's stockholders in the Merger.

Section 8.3 Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any schedule, instrument or other document delivered pursuant to this Agreement shall survive the Effective Time. None of the covenants or agreements in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time, except for those covenants and agreements contained herein or therein that by their terms apply or are to be performed in whole or in part after the Effective Time.

Section 8.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by an overnight courier service to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent or Sub, to:

Mobility Electronics, Inc.
7955 East Redfield Road
Scottsdale, Arizona 85260
Attention: Charles R. Mollo
Telephone No.: 480-596-0061
Telecopy No.: 480-596-0349
with a copy to:

Jackson Walker L.L.P.
2435 N. Central Expressway, Suite 600
Richardson, Texas 75080
Attention: Richard F. Dahlson, Esq.
Telephone No.: 972-744-2996
Telecopy No.: 972-744-2990

(b) if to the Company, to:

iGo Corporation
9393 Gateway Drive
Reno, Nevada 89511
Attention: David E. Olson
Telephone No.: 775-746-6140 x6319
Telecopy No.: 775-850-9404

with a copy to:

Hale Lane Peek Dennison and Howard
100 W. Liberty St., 10th Floor
Reno, Nevada 89501-1962
Attention: David A. Garcia, Esq.
Telephone No.: 775-327-3021
Telecopy No.: 775-786-6179

(c) if to the Representative Stockholder, to:

Peter Gotcher
c/o Redpoint Ventures
3000 Sand Hill Road
Building 2, Suite 290
Menlo Park, CA 94025
Telephone No.: 650/558-8307
Telecopy No.: 650/344-2737

with a copy to:

Hale Lane Peek Dennison and Howard
100 W. Liberty St., 10th Floor
Reno, Nevada 89501-1962
Attention: David A. Garcia, Esq.
Telephone No.: 775-327-3021
Telecopy No.: 775-786-6179

Section 8.5 Interpretation. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation".

Section 8.6 Counterparts and Facsimiles. This Agreement may be executed in two or more counterparts and by facsimile signature, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 8.7 Entire Agreement; No Third Party Beneficiaries. This Agreement and the Confidentiality Agreements (including the exhibits hereto and the documents and the instruments referred to herein and therein): (a) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, and (b) except as provided in Section 5.10 with respect to the obligations of Parent thereunder, are not intended to confer upon any person other than the parties hereto any rights or remedies hereunder.

Section 8.8 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby may be consummated as originally contemplated to the fullest extent possible.

Section 8.9 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not per-formed in accordance with the terms hereof and that the parties shall be entitled to the remedy of specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 8.10 Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Delaware.

Section 8.11 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that Sub may assign, in its sole discretion, any or all of its rights, interests and obligations hereunder to Parent or to any direct or indirect wholly owned subsidiary of Parent; provided, however, that no such assignment shall relieve Parent from any of its obligations hereunder. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and as−signs.

Section 8.12 Consent to Jurisdiction and Service of Process. Any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated by this Agreement may be brought against any of the parties in any federal court or state court located in Maricopa County, Arizona, and Washoe County, Nevada, and each of the parties hereto consents to the non−exclusive jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and waives any objection to venue laid therein. Process in any such suit, action or proceeding may be served on any party anywhere in the world and, without limiting the generality of the foregoing, each party hereto agrees that service of process upon such party at the address referred to in Section 8.4, together with written notice of such service to such party shall be deemed effective service of process upon such party.

Section 8.13 Headings. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not affect in any way the meaning or interpretation of this Agreement. References to Articles or Sections, unless otherwise specified, are to Articles and Sections of this Agreement.

Section 8.14 Certain Definitions. Certain capitalized terms used in this Agreement shall have the meaning set forth below:

(a) "affiliate" shall have the meaning set forth in Rule 12b−2 of the Exchange Act.

(b) "business day" means any day other than a Saturday, a Sunday, or a bank holiday in Bermuda or in the State of New York.

(c) "Dollars" or "$" means United States dollars.

