10-K

FILING-DATE: 04/09/92 DOCUMENT-DATE: 12/31/91

INTL MOBILE MACHINES CORP
TICKER-SYMBOL: IMMC EXCHANGE: NMS

2200 RENAISSANCE BOULEVARD
KING OF PRUSSIA, PA 19406
215-278-7800

INCORPORATION: PA

COMPANY-NUMBER: CUSIP NUMBER: 46002610
COMMISSION FILE NO.: 0-10797
IRS-ID: 23-1882087

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AUDITOR: ARTHUR ANDERSEN & CO.

STOCK-AGENT: SECURITY TRUST COMPANY, N.A.

INVESTOR-CONTACT: MS. MARCIA BEXLEY - MGR SHAREHOLDER RELATIONS

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[*1] [HARDCOPY PAGE 1]

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

INTERNATIONAL MOBILE MACHINES CORPORATION
2200 RENAISSANCE BOULEVARD
KING OF PRUSSIA, PA 19406
(215) 278-7800

FOR FISCAL YEAR ENDED: 12/31/91
COMMISSION FILE NUMBER: 0-10797

STATE OF INCORPORATION: PA
IRS EMPLOYER I.D.: 23-1882087

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:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $ .01 PER SHARE	NONE
$2.50 CUMULATIVE CONVERTIBLE PREFERRED STOCK, PAR VALUE $ .10 PER SHARE	NONE

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. [ ]

On March 25, 1992, the aggregate market value of the Registrant's Common Stock, $ .01 par value, held by non-affiliates of the Registrant was approximately $203,376,467.

On March 25, 1992, there were 22,764,288 shares of the Registrant's Common Stock, $ .01 par value, outstanding.

[*2] [HARDCOPY PAGE 2]

PART I

ITEM 1. Business

Background

International Mobile Machines Corporation (the "Company") is engaged in four related lines of business. The primary business unit is engaged in the production, marketing and sale of the Ultraphone Wireless Digital Loop Carrier(R) (the "Ultraphone(R)" or "Ultraphone 100(R)") system, a wireless digital radio-telephone system for local telephone service. The main application of the Ultraphone is to provide cost-effective basic telephone service in areas where the cost of installing, upgrading or maintaining conventional wireline telephone service is high. The Company believes that the main potential for this application is in non-metropolitan telephone markets, both domestically and internationally, where new service, growth, upgrade from party lines and replacement of existing wireline telephone systems present increasingly severe cost problems and it is marketing the Ultraphone to telephone operating companies ("TELCOs") serving such areas domestically and to distributors in and governments of foreign countries.

The second business unit of the Company performs certain engineering and marketing services respecting digital cellular technology for Hughes Network Systems, Inc. ("HNS"). The Company expects this business unit to continue operating through July 1992.

The third business unit is engaged in the protection and exploitation of the Company's intellectual property.

The Company's fourth business unit is engaged in the acquisition, ownership and management of rural TELCOs (the "TELCO Program"). The acquisition of Haviland Telephone Company, Inc. is the first substantial acquisition in the Company's TELCO program. See "TELCO Program" and 2 of the Notes to Consolidated Financial Statements.

The Company was incorporated in 1972. As of December 31, 1991, its accumulated deficit was $112,479,000, and there can be no assurance that the Company will achieve a profitable level of operations. Management believes that sufficient funds will be available to sustain its operations through 1992. See "Management Discussion and Analysis of Financial Condition and Results of Operations."

The Ultraphone System

General

The digital Ultraphone project was begun in 1981, when the Company engaged M/A-COM, Inc. ("M/A-COM") as an independent

[*3] [HARDCOPY PAGE 3]

contractor to commence development of a spectrum- efficient digital mobile radio system. Field trials commenced in September 1986 with the delivery of Ultraphone Beta equipment to the Mountain Bell States Telephone and Telegraph Company in Glendo, Wyoming. Domestically, over 88 Ultraphone systems have been delivered to customers, including the Regional Bell Operating Companies and independent telephone companies. Internationally, the Company has sold 29 systems to a customer in Mexico and additional systems to customers in Kuwait, the Philippines, China and Indonesia.

The Ultraphone system is designed to provide a wireless digital local telecommunications capability, with a central network station serving subscribers omni-directionally at distances up to approximately 40 miles from the network station (depending upon terrain). The network station provides interconnection to the worldwide public switched telephone network.

The Company's Time Division Multiple Access technology ("TDMA") utilizes advanced digital communications techniques to allow the broadcast of four simultaneous, telephone quality, full-duplex conversations in each 25 kHz radio channel, compared to only one conversation per channel for conventional analog radio telephone systems (including cellular radio). Full duplex conversations are those in which parties may transmit and receive simultaneously. The Company believes that no other company has demonstrated a digital system with as high a degree of spectrum efficiency (i.e., the number of communications that can be transmitted over a given set of frequencies) for local telephone service. The spectrum efficiency of the Company's system allows lower system operating costs because the cost of each radio channel at the network station can be shared by up to four times more subscribers (which allows the same user population to be served with only 25% of the network station equipment) than conventional analog systems. Spectrum efficiency also offers a potential solution to the increasingly serious problem of radio frequency congestion. Additionally, because of its voice coding techniques and systems architecture, the Ultraphone provides a high level of protection from interception or monitoring. The Company believes that this is an important advantage in both fixed and mobile telephone use. On January 6, 1992 the Cellular Telecommunications Industry Association ("CTIA") voted unanimously to reaffirm its adoption of TDMA as the industry standard technology.

While the Company believes that the Ultraphone wireless loop system has advantages over conventional wireline telephone systems for the provision of local telephone service in nonmetropolitan areas, there can be no assurances that a radio-based system such as the Ultraphone will continue to be approved and accepted by telephone companies and their customers for basic telephone service or that the Ultraphone system will continue to achieve market success over any competing telephone system.

[*4] [HARDCOPY PAGE 4]

Product Description

The Ultraphone system consists of an advanced digital radio network station and individual or clustered subscriber stations. The radio network station consists of a remote radio terminal and a telephone central office interface capability to provide interconnection to the local telephone central office and the public switched telephone network.

The Ultraphone wireless digital local circuit is transparent to the subscriber, and any type of standard telephone instrument can be used with the Ultraphone. The Ultraphone is also transparent to the central office, and it is not necessary to modify or replace existing switching equipment. Transparency in this context means that there is no discernible difference to a subscriber or the central office between a wireline system connection and an Ultraphone system.

The network station is configured in a standard cabinet with rack-mounted digital line cards, and is modularly expandable through the addition of new radio channel elements. It is designed for automatic, unattended operation with low maintenance and is capable of serving (on a cost-effective basis) up to 564 subscribers, depending upon terrain, channel availability and other factors. Each channel element supports four simultaneous full-duplex telephone conversations multiplexed in a standard 25 KHz radio channel.

The Ultraphone subscriber station, which includes a radio, power amplifier, digital circuit card assembly and other components, is installed on or near the subscriber's premises. Standard telephone instruments (including multiple extension phones and ancillary instruments such as answering machines, facsimile transmission machines and data terminals) plug in by means of ordinary house telephone wiring. A small antenna establishes the radio link. The unit is powered from AC, DC or solar power, with battery back-up for power outages.

The Ultraphone subscriber unit is available in a variety of configurations including a fixed unit, a transportable unit, a 24 line or an 8 line cluster and a mobile package for use in vehicles.

IMM also markets international versions of the Ultraphone system. The systems comply with the recommendations of international organizations including the Consultative Committee on International Telephone and Telegraph (CCITT) and the International Radio Consultative Committee (CCIR). The international versions of the Ultraphone currently offer the same range of subscriber configurations available domestically as mentioned above.

IMM has developed transportable versions of the fixed Ultraphone system, which are completely transportable, rapidly

[*5] [HARDCOPY PAGE 5]

deployed systems designed to meet the needs for high quality telephone communications in emergency and temporary installations. With a transportable Ultraphone on site, dialtone can be provided in a matter of hours.

The transportable Ultraphone has been used, for example, in Puerto Rico to restore communications at the U.S. Naval Base after Hurricane Hugo; in Panama during "Operation Just Cause"; in Glen Cove, New York after the crash of Avianca Airlines Flight 52; during a week-long battle against a fire in a remote area of Colorado; and in Kuwait after the Persian Gulf crisis.

Marketing

In North America the telephone operating companies are the primary initial target market for the Ultraphone system. The telephone industry in the United States is highly concentrated, with the seven Regional Bell Operating Companies and ten large independent telephone companies accounting for substantially all of the total market. The Canadian market is also dominated by a few large companies. Internationally, the government operated Post, Telegraph and Telephone operations are the target market.

The Company believes that the potential demand for the Ultraphone system in the United States is based on growth of the subscriber base (i.e., new subscribers), upgrade to single-party service of party lines and replacement of existing wireline plant due to wear and tear. The Company believes that the Ultraphone has the capability to address effectively the market for party line upgrades and replacement of existing wireline plant in rural areas and may also be able to compete in special situations in other markets where flexible, rapid deployment and/or digital capability is necessary. The Ultraphone, as a radio-based system, may also have a competitive advantage over wire and cable installations because it can serve subscribers in any direction from the central office, whereas wire and cable can only serve subscribers along the line where the wire or cable is installed. Potential demand internationally is based upon the need to both establish and improve telecommunications.

In September 1988, the Ultraphone system was accepted for use on telephone systems of Rural Electrification Association ("REA") borrowers. The REA, an agency of the United States Department of

Agriculture, provides low interest loans to 1,037 independent telephone companies to finance REA accepted capital equipment purchases. In 1991 and 1990, the Company received orders for $6,600,000 and $1,300,000, respectively, for the purchase of Ultraphone equipment financed through REA funding.

In April 1989, Contel Service Corporation classified the Company's Ultraphone system as "Acceptable" constituting approval for the purchase and use of the Company's Ultraphone system by Contel's operating telephone companies. In 1989, Ultraphone

[*6] [HARDCOPY PAGE 6]

systems were purchased by three Contel operating telephone companies. In June 1989, Bell Communications Research ("Bellcore") completed evaluation of the Ultraphone system in response to a request by certain regional Bell operating companies. The current Ultraphone system has been certified for operation in Canada.

The Company has sold Ultraphone systems to 13 of the top 25 telephone companies as reported by the U.S. Telephone Association (ranked in terms of number of access lines as of December 31, 1990). Ultraphone systems have been sold to 5 of the 7 Regional Bell Operating Companies, major independents including GTE, Alltel, PTI Communications and Citizens Utilities Company. The Company has also sold Ultraphone systems to a number of smaller telephone companies.

Internationally, the Company has developed a network of 17 distributors, independent marketing or sales representatives to market the Ultraphone systems worldwide under both exclusive and non-exclusive arrangements. The Company believes that neither the distributors nor the independent marketing or sales representatives currently sell products competitive with the Ultraphone. The key obstacles to selling Ultraphone systems in international markets are the allocation of sufficient radio frequency and the difficulty of the potential customers obtaining financing. It has been the Company's policy to require that an irrevocable letter of credit confirmed by a U.S. bank for the full amount of the sale be in place prior to the shipment of non-domestic orders.

On April 20, 1990, the Ultraphone System obtained type acceptance from Telefonos de Mexico ("Telmex"). In August, 1990, the Mexican Secretariat of Communications and Transports approved the use of radio frequencies for Ultraphone Systems in Mexico. During 1991 and 1990, Telmex was the Company's largest customer, with purchases of $12,684,000 and $6,759,000 or 40.3% and 42.7% of Ultraphone sales, respectively.

Two customers accounted for approximately 62% of the Company's Ultraphone sales in 1991. Each of these customers accounted for at least 10% of Ultraphone sales. In 1991, the two largest customers were

Telmex and GTE Supply, with purchases amounting to 40.3% and 21.6% of Ultraphone sales, respectively. See Note 14 of the Notes to Consolidated Financial Statements.

As of March 25, 1992, the Company's backlog of orders for Ultraphone systems was approximately $31,100,000 (which includes $3,500,000 of orders from Haviland), compared to a backlog of approximately $12,300,000 as of March 29, 1991.

Production

Pursuant to a production contract executed in February 1987 (the "First Production Agreement"), a M/A-COM subsidiary was to deliver to the Company 6,000 Ultraphone subscriber units, 11

[*7] [HARDCOPY PAGE 7]

Ultraphone network stations and certain parts and sub-assemblies for 84 additional network stations. In September 1987, the M/A-COM subsidiary was acquired by Hughes Aircraft Corporation and renamed Hughes Network Systems, Inc. Deliveries of this production version of Ultraphone system products commenced in the third quarter of 1987 and approximately 4,000 subscriber units were delivered and paid for. The Company cancelled delivery of the remaining 2,000 subscriber units under the First Production Agreement in 1989 in connection with scheduled deliveries under an additional production contract executed in December 1987 (the "1987 Production Agreement"). In September 1991, the remaining deposit of $1,658,000 under the 1987 Production Agreement was applied toward the payment of a cancellation charge under the First Production Agreement and certain other amounts owed to HNS under the Company's commercialization agreement with HNS.

Under the 1987 Production Agreement, HNS agreed to deliver to the Company 54,000 Ultraphone subscriber units. Deliveries of the subscriber units commenced in the second quarter of 1990, and the Company has purchased approximately 6,000 subscriber units to date under this contract. The 1987 Production Agreement provided for deposit payments to be made to HNS in the amount of $1,750,000, all of which were made as of December 31, 1989. The deposits were being credited against the purchase price of the subscriber units upon delivery and invoicing. See Note 5 of Notes to Consolidated Financial Statements.

On March 24, 1992, a closing was held under an agreement pursuant to which the Company and HNS agreed to terminate their existing commercialization agreement and two existing production contracts. The 1987 Production Agreement will terminate after the Company purchases an additional 4,000 subscriber units, which the Company has agreed to do by July 1, 1992. In connection with such termination, the Company agreed to purchase from HNS certain laboratory and testing equipment used by

HNS to manufacture and test the subscriber units. The purchase price for such equipment is $2,700,000, payable in three equal installments, plus interest, on May 31, August 31, and November 30, 1992. Such installment obligations, and certain other obligations of the Company to HNS, will be secured by a lien on the purchased equipment. In addition, the Company purchased inventory from HNS for HNS' cost of approximately $330,000. After the purchase of the final 4,000 subscriber units from HNS, the Company intends to manufacture and test all future Ultraphone subscriber units on its own.

