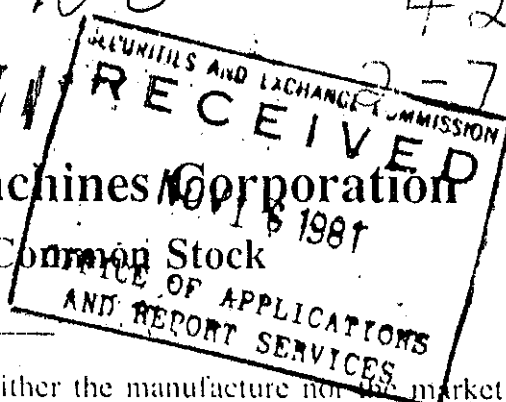


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International Mobile Machines Corporation

2,000,000 Shares of Common Stock

The Company is in the development stage and neither the manufacture nor the marketing of its products has commenced. Prior to this offering, there has been no market for the Common Stock of the Company. The initial public offering price was arbitrarily determined by negotiations between the Company and D.H. Blair & Co., Inc. (the "Representative"). See "Underwriting".

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK AND IMMEDIATE SUBSTANTIAL DILUTION OF THE BOOK VALUE OF SUCH STOCK FROM THE PUBLIC OFFERING PRICE. SEE "RISK FACTORS" AND "DILUTION". THE SECURITIES OFFERED HEREBY SHOULD BE PURCHASED ONLY BY PERSONS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to the Company(2)
Per Share	\$3.00	\$.30	\$2.70
Total(3)	\$6,000,000	\$600,000	\$5,400,000

- (1) Not including \$180,000 (\$.09 per share) for the non-accountable expenses of the Representative. In addition, the Representative will receive warrants to purchase 200,000 shares of Common Stock and a five year right of first refusal on future public offerings. The Company has also agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting".
- (2) Before deducting expenses estimated at \$339,796 (\$.17 per share) payable by the Company.
- (3) The Company has granted to the Underwriters an option to purchase, within thirty days from the date of this Prospectus, up to 200,000 additional shares of Common Stock at the initial public offering price, less the underwriting discount, to cover over-allotments, if any. If exercised in full, the total Price to Public will be increased by \$600,000, the Underwriting Discounts and Commissions by \$60,000 and the Proceeds to the Company by \$540,000, before deducting an additional non-accountable expense allowance to the Representative of \$18,000.

D. H. BLAIR & CO., INC.
The date of this Prospectus is November 12, 1981.

The shares of Common Stock are offered by the Underwriters named herein subject to receipt and acceptance by them, and subject to their right to reject any order in whole or in part. It is expected that delivery of the shares of Common Stock will be made against payment therefor on or about November 19, 1981.

Until February 11, 1982 (90 days from the date of this Prospectus), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligations of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.



PriveCode — It is anticipated that production of PriveCode (pictured above with a standard telephone receiver) will commence in early 1982.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the detailed information and financial statements included elsewhere in this Prospectus.

THE COMPANY

International Mobile Machines Corporation (the "Company" or "IMM") is engaged in the development of (a) the Ultraphone System, consisting of a wireless portable telephone ("Ultraphone") and a radio base station, designed to match the performance characteristics of the conventional wireline telephone system; Ultraphone is now undergoing research and development in order to attempt to miniaturize it, and (b) PriveCode, a telecommunications privacy device consisting of a telephone attachment that indicates to the owner the identity of certain callers and the person for whom the call is intended, and automatically screens all incoming calls, allowing only persons who have been provided with an authorized access code to be connected with the owner.

PLAN OF OPERATIONS AND USE OF PROCEEDS

The Company is in the development stage. It has entered into contracts for the pre-production engineering and production of PriveCode and a contract for research and development and pre-production engineering of the Ultraphone System. Production of PriveCode is scheduled to commence in early 1982, although the Company has not yet commenced marketing PriveCode. The proceeds of this offering will be used to pay research and development costs for the Ultraphone System, for development and production costs for PriveCode, to establish an in-house research and development department, for marketing expenses, to repay indebtedness and to cover operating expenses. See "Plan of Operations and Use of Proceeds".

THE OFFERING

Common Stock offered by the Company	2,000,000 shares*
Common Stock outstanding after this offering	6,200,000 shares*
Additional Common Stock reserved for issuance upon conversion of Preferred Stock	4,200,000 shares

*Does not include up to 200,000 shares subject to the Underwriters' over-allotment option, and 200,000 shares which may be issued upon exercise of the Representative's Warrants.

RISK FACTORS AND DILUTION

The offering involves a high degree of risk and immediate substantial dilution of the offering price in terms of the net tangible book value per share. See "Risk Factors" and "Dilution".

SELECTED FINANCIAL INFORMATION

Balance Sheet	As at June 30,		As at December 31,				
	1981	1980	1980	1979	1978	1977	1976
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)	(Unaudited)
Total assets	\$ 33,943	\$ 12,243	\$ 20,146	\$ 8,588	\$ 13,393	\$ 14,072	\$ 40,887
Total liabilities	1,059,002	534,224	804,835	306,254	284,654	262,223	232,739
Shareholders' investment	545,075	445,325	478,249	420,325	392,988	369,721	345,571
Deficit accumulated during the development stage (a)	(1,570,134)	(967,306)	(1,262,938)	(717,991)	(664,249)	(617,872)	(537,423)
Shareholders' equity	(1,025,059)	(521,981)	(784,689)	(297,666)	(271,261)	(248,151)	(191,852)

Statement of Operations	Six months ended June 30,		Year ended December 31,				
	1981	1980	1980	1979	1978	1977	1976
	(Unaudited)	(Unaudited)				(Unaudited)	(Unaudited)
Net loss (a)	(\$307,196)	(\$249,315)	(\$544,947)	(\$53,742)	(\$46,377)	(\$80,449)	(\$266,228)
Net loss per share	(.07)	(.07)	(.14)	(.02)	(.02)	(.03)	(.12)
Weighted average number of shares outstanding	4,200,000	3,774,654	3,853,350	3,365,605	2,666,914	2,401,349	2,162,733
No dividends have been declared or paid since inception.							

(a) The Company incurred a net loss in the period July 1, 1981 to September 30, 1981 of approximately \$44,000 (Unaudited) which increases the deficit accumulated during the development stage to approximately \$1,615,000.

The report of the Company's independent certified public accountants is qualified by the statement that its opinion is subject to the Company achieving profitable operations and obtaining additional capital through a public offering such as contemplated by this Prospectus.

THE COMPANY

The Company has been engaged and continues to engage in the research and development of two products: The Ultraphone System and PriveCode.

The Ultraphone System is intended to encompass a wireless portable telephone ("Ultraphone") and a radio base station, designed to match the performance characteristics of a conventional wireline telephone system. Ultraphone is undergoing research and development to substantially reduce its present size of approximately 3" x 4" x 7" so as to enable it to fit in a shirt pocket. Ultraphone is designed to be connected by a radio channel to an Ultraphone base station within a 10-mile radius, which, in turn, will be connected by wire, microwave, or satellite hook-up to the national and international telecommunications network. See "Business — The Ultraphone System".

PriveCode is a telecommunications privacy device consisting of a telephone attachment that indicates to the owner the identity of certain callers and the person for whom the call is intended before the phone is answered. It also screens all incoming calls automatically, screening out persons who have not been provided with an authorized access code by the owner. See "Business — PriveCode".

The Company is in the development stage and has not yet generated any revenues. However, the Company has entered into contracts for the final development and production of PriveCode. IMM has also entered into an agreement for further research and development and completion of the Ultraphone System. See "Plan of Operations and Use of Proceeds" and "Business". A substantial portion of the proceeds of this offering will be used to fund the contracts relating to PriveCode and the Ultraphone System.

The Company has recently licensed certain of its patents relating to PriveCode for use in the development of a telephone meter reading device. However, no product is now being sold pursuant to the license and the licensee will have to commit substantial efforts toward the development of the product. See "Business — PriveCode — Agreements with Timex".

The Company was incorporated in Pennsylvania in 1972 and its executive offices are at One Bala Avenue, Bala Cynwyd, Pennsylvania 19004 (215-667-1300).

RISK FACTORS

The shares of Common Stock being offered hereby involve a high degree of risk. An individual considering the purchase of the shares should give consideration to the following risk factors:

1. No Operating History and Financial Condition. The Company has, since its formation in 1972, been in the development stage. Although the Company anticipates that production of PriveCode will begin in early 1982, and that the pre-production development of the Ultraphone System may be completed as early as 1983, there can be no assurance that the Company will ever generate revenue, or achieve a profitable level of operations. The Company incurred losses of \$307,196, \$544,947, \$53,742 and \$46,377 for the six months ended June 30, 1981 and the fiscal years ended December 31, 1980, 1979 and 1978, respectively, due primarily to expenditures for research and development. As of June 30, 1981, the Company had total assets of \$33,943, total liabilities of \$1,059,002, a deficit in shareholders' equity of \$1,025,059 and a working capital deficit of \$511,408. For the three month period ending September 30, 1981, the Company incurred additional net losses of approximately \$44,000. It should also be noted that, as of September 30, 1981, the Company's past due payables were as follows: 1-30 days past due, approximately \$6,400; 31-60 days past due, approximately \$7,500; 61-90 days past

due, approximately \$39,600; over 90 days past due, approximately \$177,200. As of November 1, 1981, the Company owed Timex Corporation \$324,000 (of that amount, \$62,000 is included in the past due payables figures above). None of the Company's creditors have threatened to take any action against the Company; however, there can be no assurance that a creditor will not institute a bankruptcy or other action against the Company in the future. Among other things, the proceeds of this offering will be used to pay all past due payables.

2. Potential Loss to Investors. If the Company's two products under development are not developed or, if developed, do not receive commercial acceptance, investors in this offering may lose their entire investment. In this regard, it should be noted that, (a) the continued research and development of the Ultraphone System and the pre-production engineering and production of PriveCode is being undertaken by independent entities and (b) the Company has not conducted any test marketing of its products to determine if there is a potential market for either of the two products under development.

3. Capital Requirements of Ultraphone System. The Company believes that the proceeds of this offering will enable it to complete the development of the Ultraphone System and have available a limited number of working models of a portable telephone and base stations. However, there is a possibility of cost overruns in connection with the development of the Ultraphone System. If such cost overruns occur and are substantial, the Company may require additional capital to complete development of the Ultraphone System (in this regard, it should be noted that the \$1,700,000 projected cost of development is only an estimate). In addition, the costs involved in connection with the production of large quantities of portable telephones and base stations will require substantial additional capital beyond the proceeds of this offering. There can be no assurance that the Company will be able to raise such funds when needed. See "Business — The Ultraphone System".

4. Additional Development of Ultraphone System. A considerable amount of additional development work will be necessary in order to attempt to develop Ultraphone as a commercial product. While the Company has entered into agreements and understandings with regard to the completion of the development of the Ultraphone System, there can be no assurance that such development will, in fact, be successfully completed. See "Plan of Operations and Use of Proceeds" and "Business — The Ultraphone System".

5. Distribution and Marketing of PriveCode. The Company does not have any orders for PriveCode; while it has entered into a contract in connection with the distribution of PriveCode, the distributor has not committed itself to purchase any minimum number of PriveCode units. Production of PriveCode is scheduled to commence in early 1982. The failure of the Company to obtain distribution of this product will have a materially adverse effect on its business. Moreover, the residential market, which will be the primary target of the Company's marketing efforts with respect to PriveCode, is believed to be difficult to penetrate. See "Business — PriveCode — Marketing".

6. Limited Channel Availability for Ultraphone System. The Federal Communications Commission ("FCC") presently uses an allocation assignment system whereby groups of channels are allocated for various uses. Only a small number of channels have, as of this time, been allocated for domestic land public mobile radio service, which would include the Ultraphone System. Many of these channels have already been assigned (i.e., licensed) to licensees other than the Company, particularly in urban areas where no channels are believed to be presently available. Critical to the success of the Ultraphone System is the ability of the Company to market its equipment to licensees or to operate the Ultraphone System by entering into an agreement with a licensee or by obtaining its own license. No such arrangements have been made by the Company. Moreover, there can be no assurance that the Company could obtain a license or licenses for those geographic areas in which it may wish to operate the Ultraphone System. See "Business — The Ultraphone System".

7. Patent Protection. While the Company owns a number of patents with respect to its products, such patents may not provide sufficient protection for its products. Moreover, the cost of litigation against infringers of the Company's patents could be in excess of the Company's resources. See "Business — The Ultraphone System — Patents" and "PriveCode — Patents".

8. Transactions with Affiliates. The Company owes approximately \$573,000 to certain of its officers and directors, primarily as a result of advances made to Timex Corporation on behalf of the Company in connection with the development of PriveCode, and accrued legal fees. Most of this indebtedness is payable in May 1983. In addition, the Company has issued its securities to directors in return for the cancellation of indebtedness and to counsel as payment for legal services rendered. Since January 1980, the Company has issued to its officers and directors 367,431 shares of Common Stock, 3,674 shares of Class A Preferred Stock and 3,674 shares of Class B Preferred Stock (as adjusted to reflect an Agreement and Plan of Merger between the Company and two other entities; See "Plan of Merger"). See "Management — Remuneration and Other Transactions with Management".

9. Benefit of Offering to Insiders. Proceeds of this offering will be used to repay approximately \$74,000 in indebtedness to officers and directors of the Company, and upon completion of this offering, \$197,500 of outstanding letters of credit provided by certain officers and directors will be replaced by Company guarantees. See "Plan of Operations and Use of Proceeds" and "Management — Remuneration and Other Transactions with Management".

10. Government Regulation. The Company's products will be subject to regulation by the FCC and state public utility commissions ("PUCs"). The failure of the Company to obtain necessary approvals from the FCC and the PUCs in connection with the operation of its products could have a critically adverse effect on the Company's operations. Although the Company has registered PriveCode with the FCC in order to enable the interconnection of PriveCode with the toll telephone system, it has not yet attempted to obtain any licenses required for operation of the Ultraphone System (other than licenses which have been granted for the purpose of demonstrating the operation of a prototype of the Ultraphone System) or other authorizations from the FCC or any PUC which may be necessary in connection with the operation of the Ultraphone System. See "Business — The Ultraphone System — Government Regulation" and "Business — PriveCode — Government Regulation".

11. Competition. Other companies, many with financial resources far greater than the Company's, are engaged in the development of wireless telephones similar in concept to the Ultraphone System. In this regard, recent amendments to FCC rules may intensify competition in this area. See "Business — The Ultraphone System — Competition". In addition, the Bell System has developed a call screening device which may be competitive with PriveCode. Moreover, certain other devices, such as telephone answering machines, can be used (albeit with less convenience than provided by PriveCode) to screen out telephone calls and identify the caller before the user picks up the telephone. The Bell System and many manufacturers of such answering machines have financial resources far greater than those of the Company. There exists the possibility that the Bell System or other competitors will develop a unit which may be considered superior to PriveCode. See "Business — PriveCode — Competition".

12. Technological Obsolescence. The type of products sought to be developed by the Company are characterized by rapid changes in technology. Technological developments by the Company's competitors, most of whom have greater financial resources, may make it difficult for the Company to obtain a competitive position or, if the Company is successful in obtaining such a position, to maintain a competitive position in the telecommunications field. See "Business".

13. Limited Personnel Resources. As of the date of this Prospectus, the Company has only one full time employee, Sherwin I. Seligsohn, Chairman of the Board and President of the Company, and a small number of additional employees who devote varying amounts of time to the business of the Company. Consequently, the Company will depend on non-affiliated persons or entities for research and development, engineering, manufacturing and marketing of the Company's products. For example, a substantial amount of the engineering and virtually all of the production work relating to the PriveCode has been or will be done by Timex Corporation. Similarly, a substantial amount of the research and development work relating to Ultraphone is expected to be performed by M/A-COM, Inc. pursuant to a development agreement with the Company. If the non-affiliated entities do not perform in the manner contemplated, a substantial delay in the production of PriveCode and the development of the Ultraphone System may result. The Company will endeavor to reduce this risk, in connection with the future development of its products, by using a portion of the proceeds of this offering to establish a research and development laboratory. This facility is intended to include personnel capable of performing development functions of the kind which the Company presently has contracted out to other entities. However, with respect to the production of its products, the Company intends to continue its policy of contracting out the necessary services to companies with manufacturing capabilities. See "Plan of Operations and Use of Proceeds".

14. Reliance on Key Employees. The Company's development to date has been largely the result of the efforts of Sherwin I. Seligsohn, its Chairman of the Board and President, and D. Ridegley Bolgiano, its Vice President — Technical Development. Although the Company intends to increase its technical staff, the loss of either of its key personnel could have an adverse affect upon the Company's business. A portion of the proceeds of this offering will be used to recruit and maintain management, marketing and technical personnel. However, no assurance can be given that efforts to obtain such personnel will be successful. At the present time, the Company does not have "key man" insurance on any of its officers, but intends to attempt to obtain such a policy covering Mr. Seligsohn. See "Business — Employees" and "Management".

15. Control By Current Officers and Directors. Following the completion of this offering, the officers and directors of the Company will continue to control over 50% of the Company's Common Stock and, in the future, will be able to elect all directors and control all corporate actions.

16. No Dividends. The Company has never paid any cash dividends and does not anticipate paying cash dividends in the foreseeable future. The payment of cash dividends will depend upon the earnings of the Company, the Company's capital requirements and other financial factors which are considered relevant by the Company's Board of Directors.