(d) "Lien" means any mortgage, lien, security interest, pledge, lease or other charge or encumbrance of any kind, including, the lien or retained security title of a purchase money creditor or conditional vendor, and any easement, right of way or other encumbrance on title to real property, and any agreement to give any of the foregoing.

(e) "person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization or other entity.

(f) "subsidiary" means, with respect to a specified person, each corporation, partnership or other entity in which the specified person owns or controls, directly or indirectly through one or more intermediaries, 50 percent or more of the stock or other

interests having general voting power in the election of directors or persons performing similar functions or rights to 50 percent or more of any distributions.

IN WITNESS WHEREOF, Parent, Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

MOBILITY ELECTRONICS, INC.

By: /s/ Charles R. Mollo
_____
Charles R. Mollo
Chief Executive Officer

IGOC ACQUISITION, INC.

By: /s/ Charles R. Mollo
_____
Charles R. Mollo
Chief Executive Officer

IGO CORPORATION

By: /s/ David E. Olson
_____
David E. Olson
Acting President and Chief Executive Officer

EXHIBIT A

TRANSITION PLAN

1. Company and Parent will hold a joint employee meeting immediately following a press release to provide a vision for the merged company and to make commitments to certain mutually agreeable key people.

2. Parent and the Company shall work together to meet the requirements of the WARN Act.

3. The Company and Parent will work diligently to identify and implement an outsource model for fulfillment with a mutually acceptable outsource partner.

4. The next catalog preparation and mailing will include Parent products and will be used as a launch vehicle for the merged company. Both parties will work diligently to have such catalog ready for mailing on June 1, 2002.

5. Finance, accounting and certain other functions will be planned to move to Scottsdale.

6. A new facility will be identified and planned in Reno to house a primarily sales office, including all direct sales activities, the call center, web support, and certain sale members.

7. A plan will be developed to integrate and consolidate all non-direct sales efforts.

8. A portable computer case will be evaluated and developed for launch in the new catalog.

9. Parent will explore the possibility to sell the cellular business. Company will assist in such efforts.

10. Company will proceed with plans to layoff approximately 18 people between April 1 and May 31, 2002.

EXHIBIT B

SECTION 1.7(a) WORKSHEET AND EXAMPLE

HOLDBACK THRESHOLD:		
Gross inventory at date of close		$ X,XXX,XXX
Gross accounts receivable at date of close		X,XXX,XXX
Less reserves at date of close:		
Agreed upon beginning reserve	$ 4,060,924	
Plus 1% of product sales from 1/1/02 thru date of close for additional inventory reserves	XX,XXX	
Plus 0.5% of product sales from 1/1/02 thru date of close for additional accounts receivable reserves	XX,XXX	
Less write-offs to reserves from 1/1/02 thru date of close	(XX,XXX)	(X,XXX,XXX)
HOLDBACK THRESHOLD AT DATE OF CLOSE		$ X,XXX,XXX
HOLDBACK PAYMENT:		
INVENTORY AND ACCOUNTS RECEIVABLE COLLECTIONS FOR THE ONE YEAR PERIOD FROM THE DATE OF CLOSE:		
Sales of inventory on hand at date of close at lower of cost or selling price		$ X,XXX,XXX
Cash collections of accounts receivable on hand at date of close		X,XXX,XXX
Total collections of accounts receivable and inventory		X,XXX,XXX
Holdback threshold at date of close		(X,XXX,XXX)
Net collections in excess of threshold		X,XXX,XXX
Percentage due to Company shareholders (applies only if collections exceed threshold)		x80%
		X,XXX,XXX
PLUS LEASE TERMINATION SAVINGS:		
Planned termination fee	$ 510,000	
Actual termination fee	(XXX,XXX)	XXX,XXX
LESS SALES TAX AUDIT ASSESSMENT, IF GREATER THAN $100,000:		
Actual sales tax audit assessment	$ XXX,XXX	
	(100,000)	
	XXX,XXX	
	x75%	(XXX,XXX)
LESS AUDIT ADJUSTMENTS TO WORKING CAPITAL, EXCLUDING NET ACCOUNTS RECEIVABLE AND NET INVENTORY:		
Working capital per consolidated financial statements included in 2001 Form 10-K, excluding net accounts receivable and net inventory, if less than $2,160,204	$ XXX,XXX	
	(2,160,204)	
	XXX,XXX	
	x50%	(XXX,XXX)
HOLDBACK PAYMENT DUE		$ X,XXX,XXX