In accordance with the terms of the 1987 Production Agreement, on March 24, 1992, the Company paid termination charges to HNS with respect to the termination of the 1987 Production Agreement in the amount of $2,200,000 in cash, and the Company reimbursed HNS for certain costs incurred by HNS in connection with the terminated production contracts by means of a cash payment of $300,000 and the issuance to HNS of 499,787 shares of Common Stock (the "Termination Shares"). If, the aggregate net proceeds

[*8] [HARDCOPY PAGE 8]

received by HNS from the sale of Termination Shares during the five years following March 24, 1992 equals or exceeds $4,700,000, HNS will be required, subject to certain limitations, to surrender to the Company any excess net proceeds received by it, and to surrender any remaining Termination Shares held by it. If HNS has sold all of the Termination Shares during that five-year period for aggregate net proceeds of less than $4,700,000, the Company will be obligated to pay to HNS the difference, either in cash or by the issuance of additional shares of Common Stock having an aggregate market value at that time equal to such difference. Subject to certain limitations, during that five-year period, the Company has the option to repurchase any Termination Shares owned by HNS for an amount equal to the $4,700,000 minus the aggregate net proceeds received by HNS from prior sales of Termination Shares. See Note 5 of the Notes to Consolidated Financial Statements.

In 1989 the Company engaged HNS to provide engineering services for enhancements to the Ultraphone on a cost-plus basis for minimum consideration of $2,000,000 (of which $1,000,000 was prepaid) during the contract period (which the Company and HNS negotiated to extend until December 1991). As of September 1991, the Company had received $502,000 of services from HNS. In September 1991, the Company terminated this engineering services agreement, and the remaining $498,000 of prepaid engineering expenses were applied towards the payment of a $500,000 cancellation charge, which had been accrued as an expense in 1990.

The Company directly assembles, integrates and tests Ultraphone network stations. In May 1986, the Company and Alcatel Network Systems/Transcom ("Alcatel," formerly a business unit of ITT Corporation), a subsidiary of Alcatel N.V., contracted for Alcatel to supply and for the Company to purchase the telephone central office interface needed for all Ultraphone network stations sold by the Company to commercial customers in the United States and its possessions through December 31, 1991, and that relationship is informally continuing. In addition, in June 1987, the Company and Marubeni entered into a production contract whereby Marubeni would deliver to the Company 10,000 integrated radios and power amplifiers for incorporation by HNS into the Ultraphone subscriber units being produced pursuant to the February 1987 production agreement. The Company does not expect to take delivery of the remaining 6,000 integrated radios and power amplifiers as a result of deliveries to be made under the 1987 Production Agreement. See Note 5 of the Notes to Consolidated Financial Statements.

Competition

In the United States, the Ultraphone wireless local loop system competes primarily against conventional wireline telecommunications technology, including wireline multiplexing systems known as "subscriber loop carrier systems" which increase the capacity of wireline systems by combining more than one

conversation on a single telephone wire under certain conditions. One of the primary methods by which the Ultraphone competes with wireline systems is on the cost of the system to the subscriber. With a wireline system, the cost of the system increases with increased distance between the central telephone office and the subscriber, whereas any such increase in distance has no effect on the cost of the Ultraphone system within its service area. In addition, as the potential customer base of the Company continues to become more familiar with the use of wireless radio-based telephone systems for local telephone service, the Company anticipates that it will compete favorably with wireline systems in terms of customer confidence in wireless systems such as the Ultraphone. Internationally, the Ultraphone competes against conventional wireline technology as well as other radio-based carrier systems including analog cellular and thin-route microwave systems.

Although there are other companies involved in developing and marketing radio-telephone equipment (including cellular radio) for use in rural areas in the United States, the Company is not aware of any other company which is selling digital, spectrum-efficient radio telephony products in the United States for basic telephone service. To the Company's knowledge, most competing radio-based telephone systems for use in rural areas cannot support the high subscriber density of the Ultraphone system, and those that do are not omni-directional systems like the Ultraphone, which can support both mobile and fixed subscribers. Further, compared to older analog systems and cellular radio systems, the Ultraphone offers greater privacy and security in communications.

In the United States, a number of companies sell products which compete with the Ultraphone. The Rockwell Corporation has marketed a digital radio telephone system for basic telephone service which operates within the range of frequencies authorized by the FCC for use in providing basic telephone service via radio in rural areas. In addition, SR Telecom, Inc., a Canadian company, has sold radio telephone systems, which the Company believes are not spectral efficient, to provide radio-based telephone service in the United States. The use of such equipment to provide basic telephone service in the U.S. required the telephone companies using such equipment to receive a waiver of FCC rules since the equipment does not operate on the radio frequencies available. There may also be additional companies engaged in wireless telephone development of which the Company is not aware, and other companies involved in telecommunications (including AT&T and Motorola) have financial resources greatly in excess of those of the Company.

Outside the United States, a number of companies, including SR Telecom, Inc., Ericsson Radio Systems A.B., Nippon Electric Co., Ltd., Alcatel N.V. sell rural radio systems for basic telephone exchange service applications, certain of which use digital technology, but the Company believes such systems do not currently

[*10] [HARDCOPY PAGE 10]

comply with United States standards and regulations. The Company believes that it will be necessary to devote substantial funds and efforts toward continued commercialization of Ultraphone technology in order to obtain and maintain a competitive position.

Government Regulation

Federal and state governments, with federal regulation administered by the FCC, regulate the telecommunications industry in the United States. The sale of telecommunications equipment such as the Ultraphone is regulated primarily to ensure compliance with federal technical standards for interconnection, radio emissions and non-interference (type acceptance). The Company has received type acceptance for the Ultraphone system currently being marketed. The need for subsequent approvals will depend on the nature of any subsequent modifications to the equipment. The current Ultraphone system has been certified for use in Canada.

Operators of the Ultraphone system (e.g., the telephone companies) are required to obtain licenses from the FCC to operate any radio system. Approvals by state regulatory commissions are also required under certain circumstances. The Company believes that the customers for the

Ultraphone have not experienced significant difficulties in obtaining such licenses, because telephone companies are routinely granted radio licenses after frequency coordination is done to assure that frequencies are available and that there is no interference. FCC licenses have been obtained by the telephone companies currently using Ultraphone to provide telephone service.

On December 10, 1987, the FCC issued its Report and Order "In the Matter of Basic Exchange Telecommunications Radio Service" ("BETRS"). The BETRS Report and Order made additional spectrum available for telephone companies to provide basic telephone service via radio in rural areas. It provided for 94 channels to be used to provide BETRS: 26 channels in the 450 MHz band (where Ultraphone operates); 50 channels in the 800 Mhz band; and 18 channels in the 150 MHz band. The authorizations are on a co-primary basis, which essentially means that they will be available for use by radio telephone systems unless they are already in use. On December 12, 1988 the FCC issued a Report and Order authorizing cellular licensees to provide BETRS on a secondary basis.

Digital Cellular and Personal Communications Applications for Ultraphone Technology

General

The Company's Ultraphone technology and architecture have been designed for mobile and portable applications. A limited number of subscriber units for mobile telephone service have been sold by the Company.

[*11] [HARDCOPY PAGE 11]

The market for the development, production and sale of digital cellular telephone equipment is comprised of companies that are much larger and have substantially greater resources than the Company. In addition, certain of those companies have established market positions in analog cellular telephony which can result in additional barriers to the Company's attempt to obtain a competitive position in that market. The Company does not intend to enter the digital cellular market directly, but is performing certain engineering and marketing services for HNS which is developing and marketing digital cellular products.

The Company is performing certain engineering and marketing services for HNS on a time and materials basis respecting digital cellular technology, and the Company expects to continue performing such services for HNS through July 1992. The Company received $2,140,000 and $525,000, respectively, from HNS for such services during 1991 and 1990, and the Company expects to receive approximately $1,200,000 for such services during 1992.

In October 1990, the Company granted HNS a non-exclusive world-wide license to use the Company's patents in the field of digital cellular telephony and will receive a royalty on the sale of digital cellular equipment by HNS. HNS is developing and marketing a digital cellular system to comply with the North American digital cellular standard. See "Intellectual Property Rights."

Competition

The Company believes that the primary competition for the digital cellular product being developed and marketed by HNS with the assistance of engineering and marketing services provided by the Company will come from the numerous companies which currently serve the market for mobile telephones and are also engaged in development activities in that area. The market for mobile telephones consists primarily of analog automobile telephones and known generically as "cellular mobile radio".

Other companies (including Motorola, Inc., AT&T, Ericsson Radio Systems A.B., and Northern Telecom, Ltd.) involved in mobile and portable radio-telephony, including cellular radio, have substantial investments in their technology and equipment and financial resources greatly in excess of those of the Company, and are developing digital spectrum-efficient mobile telephone technology. Some of these companies also provide mobile telephony switching equipment to cellular operators, which the Company does not provide. In addition, a digital spectrum efficient prototype using Code Division Multiple Access has been demonstrated by a third party for mobile telephony and personal communications. If mobile and portable products are successfully developed using the Company's technology, there is no assurance that they will be able to compete effectively against such competitors or that the

[*12] [HARDCOPY PAGE 12]

Company's participation therein by royalty payments or otherwise will be significant. In January, 1992, the CTIA unanimously voted to reaffirm its adoption of TDMA as the industry cellular standard.

The Company believes that a significant market may exist for the use of Ultraphone technology in a portable product, although there are no assurances in this regard. The Company does not intend to enter this market directly and is seeking strategic partners for the development of a portable product which may be used for personal communications.

Intellectual Property Rights

The Company currently holds 38 patents, of which 22 patents relate to digital spectrum-efficient radio telephony technology and expire at various times between 2004 and 2008. The Company has other patents pending, and claims copyright protection on certain of the software and firmware used in the Ultraphone system. The Company has also obtained patents in 33 foreign countries and has applied for additional patents in foreign countries. Although the Company believes that its patents provide a base for Ultraphone technology, and that its patents cover certain aspects of TDMA spectrally efficient point to multipoint digital radio telephony communications systems, the value of patents in the advanced telecommunications industry is difficult to predict due to rapidly changing technology.

The Company retains ownership to all technology developed in the Ultraphone project, subject to non-exclusive licenses granted to M/A-COM and HNS to exploit the technology developed under the applicable contracts for non-competitive uses outside the areas of mobile, portable or fixed local telecommunications and to the licenses noted below.

In May 1990, the Electronics Industry Association ("EIA") and the Telecommunications Industry Association ("TIA") issued the EIA/TIA Interim Standard IS-54 "Cellular System Dual-Mode Mobile Station-Base Station Compatibility Standard" ("IS-54"). IS-54 utilizes TDMA as the recommended access standard for digital cellular systems. The Company's digital cellular technology utilizes TDMA, and the Company believes that licenses for certain of its patents may be required in order for third parties to manufacture and sell digital cellular products in compliance with IS-54. The Company has stated in response to a request by the TIA, that it would be willing to license any of its patents necessary to comply with IS-54 on reasonable terms and conditions free of unfair discrimination, including reasonable royalty rates and license fees.

In October 1990, the Company granted to HNS certain non-exclusive, non-transferable royalty bearing, worldwide licenses to the Company's intellectual property for the field of digital cellular telephony.

[*13] [HARDCOPY PAGE 13]

In February, 1992, the Company granted to HNS a non-exclusive, non-transferable, royalty bearing, worldwide license to the Company's intellectual property for use in the field of wireless local telecommunications. Such license agreement included an upfront, non-refundable, initial payment to the Company by HNS of $2,500,000. Also in February 1992, HNS granted to the Company a non-exclusive, non-transferable, worldwide royalty bearing license to manufacture and sell products based on HNS's Extended TDMA patents.

Alcatel N.V. and two other European companies have each filed petitions in the German patent office to revoke the issuance of the Company's broad "system" patent which was granted in Germany. Another European company has filed a petition in the Finnish patent office to revoke the issuance of the Company's broad "system" patent which was granted in Finland. If these patents were revoked, the Company's licensing business opportunities, if any, in Germany, Finland and other European countries could be adversely affected.

The Company owns registed United States trademarks for "IMM," "Ultraphone," "Ultraphone 100," "Wireless Digital Loop Carrier" and "Wireless Digital Access" and other trademarks relating to the Company's business. The Company does not believe that these trademarks are a significant factor in its business.

TELCO Program

The Company has undertaken a strategy to acquire and operate rural telephone companies as part of its future growth and diversification plan and to also provide a recurring stream of revenue. In April 1991, the Company acquired a 50% interest in Rico Telephone Company ("RICO") of Rico, Colorado for a cost of $100,000. Rico has approximately 100 customers.

In December 1991, USTC Kansas, Inc. ("USTC Kansas"), a subsidiary of the Company, purchased 100% of the outstanding shares of capital stock of Haviland Telephone Company, Inc. ("Haviland") from 15 individuals, Haviland, a Kansas corporation, was organized in 1952 to provide telephone and communications services, and owns 12 distinct but nearly contiguous local service exchanges located along U.S. Highway 54, stretching from the suburbs of Wichita Kansas towards the environs of Dodge City, Kansas. It also partially borders Interstate Highway 35, which runs through Wichita northeast to Topeka, Kansas and south to Oklahoma City, Oklahoma. Its plant and equipment is wireline-based and was installed primarily in the 1950s. Haviland has approximately 3,500 basic telephone subscribers, roughly 90 subscribers to an IMTS analog radio telephone system and a small cable television franchise in Haviland, Kansas with approximately 200 subscribers.

[*14] [HARDCOPY PAGE 14]

Of the $12,000,000 purchase price for Haviland, $254,000 was paid in cash and $11,746 was paid in promissory notes (the "Seller Notes"). Seller Notes in the aggregate principal amount of $5,357,000 were paid in January and March 1992 with cash from Haviland and the proceeds of equity offerings by the Company and USTC Kansas. See Note 2 of the s to Consolidated Financial Statements. The remaining Seller Notes,
in the aggregate principal amount of $6,389,000, bear interest at 10%, with interest payable quarterly, and mature between December 1994 and December 1996. These outstanding Seller Notes are collateralized by 62% of the outstanding shares of Haviland common stock. See Notes 2 and 7 of the Notes to Consolidated Financial Statements. USTC Kansas is obligated to cause Haviland not to issue any additional shares of Haviland common stock which would reduce the percentage of outstanding shares of Haviland common stock held in escrow to secure payment of the

Seller Notes. In connection with the acquisition, the Company granted to current Haviland employees options to purchase an aggregate of 37,600 shares of the Company's Common Stock pursuant to the Company's existing Non-Qualified Stock Option Plan.

Other Activities

IMM has expanded its current product line to include several new products and integrated services. In 1991, IMM introduced the UltraData, a wireless digital high-speed data transmission product that has a range of up to 45 km. The UltraData provides high system security, reliability and availability while eliminating costly leased lines. The UltraData is available at data rates from 1.2 kbps to 128 kbps and can be tuned to several frequency ranges. IMM has purchased the UltraData from a third party manufacturer who packages the product with the UltraData label.

IMM also has recently introduced the UltraSat, an integrated wireless telephone system consisting of an Ultraphone, a modular digital central office switch and a transportable satellite antenna. The system can be sized for specific requirements and used as a rapidly deployed drop-in solution to provide new or replacement telephone service in remote area, construction sites, oil fields and resort locations. This package can provide telecommunications for local, long distance and/or international access. The configuration of the UltraSat system can be designed for permanent, temporary and mobile applications.