17. Repayment of Long-Term Debt. The Company is obligated to repay over \$500,000 of long-term debt, most of which is payable to affiliates of the Company, in May 1983. Unless sufficient capital is then available, the repayment of this obligation may result in a diversion of funds otherwise required for the production of the Ultraphone System. See "Plan of Operations and Use of Proceeds" and "Management — Remuneration and Other Transactions with Management".

18. Representative's Warrants. In connection with this offering, the Company will sell to the Representative, for \$200, Warrants to purchase 200,000 shares of the Company's Common Stock. The Representative's Warrants will be exercisable for a period of four years beginning one year from the date of the initial public offering at a price equal to 120 percent of the public offering price. The Representative has the right to cause the Company, at the Company's sole expense, to register the Warrants or the Common Stock issuable upon exercise of the Warrants at any one time during a period of four years

beginning one year from the closing of this offering. In addition, the Representative has the right (commonly known as a "piggy-back registration right"), at the Company's sole expense, to join in any registration statement that the Company may elect to file with respect to its capital stock. The Company's obligation to register the Warrants or the shares purchased pursuant to the Warrants could result in substantial expense to the Company and may hinder any future financing. See "Underwriting".

19. Shares Eligible for Future Sale. Within 90 days from the completion of the offering, approximately 2,685,000 shares of Common Stock held by present shareholders may be sold publicly pursuant to Rule 144 of the Securities Act of 1933 (the holders of approximately 2,065,000 of these shares have agreed not to sell any of their shares for a period of 12 months from the closing of this offering without the written consent of the Representative). The sale of any such shares may have an adverse effect on the market price of the Company's Common Stock. In addition, it should be noted that approximately 74,000 additional shares of Common Stock will become eligible for sale during 1982, and approximately 1,441,000 additional shares of Common Stock will become eligible for sale during 1983. Moreover, the Company's Class A and Class B Preferred Stock are convertible into an aggregate of 4,200,000 shares of Common Stock upon the occurrence of certain events, and the Common Stock acquired upon such conversion may be eligible for sale under Rule 144 (see "Description of Capital Stock — Preferred Stock").

PLAN OF OPERATIONS AND USE OF PROCEEDS

The Company has developed a working prototype of PriveCode and has completed limited research and development relating to the Ultraphone System. In connection with the engineering and production of its products, the Company has decided to pursue a policy of contracting out the necessary services to companies with experience in these areas.

The Company has developed an operational prototype of the Ultraphone System in the form of a 45 ounce developmental model of the wireless telephone and a central station radio which receives and transmits radio signals from or to the wireless telephone and interconnects the wireless telephone with the wireline telecommunications system. In order to further develop the Ultraphone System, the Company has entered into an agreement with M/A-COM, Inc. d/b/a Microwave Associates Communications Company ("M/A-COM"). M/A-COM is a producer of microwave components for manufacturers of equipment used in the defense and commercial telecommunications markets and is also a supplier of digital information processing and transmission equipment for satellite communications, data communications, fiber optics, television communications and CATV. Pursuant to the agreement with M/A-COM, the Company will fund M/A-COM's research and development efforts for the Ultraphone System and it is intended that M/A-COM complete development of the Ultraphone System pursuant to a program called "Project Alexander". The project is designed to result in the initial production of approximately 100 Ultraphones (ranging in size from one to three pounds) and approximately five base stations, each of which is intended to receive and transmit signals between Ultraphones in its service area and also provide interconnections with wireline, microwave or satellite telecommunications. The total cost of the project is estimated to be approximately \$1,700,000, and M/A-COM has estimated that the project will require at least 23 months to complete. In this regard, M/A-COM will commence full scale development efforts after the completion of this offering, and the 23 month period will commence on such date, as the Company will then be in a position to satisfy its financial obligations to M/A-COM under the agreement. The projected cost and timetable for development of the Ultraphone System reflects a recent decision by the Company and M/A-COM to redirect the project towards enabling the

initial Ultraphone System components to utilize digitalized transmission. The agreement with M/A-COM will be modified to reflect this development. In addition, the Company has agreed to utilize M/A-COM as the principal manufacturer for the Ultraphone System components, if and when the Ultraphone System is successfully completed. It should be noted, however, that substantial amounts of additional capital will be necessary to fund the large-scale production of the Ultraphone System.

In March 1980, the Company entered into an agreement with Timex Corporation ("Timex"), pursuant to which the Company agreed to fund research and development efforts by Timex to design and engineer the initial PriveCode model ("Timex Development Agreement"). The Company and Timex have recently entered into agreements for the production by Timex of the initial PriveCode models, beginning in early 1982. See "Business — PriveCode — Agreements with Timex".

The Company intends to hire executive, marketing and financial personnel during the next six months. In addition to expenditures under the agreements with M/A-COM and Timex, the Company intends to establish its own research and development laboratory as soon as possible after the completion of this offering. It is anticipated that the research and development laboratory will perform independent development activities in connection with PriveCode and the Ultraphone System, as well as developmental research in the field of telecommunications sciences, thereby enabling the Company to reduce its overall reliance on outside firms in connection with the research and development of its products. The Company intends to hire approximately 14 persons for the laboratory, including 9 technical and 5 administrative employees.

The net proceeds to the Company from the sale of the 2,000,000 shares of Common Stock offered hereby, estimated at approximately \$4,880,204 after deducting approximately \$1,119,796 of underwriting discounts and commissions and other expenses of the offering (18.7% of the gross proceeds) will be used by the Company approximately as follows:

(i) \$1,700,000 (28.3%) to finance research and development efforts of M/A-COM relating to the Ultraphone System and to produce approximately 100 Ultraphones and five base stations (includes \$36,000 due to M/A-COM as of September 30, 1981).

(ii) \$1,325,000 (22.1%) to finance the final stages of research and development and the initial production of PriveCode by Timex (includes \$324,000 due to Timex as of September 30, 1981).

(iii) \$1,000,000 (16.7%) to finance the establishment of a research and development laboratory, including the payment of start up costs and the payment of salaries and rent for a period of approximately 12 months.

(iv) \$220,000 (3.7%) to repay corporate indebtedness due primarily to (a) consultants (approximately \$99,000 as of September 30, 1981), for services rendered to the Company and (b) officers, directors and shareholders of the Company (approximately \$78,000 as of September 30, 1981), for advances made on behalf of the Company pursuant to the agreement with M/A-COM, expenses incurred on behalf of the Company and accrued interest on certain long term indebtedness. See "Management — Remuneration and Other Transactions with Management."

(v) The balance of approximately \$635,204 (10.6%, together with the proceeds, if any, received upon exercise of the over-allotment option), to provide working capital, including salaries, and marketing, advertising, inventory and leasehold expenses, and recruitment and various other start-up costs. As of June 30, 1981, the Company had a working capital deficit of \$511,408. The

working capital deficit consisted of the \$36,000 due to M/A-COM, noted in subparagraph (i) above, \$313,750 of the \$324,000 due to Timex, noted in subparagraph (ii) above, and most of the \$220,000 in corporate indebtedness described in subparagraph (iv) above. Therefore, portions of the proceeds to be used as described in subparagraphs (i), (ii) and (iv) will be used to eliminate the working capital deficit.

The foregoing represents the Company's best estimate of its allocations of the proceeds of this offering based upon the present state of its business operations, its present plans and business conditions. The course of development of the products which are subject to the Company's development effort may affect the amount of funds required for the categories listed above. Furthermore, the market for such products as well as the lack of success of any development effort may necessitate the abandonment or redirection of any research and development effort. Accordingly, it is possible that the proceeds of this offering may be applied other than as set forth herein.

The amounts listed above will be expended over a period of time. Where certain agreements call for performance in accordance with a timetable, expenditures will be made throughout the relevant period, as provided in the respective agreements. In addition, salaries, research and development expenditures and other expenses will be paid as incurred. To the extent that the proceeds will not be immediately used for the purposes set forth above, it is anticipated that the unused proceeds will, until needed, be invested in certificates of deposit, governmental obligations or such other short-term interest-bearing securities as the Company may deem appropriate. Interest income, if any, will be added to operating capital.

In the opinion of the Company, the proceeds of this offering will satisfy the Company's cash requirements for at least twelve months following the date of this Prospectus. Accordingly, the Company does not anticipate any requirement for raising additional funds to meet the expenditures which the Company believes will be required to operate its business during that period of time. However, it should be noted that substantial amounts of additional capital will be necessary in connection with the production and marketing of the Ultraphone System, the development of which is projected to be completed in no less than 23 months after the completion of this offering. See "Business — The Ultraphone System — Post-Development Marketing Alternatives". In addition, the officers and directors of the Company do not intend to continue to provide financing to the Company or to guarantee Company indebtedness after this offering; the failure of the Company's officers and directors to provide such financing or guarantees may adversely affect the Company's liquidity.

If Company revenues are not sufficient by May 1983 to pay \$500,000 in long term debt (due primarily to affiliates of the Company), funds which remain from the proceeds of this offering may be used to repay the long term debt.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1981, after giving effect to the Company's Plan of Merger (see "Plan of Merger"), and as adjusted to give effect to the sale of 2,000,000 shares of Common Stock offered hereby.

Long Term Debt(1)	<u>Outstanding</u>	<u>As Adjusted</u>
Notes Payable		
Officers and Directors	\$ 494,983	\$ 494,983
Shareholders	22,000	22,000
Total Long-Term Debt	<u>\$ 516,983</u>	<u>\$ 516,983</u>
Shareholders' Equity		
Preferred Stock, Class A, par value \$.05 per share, 42,000 shares authorized, 42,000 shares outstanding and to be outstanding (2) ..	\$ 2,100	\$ 2,100
Preferred Stock, Class B, par value \$.05 per share, 42,000 shares authorized, 42,000 shares outstanding and to be outstanding (2) ..	2,100	2,100
Common Stock, par value \$.01 per share, 25,000,000 shares authorized, 4,200,000 shares issued and outstanding and 6,200,000 shares to be outstanding (3)	42,000	62,000
Additional Paid-in Capital	502,875	5,363,079
Stock Subscriptions Receivable	(4,000)	(4,000)
Retained Earnings (Deficit)	<u>(1,570,134)</u>	<u>(1,570,134)</u>
Total Shareholders' Equity	<u>\$ (1,025,059)</u>	<u>\$ 3,855,145</u>

- (1) See Notes 2 and 4 of the Notes to Financial Statements and "Management — Remuneration and Other Transactions with Management" for information regarding long term debt payable to officers, directors and shareholders of the Company.
- (2) Each Share of Class A Preferred Stock and Class B Preferred Stock is convertible into 50 shares of Common Stock upon the satisfaction of certain conditions. See "Description of the Capital Stock".
- (3) Does not include 200,000 shares of Common Stock issuable pursuant to the Underwriters' over-allotment option or 200,000 shares of Common Stock issuable upon exercise of Warrants to be issued by the Company to the Representative. See "Underwriting".

DILUTION

The following tables present certain information concerning the net tangible book value of the Company's Common Stock as of June 30, 1981, as adjusted to reflect the sale of the 2,000,000 shares of Common Stock offered hereby, (a) without reflecting the conversion of Class A and Class B Preferred Stock and (b) reflecting the conversion of Class A and Class B Preferred Stock. See "Description of the Capital Stock".

Table I — Without Conversion of Class A and Class B Preferred Stock

Public offering price per share		\$3.00
Net tangible book value per share before offering (1)	\$(.24)	
Increase in net tangible book value attributable to cash payments made by purchasers of the Common Stock offered hereby (2)	<u>\$.86</u>	
Net tangible book value per share after offering		<u>\$.62</u>
Dilution to new shareholders (3)		<u>\$2.38</u>

Table II — Assuming Full Conversion of Class A and Class B Preferred Stock

Public offering price per share		\$3.00
Net tangible book value per share before offering (1)	\$(.12)	
Increase in net tangible book value attributable to cash payments made by purchasers of the Common Stock offered hereby (2)	\$.49	
Net tangible book value per share after offering (4)		<u>\$.37</u>
Dilution to new shareholders (3)		<u>\$2.63</u>

- (1) Net tangible book value per share is determined by dividing the number of shares of Common Stock outstanding into the net worth (total tangible assets less total liabilities) of the Company.
- (2) Net of underwriting fees and estimated expenses of this offering.
- (3) "Dilution" means the difference between the public offering price and the net tangible book value per share after giving effect to the offering.
- (4) Based on conversion of Class A and Class B Preferred Stock upon the achievement of specified per share market price levels; if conversion results from the achievement of certain earnings criteria (an alternative condition for the conversion of Class A and Class B Preferred Stock), the net tangible book value per share will most likely be increased. See "Description of Capital Stock".

The following tables present the relative share purchases, percentages of equity ownership in the Company, percentage of total capital invested, and the average cost per share to the owners after giving effect to the sale of the Common Stock offered hereby, (a) without reflecting the conversion of Class A and Class B Preferred Stock and (b) reflecting the conversion of Class A and Class B Preferred Stock.

Table III — Without Conversion of Class A and Class B Preferred Stock

	<u>Shares Purchased</u>	<u>Percentage of Equity Ownership</u>	<u>Percentage of Total Capital Invested</u>	<u>Average Price Per Share</u>
New Shareholders	2,000,000	32.26%	93.46%	\$3.00
Present Shareholders	4,200,000	67.74%	6.54%	\$.10

Table IV — Assuming Full Conversion of Class A and Class B Preferred Stock

	<u>Shares Purchased</u>	<u>Percentage of Equity Ownership</u>	<u>Percentage of Total Capital Invested</u>	<u>Average Price Per Share</u>
New Shareholders	2,000,000	19.23%	93.46%	\$3.00
Present Shareholders	8,400,000	80.77%	6.54%	\$.05

The foregoing tables do not give effect to the 200,000 shares of Common Stock issuable pursuant to the exercise of the Underwriters' over-allotment option and 200,000 shares of Common Stock issuable pursuant to the exercise of the Representative's Warrants. The issuance of shares upon the exercise of such Warrants may result in further dilution of the interests of the purchasers of Common Stock pursuant to this offering.

INTERNATIONAL MOBILE MACHINES CORPORATION

SELECTED FINANCIAL DATA

The following table summarizes certain selected financial data and is qualified in its entirety by the financial statements included elsewhere in the Prospectus.

Selected statement of operations data:

	Six months ended June 30,		Year ended December 31,				
	1981 (Unaudited)	1980 (Unaudited)	1980	1979	1978	1977 (Unaudited)	1976 (Unaudited)
Net sales and/or operating revenues	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net (loss) (a)	(307,196)	(249,315)	(544,947)	(53,742)	(46,377)	(80,449)	(266,228)
Weighted average number of shares outstanding during each period	4,200,000	3,774,654	3,853,350	3,365,605	2,666,914	2,401,349	2,162,733
Per common share:							
Net loss	(\$.07)	(\$.07)	(\$.14)	(\$.02)	(\$.02)	(\$.03)	(\$.12)
No dividends have been declared or paid since inception							

Selected balance sheet data:

	June 30,		December 31,				
	1981 (Unaudited)	1980 (Unaudited)	1980	1979	1978 (Unaudited)	1977 (Unaudited)	1976 (Unaudited)
Total assets	\$ 33,943	\$ 12,243	\$ 20,146	\$ 8,588	\$ 13,393	\$ 14,072	\$ 40,887
Long term debt	516,983	—	—	—	—	—	—
Total liabilities	1,059,002	534,224	804,835	306,254	284,654	262,223	232,739
Working capital	(511,408)	(525,313)	(788,021)	(300,998)	(274,593)	(251,483)	(195,184)
Shareholders' investment	545,075	445,325	478,249	420,325	392,988	369,721	345,571
Deficit accumulated during the develop- ment stage (a)	(1,570,134)	(967,306)	(1,262,938)	(717,991)	(664,249)	(617,872)	(537,423)

(a) The Company incurred a net loss in the period July 1, 1981 to September 30, 1981 of approximately \$44,000 (Unaudited) which increases the deficit accumulated during the development stage to approximately \$1,615,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company has been in the development stage. While it has developed product prototypes and has committed itself to research and development contracts with respect to PriveCode and the Ultraphone System, and production contracts with respect to PriveCode and the Ultraphone System (although a production contract with respect to the Ultraphone System will be executed only if the Ultraphone System is successfully developed), it has not generated any revenues since its organization in 1972. The net losses during each period resulted from expenses related to research and development of the Company's products. Such expenses have grown substantially since the beginning of 1980 as a result of the research and development contracts described above, and will continue to increase substantially in the foreseeable future.

Working capital necessary to maintain the liquidity of the Company and develop its products to date has been provided by: (1) the issuance of capital stock in exchange for (a) cash, (b) the settlement of loans payable, accrued expenses and fees, and (c) as an inducement for officers, directors and shareholders to provide funds to pay or guarantee certain debts of the Company; (2) loans and advances provided by officers, directors and shareholders; and (3) the negotiation of payment terms on certain notes and accounts payable favorable to the Company. In this regard, it should be noted that a substantial amount of the Company's payables are past due. As of September 30, 1981, approximately \$7,500 in payables were 31-60 days past due, approximately \$39,600 were 61-90 days past due and approximately \$177,200 were over 90 days past due. Among other things, the proceeds of this offering will be used to pay past due payables. In addition, the Company has experienced substantially larger operating losses since the beginning of 1980, causing significant decreases in working capital. This trend is expected to continue at least until development and pre-production tooling of the Ultraphone System is completed, unless the Company is able to generate substantial revenues from the sale of PriveCode units at an earlier time (production of PriveCode is expected to commence in early 1982). As of June 30, 1981, the Company had a working capital deficit of \$511,408; as adjusted for the use of proceeds of this offering, the Company's working capital as of June 30, 1981 would have been approximately \$4,370,000.