EXHIBIT 10.8

LOCK-UP AND VOTING AGREEMENT

This Lock-up and Voting Agreement, dated as of March 23, 2002 (this "Agreement"), is entered into by and among Mobility Electronics, Inc., a Delaware corporation ("Parent"), iGo Corporation, a Delaware corporation (the "Company"), and those stockholders of the Company whose signatures appear on the signature pages hereof (each a "Company Stockholder" and collectively the "Company Stockholders"). All capitalized terms used herein without definition having the respective meanings ascribed to them in the Merger Agreement (as defined below).

WITNESSETH:

WHEREAS, contemporaneous with the execution and delivery of this Agreement, Parent, IGOC Corporation, a Delaware corporation ("Sub"), and the Company have entered into an Agreement and Plan of Merger, of even date herewith (the "Merger Agreement"); and

WHEREAS, as a condition and inducement to Parent and Sub entering into the Merger Agreement and incurring the obligations set forth therein, the Company Stockholders have agreed to vote and to cause to be voted all shares of Company Common Stock now owned or hereafter acquired by them, for and in favor of the merger of the Company with and into Sub contemplated by the Merger Agreement (the "Merger"), and have agreed to the other terms and provisions contained herein;

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements set forth herein and in the Merger Agreement, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Definitions. Each term used herein with its initial letter capitalized and not otherwise defined shall have the meaning assigned to such term in the Merger Agreement. The following terms shall have the respective meanings set forth below:

(a) "Disposition" shall mean any sale, exchange, assignment, gift, pledge, mortgage, hypothecation, transfer or other disposition or encumbrance of all or any part of the rights and incidents of ownership of Company Common Stock, including the right to vote, and the right to possession of Company Common Stock as collateral for indebtedness, whether such transfer is outright or conditional, or for or without consideration.

(b) "Term" shall mean the period commencing on the date hereof and continuing until the first to occur of (i) the Effective Time of the Merger, or (c) the termination of the Merger Agreement in accordance with its terms.

2. Voting of Company Common Stock. Each of the Company Stockholders hereby agrees that, during the Term, at any meeting (whether annual or special and whether or not an adjourned or postponed meeting) of the holders of Company Common Stock, however called, or in connection with any written consent of the holders of Company Common Stock, such Company Stockholder will appear at the meeting or otherwise cause the shares of Company

Common Stock now owned or hereafter acquired by such Company Stockholder (the "Company Shares") to be counted as present thereat for purposes of establishing a quorum and vote or consent (or cause to be voted or consented) the Company Shares (a) in favor of the adoption of the Merger Agreement and the approval of all other actions contemplated by the Merger Agreement and this Agreement and any actions required in furtherance thereof and hereof, (b) against any action or agreement that would result in a breach in any respect of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement, and (c) against any action involving the Company or its subsidiaries which is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, or materially adversely affect the transactions contemplated by the Merger Agreement.

3. Restriction on Disposition of Company Common Stock. Each of the Company Stockholders hereby agrees that, during the Term, such Company Stockholder will not make, offer to make, agree to make, or suffer any Disposition of his, her or its Company Shares or any interest therein. The restrictions contained in this Section 3 shall not apply to (a) a Disposition under a Company Stockholder's will or pursuant to the laws of descent and distribution, or (b) a gift by a Company Stockholder to an immediate family member (i.e., a spouse, child, parent, grandparent or sibling) or a family trust for the benefit of immediate family member(s), so long as, in each case, the transferee(s) deliver to Parent and Sub an executed written instrument agreeing to be bound by the terms of this Agreement as if such transferee(s) were the Company Stockholder.