IMM also offers a digital mapping capability called UltraMap. Originally developed as a tool of support RF application engineering when planning for the installation of an Ultraphone system, this system can also be used to display demographic data, utility data for power, water and telephone service as well as aiding in frequency planning and other governmental and business requirements. To date, the Company has received only nominal revenues from sales to the UltraData, and no revenues have been received from sales of UltraSat or UltraMap. There can be no

[*15] [HARDCOPY PAGE 15]

assurance that the UltraData, the UltraSat or the UltraMap will achieve market acceptance or that the Company will realize significant revenues from the sale of these systems and services.

In March 1990, pursuant to a lottery conducted by the FCC, the Company was awarded a construction permit for one of the two cellular radio systems licensed to operate in a six county portion in Indiana identified by the FCC as market number 406, Indiana 4. On March 15, 1991 the Company sold the construction permit to Century Indiana Cellular Corp., a wholly owned subsidiary of Century Cellular Corp.

("Century"), the holder of the Company's convertible subordinated promissory note in the principal amount of $7.5 million ("Subordinated "). Of the negotiated purchase price of $8.5 million plus accrued interest on the Subordinated Note from and after December 1, 1990 until March 15, 1991, $1,000,000 was paid in cash on contract execution and the remainder was paid by the cancellation of the $7,500,000 principal amount of the Subordinated Note and the cancellation of the interest accrued of the Subordinated Note from December 1, 1990 through March 15, 1991. Interest on the Subordinated Note from December 4, 1989, the date of issuance, through December 1, 1990 was paid by the issuance to Century of 5 year warrants to purchase 900,000 shares of the Company's common stock at an exercise price of $4.00 per share. In March 1991, the Company recognized a gain of approximately $8.1 million on the sale of the construction permit. See Note 8 of the Notes to Consolidated Financial Statements.

Research and Development Expenses

For the years ended December 31, 1991, 1990, and 1989, the Company's research and development expenses were $2,612,000, $1,600,000, and $3,847,000, respectively.

Employees

As of March 29, 1992, the Company had 138 full-time employees. In addition, the services of consultants and part-time employees are utilized.

Executive officers of the Company

The executive officers of the Company are:

Name	Position	Age
William J. Hilsman	Chairman of the Board and Chief Executive Officer	60
Richard W. Pryor	President and Chief Operating Officer	59
D. Ridgely Bolgiano	Vice President - Research and Chief Scientist	59

[*16] [HARDCOPY PAGE 16]

Name	Position	Age
G. James Bracknell	Executive Vice President	50

Dr. George Calhoun	Senior Vice President	39
Richard A. Guttendorf, Jr.	Senior Vice President - Chief Financial Officer and Treasurer	50
William A. Doyle	Vice President, General Counsel and Secretary	42
E. L. Langley	Chief Executive Officer of Universal Service Telephone Corporation	67

William J. Hilsman has been a director of the Company since October 1983, and was elected Chairman of the Board in June 1990. He has served as Chief Executive Officer since September 1983, and he served as President from September 1983 to February 1991. Mr. Hilsman served in the United States Army for over 29 years in various capacities in the fields of communications and computers. From 1980 until his retirement in September 1983, he served as Chief of Communications for the U.S. Department of Defense.

Richard W. Pryor has been a director of the Company since June 1989 and was elected Chief Operating Officer in May 1989 and President in February 1991. Prior to that time, he served as Executive Vice President of Electronic Data Systems Communications Corporation from November 1989 to May 1989, where he was responsible for the company's international operations. From November 1984 to September 1986, he served as President and General Manager of ITT Christian Rovsing, a European computer hardware and software systems company. Mr. Pryor served as Senior Vice President of ITT Communications Services Group and President and General Manager of ITT World Communications from July 1982 until November 1984, where he was Director of Engineering and Operations for ITT's Communications service group.

D. Ridgely Bolgiano has been a director of the Company since 1981. He became Vice President-Research and Chief Scientist in April 1984, and has been affiliated with the Company in various capacities since 1974. From 1969 to February 1989 he was a director and, from 1978 to February 1989, he was President and Chief Executive Officer of Key Broadcasting Corporation, a broadcasting company which owns four radio stations in Maryland. Mr. Bolgiano has, since 1961, been Treasurer and a director of Drexel Hill Associates, Ltd., a corporation which owns two radio stations in New Jersey and two radio stations in Florida and which do not require a material amount of his time.

G. James Bracknell joined the Company in August 1989 as Director - Sales and Marketing and was elected as an Executive Vice

[*17] [HARDCOPY PAGE 17]

President in December 1989. Prior to that time, he was Vice President - Domestic Operation for EDS Communications Corporation, a telecommunications subsidiary of EDS Corporation and previously served as its Managing Director of Pacific and Latin-American regions. From 1984 to 1986, he was employed by Honeywell, Inc. as Vice President - Industry Marketing for its Communications and Networks Division, and from 1974 to 1984 he worked for NCR, Inc. in a number of positions, most recently as President of NCR Telecommunications Services, Inc., a wholly owned subsidiary which provides telecommunication services.

George Calhoun was elected Senior Vice President in May 1985. He served as Vice President - Planning from February 1983 until May 1985 and as the Company's director of planning since December 1981. In February, 1992, Dr. Calhoun was appointed Senior Vice President in charge of the Company's Technology Licensing Division.

Richard A. Guttendorf, Jr. was elected Senior Vice President, Chief Financial Officer and Treasurer in September 1990. From May 1982 until September 1990, he served as Executive Vice President and Chief Financial Officer of Atlantic Financial Federal Savings and Loan Association ("Atlantic Financial"), a savings and loan association based in Balan Cynwyd, Pennsylvania which was intervened by the Resolution Trust Corporation on January 11, 1990. Mr. Guttendorf is presently a defendant in a class action suit against certain former officers and directors of Atlantic Financial.

William A. Doyle was elected Vice President, General Counsel and Secretary of the Company in March 1991. From October 1987 to March 1991, Mr. Doyle served as Vice President, General Counsel and Secretary of Environmental Control Group, Inc., as publicly traded company involved in the environmental industry. Mr. Doyle was Associate General Counsel of Martin Marietta Corporation from 1986 to 1987 and was Assistant General Counsel of Colonial Penn Group, Inc., an insurance holding company, from 1982 to 1986.

Mr. Langley became the Chief Executive Officer of Universal Service Telephone Corporation ("USTC"), a wholly-owned subsidiary of the Company through which the Company currently conducts its Ultraphone business, In January 1991. Mr. Langley served as President of General Telephone Company of Kentucky from July 1974 to July 1978, President of General of the Southeast from July 1978 to August 1981 and President of General Telephone Company of the Southwest (now GTE Southwest) from August 1981 to September 1989. Since that time and until January 1991, he engaged in consulting activities for telecommunications, economic development and legislative matters.

The Company's executive officers are elected to the offices set forth above to hold office until their successors are duly elected and have qualified.

[*18] [HARDCOPY PAGE 18]

The Company has obtained and is the beneficiary under "key-man" life insurance policies in the amount of $2,000,000 on Mr. Hilsman, $1,500,000 on Mr. Pryor, $500,000 on Mr. Bracknell and $250,000 on Mr. Langley.

During 1991, Sherwin Seligsohn, the Company's Chairman Emeritus and a director and Steven Abramson, the Company's Executive Vice President and General Manager of the Company's technology licensing division, resigned.

ITEM 2. Properties

The Company leases an aggregate of 39,154 square feet of office space and assembly facilities in Gulph Mills, Pennsylvania under two leases, with terms expiring in 1994 and 2000, respectively at an aggregate yearly rent of $622,000, excluding operating expenses of $80,000. The Company also leases 3,471 square feet of office space in Irving, Texas for a term expiring on March 31, 1997 at an annual rent of $49,000. The Company believes its facilities are sufficient for its operations for the foreseeable future. See Note 9 of the Notes to Consolidated Financial Statements.

ITEM 3. Legal Proceedings

There are no material pending legal proceedings against the Company.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

[*19] [HARDCOPY PAGE 19]

PART II

ITEM 5. Market for Company's Common Equity and Related Stockholder Matters

The following table sets forth the range of the high and low sales prices of the Company's Common Stock as reported by NASDAQ. The Company's Common Stock is traded on the NASDAQ National Market System.

	Closing Sales Prices	
1991	High	Low
First Quarter	9 3/4	3 1/2
Second Quarter	9 1/4	7 1/2
Third Quarter	8 1/2	6 1/4
Fourth Quarter	8 1/4	5 1/2
1990		
First Quarter	7 7/8	3 3/8
Second Quarter	7 1/2	4
Third Quarter	6 7/8	3 3/8
Fourth Quarter	5 3/4	3 1/4

As of March 25, 1992, there were 2,693 holders of record of the Company's Common Stock.

The Company has not paid cash dividends on its Common Stock since inception. It is anticipated that, in the foreseeable future, no cash dividends will be paid on the Common Stock and any cash otherwise available for such dividends will be reinvested in the Company's business. The payment of cash dividends will depend on the earnings of the Company, the prior dividend requirements on its remaining series of Preferred Stock and other Preferred Stock which may be issued in the future, the Company's capital requirements, restrictions in loan agreements and other factors considered relevant by the Board of Directors of the Company.

[*20] [HARDCOPY PAGE 20]

ITEM 6. Selected Financial Data

	Year Ended December 31				
	1991	1990	1989	1988	1987
Operating Data:					
Net revenues	$33,843	$18,570	$ 4,471	$ 4,330	$ 2,396
Net loss before preferred dividends (1)	(6,239)	(11,952)	(19,074)	(21,445)	(10,781)
Net loss applicable to common shareholders	(7,743)	(13,456)	(21,976)	(23,545)	(12,202)
Net loss per common share	(.39)	(.81)	(1.55)	(1.96)	(1.06)
Weighted average number of common stock outstanding	19,828	16,655	14,180	12,190	11,465

	Year Ended December 31				
	1991	1990	1989	1988	1987
Balance Sheet Data:					
Working capital(2)	$ (5,874)	$ 2,227	$ 6,190	$ 457	$16,516
Total assets	29,974	20,583	24,690	25,256	34,267
Long-term liabilities	8,232	14,688	14,868	7,345	7,971
Shareholders' equity (deficit)	1,806	(3,180)	2,430)	4,104	20,970

(1) The Company has incurred significant losses during the last five years, and, as of December 31, 1991, its accumulated deficit was $112,479,000.

(2) See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Financial Position, Liquidity and Capital Resources."

[*21] [HARDCOPY PAGE 21]

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Losses

The Company's net loss in 1991 was $6,239,000 compared to $11,952,000 and $19,074,000 in 1990 and 1989, respectively. The Company's net losses in 1991, 1990 and 1989 resulted primarily from costs associated with operations, development, production, marketing, selling and support of the Ultraphone system and other related costs. During 1991, the Company's net losses included $757,000 of costs associated with the startup of the Company's TELCO Program. In 1991, the operating results were also impacted by the effects of non-recurring items including an $8.1 million gain on the sale of the Indiana 4 RSA construction permit to Century and the recording of $7.2 million of contract cancellation costs on the 1987 Production Agreement with HNS. See Notes 2, 5 and 8 of the Notes to Consolidated Financial Statements.

The Company has experienced substantial losses since inception and, as of December 31, 1991, its accumulated deficit was $112,479,000. Additional funds will be required by the Company to continue to produce and market the Ultraphone, continue product development and maintain and exploit its patent position and technology as well as for continued acquisitions of telephone companies. There is no assurance that such fund and any additional financing will be available when needed, that the products, patents or technology of the Company will receive a sufficient level of commercial acceptance, or that the Company will achieve a profitable level of operations. Notwithstanding the foregoing, the Company believes that sufficient funds will be available through operating revenues and other funding sources to sustain its operations through 1992.

Revenues

Revenues in 1991 were 433,843,000 compared to $18,570,000 and $4,471,000 in 1990 and 1989, respectively. Ultraphone sales in 1991 were $31,482,000 compared to $15,834,000 and $3,520,000 in 1990 and 1989, respectively. Increases in Ultraphone sales were due principally to increased shipments of the Ultraphone system to international customers, which accounted for $16,238,000, or 51.6% of Ultraphone sales in 1991, and $6,904,000, or 443.6% of Ultraphone sales in 1990.

During 1991, the Company intensified its selling efforts for the Ultraphone in foreign as well as traditional domestic markets. Non-domestic sales in 1991 were made to customers in Mexico, Kuwait, Indonesia and the Philippines which are unaffiliated with the Company. During 1990 and 1989, all non-domestic sales were made to unaffiliated customers in Mexico. While the Company offers its products for sale to customers in foreign countries, the Company has never maintained any assets or conducted any operations outside the United States.

It has been management's policy to require that an irrevocable letter of credit confirmed by a U.S. bank for the full amount of the sale be in place prior to the time of shipment of non-domestic orders. The Company's non-domestic sales are, however, subject to certain risks attendant to doing business outside the United States, including trade and tariff policies of the foreign country in which customers are located and international monetary conditions.

It is anticipated that non-domestic sales will continue to represent an increasingly greater proportion of Ultraphone sales for 1992 and future years. However, there can be no assurances that further non-domestic orders will be received. The failure to receive such orders could have a material effect on the Company.

The Company had contract revenue from certain digital cellular telephony research, development, and marketing efforts of $2,140,000 in 1991, $2,736,000 in 1990, and none in 1989. The Company expects such revenue to continue through July 1992.

With the Company's acquisition of Rico in April 1991 and Haviland in December 1991, the Company entered the business of owning and operating rural TELCOs, and the Company received $221,000 of revenues from the TELCO Program in the month of December 1991. The Company expects that substantially all of the cash flow of Haviland during 1992 and future years will be used for the payment of interest on the remaining Seller s and dividend and convertible preferred stock of USTC Kansas. The
Company intends to expand its TELCO Program through additional acquisitions of rural telephone operating companies. No assurances can be made that any additional TELCO acquisitions will occur.

In 1989, $951,000 of the Company's revenues were earned under a contract awarded in February 1986 to IMMI to conduct training for the U.S. Army. On September 30, 1989, the U.S. Army did not exercise its option to extend the contract, and all of IMMI's operations have, therefore, been discontinued. No revenues were earned under this contract in 1990 or 1991. The costs associated with the termination of the contract were billed to the U.S. Army pursuant to the contract. See "Business - Other Activities."

Cost of Sales

The cost of Ultraphone sales was $24,546,000 in 1991, $12,997,000 in 1990 and $3,005,000 in 1989. In 1991, the cost of Ultraphone sales amounted to approximately 78.0% of Ultraphone sales as compared to 82.1%

in 1990 and 85.4% in 1989. These decreases are due to higher sales prices for Ultraphone equipment,

[*23] [HARDCOPY PAGE 23]

a greater number of higher margin subscribers per system sold and higher sales volumes which helped to absorb fixed production costs. For international sales, the cost of sales includes distributor commissions and tariffs. During 1991, the Company commenced a cost reduction program which it believes will result in significantly lower costs of the assembled Ultraphone product. These cost reductions result from product redesign, more competitive pricing from suppliers and more efficient assembly and test procedures. Some of these cost reductions were realized in 1991, although more substantial reductions are expected to occur in 1992.

