10-K

FILING-DATE: 05/07/90 DOCUMENT-DATE: 12/31/89

INTL MOBILE MACHINES CORP
CROSS-REFERENCE: SEE
TICKER-SYMBOL: IMMC EXCHANGE: NMS

2130 ARCH STREET

PHILADELPHIA , PA 19103
215-665-7900

INCORPORATION: PA

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

SIC: SIC-CODES: ,
PRIMARY SIC:

INDUSTRY-CLASS:

FYE: 12/31

AUDITOR:

STOCK-AGENT:

COUNSEL:

INVESTOR-CONTACT:

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[*1]

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

INTERNATIONAL MOBILE MACHINES CORPORATION
2130 ARCH STREET
PHILADELPHIA, PA 19103
(215) 665-7900

FOR FISCAL YEAR ENDED: 12/31/89
COMMISSION FILE NUMBER: 0-10797

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

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

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $ .01 PER SHARE	
$2.50 CUMULATIVE CONVERTIBLE PREFERRED STOCK PAR VALUE $ .10 PER SHARE	

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.
YES X. NO .

On March 28, 1990, the aggregate market value of the Registrant's Common Stock, $ .01 par value, held by non-affiliates of the Registrant was approximately $96,327,715.

On March 28, 1990, there were 14,928,511 shares of the Registrant's Common Stock, $ .01 par value, outstanding.

[*2] [HARDCOPY PAGE 2]

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[*3] [HARDCOPY PAGE 3]

PART I

ITEM 1. BUSINESS

Background

The Registrant is engaged primarily in the marketing and sale of the Ultraphone (R) 100 Wireless Digital Loop Carrier (R) (the "Ultraphone 100 (R)") system, a digital radio-telephone system for local telephone service, and the continuing development of its Ultraphone technology for use in mobile radio telephony, including digital cellular radio.

The Registrant was incorporated in 1972 and, prior to 1987, was classified as a development stage company. As of December 31, 1989, its accumulated deficit was $91,279,722 and there can be no assurances that the Registrant will achieve a profitable level of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Ultraphone 100

General

Field trials commenced in September 1986 with the delivery of Ultraphone 100 Beta equipment to the Mountain States Telephone and Telegraph Company in Glendo, Wyoming. Thirty-one Ultraphone 100 systems have been installed and are being operated by customers, including Regional Bell Holding Companies, independent telephone companies and the U.S. Department of Defense. In December 1988 and January 1989, the Registrant demonstrated an Ultraphone digital cellular system prototype and development work is continuing.

The Ultraphone 100 system is designed to provide a wireless digital local telecommunications capability, with a central network station serving subscribers omni-directionally at

[*4] [HARDCOPY PAGE 4]

distances up to 37.5 miles from the network station (depending upon terrain). The network station provides interconnection to the worldwide public switched telephone network.

The system utilizes advanced digital communications technology to multiplex (transmit simultaneously) four telephone quality full-duplex conversations in each radio channel, compared to only one conversation per channel for conventional analog radio telephone systems (including cellular radio). Full duplex conversations are those in which parties may transmit and receive simultaneously. Such spectrum efficiency allows for lower system operating costs because the cost of each radio channel at the network station can be shared by up to four times more subscribers (which allows the same user population to be served only 75% of the network station equipment) than conventional analog systems. Spectrum efficiency also offers a potential solution to the increasingly serious problem of radio frequency congestion.

The main initial application of the Ultraphone 100 is to provide cost-effective basic telephone service in areas where the cost of installing, upgrading or maintaining conventional wireline telephone service is high. The Registrant believes that the main potential for this application is in non-metropolitan telephone markets, where growth, upgrade (from party lines) and replacement of existing wireline telephone systems present increasingly severe cost problems, and it is marketing the Ultraphone 100 to telephone operating companies serving such areas. While the Registrant believes that the Ultraphone 100 system has advantages over conventional wireline telephone systems for the provision of local telephone service in non-metropolitan areas, and thirty-one systems are currently providing telephone service, there can be no assurances that a radio based system such as the Ultraphone 100 will be generally approved and accepted by telephone companies and their customers for basic telephone service.

Product Description

The Ultraphone 100 consists of an advanced digital radio network station and individual subscriber stations. The radio network station consists of a remote radio terminal and a

[*5] [HARDCOPY PAGE 5]

telephone central office interface capability to provide interconnection to the local telephone central office and the public switched telephone network.

The Ultraphone 100 circuit is transparent to the subscriber, and any type of standard telephone instrument can be used with the Ultraphone 100. The Ultraphone 100 is also transparent to the central office, and it is not necessary to modify or replace existing switching equipment. Transparency in this context means that there will be no discernible difference to a subscriber or the central office between a wireline system connection and an Ultraphone 100 system.