The Company will require sufficient cash to maintain liquidity and to accomplish its plan of operations. In this regard, the proceeds of this offering are expected to satisfy the Company's working capital requirements for at least twelve months following the date of this Prospectus. Additional working capital may also be provided from sales of PriveCode. However, it should be noted that substantial amounts of additional capital will be necessary in connection with the production and marketing of the Ultraphone System, the development of which is projected to be completed in approximately 23 months. The Company will consider various alternative means of obtaining such additional working capital, including public or private financings. It should be noted, however, that the Company's officers and directors do not intend to continue to provide financing to the Company or to guarantee Company indebtedness after the completion of this offering.

As noted above, the Company has committed itself to various contracts with respect to the Ultraphone System and PriveCode. These contracts, together with additional agreements the Company intends to enter with regard to research and development of the Ultraphone System, are estimated to entail capital expenditures of approximately \$3,025,000 (includes approximately \$350,000 in accounts payable as of June 30, 1981) over the next twenty-three months. The proceeds of this offering are to be used to fulfill the Company's commitments with regard to these contracts. In addition, the Company intends to commit, out of working capital, approximately \$1,000,000 over the next twelve months for the establishment of a research and development laboratory and approximately \$415,000 over the next twelve months for advertising and public relations.

BUSINESS

Since its inception in 1972, the Company has been engaged in research and development of the technologies that form the basis of the Ultraphone System and PriveCode.

The Ultraphone System

The Product

The Ultraphone System has been under development by the Company for over 8½ years. During that period, various refinements have been made, including the development of preliminary models with some of the operating capabilities envisioned for the final product, and a number of patents were issued to the Company. As a result, by the end of 1980, the Company believed that the Ultraphone System technology was developed to the extent that it was appropriate to contract out the remaining development work necessary to enable the commencement of production of the Ultraphone System. In this regard, the Company, on February 2, 1981, entered into an agreement with M/A-COM for the initial stage of a design and engineering project aimed at the eventual production of the Ultraphone System. It is intended that M/A-COM complete development of the Ultraphone System pursuant to subsequent stages of the design and engineering project. The Company has agreed that M/A-COM will be principal manufacturer for the Ultraphone System components, if and when the Ultraphone System is successfully completed. If completed, the project will encompass the production of approximately 100 Ultraphones (weighing between one and three pounds) and five base stations, and the systems could be used for limited operations. See "Plan of Operations and Use of Proceeds".

The Ultraphone will be a duplex scanning wireless telephone, which transmits and receives frequency modulated (FM) radio transmission. It is designed to provide a transmission quality comparable to current wireline telephone systems. Because it is a duplex system, it will allow for both parties to talk freely and simultaneously in the same manner as a conventional wireline telephone (as opposed to simplex systems, such as "walkie-talkies", which allow only one person to talk at a time). The Company intends to develop two models of the Ultraphone: a wireless telephone similar in size to the standard residential telephone models currently in use ("standard size Ultraphone"), and a portable hand held telephone which will weigh approximately one pound and fit in a shirt pocket ("portable Ultraphone"). The Ultraphone System is designed to operate within a transmission radius of up to 10 miles, so that users can operate the Ultraphone while moving freely within 10 miles of an Ultraphone base station. In connection with the use of portable Ultraphones, the Ultraphone System will permit the transfer of a connection from one base station to a base station in an adjacent service area (a system which allows for such a transfer is known as a "cellular system"; however, the Ultraphone System should not be confused with "small cellular systems" being developed by certain of the Company's competitors. See "Competition.") Such a transfer will permit the user of the Ultraphone to move freely within a larger area than would be possible in a system entailing only a single base station.

The standard sized Ultraphone is designed to plug into a standard 110 volt electrical outlet or the electrical system of an automobile. It will also have a "back-up" battery connection, to be used in the event of a power failure. The portable Ultraphone is designed to be powered by rechargeable batteries. Although the Company has developed certain power saving devices, it is anticipated that the batteries will require frequent recharging. However, the recharging process will require only the insertion of a battery pack into a standard 110 volt electrical outlet. In addition, the portable Ultraphone is designed to be connected to 110 volt electrical outlets and the electrical system of an automobile, so that the batteries need not be utilized at all times.

The ultimate goal of the Company is to have an extensive network of Ultraphone base stations serving large numbers of Ultraphones in various geographic areas around the country. In essence, the Company believes that the Ultraphone System encompasses an entirely new communications network which can complement or serve as an alternative to the conventional wireline system. However, as discussed in more detail below, it will be necessary for the Company to raise substantial amounts of additional capital or enter into appropriate arrangements with other entities before the large-scale production of the components of the Ultraphone System can be achieved. The Company believes that, barring cost overruns of a substantial nature, the proceeds of this offering should be sufficient to permit the completion of development and the production of a limited number of "demonstration systems", which will enable the commencement of limited operations of the Ultraphone System. See "Plan of Operations and Use of Proceeds".

As a result of recent discussions between the Company and M/A-COM, it has been determined that the research and development to be undertaken by M/A-COM will be directed towards enabling the initial Ultraphone System components to utilize digitalized transmission (i.e., transmission in which the analog waves produced by the voice are converted into a series of digital signals, like those in a computer). This constitutes a revision of the research and development plan originally contemplated by the Company and M/A-COM, which called for the initial Ultraphone System components to utilize analog transmission and the conversion of the Ultraphone System to digitalized transmission only at a later date. The Company believes that digitalization will enhance significantly the security and privacy of wireless communications. Communications sent via analog transmission can be intercepted by third parties with relatively simple receiving equipment. Moreover, while analog transmission can be encrypted (i.e., "scrambled"), such a process is relatively difficult. On the other hand, communications sent via digitalized transmission may be received by third parties only with sophisticated equipment; moreover, the encryption of digitalized transmission is relatively simple.

However, it should be noted that if, in the future, it is determined that the application of digital technology is infeasible or is not cost effective, the Company will redirect the research and development effort towards analog technology.

Because of the revision of the research and development plan regarding digitalized transmission, the February 2, 1981 contract between the Company and M/A-COM will be revised to encompass the effort towards digitalization at an earlier stage than contemplated in connection with the initial agreement with M/A-COM. In this regard, and according to preliminary projections supplied by M/A-COM, the standard-size Ultraphone could be available in approximately 2 years, and the portable Ultraphone could be in production within 2½ years (assuming available funding for the production of standard-size and portable Ultraphones). However, while the Company believes these target dates are achievable, the production of the Ultraphone System may incur delays due to, among other things, various problems relating to the design or production engineering or the production of component parts of the Ultraphone. Furthermore, since development work will be conducted by M/A-COM, completion schedules will be beyond the Company's control. M/A-COM has refrained from initiating a full scale development effort, pending the acquisition by the Company of funds sufficient to satisfy its obligations under the M/A-COM Agreement. However, the Company believes that M/A-COM will commence such a full scale effort upon the completion of this offering.

The Company believes that the Ultraphone System can be utilized to provide residential and personal telephone service as an alternative to conventional wireline telephones. As presently anticipated, the basic building block of the Ultraphone System will be a "service area", containing one base station and a number of Ultraphones. The Ultraphone base station will be located at an optimal location within

each service area and will perform three basic functions. First, it will handle switching for calls placed between Ultraphones within the service area. Second, it will be able to provide an interface between the Ultraphone and the local, national and international telecommunications network by means of a wireline connection (a trunk line), microwave transmission, or a satellite relay station. As a result, Ultraphone subscribers will be able to place calls to and receive calls from anywhere in the world. Finally, the base station will permit transfers of connections to base stations in adjacent service areas. Thus, the user will be able to operate his portable Ultraphone in any area serviced by an Ultraphone base station. The base stations are designed to be solid state and fully automated.

The Ultraphone System is designed to operate at radio frequencies between 450 MHz and 520 MHz (the "450 MHz band"). The FCC has already allocated portions of the 450 MHz band to land mobile radio (the Company believes that the Ultraphone System qualifies as a land mobile radio system). However, the actual assignment of specific channels to a specific user in a specific geographic area requires that the user be licensed by the FCC. Critical to the success of the Ultraphone System is the ability of the Company to market its equipment to companies or other entities which presently hold or can obtain such licenses. Except as noted below under "Post-Development Marketing Alternatives", the Company has not, at this time, entered into any discussions with respect to the sale of Ultraphone System equipment to any licensees or potential licensees. In addition, the Company may ultimately seek to operate the Ultraphone System in certain regions, either alone or in conjunction with other companies, in which case the Company would have to obtain a license. The Company does not currently hold any licenses necessary to operate the Ultraphone System, except for a license granted for the purpose of demonstrating the operation of the Ultraphone System. See "Government Regulation".

While the Company has completed certain development work with respect to the Ultraphone System, a considerable amount of additional development work will be necessary before production of the Ultraphone System can commence and there is no assurance that the Ultraphone System, as conceived by the Company, will ever be developed.

The Company believes that Ultraphone technology can be applied to a number of tasks requiring the transmission of voice and/or data from remote locations to a central office or processing center. In this regard, the Company has previously engaged in research efforts regarding the application of Ultraphone technology to a portable stock quotation device and medical sensing and monitoring systems for patients with cardiac and other types of disorders, which were initially designed to operate in conjunction with wireline telephones. While the Company was able to operate such devices using Ultraphone prototypes, it suspended further research efforts pending the further development of the Ultraphone System. Moreover, the Company is unable to predict whether the development of other applications of Ultraphone System technology will be completed.

Agreement with M/A-COM

The February 2, 1981 agreement with M/A-COM ("M/A-COM Agreement") provides for the performance of certain engineering work which constitutes the initial phase of the development of the Ultraphone System. Among other things, M/A-COM has agreed to evaluate the performance of the Ultraphone System as previously developed by IMM and prepare a development plan. The Company is obligated to pay M/A-COM \$200,000 pursuant to the agreement (of this amount, \$20,000 has been paid by the Company; such amount was loaned to the Company by two of its directors).

The M/A-COM Agreement specifies that the complete research and development project envisioned by the Company and M/A-COM will consist of six additional phases involving the initial

production of approximately 100 Ultraphone prototypes and five base stations, as well as research programs relating to various facets of Ultraphone operation. However, due to the recent decision by the Company and M/A-COM to direct the research and development effort towards enabling initial Ultraphone System components to utilize digitalized transmission, the nature and order of at least some of the phase will be modified. The total cost of all of the phases of the revised project has been estimated to be \$1,700,000. However, the actual cost may vary from the estimated figure, depending on various factors, including increased costs of research time and materials.

The M/A-COM Agreement further provides that, in view of M/A-COM's work in connection with the research and development project, M/A-COM will be utilized for production requirements for the Ultraphone System, provided M/A-COM is reasonably competitive in terms of price and delivery. In this regard, M/A-COM will produce 100% of the Company's requirements for a period of five years from the commencement of production and 50% of such requirements for a five-year period thereafter. If the Company does enter into a production contract with M/A-COM pursuant to this provision of the M/A-COM Agreement, the Company will initially be dependent on M/A-COM for all Ultraphone System production, and the inability or refusal of M/A-COM to fulfill its production obligations may leave the Company without the ability to manufacture Ultraphone System components for a period of time.

At this time, M/A-COM has performed only certain preliminary work in connection with the M/A-COM Agreement; it will commence full-scale development efforts upon the completion of this offering. The development of the Ultraphone System is expected to be completed approximately 23 months after the completion of this offering.

Patents

The Company currently holds six patents relating to the Ultraphone System, encompassing 42 separate claims. The patents will expire at various times between 1991 and 1998. In addition, the terms of the Company's agreement with M/A-COM gives the Company ownership and control of any patents resulting from development work by M/A-COM which is funded by the Company, if the Company requests such ownership and control.

While the Company's patents may provide protection for the Ultraphone System, other companies are developing alternative systems which are not covered by the Company's patents.

Post-Development Marketing Alternatives

If the Company successfully completes the development of the Ultraphone System, it anticipates having available sufficient Ultraphones and Ultraphone base stations to begin operation of a limited number of Ultraphone Systems in those geographic areas where licenses are available. While the operation of such systems may, by itself, provide limited revenues, the Company presently intends to use such systems as "demonstration projects" which may enable the Company to raise additional capital which will be necessary for the large-scale production of Ultraphone System components pursuant to one or more of the following arrangements:

1. Sales of the Ultraphone System to telephone companies — The Company believes that by avoiding the costs of installing and maintaining telephone wires, the Ultraphone System may be attractive in economic terms to telephone operating companies as an alternative to traditional wireline service for certain types of high-cost installations.

2. Sales of the Ultraphone System to established radio common carriers — The Company believes that, because of the portability of the Ultraphone, it may be able to sell the Ultraphone System to estab-

lished radio common carriers who currently provide land mobile radio service in many areas, mainly in the form of telephones for automobiles.

3. Joint operation of the Ultraphone System in collaboration with other parties — an arrangement pursuant to which the Company actually operates an Ultraphone System in collaboration with other parties (which might include local telephone companies and/or local radio common carriers) would offer the Company the prospect of securing a portion of the revenues derived from the provision of ongoing telephone service to local subscribers.

4. Franchising of Ultraphone Systems — an arrangement whereby the Company franchises Ultraphone Systems to various licensees may also offer the Company the prospect of securing a portion of the revenues derived from the provision of ongoing telephone service by the holders of Ultraphone System franchises. Additional revenues would be generated by the sale or leasing of Ultraphone System equipment to franchisees.

The possible arrangements described above are only hypothetical and the Company has not conducted any market research or analysis to determine if any of the described possibilities are commercially feasible. Furthermore, the Company has only recently begun negotiations with respect to the sale of Ultraphone System components to an operating telephone company. It intends to commence negotiations regarding the sale of the Ultraphone System to radio common carriers after the completion of this offering. The Company does not anticipate commencing negotiations with respect to the other arrangements described above until the development of the Ultraphone System is nearly completed. There can be no assurance that the Company will be able to enter into an agreement regarding any of the possible arrangements described above, even if the Ultraphone System is successfully completed.

Competition

The Company believes that the potential competitive advantages, if any, of the Ultraphone System will be derived from (1) the portability of the pocket-sized Ultraphone and (2) the avoidance of the capital and operating costs associated with the installation and maintenance of wireline telephone systems. However, the Company has not yet conducted market studies to validate these beliefs or to determine the scope of the market for Ultraphone service and equipment.

The Company believes that telephone portability could be an attractive feature for a segment of the market of telephone users. If this is the case, the Company further believes that the Ultraphone will be able to compete effectively for this market if and when the objective of a one pound telephone terminal is realized. In addition, as discussed under "Post-Development Marketing Alternatives" above, the Company believes that by enabling operating companies to avoid costs associated with the installation and maintenance of wireline telephone systems, the Ultraphone System may have a good competitive position with regard to the sale of equipment to certain telephone operating companies.

The market for land mobile telephones is currently served by a number of companies. The Company believes that the dominant manufacturer of equipment for mobile radio communications is Motorola, Inc. ("Motorola"), which has been producing automotive telephones for a number of years. Motorola has been developing a "small cellular" system for land mobile radio over the past several years. Such systems are designed to use multiple base stations placed at frequent intervals with a complex networking system to track mobile users and transfer their connections from one base station to the next. Since the "cells" (the area dominated by a particular base station) designed to be used in such a system would be considerably smaller than those contemplated for initial use in the Ultraphone System, transfers from one base station to another are proportionally more frequent. Moreover, this system would operate at the higher frequency bands of 825-845 MHz and 870-890 MHz (the "800 MHz

band"). Because of the relatively limited experience of radio common carriers in 800 MHz band operations, an additional commitment of time and capital may be required before the system is fully developed. As described more fully below, the FCC has recently amended its rules to allocate portions of the 800 MHz band to cellular system use.

As a system operator rather than a terminal equipment manufacturer (although it has produced a base station), American Telephone and Telegraph Company ("AT&T") has been working on an advanced mobile radio system for use with automobile telephones over the past several years. The AT&T system, currently being tested in the Chicago area, relies upon equipment supplied by Motorola, Oki Electric Co., a major Japanese manufacturer, and other smaller equipment manufacturers. The Company does not know whether AT&T will develop this system for use with portable telephones other than those in automobiles.

On April 9, 1981, the FCC amended its rules to provide for the licensing and operation of cellular systems by allocating certain portions of the 800 MHz band to cellular system use. The FCC's action will permit the operation of two systems in any geographic service area. For a period of five years, use of one system in each service area is reserved exclusively for wireline telephone companies; if a wireline company has not obtained a license within that period of time, use of such service area may be granted to any licensee. In addition, the FCC's action would permit any cellular licensee to produce and sell its own equipment. The FCC may begin to accept applications for licenses after it considers certain petitions for reconsideration, which have been filed with respect to its April 9, 1981 action.