In 1992, the Company will commence the assembly, integration and testing of subscriber units after the remainder of the first 10,000 subscriber units are purchased from HNS. See Note 5 of the Notes to Consolidated Financial Statements. Management believes that the direct performance of the assembly, integration and testing of the subscriber units will result in substantial reduction in the cost of the subscriber units. The Company has entered into agreements with various suppliers of components for the subscriber units and is seeking to enter into similar agreements with additional suppliers.

Expenses

Selling and marketing expenses of $4,712,000, $3,965,000 and $4,392,000 for 1991, 1990 and 1989, respectively, represent the expenses related primarily to the domestic and international marketing of the Ultraphone system. The cost increase in 1991 reflects the significantly greater volume of sales and related commissions and marketing expenses incurred for expanded marketing efforts in international markets, the benefits of which are reflected in increase revenues from non-domestic sales in 1991 and additional benefits of which are expected to be realized in future years. In 1990, the decrease in selling and marketing expenses as compared to the previous year primarily resulted from staff reductions and cost containment measures implemented by the Company in the first half of 1990.

Research and development expenses were $2,612,000, $1,600,000 and $3,847,000 for 1991, 1990 and 1989, respectively. Included in the 1989 expenditures were $1,818,000 related to research and development for digital cellular radio technology. In 1991 and 1990, the Company's digital cellular research and development expenditures of $647,000 and $1,620,000, respectively, were included in digital cellular contract costs, as such expenditures were specifically incurred on revenue-generating contracts. The balance of the research and development expenditures related to other Ultraphone technology development activities.

General and administrative expenses in 1991 were $5,155,000 compared to $6,101,000 and $9,304,000 in 1990 and 1989, respectively. The decreases in these expenses in 1991 and 1990 resulted primarily from staff reductions and cost containment

[*24] [HARDCOPY PAGE 24]

measures implemented by the Company. Commencing in 1990, certain excess production costs, which were included in general and administrative expenses in prior years, have been absorbed in the cost of Ultraphone sales due to increased sales levels. In 1990, general and administrative expenses included a $500,000 charge for the expected cancellation of the Company's engineering services contract with HNS and included an increase of $537,00 in patent amortization over 1989. Also included in general and administrative expenses for 1990 and 1989 were charges of $545,000 and $1,344,000, respectively, for write-downs of Ultraphone inventory cost. No write-down of Ultraphone inventory cost was made in 1991.

To supplement the remaining workforce and to accomplish designated developmental and other projects, the Company has engaged consultants under agreements having remaining terms as of December 31, 1991 ranging from six to twelve months. Each of these contracts is being evaluated upon renewal. During 1991, the cost of consultant services other than for installation contractors, legal and accounting, amounted to $1,185,000 and for 1990 amounted to $971,000. Depending upon the nature of the services provided, these costs have been included as cost of goods sold, research and development, selling and marketing, or general and administrative expenses. Of the total amount incurred for consultants in 1991, $507,000 (which related to the engagement of engineers in connection with the Company's engineering services contract with HNS) is included in Digital Cellular Contract Costs and was reimbursed by HNS under that contract.

The amortization of the Company's deferred product costs was $1,829,000 in each of 1991, 1990 and 1989. Substantially all of the deferred product costs represent that portion of the costs incurred under the Company's commercialization agreement with a subsidiary of M/A-COM (which later became HNS) executed in January 1986, subsequent to the establishment of the preproduction prototype of the Ultraphone system. all remaining deferred product costs will be fully amortized by November 1992. See Note 5 of the Notes to Consolidated Financial Statements.

In December 1991, the Company acquired Haviland for a purchase price of $12,000,000. This acquisition was accounted for under the purchase method of accounting and $7,584,000 of Cost in Excess of Fair Market

Value of Net Assets Acquired ("Goodwill") was recorded. This Goodwill, an intangible asset, is being amortized over a 40 year period using the straight line method. See Note 2 of the Notes to Consolidated Financial Statements.

In 1991, the Company sold its Indiana 4 RSA construction permit to Century and realized a gain of $8.1 million, net of disposition costs. See Note 8 of the Notes to Consolidated Financial Statements. Also during 1991, cancellation costs amounting to $7.2 million were recorded in connection with the

cancellation of the Company's 1987 Production Agreement with HNS. See 5 of the Notes to Consolidated Financial Statements.

Interest expense for 1991 amounted to $751,000 as compared $2,368,000 in 1990 and $794,000 in 1989. The decrease in 1991 reflects the elimination of the Company's liability to M/A-COM which occurred as a result of the conversion of this liability into Common Stock and the cancellation of the Subordinated Note payable to Century in connection with the sale of the Indiana 4 RSA construction permit, both of which took place during the first quarter of 1991. The increase in 1990 is due primarily to the accrual of interest on amounts due to HNS, M/A-COM and Century. All interest-bearing amounts due to HNS were satisfied in September 1991 by the application of certain inventory deposits being held by HNS. See Notes 5 and 8 of the Notes to Consolidated Financial Statements.

Financial Position, Liquidity and Capital Requirements

The Company has incurred losses since inception, and at December 31, 1991, the Company had unrestricted cash resources of approximately $6,713,000. Included in this amount is $3,548,000 of cash of Haviland which is subject to certain restrictions. See Note 3 of the Notes to Consolidated Financial Statements. There is no assurance that the Company will obtain significant revenues in the future. However, management believes that sufficient funds will be available through operating revenues and other funding sources to sustain its operations through 1992.

Prior to 1991, the Company experienced liquidity problems due to its lack of significant revenues, and it has addressed such problems primarily by public and private offerings of its securities. During 1992, the Company engaged in short term borrowings secured by the Company's accounts receivable and, in conjunction with certain of such borrowings, granted warrants to purchase Common Stock of the Company at the market price of the Common Stock on the date of grant. As of December 31, 1991, no such short-term borrowings were outstanding, other than amounts owed under the Company's bank line of credit. See Note 6 of the Notes to Consolidated Financial Statements.

In February 1992, the Company received gross proceeds of $3,000,000 from the sale of 510,000 shares of Common Stock and warrants to purchase 766,020 shares of Common Stock. See Note 2 of the Notes to Consolidated Financial Statements. During the first quarter of 1992, USTC Kansas received proceeds of $585,000 from the sale of shares of convertible preferred stock of USTC Kansas and warrants to purchase 13,440 shares of Common Stock of the Company. The proceeds of these equity offerings of the Company and USTC Kansas were used for the payment of certain of the Seller Notes issued in connection with the acquisition of Haviland.

[*26] [HARDCOPY PAGE 26]

During the first quarter of 1992, the Company received $2,100,000 from the exercise of options and warrants. In February and March 1991, M/A-COM converted $4,929,000 of principal and interest owed to M/A-COM by the Company into 897,843 shares of Common Stock.

The Company had a working capital deficit of $5,874,000 at December 31, 1991 compared to positive working capital of $2,227,000 at December 31, 1990. This decrease is due primarily to the including of $5,357,000 of notes due to the sellers of Haviland to the Company (which were paid in January 1992), an increase in amounts due to HNS resulting from cancellation costs on the 1987 Production Agreement and increases in accounts payable. During 1991, the Company's net cash used for operations was $354,000 compared to $2,491,000 for 1990 and $21,521,000 for 1989. The significant decrease in 1990 reflects the reduced net loss and significant payments made to HNS in 1989. The continued decrease in 1991 reflects improved margins and lower operating expenses. Inventories decreased to $2,487,000 at December 31, 1991 compared to $3,345,000 at December 31, 1990, also having decreased from $4,446,000 as of December 31, 1989. The decrease in 1991 reflects a lower amount of inventory as the Company shipped approximately $16,800,000 of Ultraphone equipment during the fourth quarter of the year. The reduction in 1990 was due mainly to shipments of Ultraphone equipment in late December 1990. Deposits on inventory purchase commitments which amounted to $1,711,000 at December 31, 1990 were eliminated during 1991 as the remaining deposit was offset as a reduction of debt of HNS. During 1990 and for part of 1991, the deposits were realized based upon credits applied to the purchases of subscriber units from HNS under the 1987 Production Agreement.

Short term borrowings remained at $1,000,000 as of December 31, 1991, consistent with 1990. See Note 6 of the Notes to the Company's Consolidated Financial Statements.

In 1991, all dividends were paid currently when due on both the

Company's 1989 Convertible Preferred Stock ("1989 Convertible Preferred Stock") and the Company's $2.50 Cumulative Convertible Preferred Stock ("Convertible Preferred Stock"). In 1991 the Company paid dividends of $304,000 on the Convertible Preferred Stock, in $232,000 of cash and 9,816 shares of Common Stock. In 1990, the Company paid dividends of $304,000, of which $166,000 was paid in cash and the balance by the issuance of 29,049 shares of Common Stock. In 1989, the Company paid dividends of $2,500,000, paid $1,811,000 in cash and the remainder by the issuance of 78,302 shares of Common Stock. The decrease in 1990 is due to the conversion of a substantial number of shares of Convertible Preferred Stock into Common Stock.

On December 1, 1990, the Company paid dividends of $1,200,000 (including $600,000 of dividends not declared in June 1990) on the 1989 Convertible Preferred Stock in 256,000 shares of Common Stock.

[*27] [HARDCOPY PAGE 27]

In 1991, the Company paid dividends of $1,200,000 on the 1989 Convertible Preferred Stock in 158,000 shares of Common Stock. On March 24, 1992, HNS converted all of the issued and outstanding 1989 Convertible Preferred Stock, consisting of 400,000 shares into 1,064,000 shares of Common Stock (the "Conversion Shares"), at a conversion price of $9.40 per share. The Company had agreed to reduce the conversion price from $10.34 in connection with the termination of certain contracts between the Company and HNS. See Note 5 of the Notes to Consolidated Financial Statements.

The Company will require additional funds to develop and commercialize other applications of Ultraphone technology, to protect and exploit its intellectual property rights and for other corporate purposes in the future. The amount of funds needed for such purposes may be offset, in whole or in part, by revenues, as to the timing and amount of which there can be no assurances. Management believes that additional financing sources for the Company include private and public financings, long-term and short-term borrowings, and financing provided by strategic business relationships, such as its joint ventures, licensing arrangements and partnership or distribution arrangements. The Company has established a receivable based financing arrangement with a financial intermediary, collateralized by accounts receivable, and has also engaged in other short term borrowings, some of which are collateralized by accounts receivable. There can be no assurances that such financing arrangements (if available) and borrowings will provide sufficient cash to sustain its operations and that arrangements will be available if needed. However, the Company believes that sufficient funds will be available through operating revenues and other funding sources to sustain its operations through 1992.

The Company believes that its profitability depends on the successful commercialization of its Ultraphone technology. In spite of its history of losses, the Company believes that its investment in inventories and non-current assets are stated on its December 31, 1991 balance sheet at realizable values. The inventories are recorded at realizable values based on the expected selling prices in 1992. Property and equipment are currently being utilized in the Company's on-going business activities, and the Company believes that no write-downs are required at this time due to lack of use or technical obsolescence. With respect to other assets, the Company believes that its investment in deferred product costs, which relate to the Ultraphone, is realizable through future sales of Ultraphone systems and that the value of its patents is at least equal to the value included in the December 31, 1991 balance sheet. The Company believes that the Goodwill relating to the Company's acquisition of operating telephone companies in realizable through the operations of those acquired companies.

[*28] [HARDCOPY PAGE 28]

ITEM 8. Financial Statements and Supplement Data

The List of Financial Statements and Schedules and the Financial Statements begin on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

PART III

ITEM 10. Directors and Executive Officers of the Company

Information concerning directors, appearing under the caption "Election of Directors" in the Company's Proxy Statement (the "Proxy Statement") to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on June 19, 1992, and information concerning executive officers, appearing under the caption "Item 1. Business - Executive Officers of the Company" in Part I of this form 10-K, are incorporated herein by reference in response to this item.

ITEM 11. Executive Compensation

The information contained in the section titled "Executive Compensation" in the Proxy Statement, with respect to executive compensation, and the information contained in the sections entitled "Committees and Meetings of the Board of Directors" "Stock Option Plans" and "Proposed Amendments to the Company's Non-Qualified Stock Option Plan" in the Proxy Statement, with respect to the Company's Incentive Stock Option Plan and Non-Qualified Stock Option Plan and with respect to director compensation, are incorporated herein by reference in response to this item.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The information contained in the section titled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference in response to this item.

ITEM 13. Certain Relationships and Related Transactions

The information contained in the section titled "Certain Relationships and Transactions" of the Proxy Statement, with respect to certain relationships and related transactions, is incorporated herein by reference in response to this item.

[*29] [HARDCOPY PAGE 29]

Part IV

ITEM 14. Exhibits, Financial Statements Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements.

(2) Financial Statement Schedules.

The List of Financial Statements and Schedules and the Financial

Statements begin on page F-1.

(3) Exhibits.

(*) 3.1 Articles of Incorporation of the Company, as amended. (Exhibit 3.1 to the Company's Registration Statement No. 33-12913 filed on March 26, 1987 [the "1987 Registration Statement"]).

(*) 3.2 Resolutions designating the Rights and Preferences of the $2.50 Cumulative Convertible Preferred Stock (Exhibit 4.1 to the 1987 Registration Statement).

(*) 3.3 Statement Affecting Class or Series of Shares of the Company filed with the Pennsylvania Department of State on July 24, 1989. (Exhibit 3.3 to the Company's Registration Statement No. 33-32888 filed on January 8, 1990 [the "1990 Registration Statement"]).

(*) 3.4 By-Laws of the Company, as amended (Exhibit 3.2 to the Company's Registration Statement No. 2-92867 filed on August 20, 1984).

(*) 3.5 Amendments to By-Laws of the Company, effective July 18, 1990 (Exhibit 3.4 to the Company's Registration Statement No. 33-38247 filed on December 18, 1990 [the "December 1990 Registration Statement"]).

(*) 3.6 Amendments to By-Laws of the Company, effective February 20, 1991 (Exhibit 3.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 [(the "1990 Form 10-K")].

(*)10.1 Warrant Agreement dated May 29, 1987 between the Company and Drexel Burnham Lambert Incorporated (Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987 [the "1987 Form 10-K"]).

[*30] [HARDCOPY PAGE 30]

(*)10.2 Form of Amendment to Common Stock Purchase Warrant Agreement dated July 7, 1988 (Exhibit 4.7 to the Company's Post-Effective Amendment No. 1 to Registration Statement No. 33-15931 on May 13, 1988 [the "1988 Registration Statement"]).

(*)10.3 Incentive Stock Option Plan, as amended (Exhibit 10.1 to the 1988 Registration Statement).

10.4 Non-Qualified Stock Option Plan, as amended.

(*)10.5 Amended and Restated Lease, dated December 20, 1983 and First Amendment to the Restated Lease, dated December 8, 1986 (Exhibit 10.4 to the 1987 Registration Statement).