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

The Ultraphone 100 subscriber station, which includes a radio, power amplifier, digital circuit card assembly and other components, is installed on or near the subscriber's premises. Standard telephone instruments (including multiple extension phones and ancillary instruments such as answering machines) plug in by means of ordinary house telephone wiring. A small antenna establishes the radio link. The unit is powered from standard AC electric power, with battery back-up for power outages.

Marketing

The telephone operating companies in North America are the primary initial target market for the Ultraphone 100. The telephone industry in the United States is highly concentrated, with the seven Regional Bell Holding Companies and ten large independent telephone companies accounting for over 90% of the total market. The Canadian market is also dominated by a few large companies.

[*6] [HARDCOPY PAGE 6]

The Registrant believes that the potential demand for the Ultraphone 100 system in the United States is based on growth of the subscriber base (i.e., new subscribers), upgrade to single-party service of party lines and replacement of existing wireline plant due to wear and tear. The Registrant believes that the Ultraphone 100 has the capability to effectively address the market for party line upgrades and replacement of existing wireline plant in rural areas and may also be able to compete in special situations in other markets where flexible, rapid deployment and/or digital capability is necessary.

The Registrant's principal strategy for the development of this market has been to commence customer evaluation trials with major telephone companies, including the Regional Bell Holding Companies and major independent telephone companies from whom purchases are dependent upon the successful completion of standardization and approval processes.

In September 1988 the Registrant and BellSouth Services, Inc. executed a three-year general purchase agreement describing the terms and conditions which will cover the deployment of the Registrant's Ultraphone 100 systems in BellSouth Corporation's nine-state service area. The agreement reflects the parties obligations respecting purchasing, delivery, installation, payment, warranty, documentary and other customary commercial terms. BellSouth Services, Inc. has no obligations under the agreement to purchase any Ultraphone 100 systems and has the right to terminate the agreement at any time. In May 1989, the first two orders were received by the Registrant under this agreement, which the Registrant delivered during the second and third quarters of 1989. In March 1990, the Registrant received the third order under the agreement. In December 1989 the Registrant obtained standardization approval from BellSouth Services, Inc. indicating that the Registrant's Ultraphone 100 system has met BellSouth Services, Inc.'s technical standards requirements and that system planning procedures had been developed. A subsidiary of BellSouth Services, Inc. had previously purchased an Ultraphone 100 system for a field trial prior to the execution of the agreement.

In January 1989, the Registrant also sold an Ultraphone system in Mexico to Consorcio Industrial Electronico, S.A. de C.V. ("CIE"). In April 1989, the Registrant and CIE executed a three-year Basic Ordering Agreement to purchase a minimum of

[*7] [HARDCOPY PAGE 7]

3,240 Ultraphone 100 subscriber units and associated network stations and equipment over a three-year period with 600 of the subscriber units to be purchased in the first twelve months. Provided that CIE meets the minimum purchase commitments, it has been granted the exclusive right to sell Ultraphone 100 products in the Republic of Mexico. As of December 31, 1989, CIE had ordered one Ultraphone system for a purchase price of $217,000.

In April 1989 Contel Service Corporation classified the Registrant's Ultraphone 100 system as "Acceptable" constituting approval for the purchase and use of the Registrant's Ultraphone 100 system by Contel's operating telephone companies. In 1989, Ultraphone 100 systems were purchased by three Contel operating telephone companies.

In May 1989, the Registrant and Pacific Telecom, Inc. executed a two year Basic Ordering Agreement for Ultraphone systems. Pacific Telecom, Inc. is not obligated to purchase any Ultraphone 100 systems under the Agreement. Pacific Telecom, Inc. has purchase six Ultraphone systems from the Registrant, of which three were purchased in 1989 and pursuant to the Agreement.

In January 1990 the Registrant and GTE Supply, a subsidiary of GTE Corporation, executed a two-year general purchase agreement describing the terms and conditions which will cover the deployment of the Registrant's Ultraphone 100 systems in GTE's thirty-one state service area. The agreement reflects the parties obligations respecting purchasing, delivery, installation, payment, warranty, documentary and other customary commercial terms. GTE Supply has no obligations under the agreement to purchase any Ultraphone 100 systems and has the right to terminate the agreement at any time. No purchase orders have been received under the agreement, although GTE operating telephone companies have previously purchased two Ultraphone 100 systems. In December 1989 the Registrant's Ultraphone 100 system was rated "GTE Standard" after completing a field trial, a testing and evaluation program and a quality assurance review. A rating of "GTE Standard" makes the Ultraphone 100 system eligible for purchase by the GTE telephone operating companies.