4. Restriction Proxies and Non−Interference. Each of the Company Stockholders hereby agrees that, during the Term, such Company Stockholder will not (i) grant any proxies or powers or attorney that would permit any such proxy or attorney−in−fact to take any action inconsistent herewith, (ii) deposit his, her or its Company Shares into a voting trust or enter into a voting agreement with respect to such Company Shares in either case providing for the voting or consenting of such shares in a manner inconsistent herewith; or (iii) take any action that would make any representation or warranty of such Company Stockholder contained herein untrue or incorrect or would result in a breach by such Company Stockholder of its obligations under this Agreement. Each Company Stockholder further agrees not to enter into any agreement or understanding with any Person, the effect of which would be inconsistent with or violative of any provision contained in this Agreement.

5. Covenants. Representations and Warranties of Company Stockholders. Each Company Stockholder (severally, and not jointly and severally) hereby represents and warrants to, and agrees with, Parent and Sub as follows:

(a) Ownership of Shares. Such Company Stockholder is the sole record and beneficial owner of that number of shares of Company Common Stock set forth next to such Company Stockholder's name on Schedule I attached hereto (other than to the extent that (i) shares held by an entity may be deemed to be beneficially owned by certain persons in control of such entity and (ii) all or a portion of such Company Stockholder's shares may be held by a broker in street name). On the date hereof, such Company Shares constitute all of the shares of Company Common Stock owned of record or beneficially owned by such Company Stockholder. Such Company Stockholder has sole voting power and sole power to issue instructions with respect to the matters set forth in this Agreement, sole power of disposition, and sole power to

agree to all of the matters set forth in this Agreement, in each case with respect to all of such Company Shares, with no limitations, qualifications or restrictions on such rights, subject to applicable securities laws and the terms of this Agreement.

(b) Authorization. Such Company Stockholder (that is not a natural person) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has the power and authority (corporate or otherwise) and full legal right to execute and deliver this Agreement and perform its obligations hereunder. Such Company Stockholder (that is a natural person) has the requisite legal capacity and competency, and the full legal right to execute and deliver this Agreement and perform his or her obligations hereunder. This Agreement has been duly and validly executed and delivered by such Company Stockholder and constitutes a valid and binding agreement enforceable against such Company Stockholder in accordance with its terms except (i) as may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights, and (ii) that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefore may be brought.

(c) No Conflicts. Except for filings, authorizations, consents and approvals as may be required under the Securities Act and the Exchange Act, (i) no filing with, and no permit, authorization, consent or approval of, any state or federal governmental authority, or any other Person, is necessary for the execution of this Agreement by such Company Stockholder and the consummation by such Company Stockholder of the transactions contemplated hereby, and (ii) none of the execution and delivery of this Agreement by such Company Stockholder, the consummation by such Company Stockholder of the transactions contemplated hereby or compliance by such Company Stockholder with any of the provisions hereof will (A) conflict with or result in any breach of the organizational documents of such Company Stockholder (that is not a natural person), (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which such Company Stockholder is a party or by which such Company Stockholder or any of its properties or assets may be bound, or (C) violate any order, writ, injunction, decree, judgment, statute, role or regulation applicable to such Company Stockholder or any of his or its properties or assets.

(d) No Encumbrances. Such Company Stockholder owns his, her or its Company Shares free and clear of all liens, claims, security interests, proxies, voting trusts or agreements, or any other encumbrances whatsoever, except for (i) any such matters arising hereunder and (ii) bona fide pledges of such shares as security for obligations owed to the Company; provided, however, in the event that the Company acquires any interest in all or any of such shares, including, without limitation, legal or beneficial ownership thereof or any voting rights with respect thereto, whether through foreclosure or otherwise, the Company hereby agrees to be bound by the terms of this Agreement with respect to such shares as if it were the Company Stockholder.

(e) Reliance by Parent and Sub. Such Company Stockholder understands and acknowledges that Parent and Sub are entering into the Merger Agreement in reliance upon such Company Stockholder's execution and delivery of, and compliance with, this Agreement.

(f) Stockholder Capacity. Such Company Stockholder who is or becomes during the Term a director of the Company makes any agreement or understanding herein in his or her capacity as a stockholder of the Company and not as a director.