It is difficult to predict the competitive effect of the FCC's action. While wireline telephone companies will benefit from the allocation to them of one cellular system in each service area, one other licensee will be entitled to operate a system in the same service area (however, if more than one application is filed for the other license, it is likely that the FCC will conduct administrative hearings prior to determining to whom the license should be granted; such hearings may be protracted). In this regard, the Company is considering the possibility of applying the Ultraphone System to 800 MHz band transmission, thereby affording the Company the opportunity to apply for licenses with respect to additional channels in the 800 MHz band. There is, however, no assurance that the Company would be able to obtain such licenses, and, in any event, the Company intends to concentrate its efforts on 450 MHz band transmission.

In addition, the FCC's action, by removing restrictions on the sale and manufacture of equipment by cellular system licensees, would appear to permit a subsidiary of AT&T to produce equipment for cellular systems licensed by a subsidiary of AT&T.

However, the Justice Department has reportedly criticized the FCC's action, and at least one company engaged in the development of a cellular system has instituted litigation with regard to the FCC action. The Company is unable to predict the outcome of these developments. The institution of litigation may delay the implementation of the FCC's action. In any event, the Company believes that the operation of Ultraphone Systems on the 450 MHz band will be unaffected by the developments relating to the 800 MHz band, because the FCC's action does not involve any changes in the rules relating to the 450 MHz band.

AT&T, Motorola and other companies involved in mobile radio communications have financial resources greatly in excess of those of the Company. The Company believes that it will be necessary to devote substantial efforts toward research and development of the Ultraphone System technology in order to maintain a competitive position.

Government Regulation

The operation of a land mobile radio system such as the Ultraphone System will be subject to regulation by the FCC. The FCC has allocated the 450 MHz band for the purpose of land mobile radio. However, within the 450 MHz band there are a limited number of channels. Licenses for the use of these channels in specific geographic areas are granted upon application to and approval by the appropriate state public utility commission and the FCC. Typically, 12 channels are assigned to the local telephone operating company. Another 14 channels are assigned to radio common carriers (in some parts of the country, some or all of these channels are currently unused; in others, particularly urban areas, few, if any, channels are available). Finally, an additional block of either 12 or 24 channels is available for radio common carrier use in certain areas under certain conditions, on a shared basis with other radio common carrier licensees. In connection with the operation of an Ultraphone System, licenses for the use of the necessary channels must be obtained by the potential operator of the system (whether a telephone company, a radio common carrier or the Company itself). There is no assurance that such licenses could be obtained.

In addition, the Company and M/A-COM have discussed the possible application of sophisticated technologies to the Ultraphone System (including certain applications of digital technology, analog technology, or a "hybrid" of both types of technology) in order to enable improved use of available frequency and spectrum space. However, changes in FCC rules may be necessary before certain of the sophisticated technologies can be incorporated into the Ultraphone System. Therefore, if the Company wishes to pursue such sophisticated technologies, it may have to initiate proceedings before the FCC for changes in its rules. There can be no assurance that the Company would be successful in pursuing such changes. Moreover, such proceedings, in any event, would be time consuming and could result in a delay in the timetable relating to the availability of the Ultraphone System. In order to avoid such a delay, the Company and M/A-COM will endeavor to develop the Ultraphone System in a manner as compatible as possible with existing FCC regulations.

PriveCode

The Product

The Company is now in the final stages of the development of PriveCode, which development is being completed by Timex, and expects production by Timex to begin in early 1982. PriveCode is a call monitoring device which automatically screens incoming calls, connecting only those callers who enter a three-digit access code provided to them previously by the owner of the PriveCode. For calls received from persons with a correct access code, PriveCode indicates the identity of the caller before the phone is answered. PriveCode also identifies, by means of a distinctive ring pattern, the person for whom the call is intended (if the device is used in a multi-person household). Callers without a correct access code will not be connected while the device is operating. However, if a telephone answering machine is attached to the PriveCode, callers without access codes will be able to leave a message on the answering machine.

PriveCode can be programmed to accept up to 16 three-digit access codes (chosen by the owner from approximately one thousand such codes available). Because PriveCode is programmable, the owner can enter and change the codes whenever he wishes. Therefore, an owner of the device can selectively receive calls, while the device is operating, only from those persons to whom he has previously given an access code.

PriveCode is designed to work in the following manner. When operating, it intercepts all incoming calls and prevents the telephone from ringing. The caller will hear a synthesized human voice which identifies the number of the telephone reached by the caller and requests the caller to enter his PriveCode access code. The caller can enter the code by pushing the appropriate buttons on his tone type pushbutton telephone (i.e., if his access code is 139, buttons "1", "3" and "9" would be depressed in that order). If he is not calling from a tone type pushbutton telephone, he may enter his access code verbally by means of a voice-activated system.

Once a correct code has been entered, the synthesized voice repeats the code number. At that point, PriveCode will emit a ringing sound to alert the owner that someone is on the line. The PriveCode will display the access code number, e.g., "139", on an LED screen. As a result, the owner of the PriveCode will know who is calling prior to picking up the telephone receiver and may exercise his prerogative not to answer the phone if he does not wish to talk to that person. If the owner is not home or does not choose to answer, the PriveCode can connect the caller to an answering machine (if the owner has purchased such a machine and connected it to his PriveCode unit) in order to leave a message. If the caller does not have a correct access code, neither the phone nor PriveCode will ring.

PriveCode need not be operational at all times. When the owner wishes to receive all incoming calls, he can do so by switching off the PriveCode, in which case the telephone will function in a normal manner. The owner can switch on the PriveCode at any time when he does not wish to be disturbed except by persons to whom he has given an access code.

The initial PriveCode model will have the capability to emit four distinctive ring patterns keyed to the first digit of the access code. Thus, by the appropriate assignment of codes by different members of the household, calls intended for each member (up to four members) can be identified by the pattern of the ring, and a member of a household would not have to answer calls intended for other members if he did not wish to.

PriveCode has been designed to allow the attachment of an answering machine (the answering machine will not be a part of the PriveCode, but must be purchased separately). In addition, PriveCode is equipped with a memory which will record the access codes of persons who called in the owner's absence. The Company believes that this feature is most useful if PriveCode is not attached to a telephone answering machine.

The size of the PriveCode unit will be approximately 9½" x 10½" x 3". An LED screen display on the unit will be approximately 4¼" wide and rise approximately 2½" higher than the rest of the unit. In order to make PriveCode operational, a standard telephone plug (of the type now required by the FCC for all telephone installations) is inserted into the PriveCode unit, which, in turn, is plugged into both a telephone jack and a standard 110 volt outlet. The unit will be completely solid state in construction and will contain a battery or battery-pack to protect against the loss of programmed memory in the event of a power loss.

It is anticipated that the initial PriveCode units will be sold for a retail price which is competitive with medium-to-high priced telephone answering machines.

It should be noted that only prototype PriveCode units have been built. While the latest of the preliminary prototypes contain the features described above, certain refinements will be necessary prior to production, which is scheduled to begin in early 1982.

Other Applications

The Company believes that PriveCode is the initial application of a technology that permits privileged access via a telephone line only to persons possessing a correct access code. In principle, there are

a variety of applications of this technology, some of which are being developed by the Company. The basic components of the system are: (1) a method for blocking the ringing of the telephone in response to an incoming call; (2) a synthesized voice chip which interacts with the caller to obtain the access code; (3) a microprocessor which verifies the access code and determines the appropriate steps to be taken upon entry of a correct code. In the current model, this "activation" is limited to allowing the correctly coded call to ring through, emitting a distinctive ring pattern associated with the access code used, displaying the access code on an LED display, and activating an answering machine under appropriate circumstances.

There are other possible actions that can be made dependent upon a technology which can verify the identity of a caller and then permit him to activate certain devices or processes based on a correct code plus, in some cases, additional information-bearing codes constituting "instructions" of various sorts. Such applications could include: (a) the transmission of authorized commands via a telephone to actuate electric and electronic devices from a selected location, (b) the remote reading, from a selected location, of electronically read instruments, (c) the performance of an automatic call-routing function in a private business exchange ("PBX") system and (d) the performance of an automatic "sentry" function to safeguard access channels to a computer.

The Company intends to pursue the foregoing applications in its future research and development efforts. IMM has entered into a licensing agreement with Timex covering the development of a telephone meter-reading system for utilities based on PriveCode technology. The Company is unable to predict, at this time, whether the licensing agreement or its own efforts in other areas will result in any marketable products.

Agreements With Timex

The Company entered into the Timex Development Agreement in March 1980. Pursuant to this agreement, IMM delivered its PriveCode prototype to Timex and, with the assistance of the Company, Timex converted the design of the PriveCode from a hardware design to a microprocessor-based software controlled design. As a result, the physical size of the PriveCode has been greatly reduced, and Timex has substantially completed the development of PriveCode. Timex has supplied pre-production prototypes of PriveCode to the Company which are designed to be functionally, although not esthetically, equivalent to the PriveCode units to be produced by Timex starting in early 1982. Pursuant to the Timex Development Agreement, as amended, the Company has paid \$216,000 to Timex for its development efforts; it currently owes Timex \$324,000 and, after the completion by Timex of mass production specifications relating to PriveCode, the Company will be obligated to pay Timex an additional \$90,000.

On April 9, 1981, the Company entered into an agreement with Timex ("Timex Production Agreement") pursuant to which Timex will produce PriveCode units for consumer sales. Pursuant to the Timex Production Agreement, the Company will pay the costs of tooling (approximately \$526,000) and certain other pre-production costs (approximately \$382,000) necessary to commence production (the Company will retain the ownership of the production equipment used by Timex in producing PriveCode), and will purchase the units from Timex at a predetermined price per unit. Timex will provide all raw materials and will supply a finished product. Timex will also warehouse finished product at its facility. The price per unit for the first 80,000 units will be increased by an incremental fee in order to cover the other pre-production costs. However, such costs will, in any event, be due and payable in four equal amounts, at certain times between November 30, 1981 and December 31, 1982. It is likely, therefore, that at least some of the other pre-production costs will be due and payable prior to the

commencement of production of the PriveCode. Timex has agreed to warrant that the products will conform to the Company's specifications and will be free from defects in materials and workmanship under normal use for a period of eighteen months after the date of production (in this regard, it should be noted that the Company intends to issue a twelve month warranty from date of purchase by consumers). In addition, Timex will serve as the exclusive authorized repair agent for in-warranty and out-of-warranty repairs on a PriveCode model until five years following the last date of production of that model. Timex and the Company have agreed that Timex will produce 100% of the Company's requirements for PriveCode products for a period of five years after commencement of production, and 50% of the Company's requirements for five years thereafter, provided Timex meets the Company's specifications with regard to PriveCode and produces a sufficient quantity of PriveCode units to meet the Company's requirements at a competitive price. The Company will be dependent on Timex for all PriveCode production and the inability or refusal of Timex to fulfill its production undertakings would, at least over the near term, leave the Company without the ability to manufacture PriveCode.

The Company believes that Timex's work is progressing on schedule.

Timex and the Company also entered into a license agreement ("Timex License Agreement"), effective April 1, 1981, pursuant to which the Company granted to Timex an exclusive license, in the United States, to use certain PriveCode patents and subsequent patents applied for by or issued to the Company which would be applicable to a telephone meter reader, i.e., a device connected to a utility meter which "reads" the meter and can transmit the meter readings over standard telephone lines to a utility company. In return for the license, Timex has agreed to pay the Company a percentage of any invoice price of Timex to its customers, after deduction of regular trade and quantity discounts, for any telephone meter readers sold by Timex during the term of the Timex License Agreement. Pursuant to the Timex License Agreement, the Company will provide certain limited consulting services to Timex at no additional expense to Timex and, for a fee plus expenses, additional technical aid and assistance. The Agreement may be terminated by Timex at the end of any calendar year upon giving notice to the Company within 60 days before the end of such calendar year and may be terminated by the Company, within 60 days after April 1, 1984 if Timex has not commenced commercial activity with respect to telephone meter reading systems. In addition, the Company may terminate the Agreement at certain points in time after April 1, 1985, if Timex does not meet certain gross sales requirements.

Patents and Copyrights

The Company currently holds six patents related to PriveCode, encompassing a total of 38 separate claims. The patents will expire at various times between 1991 and 1997. In addition, the terms of the Company's agreements with Timex give the Company ownership and control of any patents resulting from development work by Timex, if the Company requests such ownership and control. Timex will retain the right to use any such new patents resulting from its development work under an exclusive royalty-free license for horological products (products relating to the measurement of time) and a non-exclusive royalty-free license for other products if not competitive with PriveCode.

The Company owns copyright registrations on five computer programs relating to the operation of PriveCode.

Patents currently held by the Company may provide protection for PriveCode. However, if the patents fail to provide such protection, the Company's business could be adversely affected. Moreover, there exists the likelihood that other companies may provide alternative products which may not be covered by the Company's patents.

Marketing

The Company will seek to distribute PriveCode through one or more of the following channels:

1. Telephone companies — The Company believes that marketing PriveCode through telephone companies may result in a broad exposure while requiring only a limited marketing staff.
2. Major retail chains — An arrangement with major retail chains could be advantageous to the Company insofar as such chains are experienced in consumer marketing and have a high degree of consumer acceptance.
3. Mail order sales — Sales of PriveCode through a major mail order house could provide immediate broad exposure for the product and may entail a lower retail mark-up.
4. Other distribution arrangements — Such arrangements may include distribution of PriveCode through home and small business security companies and direct mail order sales of PriveCode.

On August 26, 1981, the Company entered into a non-exclusive distribution agreement with North Supply Company ("North Supply"), a distributor of telephone equipment. North Supply is a subsidiary of United Telecommunications, Inc. Robert B. Liepold, a Director of the Company, is a Director of North Supply; however, Mr. Liepold has not participated in negotiations between the Company and North Supply. Pursuant to the agreement, North Supply has agreed to promote the sale of PriveCode by, among other things, providing advertising and nationwide distribution of PriveCode through its distribution centers. However, North Supply has not committed itself to purchase any PriveCode units, and there can be no assurance that it will do so. In addition, the amount of advertising to be provided by North Supply is uncertain. North Supply has provided publicity for PriveCode in a customer newsletter which it provides to its various customers, including wholesale and retail distributors of telephone equipment.

As of the date of this Prospectus, the Company does not have a marketing staff, and the limited marketing efforts to date have been undertaken primarily by the Company's President.

The Company expects to direct its initial marketing efforts toward the "privacy market", i.e., those persons who want to protect themselves against telephone solicitations, obscene phone calls, and similar harassments. IMM believes that PriveCode may be a convenient and efficient method of satisfying such needs. In later phases of the marketing efforts, the Company will stress the "convenience" features of PriveCode (e.g., the ability to identify the person for whom the call is intended, thereby obviating the need for other persons in the same office or household to respond to an incoming call). The Company has decided upon this strategy because it believes that it will be required to stress only the privacy aspects of PriveCode to attract the "privacy" market, while a fair amount of information concerning PriveCode's various features may have to be disseminated in order to attract the "convenience" market.

The Company believes that the residential market to which its efforts will be directed primarily may well be difficult to penetrate, since a good deal of advertising is typically required to reach that market and distribution is almost always effected through middlemen. Moreover, it has not conducted any test marketing of PriveCode to determine if there is a potential market for PriveCode.

The Company intends to advertise PriveCode through a cooperative effort with PriveCode distributors, if any, primarily through print media. It may also advertise through other communications media. In this regard, the Company has engaged an advertising agency and a public relations firm to assist in its advertising and publicity efforts. The Company believes that approximately \$415,000 will be required

for advertising and public relations expenses for a period of 12 months after the completion of this offering. Such amounts will be paid out of working capital.

Competition

The Company is not aware of any products now on the market with capabilities exactly the same as PriveCode. Certain of the more expensive telephone answering devices attempt to provide call-screening by means of an external speaker that allows the owner to "listen in" while the caller is in the process of leaving a message. However, the Company believes that this method of call-screening is less convenient than the automatic call screening incorporated into PriveCode because the external speaker would have to be left on continuously, and, as a result, the owner would have to listen to every incoming message to determine who is calling (this procedure can be especially inconvenient during late night hours). By contrast, the owner of the PriveCode need not be disturbed by incoming calls unless the person calling has previously been provided with an access code.

As noted above, under "The Product", an owner of a PriveCode may wish to connect a telephone answering device to his PriveCode. The Company believes that a telephone answering machine may be a useful supplement to a PriveCode unit for those owners who wish to receive a spoken message from callers who do not reach the owner. However, as noted above, the Company does not believe that a telephone answering device can perform call-screening as conveniently as PriveCode; moreover, a telephone answering machine cannot perform many of the other functions of PriveCode at all. Therefore, the Company does not believe that the attractiveness of PriveCode to a potential owner will be adversely affected if he desires to connect a telephone answering device to his PriveCode.

In connection with its Horizon System, a business telephone system, the Bell System has developed and is selling a call screening device which operates as follows: when a telephone call is received over one of 20 special designated lines (one each for up to 20 different callers), one of 20 small lamps is lighted, drawing attention to a nearby label bearing the name of the caller. The Company believes PriveCode has a competitive advantage over the Bell System product, primarily because PriveCode needs no special designated lines, thereby making it readily adaptable to both residential and business use without the necessity of installing additional telephone lines.

The Bell System has recently announced its intention to offer at some point in the future a service which would indicate to the person receiving a call the telephone number from which the call was being placed. However, the Company does not believe that it would indicate the identity of the person calling or provide call-screening. The Bell System has also indicated that it intends to offer to subscribers a pattern ringing system at some point in the future. The Company is not aware of the date upon which this service will be available.