In February 1990 the Registrant and Southwestern Bell Telephone Company executed a two-year general purchase agreement describing the terms and conditions which will cover the deployment of the Registrant's Ultraphone 100 systems in

[*8] [HARDCOPY PAGE 8]

Southwestern Bell's five-state service area. The agreement reflects the parties obligations respecting purchasing, delivery, installation, payment, warranty, documentary and other customary commercial terms. Southwestern Bell Telephone Company has no obligation under the agreement to purchase any Ultraphone 100 systems and has the right to terminate the agreement at any time.

In 1989, thirteen Ultraphone systems were purchased by the following customers: BellSouth Services, Inc., Southwestern Bell Telephone Company, Continental Telephone, Inc., Pacific Telecom, Inc., Citizens Utilities, Alaska Power and Light, Liberty Telephone & Communications Co., and Rolm Telecommunicaciones.

In July 1989, the Registrant and Hughes Network Systems, Inc. ("HNS") agreed, for a term of seven years, to market jointly the Ultraphone 100, either alone or together with HNS products, outside of the United States. Specific compensation or profitsharing arrangements between the parties for such marketing efforts will be negotiated in the future. The relationship is exclusive (except for prior agreements) for five years in Mexico, Indonesia, Argentina, India, Chile, Brazil, Taiwan and China. HNS will be the Registrant's preferred competitive source to manufacture at least 50% of the Registrant's requirements for Ultraphone 100 subscriber units (in excess of current production agreements) until July 1995, and for engineering services for five years in major programs in areas where it has established expertise.

As of December 31, 1989, the Registrant's backlog orders for Ultraphone 100 systems was approximately $709,000, which is expected to be filled during 1990. The Registrant's backlog as of December 31, 1988 was approximately $200,000.

Manufacturing

In December 1987, the Registrant and HNS executed a production contract pursuant to which HNS is to deliver to the Registrant 54,000 Ultraphone 100 subscriber units (the "1987 Production Agreement"). Pre-production prototypes have been delivered, and deliveries are currently anticipated to commence in the second quarter of 1990. The 1987 Production Agreement provided for payments to be made to HNS in the amount of $1.75 million, all of which were made in 1988 and 1989. The milestone payments will be amortized over the purchase price of the

[*9] [HARDCOPY PAGE 9]

subscriber units upon delivery and invoice. See Note 5 to Notes to Consolidated Financial Statements. In addition, in August 1989 the Registrant engaged HNS to provide engineering services for enhancements to the Ultraphone 100 on a cost-plus basis for minimum consideration of $2,000,000 (of which $1,000,000 was paid currently) over the first 18 months. The consideration chargeable by HNS for these services is 1.5 times HNS' cost for time and materials and is considered reasonable by the Registrant for the services to be provided.

The Registrant directly assembles, integrates and tests Ultraphone 100 network stations. In May 1986, the Registrant and Alcatel Network Systems/Transcom ("Alcatel", formerly ITT Corporation) contracted for Alcatel to supply and for the Registrant to purchase the telephone central office interface needed for all Ultraphone 100 network stations sold by the Registrant to commercial customers in the United States and its possessions through December 31, 1990.

Competition

The Ultraphone 100 competes primarily against conventional wireline telecommunications technology, including wireline multiplexing systems known as "subscriber carrier systems" which increase the capacity of wireline systems by combining more than one conversation on a single telephone wire under certain conditions. The Registrant believes that a radio-based telephone system, such as the Ultraphone 100, has the capacity to reduce the installation and maintenance costs associated with wireline telephony.

Although there are other companies involved in developing and marketing radio-telephone equipment (including cellular radio) for use in rural areas in the United States, the Registrant is not aware of any other company which is selling digital, spectrum-efficient radiotelephony products. However, the Rockwell Corporation is marketing a digital radio telephone system for basic telephone service but such system is not spectrum-efficient and is targeted for small systems. In addition, SR Telecom, Inc. a Canadian company, has sold two radio telephone systems to provide radio based telephone service in the United States; the use of such equipment to provide basic telephone service in the United States required the telephone companies using such equipment to receive a waiver of FCC rules

[*10] [HARDCOPY PAGE 10]

since the equipment does not operate on the radio frequencies available. There may also be additional companies engaged in wireless telephone development of which the Registrant is not aware, and other companies involved in telecommunications (including AT&T and Motorola, Inc.) have financial resources greatly in excess of those of the Registrant. Outside the United States, a number of companies, including SR Telecom, Inc., Ericsson Radio Systems A.B., Nippon Electric Co., Ltd. and Alcatel, sell rural radio systems for basic telephone exchange service, some of which use digital technology, but such systems do not currently comply with United States standards and regulations.