(*)10.6 Cross Technology License Agreement effective as of October 31, 1984 among the Company, T.A.C.T. Technology, Inc. and ComputerSentry Partners, Ltd. (Exhibit 10.11 to the Company's Post-Effective Amendment No. 1 to the 1987 Registration Statement).

(*)10.7 Purchase Agreement and Option Agreement dated March 28, 1985 between the Company and W.W. Keen Butcher (Exhibit 10.31 to the Company's Registration Statement No. 2-98267 filed on June 7, 1985 [the "1985 Registration Statement"]).

(*)10.8 Option Agreement dated September 11, 1985 between the Company and Great Circle Traders, Ltd. Bda. (Exhibit 10.39 to the Company's Registration Statement No. 33-301 filed on September 16, 1985).

(*)10.9 Commercialization Phase and Beta Equipment Agreement made as of January 23,1986 between the Company and M/A-COM Linkabit, Inc. (with financial exhibits included) and form of Purchase Money Promissory Note, dated January 23, 1986, in the principal amount of $7,700,000. (Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1985 [the "1985 Form 10-K]).

(*)10.10 Warrant Agreement dated February 12, 1986 between the Company and W.W. Keen Butcher. (Identical Warrant Agreements, except as to the grantee of the warrants, were entered into with Lyman C. Hamilton, Jr., Peter F. Erb and Robert B. Liepold.) (Exhibit 10.33 to 1985 Form 10-K).

(*)10.11 Original Equipment Manufacturer Agreement between the Company and ITT Telecom Products Corporation. (Exhibit 10.37 to the Company's Registration

[*31] [HARDCOPY PAGE 31]

Statement No. 33-4570 filed on April 4, 1986 [the "1986 Registration Statement"]).

(*)10.12 Amendment No. 1 to Commercialization and Beta Equipment Agreement, dated September 5, 1986, between the Company and M/A-COM Government Systems, Inc. (not including technical exhibits). (Exhibit 10.38 to the Company's Registration Statement No. 33-9355 filed on October 8, 1986).

(*)10.13 Employment Agreement dated October 14, 1987 between the Company and William J. Hilsman, as amended (Exhibit 10.15 to the 1990 Form 10-K).

(*)10.14 Agreement of Lease between MSK Associates and the Company dated June 26, 1986 (Exhibit 10.34 to the 1987 Form 10-K).

(*)10.15 Warrant dated November 19, 1987 issued to W.W. Keen Butcher (Exhibit 10.35 to the 1987 Form 10-K).

(*)10.16 Warrant dated September 8, 1987 issued to W.W. Keen Butcher (Exhibit 10.36 to the 1987 Form 10-K).

(*)10.17 Agreement in Principle dated July 23, 1986 between the Company and Marubeni Corporation (Exhibit 10.31 to the 1987 Registration Statement).

(*)10.18 Production Agreement dated January 26, 1988 between the Company and Hughes Network Systems, Inc. (Exhibit 10.40 to the 1987 Form 10-K).

(*)10.19 General Purchase Agreement dated September 23, 1988 between the Company and BellSouth Services, Inc. (Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988 [the "1988 Form 10-K"]).

(*)10.20 Original Equipment Manufacturer (EOM) Agreement - ITT Telecom Products Corporation and International Mobile Machines Corporation dated May 8, 1986 (not including exhibits) (Exhibit 10.35 to the Company's Registration Statement No. 33-28253 filed on April 19, 1989 [the "1989 Registration Statement"]).

(*)10.21 Consulting Agreement between the Company and W.W. Keen Butcher dated September 8, 1987 (Exhibit 10.37 to the 1989 Registration Statement).

(*)10.22 Basic Ordering Agreement dated April 13, 1989 between the Company and Consoricio Industrial Electronico S.A. de C.V., not including certain

[*32] [HARDCOPY PAGE 32]

exhibits (Exhibit 10.38 to the 1989 Registration Statement).

(*)10.23 Basic Ordering Agreement dated May 8, 1989 between the Company and Pacific Telecom, Inc., not including certain exhibits (Exhibit 10.39 to the 1989 Registration Statement).

(*)10.24 Employment Agreement dated May 24, 1989 between the Company and Richard W. Pryor (Exhibit 10.40 to the 1989 Registration Statement).

(*)10.25 Intellectual Property License Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.34 to the 1990 Registration Statement).

(*)10.26 Engineering Services and Development Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.35 to the 1990 Registration Statement).

(*)10.27 Market Development Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.36 to the 1990 Registration Statement).

(*)10.28 1989 Cumulative Convertible Preferred Stock and Warrant Purchase Agreement between the Company and Hughes Network Systems, Inc. (Exhibit 10.37 to the 1990 Registration Statement).

(*)10.29 Warrant Certificate representing warrants to purchase 200,000 shares of Company's convertible preferred stock issued to Hughes Network Systems, Inc. (Exhibit 10.38 to the 1990 Registration Statement).

(*)10.30 Agreement of Lease for Building A between Swedeland Road Corporation and the Company dated October 25, 1989. (Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 [the "1989 Form 10-K"]).

(*)10.31 Agreement of Lease for Building F between Swedeland Road Corporation and the Company dated October 25, 1989 (Exhibit 10.48 to the 1989 Form 10-K).

(*)10.32 Warrant Agreement dated December 1, 1989 between the Company and W. W. Keen Butcher. (Identical Warrant Agreements, except as to the grantee of the warrants, were entered into between the Company and each of D. Ridgely Bolgiano, William J. Hilsman, V. Louise McCarren and Robert B. Liepold) (Exhibit 10.49 to the 1989 10-K).

[*33] [HARDCOPY PAGE 33]

(*)10.33 Letter Agreement dated June 27, 1990 between the Company and M/A-COM, Inc. (Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 1990).

(*)10.34 Subcontract Agreement dated as of August 1, 1990 between the Company and Hughes Network Systems, Inc. (Exhibit 10.36 to the December 1990 Registration Statement).

(*)10.35 RSA Asset Purchase Agreement dated December 6, 1990 between the Company and Century Indiana Cellular, Inc. (Exhibit 10.37 to the December 1990 Registration Statement).

(*)10.36 Basic Ordering Agreement dated April 16, 1990 between the Company and Rolm Telecomunicaciones S.A. de C.V. (Exhibit 10.38 to the December 1990 Registration Statement).

(*)10.37 Employment Agreement effective as of January 1, 1991 between the Company and E. L. Langley (Exhibit 10.43 to the 1990 Form 10-K).

(*)10.38 Employment Agreement effective as of January 1, 1991 between the Company and Richard W. Pryor (Exhibit 10.44 to the 1990 Form 10-K).

(*)10.39 Stock Purchase Agreement dated as of August 29, 1991 among Universal Service Telephone Corporation and the shareholders of Haviland Telephone Company, Inc., as amended (Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 6, 1991 ["December 1991 Form 8-K"]).

(*)10.40 Escrow Agreement dated as of August 29, 1991 among Texas Commerce Bank, N.A., Universal Service Telephone Corporation and the shareholders of Haviland Telephone Company, Inc., as amended (Exhibit 2.2 to the December 1991 Form 8-K).

(*)10.41 Master Agreement dated February 29, 1992 between the Company and Hughes Network Systems, Inc. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 29, 1992 [the "February 1992 Form 8-K"]).

(*)10.42 Asset Purchase and Secured Financing Agreement dated February 29, 1992 between the Company and Hughes Network Systems, Inc. (Exhibit 10.2 to the February 1992 Form 8-K).

[*34] [HARDCOPY PAGE 34]

(*)10.43 1992 License Agreement dated February 29, 1992 between the Company and Hughes Network Systems, Inc. (Exhibit 10.3 to the February 1992 Form 8-K).

(*)10.44 E-TDMA License Agreement dated February 29, 1992 between the Company and Hughes Network Systems, Inc. (Exhibit 10.4 to the

February 1992 Form 8-K).

10.45 Warrant Agreement dated March 9, 1992 between the Company and William J. Hilsman and Emily J. Hilsman (Identical Warrant Agreements, except as to the grantee of the warrants and the number of shares subject thereto, were entered into with D. Ridgely Bolgiano (1,400), G. James Bracknell (420), E.L. Langley (2,800) and Great Circle Communications Ltd. Bda. (1,400)).

10.46 Subscription Agreement dated March 9, 1992 between USTC Kansas, Inc. and William J. Hilsman and Emily J. Hilsman (Identical Subscription Agreements, except as to the subscriber and the number of units being purchased, were entered into with Richard W. Pryor (10 units), D. Ridgely Bolgiano (10 units), G. James Bracknell (3 units), E.L. Langley (20 units), Great Circle Communications Ltd. Bda. (10 units), Robert B. Liepold (10 units) and Rodney L. Joyce (1 unit)).

10.47 Promissory Notes issued from December 1991 to January 1992, and repaid in March 1992, to William J. Hilsman, Richard W. Pryor, D. Ridgely Bolgiano, E.L. Langley, Great Circle Communications Ltd. Bda., Robert B. Liepold, Rodney L. Joyce, G. James Bracknell and Lyman C. Hamilton, Jr., together with extension agreements.

10.48 Common Stock Warrant Certificate dated September 30, 1991 between the Company and William J. Burns Defined Benefit Keogh Plan and Trust.

10.49 Common Stock Warrant Certificate dated January 7, 1992 between the Company and William J. Hilsman.

10.50 Common Stock Warrant Certificates dated January 9, 1992 and March 6, 1992 between the Company and D. Ridgely Bolgiano.

10.51 Employment Agreement dated January 1, 1991 between the Company and G. James Bracknell.

10.52 Employment Agreement dated January 1, 1991 between the Company and Richard A. Guttendorf, Jr.

[*35] [HARDCOPY PAGE 35]

10.54 Employment Agreement dated January 1, 1991 between the Company and William A. Doyle.

10.55 Promissory Note dated January 6, 1992 issued by Richard W.

Pryor to the Company.

10.56 Promissory Note dated January 6, 1992 issued by G. James Bracknell to the Company.

10.57 Promissory Note dated January 9, 1992 issued by the Company to D. Ridgely Bolgiano.

10.58 Promissory Note dated January 7, 1992 issued by the Company to William J. Hilsman.

(*)22 Subsidiaries of the Company (Exhibit 22 to the 1990 Form 10-K).

24 Consent of Arthur Andersen & Co.

(*) Incorporated by reference.

(b) Reports filed on Form 8-K during the last quarter of 1991:

During the last quarter of 1991, the Company filed one Current Report on Form 8-K dated December 6, 1991 relating to the Company's acquisition of Haviland. The Form 8-K contained audited financial statements of Haviland for the fiscal years ended September 30, 1989, 1990 and 1991, a pro forma condensed consolidated balance sheet at September 30, 1991 and a pro forma condensed consolidated statement of operations for the nine months ended September 30, 1991 and the year ended December 31, 1990.

[*36] [HARDCOPY PAGE F-1]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND SCHEDULES

All other schedules are omitted because they are not acquired, are not applicable or equivalent information has been included in the financial statements and notes thereto.

[*37] [HARDCOPY PAGE F-2]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Mobile Machines Corporation:

We have audited the accompanying consolidated balance sheets of International Mobile Machines Corporation (a Pennsylvania corporation) and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1991. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of

International Mobile Machines Corporation and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index of financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Philadelphia, Pa.,
March 24, 1992

[*38] [HARDCOPY PAGE F-3]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS--DECEMBER 31, 1991 AND 1990

(In thousands)

ASSETS	1991	1990
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of $1,430 and $1,254 (Notes 3 and 6)	$ 5,506	$ 4,896
Short-term investments	2,637	-
Accounts receivable, net of allowance for uncollectible accounts of $96 and $80	2,609	2,055
Inventories (Notes 3 and 4)	2,487	3,345
Deposits on inventory purchase commitment (Note 5)	-	162
Prepaid engineering expense (Note 5)	-	582
Other current assets	823	262
Total current assets	14,062	11,302

PROPERTY, PLANT AND EQUIPMENT (Note 3):		
Telephone plant	2,744	-
Computer equipment	2,067	1,937
Machinery and quipment	1,680	1,582
Furniture and fixtures	847	836
Leasehold improvements	254	199
	7,592	4,554
Less- Accumulated depreciation and amortization	(3,566)	(2,760)
Net property and equipment	4,026	1,794
OTHER ASSETS:		
Goodwill, net of accumulated amortization of $13 (Note 2)	7,571	-
Patents, net of accumulated amortization of $1,560 and $1,140 (Note 3)	1,879	1,893
Deferred product costs, net of accumulated amortization of $7,469 and $5,640 (Notes 3 and 5)	1,677	3,506
Deposits on inventory purchase commitment (Note 5)	-	1,549
Other	759	539
Total other assets	11,886	7,487
	$29,974	$20,583

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	1991	1990
CURRENT LIABILITIES:		
Short-term borrowings (Note 6)	$ 1,000	$ 1,000
Current portion of long-term debt (Notes 2 and 7)	5,669	198
Due to Hughes Network Systems, Inc. (Note 5)	4,498	4,053
Accounts payable	5,022	1,924
Accrued compensation	1,005	830
Accrued warranty costs	523	532
Other accrued expenses	2,219	538
Total current liabilities	19,936	9,075
LONG-TERM DEBT (Note 7)	8,232	329
DUE TO M/A-COM, Inc. (Note 5):	-	4,873
DUE TO CENTURY CELLULAR CORP. (Note 8)	-	9,486
COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)		
SHAREHOLDERS' EQUITY (DEFICIT) (Notes 5,		

9, 10, 11 and 12):		
Preferred Stock, $ .10 par value, 14,399 shares authorized-		
$2.50 Convertible Preferred, 122 shares issued and outstanding (liquidation value of $3,034 at December 31, 1991)	12	12
$3.00 Convertible Preferred, 400 shares issued and outstanding (liquidation value of $10,000 at December 31, 1991	40	40
Common Stock, $ .01 per value, 50,000 shares authorized, 20,166 shares and 18,953 shares issued and outstanding	202	190
Additional paid-in capital	109,656	101,449
Accumulated deficit	(112,479)	(104,736)
	(2,569)	(3,045)
Common Stock to be issued to Hughes Network Systems, Inc. (Note 2)	4,700	-
Receivables on Common Stock sold	(44)	(97)
Deferred compensation	(281)	(38)
Total shareholders' equity (deficit)	(1,806)	(3,180)
	$29,974	$20,583

The accompanying notes are an integral part of these statements.