6. Termination. This Agreement will terminate upon the earlier of (a) the Effective Time of the Merger, or (b) the termination of the Merger Agreement in accordance with its terms.

7. Miscellaneous.

(a) Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(b) Certain Events. Each Company Stockholder agrees that this Agreement and the obligations hereunder shall attach to his, her or its Company Shares and shall be binding upon any Person to which legal or beneficial ownership of such Company Shares shall pass, whether by operation of law or otherwise, including, without limitation, such Stockholder's heirs, guardians, administrators or successors. Notwithstanding any such transfer of Company Shares, the transferor shall remain liable for the performance of all obligations under this Agreement of the transferor.

(c) Change in Company Common Stock. In the event of a stock dividend or distribution, or any change in the Company Common Stock by reason of any stock dividend, split−up, recapitalization, combination, exchange of shares or the like, the term "Company Shares" shall be deemed to refer to and include the Company Shares as well as all such stock dividends and distributions and any shares into which or for which any or all of the Company Shares may be changed or exchanged.

(d) Acquisition of Additional Company Shares. Each Company Stockholder agrees to promptly notify Parent of the number of shares of Company Common Stock acquired by such Company Stockholder, if any, after the date of this Agreement.

(e) Waiver of Appraisal Rights. Each Company Stockholder hereby waives, releases and discharges any rights of appraisal or rights to dissent from the Merger that such Company Stockholder may have.

(f) Assignments; Rights of Assignees; Third Party Beneficiaries. This Agreement shall not be assignable by any Company Stockholder without the prior written consent of Parent and Sub. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and permitted assigns. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any Person other than the parties to this

Agreement or their respective heirs, executors, administrators, legal representatives, successors or permitted assigns any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

(g) Specific Performance. The parties hereto acknowledge that money damages are an inadequate remedy for breach of this Agreement because of the difficulty of ascertaining the amount of damage that will be suffered by the non−breaching party or parties in the event that this Agreement is breached. Therefore, each of the parties agrees that the non−breaching party or parties may obtain specific performance of this Agreement and injunctive and other equitable relief against any breach hereof, without the necessity of establishing irreparable harm or posting any bond, in addition to any other remedy to which such party may be entitled at law or in equity.

(h) Waiver. No waiver of any provision of this Agreement shall be effective unless it is in writing signed by the party granting the waiver, and a waiver by any party hereto of any one or more defaults shall not operate as a waiver of any future default or defaults, whether of a like or of a different character. No waiver of any of the provisions of this Agreement shall constitute a waiver of any other provisions (whether or not similar), nor shall such a waiver constitute a continuing waiver, unless otherwise expressly provided.

(i) Section Headings. Headings contained in this Agreement are inserted only as a matter of convenience and in no way define, limit, or extend the scope or intent of this Agreement or any provisions thereof.

(j) Choice of Law. This Agreement will be governed by and construed and enforced in accordance with the laws of the State of Delaware (without regard to the principles of conflicts of law) applicable to a contract executed and to be performed in such State. Each party hereto (i) agrees to submit to personal jurisdiction and to waive any objection as to venue in the state or federal courts located in Maricopa County, Arizona, (ii) agrees that any action or proceeding shall be brought exclusively in such courts, unless subject matter jurisdiction or personal jurisdiction cannot be obtained, and (iii) agrees that service of process on any party in any such action shall be effective if made by registered or certified mail addressed to such party at the address specified herein, or to any panics hereto at such other addresses as he, she or it may from time to time specify to the other parties in writing for such purpose. The exclusive choice of forum set forth in this paragraph shall not be deemed to preclude the enforcement of any judgment obtained in such forum or the taking of any action under this Agreement to enforce such judgment in any appropriate jurisdiction.