The Registrant believes that it will be necessary to devote substantial funds and efforts toward continued commercialization of Ultraphone technology in order to obtain and maintain a competitive position.

Government Regulation

Federal and state governments, with federal regulation administered by the Federal Communications Commission ("FCC"), regulate the telecommunications industry in the United States. The sale of telecommunications equipment such as the Ultraphone 100 is regulated primarily to ensure compliance with federal technical standards for interconnection, radio emissions and non-interference (type acceptance). The Registrant has received type acceptance for the Ultraphone 100 systems currently being marketed. The need for subsequent modifications to the equipment. The subscriber units to be delivered pursuant to the December 1987 production contract with HNS require FCC type acceptance approval, which the Registrant believes will be obtained. The current Ultraphone 100 system has been certified for use in Canada.

Operators of the Ultraphone 100 systems (e.g., the telephone companies) are required to obtain licenses from the FCC to operate any radio system. Approvals by state regulatory commissions are also required under certain circumstances. The Registrant believes that the likely potential customers for the Ultraphone 100, telephone operating companies, should not experience significant difficulties in obtaining such licenses because telephone companies are routinely granted radio licenses

[*11] [HARDCOPY PAGE 11]

after frequency coordination is done to assure that frequencies are available and that there is no interference. FCC licenses have been obtained by the telephone companies currently using Ultraphone 100 to provide telephone service.

On December 10, 1987, the FCC issued its Report and Order "In the Matter of Basic Exchange Telecommunications Radio Service" ("BETRS"). The BETRS Report and Order made additional spectrum available for telephone companies to provide basic telephone service via radio in rural areas. It provided for 94 channels to be used to provide BETRS: 26 channels in the 450 MHz band (where Ultraphone 100 operates); 50 channels in the 800 MHz band and 18 channels in the 150 MHz band. The authorizations are on a co-primary basis, which essentially means that they will be available for use by radio telephone systems unless they are already in use. On December 12, 1988 the FCC issued a Report and Order authorizing cellular licensees to provide BETRS on a secondary basis. As a result, additional frequencies will be available for radio based technologies to provide telephone service in rural areas.

Mobile and Portable Applications of the Ultraphone System

General

The Registrant's Ultraphone technology and architecture have been designed for mobile (including digital cellular) and portable applications, and the Registrant intends to continue developing Ultraphone technology for such applications. On December 12, 1988, the FCC released its Report and Order "to Permit Liberalization of Technology and Auxiliary Service Offerings in the Domestic Public Cellular Radio Telecommunications Service." The Report and Order modified the technical and service requirements for cellular radio to allow the use of additional technologies, including spectrum efficient digital technologies such as Ultraphone, in the frequencies allocated to cellular radio in the 800 MHz band.

An engineering prototype of a mobile Ultraphone system was demonstrated in June 1988 in the 450 MHz band. In December 1988 and January 1989, the Registrant demonstrated an Ultraphone digital cellular mobile telephone system prototype in the 800 MHz band.

[*12] [HARDCOPY PAGE 12]

The Cellular Telecommunications Industry Association ("CTIA") is evaluating different technologies for use in the next generation of cellular radio in North America, and the Registrant's December 1988/January 1989 demonstration was designed to meet the applicable criteria issued by the CTIA's Advanced Radio Technologies Subcommittee. In conjunction with the CTIA, the Telecommunications Industry Association (TIA) has drafted a standard for "Cellular System, Dual Mode Subscriber Equipment-Network Equipment Compatibility Specification". The standard, presently being considered for approval, accepts time division multiple access ("TDMA") as the recommended standard for access technology for the next generation of cellular radio in North America. The Registrant's digital cellular technology utilizes TDMA. The Registrant has stated, in response to a request by the TIA, that it would be willing to license any of its patents necessary to comply with the standard on reasonable terms and conditions including reasonable royalty rates and license fees. See "Other Activities - Patent and Trademarks."

The Registrant believes that development of a mass market for mobile communications depends upon the achievement of reasonable service costs. The development and commercialization of mobile applications of Ultraphone technology will require additional funding and strategic relationships with other companies.

In March 1990, the Registrant, HNS and Standard Elektrik Lorenz A.G., the West German subsidiary of Alcatel N.V. ("SEL Alcatel"), executed agreements, subject to certain corporate approvals, to establish a consortium to develop, market and sell digital cellular systems in North America. The Registrant is the program manager of the development phase, will perform certain development work and will be the exclusive sales agent in North America for the equipment being developed by the consortium, subject to the execution of definitive marketing, production and sales agreements.