The Bell System and other telecommunications companies have financial resources far greater than those of the Company and the possibility exists that one or more of them may develop a product which is considered to be superior to PriveCode.

Government Regulation

PriveCode is designed to be directly interconnected to the toll telephone system. Therefore, it requires registration with the FCC. Pursuant to the application of the Company, the FCC approved the registration of PriveCode on September 9, 1981.

Research and Development Expenses

During the fiscal years ended December 31, 1978, 1979 and 1980, the Company's research and development expenses totalled \$15,000, \$4,654, and \$408,000, respectively. For the six months ended June 30, 1981, the Company spent \$202,614 on research and development.

Trademarks

The Company owns registered United States trademarks for "IMM" and "PriveCode". It has applied for a trademark for "Ultraphone". The application is pending. The Company does not believe that these trademarks will be a significant factor in its business.

Employees

The Company presently has three part time employees and one full time employee, Sherwin I. Seligsohn, Chairman of the Board and President of the Company. It anticipates hiring 20 to 25 new employees during the remainder of its current fiscal year and during the first half of the next fiscal year. However, the Company intends to rely upon the efforts of Timex with respect to production engineering and production of PriveCode and upon the efforts of M/A-COM in connection with further research and development of the Ultraphone System. See "Plan of Operations and Use of Proceeds".

Properties

The Company owns no property; it jointly occupies approximately 300 square feet of office space at One Bala Avenue, Bala Cynwyd, Pennsylvania, with Resource Recovery Enterprises ("RRE") a Pennsylvania corporation. David E. Kaplan, Treasurer and a Director of the Company, is President of RRE and Jerome E. Bogutz, a Director of the Company, is Secretary-Treasurer of RRE (Messrs. Kaplan and Bogutz control RRE by virtue of their ownership of RRE common stock). The Company and RRE also share approximately 1,250 square feet of office space in Philadelphia, Pennsylvania on a month-to-month basis. All rental costs are equally divided between the Company and RRE. Once the Company begins to hire additional employees, it may lease additional office space in Philadelphia, Pennsylvania for its executive offices, and shortly after completion of the offering, the Company intends to lease 4,000-5,000 square feet for its research and development laboratory. Anticipated aggregate annual rentals for these facilities will approximate \$90,000.

PLAN OF MERGER

As more fully described below, the Company has reacquired, by operation of an Agreement and Plan of Merger dated November 6, 1981 ("Plan of Merger"), certain patents and patent rights to its products which it had previously assigned to two entities, Intertel, Inc. ("Intertel"), a Pennsylvania corporation unaffiliated with IMM, and International Mobile Machines, Incorporated ("IMMI"), a subsidiary of the Company.

In 1974, the Company was issued its first patents relating to PriveCode and the Ultraphone System. However, the Company did not possess adequate capital to perfect its patents in foreign countries, and sought an arrangement which would provide protection for the patents or, at the very least, provide revenues to the Company in connection with the utilization of such patents in foreign countries. Therefore, in 1974 and 1975, the Company entered into a series of agreements with Irwin Lee Gross, who is presently a Director of IMM, and the incorporators of Intertel II, Inc., a Pennsylvania corporation ("Intertel II") pursuant to which the Company borrowed \$18,000 with interest payable at 9% per annum, in order to perfect the patents in certain foreign countries. In return for the advance of funds and

additional efforts to perfect patents in certain foreign countries, the Company granted to Mr. Gross or Intertel II, among other things, licenses with respect to the then-existing Ultraphone System patents and assignments/or licenses with respect to the then existing PriveCode patents in a number of foreign countries; Mr. Gross and Intertel II were obligated to pay royalties to the Company based on their sales of products subject to the patents. Mr. Gross was also given an option to purchase the Company's then outstanding Common Stock, par value \$.05 per share ("Old Common Stock"), for \$.75 per share, up to an aggregate amount equal to the outstanding principal and interest on the loan, if the Company commenced a public offering of its securities. Subsequent to the execution of the agreements, Mr. Gross and Intertel II assigned to Intertel their rights under the agreements. In February 1981, the Company agreed to issue to Intertel rights to acquire 36,000 shares of its Old Common Stock in satisfaction of the outstanding indebtedness due to Intertel, and in lieu of the exercise of the option described above. Intertel has obtained or has applied for patents in a number of foreign countries with respect to three PriveCode and three Ultraphone System patents held by the Company and has informed the Company that it expended over \$100,000 of its own funds to perfect and maintain various of the Company's patents in such foreign countries. Mr. Gross was Chairman of the Board and President of Intertel and owned approximately 30% of its outstanding common stock. Mr. Sherwin I. Seligsohn, Chairman of the Board and President of the Company, and Messrs. Lyman C. Hamilton, Jr. and Robert B. Liepold, Directors of the Company, were directors of Intertel. As of June 30, 1981, Intertel had only limited assets primarily consisting of foreign patent rights relating to the Company's products.

In connection with its attempts to raise capital for the development of the Ultraphone System, the Company, in 1976, transferred the patents and assets relating to the Ultraphone System to IMMI. As initially organized, the Company owned 50% of IMMI's voting common stock and all of IMMI's non-voting common stock. Other shareholders, not affiliated with the Company, held the other 50% of IMMI's voting common stock, for which they made a capital contribution of \$100,000 to IMMI. Due to the subsequent issuance of additional voting common stock to unaffiliated shareholders (except for a small number of shares of the voting common stock issued to a former director of the Company) in return for capital contributions of \$54,000 (including \$2,000 paid by the former director), the Company's ownership of IMMI voting stock was reduced to approximately 45.4% of the amount outstanding and its equity ownership was reduced to approximately 71.3% from its initial 75%. IMMI was responsible for all developments regarding the Ultraphone System between 1976 and 1980; in this regard, the \$154,000 contributed by shareholders of IMMI other than the Company was primarily utilized for research and development and patent expenses. As of June 30, 1981, IMMI had only limited assets primarily consisting of patent rights relating to the Ultraphone System.

In January 1980, Mr. Gross entered into an agreement with certain IMMI shareholders who were not affiliated with the Company. Pursuant to that agreement, Mr. Gross purchased approximately 41.5% of the outstanding voting common stock of IMMI for \$195,000. Of that amount, \$40,000 was paid at the date of the agreement, \$85,000 was payable in six equal semi-annual installments of principal and interest at the rate of 11% per annum and the remaining \$70,000 was payable thereafter in fourteen equal semi-annual payments of principal and interest at the rate of 11% per annum. As of the date of this Prospectus, all required payments have been made. The IMMI shares purchased by Mr. Gross were subsequently converted, under the Plan of Merger, into 338,734 shares of Common Stock, 3,387 shares of Class A Preferred Stock and 3,387 shares of Class B Preferred Stock.

Immediately thereafter, Mr. Gross sold approximately 5/6 of the shares purchased, in equal amounts, to five individuals, including Sherwin I. Seligsohn, President and Chairman of the Board of the Company, David E. Kaplan, Treasurer and a Director of the Company, Lyman C. Hamilton, Jr. and

Robert B. Liepold, Directors of the Company, and another shareholder of the Company. Each of the individuals reimbursed Mr. Gross for 1/6 of the funds advanced by Mr. Gross to purchase the IMMI voting common stock and each assumed 1/6 of Mr. Gross' obligations pursuant to Mr. Gross' stock purchase agreement.

On November 6, 1981, pursuant to the Plan of Merger, Intertel and IMMI were merged into the Company. The Plan of Merger was effected in order to consolidate the ownership of all PriveCode and Ultraphone System patents and rights relating to the patents in the Company. It provided for the issuance of Common Stock, Class A Preferred Stock and Class B Preferred Stock to: holders of Intertel Common Stock and options to purchase shares of Intertel Common Stock; holders of IMMI Common Stock; holders of the Company's Old Common Stock; and holders of options, warrants and other rights entitling the holders to obtain shares of the Company's Old Common Stock. Each share of Intertel Common Stock (1,085,124 outstanding) and each option to purchase a share of Intertel's Common Stock (140,105 outstanding), was converted into .349775 of a share of the Company's Common Stock or an aggregate of 428,554 shares of Common Stock. Each of the 120,498 shares of IMMI's outstanding voting common stock held by shareholders of IMMI other than the Company was converted into 3.7056 shares of the Company's Common Stock or an aggregate of 446,520 shares of Common Stock. Each share of the Company's Old Common Stock (853,605 shares outstanding), and each option (745,020 outstanding), warrant (40,000 outstanding) or other right held by persons or entities other than Intertel (155,911 outstanding) entitling the holder to purchase a share of the Company's Old Common Stock was converted into 1.8528 shares of the Company's Common Stock or an aggregate of 3,324,926 shares of Common Stock. In addition, for each 100 shares of the Company's Common Stock issued pursuant to the Plan of Merger, one share of Class A Preferred Stock and one share of Class B Preferred Stock were also issued. No fractional shares were issued; to the extent that a shareholder was entitled to more than one-half of a share of Common Stock or Class A and Class B Preferred Stock, the shareholder received an additional share of Common Stock or Class A and Class B Preferred Stock. See "Description of Capital Stock — Preferred Stock" for a description of the circumstances pursuant to which the Class A and Class B Preferred Stock are convertible into Common Stock. Intertel's and IMMI's existence ceased on the effective date of the Plan of Merger.

The exchange ratios in the Plan of Merger relating to the securities of IMMI and the Company were arbitrarily determined by the Company after considering the relative amounts of securities outstanding in IMMI and the Company and the progress of development of the Ultraphone System and PriveCode. In this regard, Mr. Gross represented the shareholders of IMMI during the negotiations. The exchange ratios relating to Intertel securities were determined by the Company and Intertel as a result of arm's length negotiations. In this regard, Messrs. Seligsohn, Liepold and Hamilton, who respectively held options entitling them to acquire 75,000, 35,000, and 35,000 shares of Intertel common stock, voluntarily surrendered those options in order to reduce the amount of securities which the Company would otherwise be required to issue pursuant to the Plan of Merger.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information concerning the directors and executive officers of the Company.

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Sherwin Ira Seligsohn	46	Chairman of the Board of Directors and President
D. Ridgely Bolgiano	48	Vice President — Technical Development and Director
David E. Kaplan	55	Treasurer and Director
Dennis D. Wielech	45	Secretary and Director
Jerome E. Bogutz	46	Director
Irwin Lee Gross	37	Director
Lyman C. Hamilton, Jr.	55	Director
Robert B. Liepold	56	Director
Raymond Rosenberg	58	Director

All directors hold office until the next annual meeting of shareholders or until their successors are elected and have qualified. The executive officers of the Company serve at the discretion of the Board of Directors.

Mr. Seligsohn has been Chairman of the Board of Directors of the Company since its inception in 1972. He became President in February 1981.

Mr. Bolgiano has been affiliated with the Company in various capacities since 1976. He became Vice President-Technical Development in February 1981, and was elected to the Board of Directors in October 1981. Mr. Bolgiano has worked in the field of electronics and broadcasting for the past 25 years and is the named sole inventor of several of the patents now held by the Company. Since 1968 he has been a director of, and since 1978 he has been 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 Secretary and a Director of Drexel Hill Associates, Ltd., a corporation which owns two radio stations in New Jersey. Mr. Bolgiano is a graduate of Haverford College with a B.S. in Physics.

Mr. Kaplan became a Director of the Company in 1976 and has been Treasurer of the Company since October 1980. Since August 1978, he has been the President of Resource Recovery Enterprises, a corporation engaged in the syndication of oil and gas drilling programs. Prior to that time, he was the President of Citation Plastics of Puerto Rico, a manufacturer of plastic bottles. Mr. Kaplan is a graduate of the Moore School of the University of Pennsylvania, where he received a B.S. in Electrical Engineering.

Mr. Wielech has been a Director of the Company since its inception in 1972. He was Vice-President of the Company from 1972 to October 1980, and has been Secretary of the Company since October

1980. Mr. Wielech has been engaged in the financial services industry since 1966. From 1976 to 1977 he was self-employed. Since 1977, he has been Financial Services Manager of the Baltimore Office of St. Paul/Western Life Insurance Company.

Mr. Bogutz has been a Director of the Company since its inception in 1972. He has served as Secretary from 1972 until October 1980, and as President of the Company from October 1979 until February 1981. Presently, Mr. Bogutz is a member of the Philadelphia law firm of Fox, Rothschild, O'Brien & Frankel. Mr. Bogutz is past Chancellor of the Philadelphia Bar Association, which office he held during 1980. From 1971 until 1980 he was a member of the Philadelphia law firm of Bogutz & Mazer. Mr. Bogutz is currently active in leadership capacities in Philadelphia, Pennsylvania, and American Bar Association related activities.

Mr. Gross has been a Director of the Company since October 1977 and was Assistant Secretary of the Company from October 1977 to October 1980. He has been a practicing attorney in Philadelphia since 1968. From 1978 to 1979, he was Chairman of the Board of Directors of Bionic Instruments, Inc., an electronics firm.

Mr. Hamilton became a Director of the Company in October 1979. Since January 1980, he has been Chairman, President and Chief Executive Officer of Tamco Enterprises, an investment firm. Prior to that time, Mr. Hamilton was employed, for seventeen years, in various capacities by International Telephone & Telegraph Corporation ("ITT"), including President and Chief Executive Officer from January 1978 to July 1979, President and Chief Operating Officer from February 1977 to December 1978 and Executive Vice President from 1974 to January 1977. He was a Director of ITT from 1973 to 1979. He is a Director of St. Joe Minerals Corporation, The Equitable Life Mortgage and Realty Investors, European-American Bank, and C.C.B., Inc. (Colorado). Mr. Hamilton holds an M.P.A. degree from the Graduate School of Public Administration at Harvard University, and is a member of the Visiting Committee, Kennedy School of Government, Harvard University.

Mr. Liepold became a Director of the Company in October 1978. He has worked in the telephone industry for twenty-four years and has, since 1980, been President of United Communications Systems, Inc., a wholly-owned subsidiary of United Telecommunications Inc., which the Company believes is the third largest telephone company in the United States. Mr. Liepold also served as an Executive Vice President of United Telecommunications, Inc., from 1979 to 1980 and Senior Vice President of United Telecommunications, Inc. from 1978 to 1979. Between 1975 and 1978, Mr. Liepold was President and owner of Robert B. Liepold, Inc., a consulting firm providing services to the domestic and international telecommunications industry. Prior to that time, he was president of Stromberg-Carlson Communications, Inc., a subsidiary of General Dynamics Corp. and a business communications supplier, and President of United Business Communications, Inc., a systems supplier of voice and data communications systems to businesses. Mr. Liepold holds a B.S. in Electrical Engineering from the University of Wisconsin and did graduate work for his M.B.A. degree at the University of Wisconsin and Northwestern University. He also was an Instructor of Electrical Engineering at the University of Wisconsin.

Mr. Rosenberg has been a Director of the Company since 1972. He has been President and a Director of Yardis Corporation, a corporation involved in advertising and public relations, for a period in excess of five years.

Messrs. Bolgiano, Kaplan and Wielech devote only a small portion (less than 20% in the case of Messrs. Kaplan and Wielech and 50% in the case of Mr. Bolgiano) of their business time to the affairs of the Company as each of them is engaged on a substantially full time basis in other business activities as described above.

Board of Directors Committees

The Board has two Committees: an Executive Committee and a Management Committee.

The Executive Committee, which consists of Messrs. Seligsohn, Bogutz, Gross, Hamilton and Liepold, exercises all of the powers of the Board of Directors, except as limited by Pennsylvania Law or the by-laws of the Company.

The Management Committee, which consists of Messrs. Seligsohn and Gross, will be responsible for the day to day management of the Company until additional administrative, executive and financial personnel are hired.

Remuneration and Other Transactions with Management

During the year ended December 31, 1980, no officer or director of the Company received any salary, fee, commission, bonus or other form of remuneration, except for options granted to Messrs. Bolgiano and Hamilton, as described below. No officer or director of the Company is presently receiving remuneration. The Company expects that, upon completion of this offering, Mr. Seligsohn will start receiving remuneration at the annual rate of \$75,000 and Mr. Bolgiano at the annual rate of \$55,000. The aggregate remuneration to all officers and directors as a group is not expected to exceed the annual rate of approximately \$250,000 upon completion of the offering. Upon completion of this offering, Mr. Seligsohn will devote his full time to the affairs of the Company and Mr. Bolgiano is expected to devote approximately 100 hours per month to the Company's business. The Company does not anticipate that any of its officers or directors will receive compensation in excess of \$50,000 during the year ending December 31, 1981.

As remuneration for his services to the Company in 1980 and 1981, Mr. Bolgiano received options to purchase 67,998 shares of Common Stock, 680 shares of Class A Preferred Stock and 680 shares of Class B Preferred Stock (all share figures are adjusted for the Plan of Merger). All of these options were converted into the underlying securities on the effective date of the Plan of Merger.

For his services as a Director during 1980, Mr. Hamilton received options to purchase 9,264 shares of Common Stock, 93 shares of Class A Preferred Stock and 93 shares of Class B Preferred Stock. Pursuant to an arrangement with the Company, Mr. Hamilton also received, in 1981, options to purchase 9,264 shares of Common Stock, 93 shares of Class A Preferred Stock and 93 shares of Class B Preferred Stock (all share figures are adjusted for the Plan of Merger). All of these options were converted into the securities subject to the options on the effective date of the Plan of Merger.