(k) Notices. All notices, requests and other communications to any party hereunder shall be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or mailed (first class mail postage prepaid), or by overnight express courier (charges prepaid or billed to the account of the sender) to the parties at the following addresses or facsimile numbers:

If to Parent or Sub, to:	Mobility Electronics, Inc. 7955 East Redfield Road Scottsdale, Arizona 85260 Fax: (480) 596−0061 Attention: Charles R. Mollo
If to any of the of Company Stockholders:	At his, her or its address set forth on Schedule I annexed hereto

or to such other address or fax number as any party may have famished to the others in writing in accordance herewith.

(l) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same document.

(m) Severability of Provisions. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall not in any way be affected, impaired or invalidated.

8. Effectiveness. This Agreement shall become effective simultaneously with the execution and delivery of the Merger Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first set forth above.

MOBILITY ELECTRONICS, INC.

By: /s/ Charles R. Mollo
_____
Charles R. Mollo
Chief Executive Officer

IGO CORPORATION

By: /s/ David E. Olson
_____
David E. Olson
Acting President and Chief Executive Officer

COMPANY STOCKHOLDERS

INSTITUTIONAL VENTURE PARTNERS VIII, L.P.
By: Institutional Venture Management VIII, LLC
Its: General Partner

By: /s/ Reid D. Dennis
_____
Managing Director

IVM INVESTMENT FUND VIII, LLC
By: Institutional Venture Management VIII, LLC
Its: Manager

By: /s/ Reid D. Dennis
_____
Managing Director

IVM INVESTMENT FUND VIII-A, LLC
By: Institutional Venture Management VIII, LLC
Its: Manager

By: /s/ Reid D. Dennis
_____
Managing Director

IVP FOUNDERS FUND I, L.P.
By: Institutional Venture Management VI, L.P.
Its: General Partner

By: /s/ Reid D. Dennis
_____
General Partner

/s/ Reid D. Dennis
_____
REID W. DENNIS

/s/ Ken Hawk
_____
KEN HAWK, Individually and as
Trustee of the Kenneth W. Hawk Grantor Retained
Annuity Trust

/s/ Peter Gotcher
_____
PETER GOTCHER

/s/ Robert Darrell Boyle
_____
ROBERT DARRELL BOYLE
Trustee UTA dated August 26, 1994

/s/ Lauren Reeves Boyle
_____
LAUREN REEVES BOYLE
Trustee UTA dated August 26, 1994

/s/ Ross Bott
_____
ROSS BOTT, PH.D.

/s/ David E. Olson
_____
DAVID OLSON

/s/ Scott Shackelton
_____
SCOTT SHACKELTON

SCHEDULE I

Name and Address of Company Stockholders	Shares of Company Common Stock Owned by Company Stockholder at March ___, 2002
Ken Hawk	4,197,856
Ken Hawk, Trustee of the Kenneth W. Hawk Grantor Retained Annuity Trust 1805 Caughlin Creek Road Reno, NV 89509	182,150
Institutional Venture Partners VIII, L.P.	3,224,340
IVM Investment Fund VIII, LLC	39,312
IVM Investment Fund VIII-A, LLC	12,258
IVP Founders Fund I, L.P.	27,240
Reid W. Dennis	433,000
Peter Gotcher	257,650
Ross Bott Ph.D. 3000 Sand Hill Road Building 2, Suite 290 Menlo Park, CA 94025	30,000*
Robert Darrell Boyle and Lauren Reeves Boyle, Trustees UTA dated August 26, 1994 15231 Quito Road Saratoga, CA 95070	209,672
David Olson	**
Scott Shackelton c/o iGo Corporation 9393 Gateway Drive Reno, NV 89511	**
Total:	8,613,478

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* Excludes shares subject to outstanding stock options.

** No outstanding shares held. Holders hold only stock options.

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Mobility Electronics, Inc.:

We consent to incorporation by reference in the registration statement (No. 333-47210) on Form S-8 of Mobility Electronics, Inc. of our report dated March 1, 2002, except for the second paragraph of Note 18, which is as of March 25, 2002, relating to the consolidated balance sheets of Mobility Electronics, Inc. and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2001, which report appears in the December 31, 2001 annual report on Form 10-K of Mobility Electronics, Inc.

Phoenix, Arizona
March 29, 2002