[*39] [HARDCOPY PAGE F-4]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	For the Year Ended December 31		
	1991	1990	1989
REVENUES (Notes 3 and 14):			
Ultraphone sales	$ 31,482	$ 15,834	$ 3,520
Digital cellular contract	2,140	2,736	-
Telephone network services	221	-	-
U.S. Army contract	-	-	951

	33,843	18,570	4,471
OPERATING EXPENSES (Notes 3, 5 and 9):			
Cost of Ultraphone sales	24,546	12,997	3,005
Digital cellular contract costs	1,434	1,918	-
Telephone network costs	128	-	-
U.S. Army contract costs	-	-	786
Selling and marketing	4,712	3,965	4,392
Research and development	2,612	1,600	3,847
General and administrative	5,155	6,101	9,304
Amortization of deferred product costs	1,829	1,829	1,829
	40,416	28,410	23,163
NONRECURRING ITEMS:			
Loss on purchase commitment cancellation (Note 5)	(7,200)	-	-
Gain on sale of cellular license (Note 8)	8,125	-	-
	925	-	-
Loss from operations	(5,648)	(9,840)	(18,692)
INTEREST INCOME (EXPENSE):			
Interest income	160	256	412
Interest expense (Notes 5, 6, 7 and 8)	(751)	(2,368)	(794)
	(591)	(2,112)	(382)
Net loss	(6,239)	(11,952)	(19,074)
PREFERRED STOCK DIVIDENDS	(1,504)	(1,504)	(2,902)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (7,743)	$ (13,456)	$ (21,976)
NET LOSS PER COMMON SHARE (Note 3)	$ (.39)	$ (.81)	$ (1.55)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 3)	19,828	16,655	14,180

The accompanying notes are an integral part of these statements.

[*40] [HARDCOPY PAGE F-5]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(In thousands)

	Convertible Preferred Stock $2.50	Convertible Preferred Stock $3.00	Common Stock	Additional Paid-in Capital
BALANCE, DECEMBER 31, 1988	$100	$ -	$131	$ 73,552
Sale of $3.00 Preferred Stock, net of expenses (Note 10)	-	40	-	9,946
Sale of restricted Common Stock	-	-	12	7,145
Exercise of Common Stock options (Note 11)	-	-	1	572
Exercise of Common Stock warrants (Note 11)	-	-	3	1,077
Grants of Common Stock and options below fair market value (Note 9)	-	-	-	440
Amortization of deferred compensation (Note 9)	-	-	-	-
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	-	-	1	668
Dividend of Common Stock and cash to $3.00 Preferred shareholders (Note 10)	-	-	1	401
Net loss	-	-	-	-
BALANCE, DECEMBER 31, 1989	100	40	149	93,821
Sale of restricted Common Stock	-	-	5	2,064
Exercise of Common Stock options (Note 11)	-	-	-	30
Exercise of Common Stock warrants (Note 11)	-	-	1	174
Grants of Common Stock and options below fair market value (Note 9)	-	-	-	3
Amortization of deferred compensation (Note 9)	-	-	-	-
Conversion of $2.50 Preferred Stock into Common Stock (Note 10)	(88)	-	25	63
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	-	-	-	138
Dividend of Common Stock to				

$3.00 Preferred shareholder (Note 10)	-	-	3	1,197
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses (Note 5)	-	-	7	3,959
Net loss	-	-	-	-
BALANCE, DECEMBER 31, 1990	12	40	190	101,449
Exercise of Common Stock options (Note 11)	-	-	1	670
Exercise of Common Stock warrants (Notes 11)	-	-	-	36
Grants of Common Stock and options below fair market value (Note 9)	-	-	-	468
Amortization of deferred compensation (Note 9)	-	-	-	-
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	-	-	-	72
Dividend of Common Stock to $3.00 Preferred shareholder (Note 10)	-	-	2	1,198
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses (Note 5)	-	-	9	4,863
Issuance of warrants in payment of interest (Note 8)	-	-	-	900
Common Stock to be issued to Hughes Network Systems, Inc. to settle cancellation charge (Note 5)	-	-	-	-
Net loss	-	-	-	-
BALANCE, DECEMBER 31, 1991 (Note 2)	$ 12	$40	$202	$109,656

(TABLE CONTINUED)

	Accumulated Deficit	Common Stock to be issued to HNS	Receivables on Common Stock Sold
BALANCE, DECEMBER 31, 1988	$ (69,304)	$ -	$ (263)
Sale of $3.00 Preferred Stock, net of expenses (Note 10)	-	-	-
Sale of restricted Common Stock	-	-	(90)

Exercise of Common Stock options (Note 11)	-	-	2
Exercise of Common Stock warrants (Note 11)	-	-	-
Grants of Common Stock and options below fair market value (Note 9)	-	-	-
Amortization of deferred compensation (Note 9)	-	-	-
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	(2,500)	-	-
Dividend of Common Stock and cash to $3.00 Preferred shareholders (Note 10)	(402)	-	-
Net loss	(19,074)	-	-
BALANCE, DECEMBER 31, 1989	(91,280)	-	(351)
Sale of restricted Common Stock	-	-	90
Exercise of Common Stock options (Note 11)	-	-	164
Exercise of Common Stock warrants (Note 11)	-	-	-
Grants of Common Stock and options below fair market value (Note 9)	-	-	-
Amortization of deferred compensation (Note 9)	-	-	-
Conversion of $2.50 Preferred Stock into Common Stock (Note 10)	-	-	-
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	(304)	-	-
Dividend of Common Stock to $3.00 Preferred shareholder (Note 10)	(1,200)	-	-
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses (Note 5)	-	-	-
Net loss	(11,952)	-	-
BALANCE, DECEMBER 31, 1990	(104,736)	-	(97)
Exercise of Common Stock options (Note 11)	-	-	53
Exercise of Common Stock warrants (Notes 11)	-	-	-
Grants of Common Stock and options below fair market value (Note 9)	-	-	-
Amortization of deferred compensation (Note 9)	-	-	-

Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	(304)	-	-
Dividend of Common Stock to $3.00 Preferred shareholder (Note 10)	(1,200)	-	-
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses (Note 5)	-	-	-
Issuance of warrants in payment of interest (Note 8)	-	-	-
Common Stock to be issued to Hughes Network Systems, Inc. to settle cancellation charge (Note 5)	-	4,700	-
Net loss	(6,239)	-	-
BALANCE, DECEMBER 31, 1991 (Note 2)	$ (112,479)	$4,700	$ (44)

(TABLE CONTINUED)

	Deferred Compensation	Total
BALANCE, DECEMBER 31, 1988	$ (112)	$ 4,104
Sale of $3.00 Preferred Stock, net of expenses (Note 10)	-	9,986
Sale of restricted Common Stock	-	7,067
Exercise of Common Stock options (Note 11)	-	575
Exercise of Common Stock warrants (Note 11)	-	1,080
Grants of Common Stock and options below fair market value (Note 9)	(34)	406
Amortization of deferred compensation (Note 9)	97	97
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	-	(1,811)
Dividend of Common Stock and cash to $3.00 Preferred shareholders (Note 10)	-	-
Net loss	-	(19,074)
BALANCE, DECEMBER 31, 1989	(49)	2,430
Sale of restricted Common Stock	-	2,159
Exercise of Common Stock options		

(Note 11)	-	194
Exercise of Common Stock warrants (Note 11)	-	175
Grants of Common Stock and options below fair market value (Note 9)	(3)	-
Amortization of deferred compensation (Note 9)	14	14
Conversion of $2.50 Preferred Stock into Common Stock (Note 10)	-	-
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	-	(166)
Dividend of Common Stock to $3.00 Preferred shareholder (Note 10)	-	-
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses (Note 5)	-	3,966
Net loss	-	(11,952)
BALANCE, DECEMBER 31, 1990	(38)	(3,180)
Exercise of Common Stock options (Note 11)	-	724
Exercise of Common Stock warrants (Notes 11)	-	36
Grants of Common Stock and options below fair market value (Note 9)	(399)	69
Amortization of deferred compensation (Note 9)	156	156
Dividend of Common Stock and cash to $2.50 Preferred shareholders (Note 10)	-	(232)
Dividend of Common Stock to $3.00 Preferred shareholder (Note 10)	-	-
Conversion of amount due to M/A-Com, Inc. into Common Stock, net of expenses (Note 5)	-	4,872
Issuance of warrants in payment of interest (Note 8)	-	900
Common Stock to be issued to Hughes Network Systems, Inc. to settle cancellation charge (Note 5)	-	4,700
Net loss	-	(6,806)
BALANCE, DECEMBER 31, 1991		

(Note 2)	$ (281)	$ 1,806

The accompanying notes are an integral part of these statements.

[*41] [HARDCOPY PAGE F-6]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year Ended December 31		
	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (6,239)	$ (11,952)	$ (19,074)
Adjustments to reconcile net loss to net cash used for operating activities-			
Depreciation and amortization	3,092	3,394	2,840
Gain on sale of cellular license	(8,125)	-	-
Compensation on stock issued and stock options granted	225	152	503
Write-down of inventory	-	545	1,344
Cancellation charge to be paid in Common Stock	4,700	-	-
Other	(313)	63	(589)
Change in assets and liabilities net of effects of business acquisition-			
Decrease (increase) in assets-			
Accounts receivable	44	(1,046)	(87)
Inventories	858	556	866
Deposits on inventory purchase commitment	53	84	(351)
Prepaid engineering expense	84	350	(932)
Other current assets	(421)	155	4
Increase (decrease) in liabilities-Due to Hughes Network Systems, Inc.	2,601	1,871	(5,588)
Due to M/A-Com, Inc.	56	710	462
Accounts payable	2,850	1,320	(788)

Accrued expenses	21	386	(131)
Due to Century Cellular Corp.	160	921	-
Net cash used for operating activities	$ (354)	$ (2,491)	$ (21,521)

The accompanying notes are an integral part of these statements.

[*42] [HARDCOPY PAGE F-7]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	For the Year Ended December 31		
	1991	1990	1989
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment, net of amounts acquired under capital leases of $46, $344 and $106, respectively	$ (247)	$ (498)	$ (300)
Patents	(406)	(813)	(650)
Net cash acquired from business acquisition	1,385	-	-
Net cash provided by (use for) investing activities	732	(1,311)	(950)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from sales of Common and Preferred Stock and exercises of stock options and warrants	703	2,356	18,707
Proceeds from (repayments of) short-term borrowings, net	-	(1,000)	133
Cash dividends on Preferred Stock	(232)	(166)	(1,811)
Payments on long-term debt	(239)	(187)	(165)
Proceeds from amounts due to Century Cellular Corp.	-	1,000	7,500
Net cash provided by financing activities	232	2,003	24,344
NET INCREASE (DECREASE) IN CASH			

AND CASH EQUIVALENTS	610	(1,799)	1,873
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,896	6,695	4,822
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,506	$ 4,896	$ 6,695

The accompanying notes are an integral part of these statements.

[*43] [HARDCOPY PAGE F-8]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	For the Year Ended December 31		
	1991	1990	1989
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 574	$ 405	$ 292
NONCASH FINANCING ACTIVITIES:			
Conversion of M/A-Com debt and interest into Common Stock (see Note 5)	$ 4,929	$ 4,000	$ -
Offset of prepaid engineering and deposits on inventory purchase commitments against long-term payables due to Hughes Network Systems, Inc. (see Note 5)	$ 2,156	$ -	$ -
Conversion of interest due to Century Cellular Corp. into warrants to purchase Common Stock (see Note 8)	$ 900	$ -	$ -

The following table presents the noncash assets and liabilities that were consolidated in 1991 as a result of the Haviland acquisition (see 2) (in thousands):

Noncash assets (liabilities):	
Short-term investments	$ 2,637
Accounts receivables	598
Other current assets	140

Property, plant and equipment		2,758
Goodwill	7,584	
Other assets	446	
Accounts payable and accrued expenses		(1,981)
Long-term debt	(1,821)	
Net noncash assets consolidated		10,361
Less- Issuance of Promissory Notes		11,746
Net cash acquired from business acquisition		$ 1,385

The accompanying notes are an integral part of these statements.

[*44] [HARDCOPY PAGE F-9]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1991

1. BACKGROUND:

International Mobile Machines Corporation (the Company) was incorporated in 1972 and is engaged primarily in the development and commercialization of the Ultraphone Digital Loop Carrier (the Ultraphone), a digital radio-telephone system. The Company sells the Ultraphone primarily to telephone operating companies in the United States and to distributors in and governments of foreign countries. The Company also provides certain engineering and marketing services on digital cellular technology, and is involved in the protection and exploitation of its intellectual property. The Company is also engaged in the acquisition and management of rural telephone operating companies. The acquisition of Haviland Telephone Company, Inc. (Haviland) in 1991 (see Note 2) is the Company's first substantial acquisition in its program.

The Company has experienced significant losses since inception and, as of December 31, 1991, its accumulated deficit was $112,479,000. Additional funds will be required by the Company to continue to produce and market the Ultraphone, continue product development, maintain and exploit the Company's patent position and technology and continue its telephone operating company acquisition program. Management believes that sufficient funds will be available to sustain its operations through 1992.

2. ACQUISITION OF HAVILAND:

In December 1991, the Company, through a wholly-owned subsidiary, purchased 100% of the outstanding capital stock of Haviland for approximately $12,000,000, plus transaction costs of $827,000. The purchase price was paid with $254,000 of cash from Haviland and the issuance of $11,746,000 of promissory notes (see Note 7). Haviland is located in Kansas and was organized in 1952 to provide telephone and communications services to the area from Wichita to Dodge City.

The acquisition has been accounted for using the purchase method, whereby the purchase price is allocated to the assets and liabilities of Haviland based on their fair market value at the acquisition date. Such allocation has been based on preliminary estimates which may be revised at a later date. The $7,584,000 excess of the total acquisition costs over the fair value of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 40 years.

[*45] [HARDCOPY PAGE F-10]

Subsequent to year end, $5,357,000 of the promissory notes discussed above plus accrued interest of $169,000, as of December 31, 1991, were repaid with $1,941,000 of cash from Haviland, the proceeds from the issuance of 5,850 shares of $100 par value redeemable preferred stock (Subsidiary Preferred) for $585,000 by the wholly-owned subsidiary which purchased Haviland and the proceeds from the issuance by the Company of 60 Common Stock units (Units) for $3,000,000.

The Subsidiary Preferred has a 14% compounded cumulative dividend payable as declared. In addition, upon maturity (the earlier of the sale of Haviland or April 15, 1997), the Company must redeem all outstanding shares of the Subsidiary Preferred for an amount equal to the par value, cumulative unpaid dividends and a contingent payment, as defined. The contingent payment is based on the deemed appreciation in the value of Haviland. At any time after December 31, 1994, the Company, at its option may redeem any or all of the outstanding Subsidiary Preferred at par value plus unpaid cumulative dividends. Subsidiary Preferred shares were issued with warrants to purchase 13,440 shares of the Company's Common Stock at $6.53 per share. Of the shares of Subsidiary Preferred issued, 3,700 shares were sold to various Company officers and members of the Board of Directors.