In order to fund the Timex Development Agreement, certain officers and directors of the Company and others made \$198,000 in payments to, or secured letters of credit, totalling an additional \$197,500, for the benefit of Timex in order to satisfy most of the Company's obligations to pay \$416,000 under the Timex Development Agreement. The amounts advanced by the officers and directors of the Com-

pany and others in making payments or securing letters of credit (including \$5,626 of expenses relating to the letters of credit) were approximately as follows:

	<u>Payments Made and Expenses Incurred</u>	<u>Amount of Letters of Credit</u>	<u>Total</u>
Sherwin I. Seligsohn	\$131,500	\$110,000	\$241,500
Irwin Lee Gross	535	10,000	10,535
Lyman C. Hamilton, Jr.	30,591	50,000	80,591
David E. Kaplan	10,000	12,500	22,500
Raymond Rosenberg	3,000	—	3,000
Dennis D. Wielech	6,000	10,000	16,000
Others	22,000	5,000	27,000

The Company issued notes to the persons listed above in amounts equal to the respective amount of payments made to Timex and expenses incurred by the above persons. Each of the notes bears interest from April 1, 1981, payable quarterly, at the annual rate of 12%. The principal amount of each of the notes is payable in May 1983. The letters of credit issued by the above persons and others in favor of Timex will be replaced by guarantees of the Company upon completion of this offering and the obligations of the above persons will be removed.

In February 1981, the Company issued rights to acquire shares of its Common Stock in consideration for the above loans to fund the Timex Development Agreement. Upon the effective date of the Plan of Merger, the rights held by officers and directors of the Company were converted into shares of Common Stock, Class A Preferred Stock and Class B Preferred Stock as follows:

	<u>Common Stock</u>	<u>Class A Preferred Stock</u>	<u>Class B Preferred Stock</u>
Sherwin I. Seligsohn	171,404	1714	1714
Irwin Lee Gross	7,411	74	74
Lyman C. Hamilton, Jr.	59,290	593	593
David E. Kaplan	16,675	167	167
Raymond Rosenberg	2,223	22	22
Dennis D. Wielech	11,858	119	119

In 1972, the Company purchased certain property from the estate of Frances H. Seligsohn and in connection therewith issued a purchase money note for \$45,000. The note was payable on demand and bore interest at the rate of 8% per annum. Mr. Seligsohn is Frances H. Seligsohn's son and an executor of her estate. The property was subsequently sold in 1976. However, the Company remained obligated on the note to the estate. The principal and interest payable on the note, as of March 31, 1981, totaled \$75,900. Effective April 1, 1981, the Company has replaced the note with a new note in the principal amount of \$75,900, which bears interest, payable quarterly, at the rate of 12% per annum. The principal amount of the note will be due and payable in May 1983.

Between 1972 and 1981, the Company incurred an obligation of \$202,457 for prior legal services performed by Mr. Bogutz, plus \$35,000 in interest. Effective April 1, 1981, the Company has issued a note to Mr. Bogutz in the amount of \$237,457, which bears interest, payable quarterly, at the rate of 12% per annum. The principal amount of the note will be due and payable in May 1983.

In February 1981, Messrs. Seligsohn and Gross paid \$20,000 to M/A-COM in satisfaction of a payment due from the Company in connection with the M/A-COM agreement. The Company agreed to

repay \$20,000 to Messrs. Seligsohn and Gross with interest payable at the rate of 19% per annum. These funds advanced on behalf of the Company, plus accrued interest (totalling approximately \$2,550 as of September 30, 1981) will be paid out of the proceeds of this offering.

Aside from the foregoing obligations, a number of officers and directors have incurred various expenses in connection with the business of the Company for which they have not been reimbursed. As of September 30, 1981, such expenses totalled approximately \$53,000. The officers and directors will be reimbursed out of the proceeds of this offering.

Options

The aggregate amount of securities of the Company subject to options which were held by all officers and directors of the Company and were outstanding as of January 1, 1980, as adjusted for the Plan of Merger, was 1,206,914 shares of Common Stock and 12,069 shares of each of Class A and Class B Preferred Stock. During the period from January 1, 1980 through October 1, 1981, the aggregate amount of securities of the Company which were subject to additional options granted to all officers and directors of the Company, as adjusted for the Plan of Merger, was 86,526 shares of Common Stock and 865 shares of each of Class A and Class B Preferred Stock. During 1980, a director exercised options to purchase 12,044 shares of Common Stock, 120 shares of Class A Preferred Stock and 120 shares of Class B Preferred Stock for \$13,000 (which amount was paid by the cancellation of Company indebtedness due to that director for engineering services provided to the Company). All options held by officers and directors of the Company which were outstanding as of the effective date of the Plan of Merger were converted into the Common Stock, Class A Preferred Stock, and Class B Preferred Stock pursuant to the Plan of Merger.

As of the date of this Prospectus, no options are outstanding.

Security Ownership of Principal Shareholders and Management

The following table sets forth certain information as of November 6, 1981 respecting the holdings of each person who was known to the Company to be the beneficial owner of more than 5% of the Company's Common Stock, Class A Preferred Stock or Class B Preferred Stock, and all executive officers and directors of the company individually and as a group. Except as noted, each of the persons named below has sole voting power and sole investment power with respect to each share. Sherwin I. Seligsohn, Chairman of the Board and President of the Company may, by reason of his ownership of 26.6% of the Company's Common Stock on that date, be deemed a "parent" of the Company within the meaning of the Securities Act of 1933.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class	
			Prior to Offering	As Adjusted(1)
Sherwin I. Seligsohn One Bala Avenue Bala Cynwyd, PA 19004	Common Stock	1,115,354(2)(3)	26.6	18.0
	Class A Preferred Stock	11,152(2)(3)	26.6	26.6
	Class B Preferred Stock	11,152(2)(3)	26.6	26.6
Jerome E. Bogutz 2000 Market Street Philadelphia, PA 19103	Common Stock	367,318	8.7	5.9
	Class A Preferred Stock	3,673	8.7	8.7
	Class B Preferred Stock	3,673	8.7	8.7
Irwin Lee Gross 1314 Chestnut Street Philadelphia, PA 19107	Common Stock	587,271(2)(3)	14.0	9.5
	Class A Preferred Stock	5,878(2)(3)	14.0	14.0
	Class B Preferred Stock	5,878(2)(3)	14.0	14.0
David E. Kaplan 2000 Market Street Philadelphia, PA 19103	Common Stock	242,661(3)	5.8	3.9
	Class A Preferred Stock	2,426(3)	5.8	5.8
	Class B Preferred Stock	2,426(3)	5.8	5.8
Robert B. Liepold 2330 Johnson Drive Westwood, KS 66205	Common Stock	232,417(3)	5.5	3.7
	Class A Preferred Stock	2,324(3)	5.5	5.5
	Class B Preferred Stock	2,324(3)	5.5	5.5
Lyman C. Hamilton, Jr. 645 5th Avenue New York, NY 10022	Common Stock	199,093(3)	4.7	3.2
	Class A Preferred Stock	1,990(3)	4.7	4.7
	Class B Preferred Stock	1,990(3)	4.7	4.7
Dennis D. Wielech 409 Washington Ave., 8th Fl. Towson, MD 21204	Common Stock	220,298	5.2	3.6
	Class A Preferred Stock	2,203	5.2	5.2
	Class B Preferred Stock	2,203	5.2	5.2
D. Ridgely Bolgiano 5200 Moravia Road Baltimore, MD 21206	Common Stock	96,438	2.3	1.5
	Class A Preferred Stock	964	2.3	2.3
	Class B Preferred Stock	964	2.3	2.3
Raymond Rosenberg 824 W. Lancaster Ave. Bryn Mawr, PA 19010	Common Stock	64,466(4)	1.5	1.0
	Class A Preferred Stock	644(4)	1.5	1.5
	Class B Preferred Stock	644(4)	1.5	1.5
All Directors and Officers as a group (9 persons)	Common Stock	3,125,316	74.4	50.4
	Class A Preferred Stock	31,254	74.4	74.4
	Class B Preferred Stock	31,254	74.4	74.4

(1) Without giving effect to the exercise of the Underwriters' overallotment option.

(2) Includes 242,995 shares of Common Stock, 2,430 shares of Class A Preferred Stock and 2,430 shares of Class B Preferred Stock held by North Star Securities, a Pennsylvania limited partnership of which Messrs. Gross and Seligsohn are the general partners. The amounts listed opposite Mr. Gross' and Mr. Seligsohn's names include 121,497 and 121,498 shares of the Common Stock, respectively, and one half of the 2,430 shares of each of the Class A and Class B Preferred Stock.

(3) Of this amount, 56,455 shares of Common Stock (56,459 in the case of Mr. Gross), 564 shares of Class A Preferred Stock (567 in the case of Mr. Gross), and 564 shares of Class B Preferred Stock

(567 in the case of Mr. Gross) are presently held in escrow subject to the payment of obligations incurred in connection with the purchase of IMMI Common Stock. See "Plan of Merger". The purchasers hold voting rights in connection with the escrowed shares. Upon full payment of the obligations (scheduled to occur in 1990; however, the obligations may be prepaid at the option of the purchasers), the shares will be released from escrow.

- (4) Includes 50,333 shares of Common Stock, 503 shares of Class A Preferred Stock and 503 shares of Class B Preferred Stock held by Yardis Corporation ("Yardis"). Mr. Rosenberg owns approximately 63% of the outstanding Common Stock of Yardis.

DESCRIPTION OF CAPITAL STOCK

Common Stock

The Company is authorized to issue 25,000,000 shares of the Common Stock, par value \$.01 per share.

Shareholders are entitled to such dividends as may be declared from time to time by the Board of Directors out of any funds available to the Company for that purpose.

Shareholders will be entitled to one vote per share held of record with respect to all matters submitted to a vote of the shareholders. There is no cumulative voting for the election of directors.

In any distribution of capital assets, whether voluntary or involuntary, shareholders are, and the shares to be issued in this offering will be entitled to receive pro rata the assets remaining after creditors and Preferred shareholders have been paid in full.

Shareholders have no preemptive rights. The outstanding shares of the Common Stock are fully paid and non-assessable.

Preferred Stock

The Company is authorized to issue 42,000 shares of Class A Preferred Stock, par value \$.05 per share and 42,000 shares of Class B Preferred Stock, par value \$.05 per share. (The Class A and Class B Preferred Stock is sometimes hereinafter collectively referred to as "Preferred Stock").

Shareholders of the Preferred Stock are not entitled to receive dividends.

Shareholders of the Preferred Stock are not entitled to vote on any matters submitted to a vote of the shareholders of Common Stock, except that (a) any amendment to the Articles of Incorporation of the Company which would adversely affect the rights of the shareholders of either Class A or Class B Preferred Stock will be subject to the approval of the shareholders of a majority of the class of Preferred Stock whose rights would be affected and (b) any merger of the Company into, consolidation of the Company with or sale of substantially all of the Company's assets to any other corporation will be subject to the approval of the shareholders of Common Stock, Class A Preferred Stock and Class B Preferred Stock voting as a single class with each share of stock of the Company, regardless of class, being entitled to one vote; provided, however, that if the terms of the merger, consolidation or sale of assets provide that each shareholder of Preferred Stock will receive, in exchange for his stock, preferred stock of the remaining, resulting or acquiring entity which shall, in the aggregate, possess redemption, liquidation, voting and conversion rights which are at least as favorable as those possessed by the shareholders of the Preferred Stock immediately prior to the effective date of such merger, consolidation or sale, the Preferred shareholders will not be entitled to vote on such transactions.

In any distribution of capital assets, whether voluntary or involuntary, shareholders of the Preferred Stock are entitled to receive \$.05 per share, after creditors have been paid in full and prior to any distribution to the shareholders of the Common Stock.

A share of Class A Preferred Stock may be converted, at the option of the holder, into 50 shares of the Company's Common Stock at any time after the Company's net income after provision for income taxes (as determined by the Company's independent accountants) calculated on a fully diluted basis (including the conversion of all Class A and Class B Preferred Stock) and subject to adjustments in the event of any stock splits or dividends or other similar events (hereinafter referred to as the "Minimum Net Income") equals or exceeds \$1.00 per share of the Company's Common Stock in any one of the five fiscal years ending on or before December 31, 1985.

A share of Class B Preferred Stock may be converted, at the option of the holder, into 50 shares of the Company's Common Stock at any time after the Company's Minimum Net Income equals or exceeds \$1.50 per share of Common Stock in any one of the five fiscal years ending on or before December 31, 1985.

As an alternative to the foregoing conditions, each share of Class A and Class B Preferred Stock may be converted, at the option of the holder, into 50 shares of the Company's Common Stock at any time after the closing bid price of the Company's Common Stock in the over-the-counter market (as reported by NASDAQ if the Company's Common Stock is reported on NASDAQ) or the closing price on any registered securities exchange (if the Company's Common Stock is listed on such securities exchange), averages \$16.50 or more per share (subject to adjustment in the event of any stock splits or dividends, or other similar events) over any period of 120 consecutive trading days during the two years following the date of this Prospectus or \$25.00 or more per share (subject to the foregoing adjustment) over any period of 120 consecutive trading days during the period beginning two years and ending five years after the date of this Prospectus.

In no event will any shares of Preferred Stock be convertible subsequent to a period of time terminating five years and one month from the date of this Prospectus. Shares which have not been converted by that time will be redeemed by the Company at a redemption price of \$.05 per share, and subsequently retired.

Transfer Agent

Industrial Valley Bank and Trust Company, Allentown, Pennsylvania, 18101, will act as transfer agent and registrar for the Common Stock and the Preferred Stock.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, the Company has agreed to sell to each of the Underwriters named below, for whom D. H. Blair & Co., Inc. is acting as the Representative, and each of such Underwriters has severally agreed to purchase, the number of shares of Common Stock set forth opposite its name below:

<u>Name</u>	<u>Number of Shares</u>
D.H. Blair & Co., Inc.	865,000
Boettcher & Company	40,000
Elkins & Co.	40,000
Jesup & Lamont Securities Co. Inc.	40,000
Parker/Hunter Incorporated	40,000
Raymond, James & Associates, Inc.	40,000
Arthurs, Lestrangle & Short	35,000
Carolina Securities Corporation	35,000

<u>Name</u>	<u>Number of Shares</u>
Evans & Co.	35,000
First Investors Corporation	35,000
Muller and Company, Inc.	35,000
Philips, Appel & Walden, Inc.	35,000
Quinn & Co., Inc.	35,000
Richardson Securities, Inc.	35,000
R. Rowland & Co., Incorporated	35,000
Smith, Moore & Co.	35,000
Ultrafin International Corporation	35,000
Edward A. Viner & Co., Inc.	35,000
Weinrich-Zitzmann-Whitehead Inc.	35,000
Amivest Capital, Inc.	30,000
Barclay Putnam, Division of F. L. Putnam & Co., Inc.	30,000
Belford, Hammerbeck, Inc.	30,000
Blinder Robinson & Co., Inc.	30,000
Broadchild Securities, Division of D. H. Blair Investors Corp.	30,000
Alan Bush Brokerage Co.	30,000
Evans Llewellyn Securities, Inc.	30,000
First New England Securities Corporation	30,000
Fittin, Cunningham & Lauzon, Inc.	30,000
Gilford Securities Incorporated	30,000
Keeley Investment Corp.	30,000
Emmett A. Larkin Company, Inc.	30,000
Lawrence Winkler, Division of Commission Discount Corp.	30,000
Shoenberg, Hieber Inc.	30,000
Strasbourg, Pearson, Tulcin, Wolff, Inc.	30,000
Tennessee Capital Corporation	30,000
Total	<u>2,000,000</u>

The several Underwriters, through the Representative, have advised the Company that they propose to offer the shares of the Common Stock to the public initially at the price set forth on the cover page of this Prospectus. The Underwriters may allow to certain dealers a concession from the public offering price of \$.14 per share. The Underwriters may allow, and such dealers may realow, a concession of \$.125 per share to other dealers. After the initial public offering, the price to the public and the concession may be changed. The Underwriters are committed to take and pay for all of the shares of the Common Stock if any are purchased.

The Company has agreed to indemnify the Underwriters against certain liabilities which may be incurred in connection with the offering, including certain liabilities under the Securities Act of 1933.

The Company has granted to the Underwriters an option to purchase up to an additional 200,000 shares of the Common Stock for the sole purpose of covering over-allotments, if any. The option will be exercisable during a 30-day period following the sale and delivery to the Underwriters of the shares of the Common Stock offered hereby at the initial public offering price, less underwriting discounts. If the

Underwriters exercise the option, the total price to the public, underwriting discounts and commissions and net proceeds to the Company will be increased accordingly.

The Company has agreed to sell to the Representative, upon consummation of the public offering, for an aggregate of \$200, Warrants to purchase 200,000 shares of Common Stock. The Representative's Warrants will be exercisable for a period of four years beginning one year from the date of the initial public offering at a price equal to 120 percent of the public offering price. The Warrants are non-transferrable for a period of one year (except that they may be assigned in whole or in part to any officer of the Representative). The Representative has been granted registration rights with respect to the Warrants or the Common Stock to be issued upon exercise of the Warrants, exercisable at any one time during a period of four years beginning one year from the closing of this offering, at the sole expense of the Company. In addition, the Representative has been granted the right, at the sole expense of the Company, to join in any registration statement that the Company may elect to file with respect to its securities.