Each Unit included approximately 8,500 shares of Common Stock and warrants to purchase an additional 12,700 shares of Common Stock at the then fair market value of $5.875 per share. Through January 19, 1994, each Unit holder has the right to exchange one-half of the Common Stock and warrants for 20% of the capital stock of Haviland on a prorata basis. In addition, the Unit holders have a second exchange right, exercisable for the 30-day period from December 20, 1993 through January 19, 1994. This right permits each Unit holder to exchange one-half of the Common Stock and warrants for an additional 16% of the capital stock of Haviland on a prorata basis. At the option of the Company it can preempt the above exchange rights by redeeming the Common Stock and warrants for $5.875 per share plus a 15% return per annum from the original date of issuance of the Unit. These exchange rights expire on January 19, 1994; however, these rights will expire earlier under certain conditions.

If the above financing transactions had occurred on December 31, 1991, the following proforma balances would have resulted (in thousands):

	December 31, 1991	
	As Reported	Proforma
	(unaudited)	
Cash	$5,506	$3,565
Current portion of long-term debt	5,669	312
Preferred Stock of subsidiary	-	585
Shareholders' equity	1,806	4,806

[*46] [HARDCOPY PAGE F-11]

The operating results of Haviland have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the unaudited consolidated pro forma results of operations of the Company for the years ended December 31, 1991 and 1990, assuming the acquisition had occurred on January 1, 1990 (in thousands, except per share amounts):

	1991	1990
	(unaudited)	
Revenues	$ 36,213	$ 20,856
Net loss	(4,222)	(12,452)
Net loss applicable to common shareholders	(5,726)	(13,956)
Net loss per common share	(.29)	(.84)

The pro forma financial information presented above is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place on January 1, 1990 or of future results of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash, Cash Equivalents and Short-Term Investments

The Company considers investments with original maturities of three months or less to be cash equivalents for purposes of the statements of cash flows. The Company invests its excess cash in various time deposits and marketable securities, which are included in cash, cash equivalents and short-term investments, as follows (in thousands):

	December 31	
	1991	1990
Cash, money market and demand deposits	$2,913	$2,637
U.S. Treasury bills and notes	1,737	-
Certificates of deposit	1,330	254
Commercial paper	1,200	1,005
Repurchase agreement	963	1,000
	$8,143	$4,896

The repurchase agreement matured on January 2, 1992 and was fully collateralized by U.S. Government securities. The short-term investments are carried at cost which approximates market.

[*47] [HARDCOPY PAGE F-12]

As of December 31, 1991, Haviland accounted for $3,548,000 of the Company's cash, cash equivalents and short-term investments. In January 1992, $1,941,000 of this balance was used to repay a portion of the promissory notes, including accrued interest, related to the acquisition of Haviland (see Note 7).

Restricted Assets

The Company is limited as to its ability to withdraw the net assets of

Haviland due to certain covenants of Haviland's long-term debt and other local utility commission regulations (see Note 7). As of December 31, 1991, the historical net assets of Haviland were $4,927,000 of which $2,533,000 was restricted from withdrawal.

Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis and market based on net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization of property, plant and equipment except for telephone plant are provided using the straight-line method. The estimated useful lives for computer equipment, machinery and equipment and furniture and fixtures are three to five years. Leasehold improvements are being amortized over their lease term, generally five to ten years.

Depreciation of telephone plant is provided using straight-line composite rates. This composite rate was approximately 5% in 1991.

Deferred Product Costs

Deferred product costs are described in Note 5 and are being amortized over five years from December 1987, which was the date revenue was first recognized on Ultraphone product sales.

Patents

The costs to obtain certain patents for the Company's Ultraphone technology have been capitalized and are being amortized on a straight-line basis over their estimated useful lives, generally 10 years. Amortization was $420,000, $727,000 and $190,000 in 1991, 1990 and 1989, respectively.

Revenue Recognition

Effective January 1, 1990, the Company began recognizing revenues on Ultraphone sales upon shipment. For the year ended December 31, 1989, revenues from such sales were recognized when the system had been installed and accepted by the customer. If this change in accounting policy had been effective on January 1, 1989, the results of operations in 1989 would not have been materially different from the reported results.

[*48] [HARDCOPY PAGE F-13]

The Company provides certain marketing and engineering services in the field of digital cellular nodes on a time and material basis to Hughes Network Systems, Inc. The Company has recorded revenue as earned pursuant to the contract.

Revenues from the Company's telephone network services are recorded as services are provided.

Major Customers

Two, two and four customers accounted for approximately 62%, 60% and 65% of the Company's Ultraphone sales in 1991, 1990 and 1989, respectively. Each of these customers accounted for at least 10% of Ultraphone sales. In 1991 and 1990, the Company's largest customer was Telefonos de Mexico, which accounted for approximately 40% and 43% of Ultraphone sales, respectively (see Note 14).

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of cash equivalents, short-term investments and accounts receivable. By policy, the Company places its cash equivalents and short-term investments only with high quality financial institutions and in U.S. Government obligations. Substantially all of the Company's trade accounts receivable are derived from sales of Ultraphone products. Approximately 52% of the Company's Ultraphone product sales are export sales (see Note 14). To reduce credit risk, the Company generally requires foreign customers to furnish letters of credit. Historically, the Company has not incurred material credit-related losses.

Basis of Accounting for Rate-Regulated Subsidiary

Statement of Financial Accounting Standards No. 71 (SFAS No. 71) provides that rate-regulated public utilities account for and report assets and liabilities consistent with the economic effect of the way in which regulations establish rates, if the rates established are designed to recover the costs of providing the regulated service, and if the competitive environment makes it reasonable to assume that such rates can be charged and collected. Haviland follows the accounting and reporting requirements of SFAS No. 71.

Net Loss Per Common Share

The net loss per common share is based on the weighted average number of shares of Common Stock outstanding during each year. Common Stock equivalents have not been considered in any year presented since their effect is antidilutive is each year.

[*49] [HARDCOPY PAGE F-14]

4. INVENTORIES:

	December 31 1991	December 31 1990
	(In thousands)	
Component parts and work-in-progress	$1,824	$2,003
Finished goods	663	1,342
	$2,487	$3,345

5. ULTRAPHONE DEVELOPMENT AND PRODUCTION AGREEMENTS:

In 1986, the Company entered into a commercialization agreement with M/A-Com, Inc. and its subsidiaries (M/A-Com) to design, fabricate, test and manufacture equipment for the fixed application of the Ultraphone system. In September 1987, the M/A Com subsidiary, with which the Company had its contractual relationship, was acquired by Hughes Aircraft Corporation and renamed Hughes Network Systems, Inc. (HNS). The costs of this agreement were expensed until the technological feasibility of the fixed application of the Ultraphone system was established and the working model and its design had been completed. The remaining costs of the agreement were capitalized as deferred product costs (see Note 3).

In February 1987, the Company entered into a production agreement with HNS to manufacture certain Ultraphone products. As required under the agreement, a $2,000,000 down payment was made and was to be credited against inventory purchases over the life of the agreement. In 1989, the Company cancelled a portion of this agreement at a cost of $1,850,000, which was expensed in 1988. The cancellation charge was funded with the application of the remaining $600,000 of the inventory deposit, a credit from HNS of $118,000 for the value of scrapped material and $1,132,000 paid in 1991 (see below). As of December 31, 1991, the Company has no future commitments under this agreement.

In December 1987, the Company entered into a second production agreement with HNS to engineer and manufacture certain Ultraphone products. The agreement required a deposit, which was to be credited ratably against product purchases over the life of the agreement. In September 1991, the remaining deposit of $1,658,000 was applied against the first production agreement cancellation charge (see above) and other commercialization agreement liabilities.

In February 1992, the Company finalized an agreement to cancel this second production agreement. The cancellation charge, subject to adjustment, is approximately $7,200,000 and has been expensed in 1991 as a nonrecurring item. This liability was settled in March 1992, with $2,500,000 in cash and the issuance of 499,787 shares of the Company's Common Stock valued at $4,700,000. This subsequent issuance of Common Stock has been presented as a component of shareholders' equity at December 31, 1991. If, at any time

[*50] [HARDCOPY PAGE F-15]

during the five years after the issuance of this Common Stock, the aggregate net proceeds received by HNS from the sale of this Common Stock exceeds $4,700,000, as adjusted, HNS will be required to pay the Company the excess proceeds and to return any remaining shares of Common Stock. If HNS sells all the Common Stock during this five-year period for aggregate net proceeds less than $4,700,000, the Company will then be obligated to pay HNS the difference, either in cash or by the issuance of additional shares of Common Stock.

Also, in March 1992, in connection with the cancellation of the second production agreement, the Company purchased from HNS for $2,700,000 certain equipment to be used by the Company to manufacture all future Ultraphone subscriber unit needs. This equipment was paid for by issuing a note due in three equal installments in May, August and November 1992 and bears interest at prime plus 2%. In addition, the Company purchased from HNS certain materials and supplies to be used in the subscriber unit production for approximately $330,000. These materials and supplies were paid for by issuing a promissory note due on April 1, 1992. The Company is still required to purchase certain Ultraphone products through July 1992 at a cost of approximately $3,800,000.

In July 1989, the Company engaged HNS to provide engineering services related to enhancements of the Ultraphone for a minimum cost of $2,000,000 of which $1,000,000 was prepaid. HNS had provided $84,000, $350,000 and $68,000 in engineering services to the Company in 1991, 1990 and 1989, respectively. In 1991, the Company cancelled the remaining portion of the agreement, incurring a cancellation charge of $500,000, which was expensed in 1990. In September 1991, the remaining unused prepaid balance of $498,000 was offset against this cancellation liability.

Certain of the balances due HNS bore interest at an annual rate of 15% in 1991 and 1990. Interest expense on these balances was $230,000 and $317,000 in 1991 and 1990, respectively.

Also, in July 1989, the Company granted to HNS a nonexclusive, worldwide license to use certain of the Company's patented technology in the field of digital cellular telephony in the United States and certain other countries. The Company earns a royalty based on sales of HNS digital cellular products. No royalties have been earned to date pursuant to this agreement.

In February 1992, the Company granted to HNS an additional nonexclusive, worldwide license to manufacture and sell products base on the Company's Time Division Multiple Access (TDMA) patented technology. The Company earns a royalty based on sales by HNS of such TDMA products. HNS has paid in 1992 an initial nonrefundable royalty payment of $2,500,000 related to this license.

In December 1990, M/A-Com, Inc. converted $4,000,000 of the amount then due into 730,000 shares of Common Stock. In February and March 1991, M/A-Com, Inc. converted $4,929,000 of principal and accrued interest on the notes into 898,000 shares of Common Stock. Interest expense on the amount due to M/A-Com was $56,000 in 1991, $922,000 in 1990 and $462,000 in 1989.

[*51] [HARDCOPY PAGE F-16]

6. SHORT-TERM BORROWINGS:

The Company has a $2,000,000 bank line of credit, with interest at prime. The outstanding balance on the line at December 31, 1991, is fully secured by an assignment of the Company's investment in commercial paper (see Note 3) which is held in trust by the bank. The line of credit expires on July 31, 1992. The interest rate was 6.5%, 10.0% and 10.5% at December 31, 1991, 1990 and 1989, respectively. The average balance outstanding on the line during 1991, 1990 and 1989 was $1,000,000, $1,403,000, $1,906,000, at weighted average interest rates of 8.6%, 10.2% and 11.0%, respectively. The maximum balance outstanding on the line during 1991, 1990 and 1989 was $1,000,000, $2,000,000 and $2,000,000, respectively. Interest expense was $86,000 in 1991, $142,000 in 1990 and $210,000 in 1989.

During 1991, the Company had certain short-term borrowing arrangements collateralized by specific accounts receivable invoices. The interest rate on these borrowings was 24%. The average balance outstanding during 1991 was $88,000 with the maximum balance outstanding being $550,000. Interest expense for 1991 was $21,000. No such borrowings are outstanding as of December 31, 1991.

7. LONG-TERM DEBT:

	December 31 1991	1990		
	(In thousands)			
Mortgage notes:				
2% Rural Electrication Authority notes, due through March 2008	$ 552	$ -		
7% and 7-1/2% Rural Telephone Bank notes, due through October 2011	1,427	-		
Promissory notes (see Note 2)	11,746	-		
Capital lease obligations	352	515 s payable to vendors	-	12
	14,007	527		
Less- Discount on mortgage notes	(176)	-		
	13,901	527		
Less- Current portion	(5,669)	(198)		
	$ 8,232	$ 329		

The mortgage notes were acquired in December 1991 in connection with the Haviland transaction (see Note 2). In connection with its purchase accounting, the Company has recorded a discount on these notes related to their below market stated rate of interest. This discount is being amortized over the remaining terms of the notes using the effective interest method.

[*52] [HARDCOPY PAGE F-17]

These notes are payable in equal quarterly installments of approximately $62,000 of principal and interest. Interest expense for the period ended December 31, 1991 was $10,000. These notes are collateralized by the assets of Haviland. The notes have restrictive covenants, which among other things, require Haviland to maintain a specified level of net worth and restricts the payment of dividends based on this level of net worth and working capital (see Note 3).

In connection with its acquisition of Haviland, the Company issued promissory notes of $11,746,000 to the sellers. These notes were issued in four series, three of which bear interest at 10% per annum. The notes in the first series, totaling $1,771,000 of principal were non-interest bearing and paid in January 1992 from the cash of Haviland. The notes in the second series, totaling $3,586,000 of principal, were paid in January and March 1992, plus accrued interest from the cash of

Haviland and the proceeds of the financing transaction discussed in Note 2. The notes in the third and fourth series, totaling $1,479,000 and $4,910,000, mature in December 1994 and 1996, respectively. Interest on these notes payable quarterly. Interest expense for the period ended December 31, 1991 on all of the above promissory notes was $68,000. The third and fourth series notes are collateralized by the escrow of approximately 62% of the outstanding common stock of Haviland.

Capitalized lease obligations are payable in monthly installments at various interest rates through 1995.

As of December 31, 1991, maturities of principal of long-term debt are as follows: $5,669,000 in 1992, $218,000 in 1993, $1,638,000 in 1994, $104,000 in 1995, $4,997,000 in 1996 and $1,275,000 in 1997 and thereafter.

8. DUE TO CENTURY CELLULAR CORP.:

The amount due to Century Cellular Corp. (Century) at December 31, 1990 was comprised of the following (in thousands):

Convertible subordinated note	$7,500
Accrued interest through December 1, 1990	900
Accrued interest for December 1990	86
Refundable deposit	1,000
	$9,486

On December 4, 1989, the Company issued a $7,500,000 convertible subordinated note (the Note) to Century with interest at 12%. In connection with the issuance of the Note, Century received a warrant to purchase 770,000 shares of Common Stock at $5.07 per share, as adjusted. The warrant is exercisable until December 4, 1994. The accrued interest on the Note through December 1, 1990 of $900,000 was paid by the issuance in March 1991 of a warrant to purchase 900,000 shares of Common Stock at $4.00 per share. The warrant is exercisable until March 1996.

[*53] [HARDCOPY PAGE F-18]

In March 1990, pursuant to a lottery conducted by the Federal Communications Commission, the Company was awarded a construction permit for a cellular radio system to operate in certain areas of Indiana. In December 1990, the Company signed a contract for the sale of the construction permit to a subsidiary of Century. The purchase price for the permit was $8,500,000 plus accrued interest on the Note from

December 1, 1990 until closing. The Company was paid a $1,000,000 refundable deposit on contract execution. The sale closed in March 1991 and the Note and accrued interest of $246,000 was forgiven. The Company recorded a gain of $8,125,000, net of $621,000 in transaction costs, in the first quarter of 1991.

9. COMMITMENTS:

The Company has entered into various lease agreements, primarily for office and assembly space. Total rent expense was $708,000, $929,000 and $1,078,000 for the years ended December 31, 1991, 1990 and 1989, respectively. Minimum future rental payments for operating leases are as follows (in thousands):

1992	$ 676
1993	654
1994	666
1995	490
1996	309
1997 and thereafter	972
	$3,767

The Company has contracts with certain key employees which provide for minimum annual compensation of $1,303,000 in 1992, $1,360,000 in 1993, $736,000 in 1994 and $457,000 in 1995. In connection with these contracts and the hiring of certain other employees, restricted shares of Common Stock and nonqualified stock options were issued at prices below fair market value. The aggregate differences between the fair market value of the Common Stock on the dates of issuance and the issue price were $399,000, $3,000 and $34,000 in 1991, 1990 and 1989, respectively, and have been classified as deferred compensation in the accompanying balance sheets. These amounts are being amortized over the vesting periods. The amortization for the years ended December 31, 1991, 1990 and 1989 was $156,000, $14,000, and $97,000, respectively.

In the normal course of business the Company is party to certain claims and legal proceedings. Management believes that no material adverse impact will result from the resolution of these claims and proceedings.

[*54] [HARDCOPY PAGE F-19]

10. PREFERRED STOCK:

The holders of the $2.50 Convertible Preferred Stock ($2.50 Preferred) are entitled to receive, when and as declared by the Company's Board of Directors, cumulative annual dividends of $2.50 per share payable in cash or Common Stock (as defined) at the election of the Company (subject to a cash election right of the holder), if legally available. Such dividends are payable semiannually on June 1 and December 1. In the event the Company fails to pay two consecutive semiannual dividends within the required time period, certain penalties may be imposed. The $2.50 Preferred is convertible into Common Stock at any time prior to redemption at a conversion price of $12 per share (subject to adjustment under certain conditions). The Company temporarily reduced the conversion price on its $2.50 Preferred from, $12 per share of Common Stock to $8.93 per share for the period from May 11, 1990 to June 1, 1990. During this period, 878,438 shares of $2.50 Preferred were converted into 2,459,628 shares of Common Stock. In 1991, 1990 and 1989, the Company declared and paid dividends on the $2.50 Preferred of $304,000, $304,000 and $2,500,000, respectively. These dividends, were paid with cash of $232,000, $166,000 and $1,811,000 and 9,816, 29,049 and 78,302 shares of Common Stock, respectively.

In 1989, HNS purchased 400,000 shares of the Company's $3.00 Convertible Preferred Stock (the $3.00 Preferred) for $9,986,000, net of $14,000 in expenses. Of this amount, $4,811,000 was used to repay a portion of the amount due to HNS (see Note 5). In connection with this transaction HNS received a warrant exercisable for four years, commencing July 1, 1990, to purchase 200,000 shares of Common Stock at $10.77 per share. In March 1992, HNS converted the $3.00 Preferred into 1,064,000 shares of Common Stock. In connection with this conversion, the Company reduced the conversion price from $10.34 per share to $9.40 per share and accelerated the expiration date of the above warrants to 90 days from the date the Common Stock and warrants are registered (which is expected to occur in April 1992).

In 1991, 1990 and 1989, the Company declared and paid dividends on the $3.00 Preferred of $1,200,000, $1,200,000 and $402,000, respectively. These dividends were paid by the issuance of 158,480, 256,000 and 52,990 shares of Common Stock, respectively.

Upon any liquidation, dissolution or winding up of the Company, the holders of the $2.50 will be entitled to receive, from the Company's assets available for distributions to shareholders, $25 per share plus all dividends accrued, before any distribution is made to the Common shareholders. After such payment, the holders of the Preferred would not be entitled to any other payments.

The redemption price for each share of $2.50 Preferred is $26.50 per share through May 31, 1992, plus all accrued and unpaid dividends. The redemption price of $26.50 per share will decrease $ .25 per share for each succeeding 12-month period until the redemption price is fixed at

$25 per share on June 1, 1997, and thereafter.

[*55] [HARDCOPY PAGE F-29]

The holders of the $2.50 Preferred do not have any voting rights except on those amendments to the Articles of Incorporation which would adversely affect their rights, create any class or series of stock ranking senior to or on a parity with the $2.50 Preferred, as to either dividend or liquidation rights, or increase the authorized number of shares of any senior stock. In addition, if two or more consecutive semiannual dividends on the $2.50 Preferred are not paid by the Company, the holders of the Preferred, separately voting as a class, will be entitled to elect one additional director of the Company.

11. COMMON STOCK OPTION PLANS AND WARRANTS:

Common Stock Option Plans

The Company has incentive and nonqualified stock option plans for officers and key employees of the Company and others. Under these plans, options may be granted for the purchase of up to 5,050,000 shares of Common Stock. The number of options to be granted and the option prices are determined by a committee of the Board of Directors in accordance with the terms of the plans. Under the terms of the incentive option plan, the option price cannot be less than 100% of the fair market value of the Common Stock at date of grant. Incentive stock options granted become exercisable at 20% per year beginning one year after date of grant and generally remain exercisable for 10 years. Under the nonqualified option plan, options are exercisable for a period of 10 years from the date of grant and normally vest on the grant date.

Information with respect to stock options under the above plans is summarized as follows (in thousands, except per share amounts):

	Available for	Outstanding Options	
	Grant	Number	Price Range
BALANCE AT DECEMBER 31, 1989	148	1,792	$ .01-$17.625
Additional authorized	300	-	-
Granted	(234)	234	$3.875-$10.00
Cancelled	162	(162)	$5.75-$16.375
Exercised	-	(12)	$ .01-$3.00
BALANCE AT DECEMBER 31, 1990	376	1,852	$ .01-$17.625

Additional authorized	2,350	-	-
Granted	(1,082)	1,082	$ .01-$8.375
Cancelled	121	(121)	$3.875-$17.625
Exercised	-	(130)	$3.00 - $6.875
BALANCE AT DECEMBER 31, 1991	1,765	2,683	$ .01-$ $16.375

[*56] [HARDCOPY PAGE F-21]

WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS AT DECEMBER 31, 1991	$ 7.44
EXERCISABLE AT DECEMBER 31, 1991	1,976
WEIGHTED AVERAGE EXERCISE PRICE OF EXERCISABLE OPTIONS AT DECEMBER 31, 1991	$ 8.47

Common Stock Warrants

As of December 31, 1991 and in addition to the option plans discussed above, the Company has various warrants outstanding to purchase 2,944,000 shares of Common Stock at exercise prices ranging from $2.50 to $18.125 per share, with a weighted average exercise price of $6.54 per share. As of December 31, 1991, all of these warrants are currently exercisable. These warrants expire in various years through 2001. The exercise price and number of shares of Common Stock to be obtained upon exercise of certain of these warrants are subject to adjustment under certain conditions.

12. RELATED-PARTY TRANSACTIONS:

All warrants and options granted to related parties, as described below, are included in the number of warrants and options disclosed as outstanding in Note 11.

In 1989, the Company granted 10-year warrants to purchase 106,840 shares of Common Stock to certain directors and other persons who made loans to the Company. These loans were repaid in 1989. The exercise price of these warrants is $8.10 per share.

In 1989, the Company granted a three-year warrant to purchase 25,000 shares of Common Stock to a Director who agreed to serve as Chairman of a Board committee. The exercise price of the warrant is $11.85 per share.

In 1989, 4,500 shares of restricted Common Stock were granted at $ .01 per share to certain officers and key employees.

In 1990, the Company granted 10-year warrants to purchase a total of 110,00 shares of Common Stock to the members of the Board of Directors. The exercise price of these warrants is $5.75 per share.

In 1990, 10,000 shares of restricted Common Stock were granted at $ .01 per share to an officer.

[*57] [HARDCOPY PAGE F-22]

In 1991, the Company granted options pursuant to the nonqualified stock option plan to the members of the Board of Directors for 56,000 shares of Common Stock exercisable at $7.75 per share.

In 1991, the Company granted options pursuant to the nonqualified stock option plan to an officer for 10,000 shares of Common Stock exercisable at $ .01 per share.

In 1991, the Company paid legal fees of $54,000 to a firm with one of its partners being on the Board of Directors.

In 1991, the Company paid consulting fees of $148,000 to two members of the Board of Directors.

In 1991, the Company advanced $172,000 to an officer for relocation expenses. This advance is non-interest bearing and is expected to be repaid in 1992.

13. INCOME TAXES:

At December 31, 1991, the Company had net operating loss carryforwards of approximately $93,000,000 which begin to expire in 1992. The Company also has approximately $1,500,000 of tax credit carryforwards which begin to expire in 1998. Pursuant to the Tax Reform Act of 1986, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% has occurred within a three-year period. The Company believes, however, that such limitation would not have a material impact on the utilization of the carryforwards.

Effective January 1, 1991, the Company adopted the provisions of

Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The effect of adopting this statement had no impact on the Company's results of operations or financial position.

14. ULTRAPHONE SALES GEOGRAPHIC DATA:

Net Ultraphone sales by geographic area are as follows (in thousands):

	1991	1990	1989
Domestic	$15,244	$ 8,930	$3,520
Foreign	16,238	6,904	-
	$31,482	$15,834	$3,520

[*58] [HARDCOPY PAGE S-1]

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of March, 1992.

INTERNATIONAL MOBILE MACHINES CORPORATION

BY: /s/ WILLIAM J. HILSMAN
CHIEF EXECUTIVE OFFICER
CHAIRMAN OF THE BOARD
THE PRINCIPAL EXECUTIVE OFFICER

MARCH 30, 1992

BY: /s/ RICHARD A. GUTTENDORF, JR.
SENIOR VICE PRESIDENT
CHIEF FINANCIAL OFFICER
TREASURER
THE PRINCIPAL FINANCIAL OFFICER
PRINCIPAL ACCOUNTING OFFICER

MARCH 30, 1992

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the capacities and on the dates indicated.

[*59] [HARDCOPY PAGE S-2]

/s/ ROBERT B. LIEPOLD
DIRECTOR
MARCH 30, 1992

/s/ DAVID E. KAPLAN
DIRECTOR
MARCH 30, 1992

/s/ D. RIDGELY BOLGIANO
DIRECTOR
MARCH 30, 1992

/s/ W. W. KEEN BUTCHER
DIRECTOR
MARCH 30, 1992

/s/ RODNEY L. JOYCE
DIRECTOR
MARCH 30, 1992

/s/ PETER F. ERB
DIRECTOR
MARCH 30, 1992

/s/ DIANA LADY DOUGAN
DIRECTOR
MARCH 30, 1992

/s/ RICHARD W. PRYOR
DIRECTOR
MARCH 30, 1992

/s/ WILLIAM J. BURNS
DIRECTOR
MARCH 30, 1992

[*60]

SEC ONLINE INC.
SCHEDULE INDEX

[*61] [HARDCOPY PAGE F-23]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE II -- AMOUNTS RECEIVABLE FROM RELATED PARTIES, UNDERWRITERS,

PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES

(in thousands)

Column A	Column B	Column C	Column D	
			Deductions	
Name of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Other
FOR THE YEAR ENDED DECEMBER 31, 1991				
Advances to-				
Richard W. Pryor	$ -	$172	$ 3	$ -

(TABLE CONTINUED)

Column A	Column E	
	Balance at End of Period	
Name of Debtor	Current	Not Current
FOR THE YEAR ENDED DECEMBER 31, 1991		
Advances to-		
Richard W. Pryor	$169	$ -

[*62] [HARDCOPY PAGE F-24]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

HAVILAND TELEPHONE COMPANY, INC.

CONDENSED BALANCE SHEET

DECEMBER 31, 1991

(in thousands)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 911
Short-term investments	2,637
Other current assets	695
	4,243
TELEPHONE PLANT, net	2,728
OTHER ASSETS	434
	$ 7,405

LIABILITIES AND SHAREHOLDER'S EQUITY

CURRENT LIABILITIES	$ 629
LONG-TERM DEBT	1,849
STOCKHOLDER'S EQUITY	4,927
	$ 7,405

[*63] [HARDCOPY PAGE F-25]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(continued)

HAVILAND TELEPHONE COMPANY, INC.

CONDENSED STATEMENT OF OPERATIONS

FOR THE PERIOD DECEMBER 6, 1991 TO DECEMBER 31, 1991

(in thousands)

NETWORK SERVICES REVENUE		$ 221
OPERATING EXPENSES:		
Cost of sales and service	88	
Selling general and administrative	11	
		99
Income before state tax provision		122
STATE TAX PROVISION		8
NET INCOME		$ 114

[*64] [HARDCOPY PAGE F-26]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(continued)

HAVILAND TELEPHONE COMPANY, INC.

CONDENSED STATEMENT OF CASH FLOWS

FOR THE PERIOD DECEMBER 6, 1991 TO DECEMBER 31, 1991

(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 114

Adjustments to reconcile net income to net cash used for operating activities-		
Depreciation	30	
Change in operating assets and liabilities	(600)	
Net cash used for operating activities		(456)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt		(18)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(474)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,385
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 911

[*65] [HARDCOPY PAGE F-27]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE III -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(continued)

HAVILAND TELEPHONE COMPANY, INC.

NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT

(in thousands)

LONG-TERM DEBT:	
Mortgage notes:	
2% Rural Electrication Authority notes, due through March 2008	$ 552,000
7% and 7 1/2% Rural Telephone Bank notes, due through October 2011	1,427,000
	1,979,000
Less:	
Current portion	130,000
	$1,849,000

These notes are payable in equal quarterly installments of approximately $62,000 of principal and interest. Interest expense for the period ended December 31, 1991 was $10,000. These notes are collateralized by the assets of Haviland. The notes have restrictive covenants, which among other things, require Haviland to maintain a specified level of net worth and restricts the payment of dividends based on this level of net worth.

For the years subsequent to December 31, 1991, annual maturities of long-term debt are (in thousands):

1992	$ 130
1993	130
1994	132
1995	93
1996	95
1997 and thereafter	1,399
	$ 1,979

[*66]

SEC ONLINE INC.
EXHIBIT INDEX

NUMBER	DESCRIPTION	PAGE
24	CONSENT OF ARTHUR ANDERSEN & CO	67

[*67] [HARDCOPY PAGE EXH1]

EXHIBIT 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Mobile Machines Corp.:

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements File No. 33-32888, File No. 33-43253 and File No. 33-44689.

Philadelphia, Pa.,
March 27, 1992

ARTHUR ANDERSEN & CO.

LENGTH: 29515 words

LOAD-DATE: July 17, 1992

LANGUAGE: ENGLISH