During the term of the Warrants, the holders are given the opportunity to profit from a rise in the market price of the Company's Common Stock, with a resulting dilution in the interest of the shareholders of the Common Stock. The Company may be deprived of favorable opportunities to procure additional equity. In all likelihood, holders of the Warrants may be expected to exercise their Warrants at a time when the Company would be able to obtain equity capital, if needed, on terms more favorable to the Company than those provided by the Warrants.

The Underwriting Agreement provides for the payment to the Representative of a non-accountable expense allowance of \$180,000 (\$198,000 if the over-allotment option is exercised in full), of which \$20,000 has been paid.

Messrs. Seligsohn, Bogutz, Gross, Kaplan, Liepold and Wielech, each of whom currently hold five percent or more of the Common Stock ("Five Percent Shareholders"), have agreed not to sell any of their shares of Common Stock for a period of twelve months from the date of this Prospectus without the prior written consent of the Representative.

The Company and the Five Percent Shareholders have granted the Representative a five year preferential right of first refusal with respect to which the Company, or any shareholder owning more than five percent of the Common Stock outstanding prior to the date of this Prospectus, may seek a public offering pursuant to a registration statement under the Securities Act of 1933.

LEGAL MATTERS

Fox, Rothschild, O'Brien & Frankel, Philadelphia, Pennsylvania, counsel to the Company, will render an opinion that the shares of the Common Stock being offered hereby, when issued and sold in accordance with the Underwriting Agreement, will be legally issued, fully paid and non-assessable. Jerome E. Bogutz, Esq., a director of the Company, is a member of that firm and owns 367,318 shares of Common Stock, 3,673 shares of Class A Preferred Stock and 3,673 shares of Class B Preferred Stock. In addition, David S. Rasner, Esq., an associate of that firm, owns 9,264 shares of Common Stock, 93 shares of Class A Preferred Stock and 93 shares of Class B Preferred Stock.

Bachner, Tally & Mantell, New York, New York, will pass upon the legality of the securities being offered hereby for the Underwriters.

Trachtman, Jacobs & Beck, Philadelphia, Pennsylvania, is patent, trademark and copyright counsel to the Company, and the information contained herein under the captions "Business — The Ultraphone System — Patents", "Business — PriveCode — Patents and Copyrights" and "Business — Trademarks" has been included in reliance on the authority of that firm as experts in the fields of patent, trademark and copyright law. Arthur A. Jacobs, Esq., a member of that firm, owns 11,534 shares of Common Stock, 116 shares of Class A Preferred Stock and 116 shares of Class B Preferred Stock.

The information included under the caption "Business — PriveCode — Government Regulation" and the information with respect to Federal Communications Commission regulatory matters included under the captions "Risk Factors — Limited Channel Availability for Ultraphone System", "Risk Factors — Government Regulation", "Business — The Ultraphone System — The Product", "Business — The Ultraphone System — Competition" and "Business — The Ultraphone System — Government Regulation" has been included in reliance on the authority of Lauren A. Colby, Esq., Frederick, Maryland, FCC counsel to the Company.

EXPERTS

The audited financial statements and schedules of International Mobile Machines Corporation included in this Prospectus and elsewhere in the Registration Statement relating to this offering have been examined by Waldbaum, Rockower & Company, independent certified public accountants, for the periods and to the extent set forth in their reports appearing herein and elsewhere in the Registration Statement. Such financial statements and schedules have been so included in reliance upon the reports of such firm given upon their authority as experts in auditing and accounting.

REPORTS TO SHAREHOLDERS

The Company plans to furnish annual reports to shareholders, which reports will include audited financial statements and unaudited quarterly reports.

FURTHER INFORMATION

The Company has filed with the Securities and Exchange Commission a Registration Statement on Form S-1 under the Securities Act of 1933, with respect to the shares of the Common Stock offered hereby. For further information with respect to the Company and the shares of the Common Stock offered hereby, reference is made to the Registration Statement and to the financial statements and exhibits filed as a part thereof. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected at the Commission's offices or may be obtained from the Commission upon the payment of certain prescribed fees.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
International Mobile Machines Corporation

We have examined the balance sheet of International Mobile Machines Corporation (a Pennsylvania corporation in the development stage) as of December 31, 1980 and December 31, 1979, and the related statements of operations and deficit accumulated during the development stage, changes in financial position for each of the three years in the period ended December 31, 1980, and the statement of shareholders' investment for the period from inception through December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned financial statements have been prepared on a "going concern basis" which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. As described in Note 1, the Company is engaged in various stages of the development of two telephone devices. While there can be no assurance that the devices will receive commercial acceptance, it is anticipated that their continued development, and then their production and marketing, will require significant outlays of cash. The continuation of the Company as a "going concern" is dependent upon the Company achieving profitable operations and its ability to obtain additional capital through a public offering of the Company's common stock such as contemplated by this Prospectus.

In our opinion, subject to the Company achieving profitable operations and obtaining additional capital through a public offering of the Company's common stock as described in the preceding paragraph, the financial statements referred to above present fairly the financial position of International Mobile Machines Corporation as of December 31, 1980 and December 31, 1979, and the results of its operations and changes in its financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the plan of merger and reorganization of the Company as explained in Note 1 of the notes to financial statements.

WALDBAUM, ROCKOWER & COMPANY

Philadelphia, Pennsylvania
July 24, 1981 (except for Note 1
for which the date is November
7, 1981).

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE (Note 1))

BALANCE SHEET

ASSETS

	June 30, 1981 (Unaudited)	December 31, 1980	1979
Current assets:			
Cash	\$ 15,003	\$ 13,706	\$ 4,648
Prepaid expenses	15,277	2,777	277
Investments	331	331	331
	30,611	16,814	5,256
Other assets:			
Incorporation costs	3,332	3,332	3,332
TOTAL ASSETS	\$ 33,943	\$ 20,146	\$ 8,588

LIABILITIES AND SHAREHOLDERS' INVESTMENT

Current liabilities:			
Note payable, officer (note 2)	\$ —	\$ 75,000	\$ 71,400
Accounts payable	473,639	272,553	17,000
Amounts due to (notes 2 & 3):			
Officers and directors	65,662	433,222	212,344
Shareholders	2,718	24,060	5,510
	542,019	804,835	306,254
Long-term liabilities:			
Notes payable (notes 2 & 3):			
Officers and directors	494,983	—	—
Shareholders	22,000	—	—
Total long-term liabilities	516,983	—	—
Total liabilities	1,059,002	804,835	306,254
Commitments (notes 3 & 4)	—	—	—
Shareholders' investment (notes 1, 5 & 6):			
Preferred stock, redeemable at par value:			
Class A, (convertible) \$.05 par value:			
Authorized, issued and outstanding			
42,000 shares (23,582 shares			
as of December 31, 1979)	2,100	2,100	1,179
Class B, (convertible) \$.05 par value:			
Authorized, issued and outstanding			
42,000 shares (23,582 shares			
as of December 31, 1979)	2,100	2,100	1,179
Common Stock, \$.01 par value;			
25,000,000 Authorized; 4,200,000 issued and			
outstanding (2,358,250 shares as of			
December 31, 1979)	42,000	42,000	23,582
Additional paid-in capital	502,875	502,875	394,385
Stock subscriptions receivable	(4,000)	(70,826)	—
Deficit accumulated during the development stage	(1,570,134)	(1,262,938)	(717,991)
	(1,025,059)	(784,689)	(297,666)
TOTAL LIABILITIES AND SHARE-			
HOLDERS' INVESTMENT	\$ 33,943	\$ 20,146	\$ 8,588

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF OPERATIONS AND DEFICIT ACCUMULATED
DURING THE DEVELOPMENT STAGE (SINCE INCEPTION)**

	Cumulative since inception (August 31, 1972) to June 30, 1981	Six months ended June 30,		Years ended December 31,		
		1981	1980	1980	1979	1978
	(Unaudited)	(Unaudited)	(Unaudited)			
Net sales and/or operating revenues	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Expenses						
Consulting fees and salaries (notest 3 & 4)	140,712	41,866	—	42,865	—	—
Legal and professional fees	265,244	11,000	13,937	16,039	13,779	7,386
General and research and development expenses (notest 3 & 9)	1,025,477	232,317	226,990	452,881	30,822	35,391
	<u>1,431,433</u>	<u>285,183</u>	<u>240,927</u>	<u>511,785</u>	<u>44,601</u>	<u>42,777</u>
Other income (expense):						
Interest income	2,422	353	1,068	2,069	—	—
Interest expense	(93,868)	(22,366)	(9,456)	(35,231)	(9,141)	(3,600)
Rental income	3,873	—	—	—	—	—
Loss on sale of assets	(51,128)	—	—	—	—	—
	<u>(138,701)</u>	<u>(22,013)</u>	<u>(8,388)</u>	<u>(33,162)</u>	<u>(9,141)</u>	<u>(3,600)</u>
Net (loss)	<u>(1,570,134)</u>	<u>(307,196)</u>	<u>(249,315)</u>	<u>(544,947)</u>	<u>(53,742)</u>	<u>(46,377)</u>
Deficit accumulated during the development stage:						
Beginning of period	—	(1,262,938)	(717,991)	(717,991)	(664,249)	(617,872)
End of period	<u>(1,570,134)</u>	<u>(1,570,134)</u>	<u>(967,306)</u>	<u>(1,262,938)</u>	<u>(717,991)</u>	<u>(664,249)</u>
Net (loss) per common share (note 7)		<u>(\$.07)</u>	<u>(\$.07)</u>	<u>(\$.14)</u>	<u>(\$.02)</u>	<u>(\$.02)</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE (Note 1))

STATEMENT OF CHANGES IN FINANCIAL POSITION (SINCE INCEPTION)

	Cumulative since inception (August 31, 1972) to June 30, 1981	Six months ended June 30,		Years ended December 31,		
		1981	1980	1980	1979	1978
	(Unaudited)	(Unaudited)	(Unaudited)			
Funds provided by (used for):						
Net (loss)	(\$1,570,134)	(\$307,196)	(\$249,315)	(\$544,947)	(\$53,742)	(\$46,377)
Proceeds from sale of common and preferred stock	419,612	66,826	15,000	34,224	20,862	20,000
Accrued consulting and legal fees in exchange for common and preferred stock	115,021	—	10,000	23,000	—	—
Accrued expenses (consulting and legal services, and travel and miscellaneous expenses paid by officers) in exchange for common and preferred stock	10,442	—	—	700	6,475	3,267
Amounts due converted into long-term notes payable (note 2)	516,983	516,983	—	—	—	—
Incorporation costs	(3,332)	—	—	—	—	—
Increase (decrease) in working capital	(\$ 511,408)	\$276,613	(\$224,315)	(\$487,023)	(\$26,405)	(\$23,110)
Increase (decrease) in working capital consists of:						
Cash	\$ 15,003	\$ 1,297	\$ 1,155	\$ 9,058	(\$ 4,857)	(\$ 439)
Prepaid expenses	15,277	12,500	2,500	2,500	52	(240)
Investments	331	—	—	—	—	—
Note payable, officer	—	75,000	(1,800)	(3,600)	(3,600)	(3,600)
Accounts payable	(473,639)	(201,086)	(162,561)	(255,553)	(1,442)	(15,058)
Amounts due to:						
Officers and directors	(65,662)	367,560	(67,059)	(220,878)	(14,648)	(4,973)
Shareholders	(2,718)	21,342	3,450	(18,550)	(1,910)	1,200
Increase (decrease) in working capital	(\$ 511,408)	\$276,613	(\$224,315)	(\$487,023)	(\$26,405)	(\$23,110)

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE (Note 1))

STATEMENT OF SHAREHOLDERS' INVESTMENT
FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 1981 (Notes 1, 5, 6 & 7)

	Common stock (a)		Class A preferred (a)		Class B preferred (a)				Deficit accumulated during the developmental stage
	Number of shares	Par Value \$.01 per share	Number of shares	Par value \$.05 per share	Number of shares	Par value \$.05 per share	Amount per equity unit (b)	Additional paid-in capital	
August 31, 1972 (c)*	697,115	\$ 6,971	6,971	\$ 348	6,971	\$ 348	\$ 2.70	\$ 11,145	\$ —
August 31, 1972 (d)*	74,112	741	741	37	74	37	53.98	39,185	—
August 31, 1972*	18,528	185	185	9	185	9	54.05	9,797	—
August 31, 1972*	99,588	996	996	50	996	50	20.08	18,904	—
1972 additions	889,343	8,893	8,893	444	8,893	444		79,031	68,002
Balance at December 31, 1972	889,343	8,893	8,893	444	8,893	444		79,031	68,002
June 6, 1973*	9,264	93	93	5	93	5	53.76	4,897	—
1973 additions	—	—	—	—	—	—		—	30,435
Balance at December 31, 1973	898,607	8,986	8,986	449	8,986	449		83,928	98,437
January 7, 1974 (c)*	37,056	371	371	18	371	18	26.95	9,593	—
January 10, 1974 (f)*	(92,640)	(926)	(926)	(46)	(926)	(46)		1,018	—
July 14, 1974*	6,485	65	65	3	65	3	53.80	3,429	—
July 31, 1974***	202,870	2,028	2,028	101	2,028	101	8.11	6,145	—
July 31, 1974***	23,318	233	233	12	233	12	7.35	1,493	—
July 31, 1974***	10,494	105	105	5	105	5	28.57	2,885	—
July 31, 1974***	52,466	525	525	26	525	26	9.52	4,423	—
July 31, 1974 (d)***	23,319	233	233	12	233	12	6.26	1,202	—
July 31, 1974***	23,318	233	233	12	233	12	3.76	618	—
1974 additions	286,686	2,867	2,867	143	2,867	143		30,806	154,715
Balance at December 31, 1974	1,185,293	11,853	11,853	592	11,853	592		114,734	253,152
July 15, 1975***	1,748	17	17	1	17	1	58.82	981	—
August 25, 1975*	4,076	41	41	2	41	2	53.66	2,155	—
August 27, 1975***	1,679	17	17	1	17	1	70.58	1,181	—
1975 additions	7,503	75	75	4	75	4		4,317	18,043
Balance at December 31, 1975	1,192,796	11,928	11,928	596	11,928	596		119,051	271,195
January 15, 1976 (d)***	2,519	25	25	1	25	1	144.00	3,573	—
January 15, 1976***	8,605	86	86	5	86	5	143.02	12,204	—
January 15, 1976***	2,798	28	28	1	28	1	214.28	5,970	—
April 12, 1976 (d)*	9,264	93	93	5	93	5	53.76	4,897	—
May 14, 1976**	370,560	3,705	3,705	185	3,705	185	28.34	100,925	—
June 21, 1976*	27,792	278	278	14	278	14	53.96	14,694	—
September 2, 1976 (d)***	2,798	28	28	1	28	1	714.29	19,970	—
December 3, 1976**	14,822	148	148	8	148	8	27.03	3,836	—
December 7, 1976*	9,264	93	93	5	93	5	53.76	4,897	—
December 7, 1976**	46,313	463	463	23	463	23	80.99	36,991	—
1976 additions	494,735	4,947	4,947	248	4,947	248		207,957	266,228
Balance at December 31, 1976	1,687,531	16,875	16,875	844	16,875	844		327,008	537,423
January 25, 1977***	1,866	19	19	1	19	1	210.53	3,979	—
March 7, 1977**	14,822	148	148	8	148	8	84.46	12,347	—
April 8, 1977***	1,399	14	14	1	14	1	214.29	2,984	—
October 17, 1977***	1,049	10	10	1	10	1	150.00	1,488	—
October 17, 1977 (d)***	1,749	18	18	1	18	1	138.89	2,480	—
December 15, 1977 (d)*	417	4	4	1	4	1	162.50	644	—
1977 additions	21,302	213	213	10	213	10		23,917	80,449
Balance at December 31, 1977	1,708,833	17,088	17,088	854	17,088	854		350,925	617,872

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE (Note 1))

STATEMENT OF SHAREHOLDERS' INVESTMENT
FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 1981 (Notes 1, 5, 6 & 7)—Continued

	Common stock (a)		Class A preferred (a)		Class B preferred (a)				Deficit
	Number of shares	Par Value \$.01 per share	Number of shares	Par value \$.05 per share	Number of shares	Par value \$.05 per share	Amount per equity unit (b)	Additional paid-in capital	accumulated during the developmental stage
Balance at December 31, 1977	1,708,833	\$17,088	17,088	\$ 854	17,088	\$ 854		\$350,925	\$617,872
April 7, 1978***	1,749	18	18	1	18	1	277.78	4,980	—
June 20, 1978***	3,078	31	31	2	31	2	322.58	9,965	—
July 17, 1978 (d and e)*	121,044	1,210	1,210	60	1,210	60	2.70	1,937	—
October 31, 1978***	1,399	14	14	1	14	1	357.14	4,984	—
1978 additions	127,270	1,273	1,273	64	1,273	64		21,866	46,377
Balance at December 31, 1978	1,836,103	18,361	18,361	918	18,361	918		372,791	664,249
February 14, 1979***	2,099	21	21	1	21	1	357.14	7,477	—
March 1, 1979 (e)*	99,588	996	996	50	996	50	2.70	1,592	—
May 15, 1979*	99,588	996	996	50	996	50	2.70	1,591	—
August 8, 1979***	1,540	15	15	1	15	1	333.33	4,983	—
September 26, 1979 (g)*	6,486	64	64	3	64	3	2.73	105	—
October 1, 1979 (e)*	99,588	996	996	49	996	49	2.70	1,593	—
October 1, 1979 (g)*	213,073	2,131	2,131	106	2,131	106	2.96	3,957	—
October 8, 1979 (e)*	185	2	2	1	2	1	150.00	296	—
1979 additions	522,147	5,221	5,221	261	5,221	261		21,594	53,742
Balance at December 31, 1979	2,358,250	23,582	23,582	1,179	23,582	1,179		394,385	717,991
February 1, 1980***	1,540	15	15	1	15	1	333.33	4,983	—
February 13, 1980***	1,673	17	17	1	17	1	294.12	4,981	—
February 26, 1980***	770	8	8	1	8	1	312.50	2,490	—
March 2, 1980***	770	8	8	1	8	1	312.50	2,490	—
March 28, 1980 (d)*	1,853	19	19	1	19	1	526.32	9,979	—
October 29, 1980***	2,310	23	23	1	23	1	326.09	7,475	—
December 1, 1980***	461	5	5	1	5	1	300.00	1,493	—
December 19, 1980 (e)*	9,264	93	93	4	93	4	2.69	149	—
December 31, 1980 (h)*	12,044	120	120	6	120	6	108.33	12,868	—
December 31, 1980 (i)*	175	2	2	1	2	1	571.46	996	—
December 31, 1980 (i)**	18,528	185	185	9	185	9	2.70	297	—
December 31, 1980 (j)*	288,883	2,889	2,889	144	2,889	144		(3,177)	—
December 31, 1980—warrants (a and k)*	74,112	741	741	37	741	37	107.96	79,185	—
December 31, 1980—options (a)***	49,005	490	490	25	490	25		(540)	—
December 31, 1980—options (a and l)*	1,380,362	13,803	13,803	688	13,803	688		(15,179)	—
1980 additions	1,841,750	18,418	18,418	921	18,418	921		108,490	544,947
Balance December 31, 1980	4,200,000	42,000	42,000	2,100	42,000	2,100		502,875	1,262,938
1981 additions (unaudited)	—	—	—	—	—	—		—	307,196
Balance June 30, 1981	4,200,000	\$42,000	42,000	\$2,100	42,000	\$2,100		\$502,875	\$1,570,134

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE (Note 1))

STATEMENT OF SHAREHOLDERS' INVESTMENT
FOR THE PERIOD FROM INCEPTION THROUGH JUNE 30, 1981 (Notes 1, 5, 6 & 7)—Concluded

-
- (a) Number of common stock, Class A preferred and Class B preferred shares issued and outstanding and amounts per share reflect the plan of merger and reorganization of the Company, as explained in (note 1) to the financial statements. The accompanying financial statements have been retroactively adjusted to reflect this change.
- (b) An "Equity Unit" consists of 100 shares of common stock, one share of Class A preferred stock and one share of Class B preferred stock.
- (c) Shares issued as consideration for legal fees, promotional fees and product development expenses incurred on the Company's behalf.
- (d) Shares issued in exchange for consulting and legal services.
- (e) Shares issued on exercise of stock option.
- (f) Shares contributed to the Company and cancelled.
- (g) Shares issued by exercise of stock option, as reimbursement to an officer for expenses incurred on the Company's behalf.
- (h) Shares issued by exercise of stock option, as consideration for engineering services previously provided to the Company by an officer.
- (i) Subscription receivable from shareholder on exercise of stock option.
- (j) Shares issued to officers, directors and shareholders for making payments to or securing letters of credit for the benefit of Times as explained in (note 3) to the financial statements. The shares issued in connection with the payments to and letters of credit for the benefit of Times reflect a redistribution of ownership equity in recognition of the efforts of those persons who made such payments and secured such letters of credit.
- (k) Includes 64,223 shares for which subscriptions are receivable at December 31, 1980 and also includes \$700 offset of accrued amounts due to an officer.
- (l) Includes certain options (immaterial in amount) actually granted in early 1981 for services substantially performed in 1980.
- * Originally issued by International Mobile Machines Corporation
 - ** Originally issued by International Mobile Machines Incorporated
 - *** Originally issued by Intertel, Inc.

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS

(Information for the six-month periods ended
June 30, 1981 and 1980 is unaudited)

Note 1 Organization

International Mobile Machines Corporation ("Company") was incorporated on August 31, 1972 for the purpose of developing, manufacturing and selling two products, a wireless portable telephone and a radio base station ("The Ultraphone System"), and a telephone attachment that indicates to the owner the identity of a caller and for whom the call is intended before the phone is answered ("PriveCode").

International Mobile Machines Incorporated ("IMMI") was incorporated on April 13, 1976 for the purpose of developing and owning the patents relating to Ultraphone. As of December 31, 1980 and 1979, the Company owned 100,000 voting shares and 200,000 non-voting shares or 45.4% of IMMI's voting shares and 71.3% of IMMI's equity ownership. In addition, as of December 31, 1980, certain officers, directors and shareholders of the Company owned 101,576 voting shares or 46.0% of IMMI's voting shares and 24.2% of IMMI's equity ownership.

Intertel, Inc. ("Intertel") was incorporated on July 24, 1974 for the purpose of providing the Company with financing to perfect its patents in foreign countries and provide protection for certain of the Company's foreign patents. Mr. Irwin L. Gross, a director of the Company was Chairman of the Board and President of Intertel and owned approximately 30% of the outstanding common stock of Intertel. Mr. Sherwin I. Seligsohn, Chairman of the Board and President of the Company, and Messrs. Lyman C. Hamilton, Jr. and Robert B. Liepold, Directors of the Company, were directors of Intertel.

On November 6, 1981, pursuant to a plan of merger and reorganization, IMMI and Intertel were merged into the Company. Each share of the Company's then outstanding common stock, par value \$.05 per share ("Old Common Stock") was converted into 1.8528 shares of common stock, par value \$.01 per share ("New Common Stock"). Each share of IMMI common stock not owned by the Company was converted into 3.7056 shares of the Company's New Common Stock (shares owned by the Company were retired). Each share of Intertel common stock and options to purchase Intertel common stock was converted into .349775 shares of the Company's New Common Stock. Each option, warrant or other right entitling the holder to purchase a share of the Company's Old Common Stock was converted into 1.8528 shares of New Common Stock. In addition, for every 100 shares of New Common Stock issued to a shareholder under the plan of merger, one share of Class A preferred stock and one share of Class B preferred stock was also issued to such shareholder. The accompanying financial statements have been retroactively adjusted to reflect the plan of merger and reorganization which has been accounted for on the pooling of interest method.

The Company is still in the development stage and through June 30, 1981, as retroactively adjusted, has issued 4,200,000 common shares, 42,000 Class A preferred shares and 42,000 Class B preferred shares.

Note 2 Notes payable, officers, directors and shareholders

A. An unsecured note payable in the amount of \$75,000 included accrued interest of \$30,000, at a rate of 8% was payable to the Estate of Frances H. Seligsohn. Mr. Sherwin I. Seligsohn, Chairman of the Board of Directors and President of the Company is Frances H. Seligsohn's son and an Executor of

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2 Notes payable, officers, directors and shareholders—(Continued)

her Estate. Effective April 1, 1981, the Company has replaced the note with a new note in the amount of \$75,900, which bears interest, payable quarterly, at a rate of 12%. The principal amount of the note will be due and payable in May, 1983.

B. Effective April 1, 1981, the Company issued a note to Mr. Jerome E. Bogutz, a Director of the Company, in the amount of \$237,457, which represents prior legal services performed by Mr. Bogutz for the Company and includes accrued interest of \$35,000. The note bears interest, payable quarterly, at a rate of 12%. The principal amount of the note will be due and payable in May, 1983.

C. Effective April 1, 1981, the Company issued notes payable totaling \$203,626 to certain officers, directors and shareholders of the Company who made advances to the Company and incurred expenses for the benefit of Timex (note 3). The notes bear interest, payable quarterly, at a rate of 12%. The principal amount of the notes will be due and payable in May, 1983.

Note 3 Commitments

A. As of March 26, 1980, the Company entered into an agreement pursuant to which the Company engaged Timex Corporation ("Timex") in the development of prototype models of PriveCode and preparation of specifications for its mass production. Under terms of the agreement the Company has paid Timex \$200,000 and owes an additional \$200,000 payable on a pro-rata basis on the number of units ordered with any remaining balance due by November 1, 1981. If the Company terminates the agreement for any reason, the \$200,000 is due on the date of termination.

During 1981, Timex has commenced production of prototype units. As of June 30, 1981, based on units delivered, an additional \$114,000 is due Timex, one half payable within 10 days of delivery and the other half payable on a pro-rata basis on the number of units ordered with any remaining balance due by November 1, 1981.

In order to secure its obligations to Timex, certain officers, directors, and shareholders of the Company made advances to the Company in the amount of \$198,000, incurred expenses of \$5,626, and provided letters of credit in the amount of \$197,500 for the benefit of Timex. The Company has agreed to repay the amounts advanced (including expenses) as described in (note 2) and replace the letters of credit with its own guarantees. In addition, 288,883 common shares, 2,889 Class A preferred shares and 2,889 Class B preferred shares, as adjusted to show the effect of the plan of merger, have been issued to the aforementioned directors, officers and shareholders.

On April 9, 1981, the Company entered into an agreement with Timex, pursuant to which Timex will produce PriveCode units for consumer sales. The Company will pay Timex the costs of, and thereby retain ownership of, equipment used by Timex to commence production. The total estimated cost to purchase such equipment during 1981 is approximately \$900,000. The Company will purchase the completed PriveCode units from Timex at a predetermined price per unit.

B. As of February 2, 1981, the Company entered into an agreement pursuant to which the Company engaged M/A-COM, Inc., doing business as Microwave Associates Communications Company,

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3 Commitments (Concluded)

to provide certain engineering services in the development of Ultraphone. The contract price for the first phase of development is \$200,000, which includes a 10% down payment with the balance due within 30 days of monthly progress billings, which start at the end of the second month of the contract. The total estimated price for the entire project, if all phases are completed, is \$1,700,000, and is expected to take twenty-three months to complete. As of June 30, 1981, approximately \$36,000 was due for services rendered. The contract also provides that M/A-COM, Inc. will be designated as the principal manufacturer for the Ultraphone System components provided that M/A-COM, Inc. remains reasonably competitive in terms of price, quality, quantity, and delivery. M/A-COM, Inc. would produce 100% of the Company's requirements for a period of five years from the start of production, and at least 50% of the Company's requirements for a five year period thereafter.

C. As of February 9, 1981, the Company entered into an agreement pursuant to which the Company has engaged Morison S. Cousins and Associates, Inc. to design a telephone "privacy" interceptor product. The contract price for the completed project is \$18,000 plus expenses. As of June 30, 1981, \$10,250 has been paid and \$7,750 is due for services rendered.

Note 4 Management services agreements

A. As of October 1, 1980, the Company entered into an agreement pursuant to which the Company has engaged the Busch Center at the Wharton School of the University of Pennsylvania to provide the Company with management consulting services with respect to organization design and implementation. The agreement is self renewing for a term of six months from January 1, 1981 and can be terminated by either party with 30 days notice. As of June 30, 1981, approximately \$55,000 was due for services rendered.

B. As of December 31, 1980, the Company entered into an agreement pursuant to which the Company has engaged the Philadelphia Consulting Group to provide the Company with management consulting with respect to marketing and financial matters. The contract specifies that the Company will be provided with 100 hours of service at a rate of \$5,000 a month plus expenses for a period of 36 months. Dr. George Calhoun and Dr. Wladimir Sachs, principals of the Philadelphia Consulting Group, own 3,706 common shares, 37 Class A preferred shares, and 37 Class B preferred shares, as adjusted to show the effect of the merger. As of June 30, 1981, approximately \$29,000 was due for services rendered.

Note 5 Common stock

Shareholders are entitled to such dividends as may be declared from time to time by the Board of Directors out of any funds available to the Company for that purpose. Shareholders will be entitled to one vote per share held of record with respect to all matters submitted to a vote of the shareholders. There is no cumulative voting for the election of directors. In any distribution of capital assets, whether voluntary or involuntary, shareholders are entitled to receive, pro-rata, the assets remaining after creditors and preferred shareholders have been paid in full. Shareholders have no preemptive rights. The outstanding shares of the common stock are fully paid and non-assessable.

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6 Redeemable preferred stock

Shareholders of redeemable preferred stock are not entitled to receive dividends and are not entitled to vote on any matters submitted to a vote of shareholders of common stock, except that (a) any amendment to the Articles of the Company which would adversely affect the rights of the shareholders of either Class A or Class B preferred stock will be subject to the approval of a majority of shareholders of the class of preferred stock whose rights would be affected and (b) any merger of the Company into, consolidation of the Company with or sale of substantially all of the Company's assets to any other corporation will be subject to the approval of the shareholders of common stock, Class A preferred stock and Class B preferred stock voting as a single class with each share of stock of the corporation, regardless of class, being entitled to one vote; provided however, that if the terms of the merger, consolidation or sale of assets provide that each shareholder of preferred stock will receive, in exchange for his stock, preferred stock of the remaining, resulting or acquiring entity which shall, in the aggregate, possess redemption, liquidation, voting and conversion rights which are at least as favorable as those possessed by the shareholders of the preferred stock immediately prior to the effective date of such merger, consolidation or sale, the preferred shareholders will not be entitled to vote on such transactions.

In any distribution of capital assets, whether voluntary or involuntary, shareholders of the preferred stock are entitled to receive \$.05 per share (maximum of \$4,200), after creditors have been paid in full and prior to any distribution to the shareholders of the common stock.

A share of Class A preferred stock may be converted, at the option of the holder, into 50 shares of the Company's common stock at any time after the Company's net income after provision for income taxes (as determined by the Company's independent accountants) calculated on a fully diluted basis (which includes the conversion of all Class A and Class B preferred stock) and subject to adjustments in the event of any reverse stock splits or other similar events (hereinafter referred to as the "Minimum Net Income") equals or exceeds \$1.00 per share of the Company's common stock in any one of the five fiscal years ending on or before December 31, 1985.

A share of Class B preferred stock may be converted, at the option of the holder, into 50 shares of the Company's common stock at any time after the Company's minimum net income equals or exceeds \$1.50 per share of common stock in any one of the five fiscal years ending on or before December 31, 1985.

As an alternative to the foregoing conditions, both the Class A and Class B preferred stock may be converted, at the option of the holder, at any time after the closing bid price of the Company's common stock in the over-the-counter market as reported by any dealer, or as reported by NASDAQ (if the Company's common stock is reported on NASDAQ) or the closing bid price on the American Stock Exchange (if the Company's common stock is ever listed on the American Stock Exchange), averages \$16.50 per share (subject to adjustment in the event of any reverse stock splits or other similar events) over any period of 120 trading days during the two years following the date of the Prospectus relating to the offering of 2,000,000 shares of the Company's \$.01 par value per share common stock or \$25.00 per share (subject to the foregoing adjustment) over any period of 120 trading days during the period beginning two years and ending five years after the date of the Prospectus.

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6 Redeemable preferred stock (Concluded)

In no event will any shares of preferred stock be convertible, subsequent to a period of time terminating five years and one month from the date of this Prospectus. Shares which have not been converted by that time will be redeemed by the Company at a redemption price of \$.05 per share (maximum \$4,200), and subsequently retired.

Note 7 Net loss per share

The possible future conversion of Class A preferred stock and Class B preferred stock into 4,200,000 shares of common stock has not been included in the computation of loss per share, since the conditions necessary to effect the conversions may not be achieved (as explained in note 6). Net loss per share was computed on the weighted number of common stock shares outstanding, with options, warrants or other rights entitling the holder to purchase common stock shares treated as if issued on the date of its grant, as retroactively adjusted to reflect the plan of merger and reorganization explained in note 1.

The weighted average number of shares used in the net loss per share computation is as follows:

<u>Period</u>	<u>Average shares</u>
Year ended December 31, 1978	2,666,914
Year ended December 31, 1979	3,365,605
Year ended December 31, 1980	3,853,350
Six months ended June 30, 1980	3,774,654
Six months ended June 30, 1981	4,200,000

Note 8 Tax loss carryforward

The Company's net operating loss carryforward will expire as follows:

<u>Year</u>	<u>Amount</u>
1981	\$ 18,043
1984	266,228
1985	80,449
1986	46,377
1987	53,742
1988	544,947

INTERNATIONAL MOBILE MACHINES CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9 Research and development

Research and development costs are expensed as incurred. The amounts expensed are summarized as follows:

Period	Amount
Cumulative since inception	\$785,960
Six months ended June 30, 1981	202,614
Six months ended June 30, 1980	200,000
Year ended December 31, 1980	408,000
Year ended December 31, 1979	4,654
Year ended December 31, 1978	15,000

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No dealer, salesman or other person has been authorized to give any information or to make any representation, not contained in this Prospectus in connection with the offering of this Prospectus. If any person has made such statement or representation must not be relied upon as having been authorized by the Company or any Underwriter. This Prospectus does not constitute an offer of any securities other than the registered securities to which it relates or an offer to any person in any jurisdiction where such an offer would be unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create an implication that information contained herein is correct as of any time subsequent to the date hereof.

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2,000,000 Shares

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INTERNATIONAL MOBILE MACHINES CORPORATION

Common Stock

PROSPECTUS

D. H. BLAIR & CO., INC.

November 12, 1981

END