The Registrant has not begun a separate development program for the portable application of the Ultraphone system which will require additional funding and technology developments, including those associated with miniaturization of the subscriber unit and increases in battery power.

[*13] [HARDCOPY PAGE 13]

The mobile and portable applications may require the Registrant to obtain royalty-bearing licenses from HNS to use certain HNS technology. There is no assurance that these applications will be successfully developed and marketed.

In September 1989, pursuant to a lottery conducted by the FCC, the Registrant was named the tentative selectee for a construction permit for one of the two cellular radio systems licensed to operate in a six county portion of Indiana identified by the FCC as Market No. 406, Indiana 4. On March 20, 1990, the Registrant was awarded a construction permit for Indiana 4. The Registrant has granted a third party a right of first refusal to purchase the Registrant's construction permit or operating system if the Registrant decides to sell its interest in Indiana 4, such right to be exercised at a price of $20,907,000, subject to adjustment. See Note 9 of Notes to the Registrant's Consolidated Financial Statements included in Item 8. The right of first refusal does not obligate the Registrant to sell the construction permit or operating systems, nor does it give the third party any rights to purchase the construction permit or operating system absent a decision by the Registrant to sell. This third party holds the Registrant's $7,500,000 Convertible Subordinated Promissory Note, and the foregoing purchase price may be paid in part by the application of the principal of the note and any warrants issued in payment of interest therein. The third party may be involved in the construction and management of the system for the Registrant.

Competition

The Registrant believes that the primary competition for the portable and mobile Ultraphone applications, if successfully developed, will come from the numerous companies which currently serve the market for mobile telephones and are also engaged in development activities in that area.

The Registrant believes that digital cellular systems using Ultraphone technology will be more applicable than analog cellular radio in many regions in different configurations and may require lower capital costs and monthly charges. Given the state of development of the mobile and portable Ultraphone applications at this time, however, a detailed cost comparison with analog cellular radio is not possible.

[*14] [HARDCOPY PAGE 14]

Other companies (including Motorola, Inc., AT&T, Ericsson Radio Systems A.B., and Northern Telecom, Ltd.) involved in mobile radio-telephony, including cellular radio, have substantial investments in their technology and equipment and financial resources greatly in excess of those of the Registrant, and are developing digital spectrum-efficient mobile telephony technology. Some of these companies also provide mobile telephone switching equipment to cellular operator which the Registrant does not provide. In addition, a spectrum efficient prototype using Code Division Multiple Access ("CDMA") was recently demonstrated by a third party for mobile telephony. Even if the Registrant successfully concludes the development of its mobile technology, there is no assurance it will be able to compete effectively against such competitors.

Other Activities

International Mobile Machines Institute, Inc.

International Mobile Machines Institute, Inc. ("IMMI"), a wholly-owned subsidiary of the Registrant, conducted telecommunications training at the U.S. Army's Signal School at Fort Gordon, Georgia pursuant to a contract which was awarded in February 1986. The contract terminated in September 1989. Substantially all of IMMI's operations have, therefore, been discontinued. The aggregate amount billed to the Government was approximately $951,125 for the year ended December 31, 1989.

Patents and Trademarks

The Registrant currently holds 21 patents relating to Ultraphone technology expiring at various times between 1991 and 2006 and has other patents pending, and claims copyright protection on certain of the software and firmware used in the Ultraphone system. The Registrant has also obtained patents in 18 foreign countries and has applied for additional patents in other countries. Although the Registrant believes that its patents provide a base for Ultraphone technology and that its patents cover certain aspects of TDMA spectrally efficient point to multipoint digital radiotelephony communications systems, the value of patents in the advanced telecommunications industry is difficult to predict due to rapidly changing technology.

[*15] [HARDCOPY PAGE 15]

The Registrant retains ownership to all technology developed in the Ultraphone project, subject to non-exclusive licenses granted to M/A-COM, Inc. and its affiliates ("M/A-COM"), and HNS to exploit the technology for non-competitive uses outside the areas of mobile, portable or fixed local telecommunications and to the licenses noted below.

In July 1989 the Registrant granted to HNS certain non-exclusive, non-transferable licenses to the Registrant's intellectual property (subject to certain restrictions) for the United States and the eight countries noted in "Marketing", above for a royalty based on commercial reasonableness and fair market value to be negotiated by the companies. The Registrant also agreed to negotiate with HNS and its parent corporations other licensing agreements for the Registrant's intellectual property.

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

Research and Development Expenses

For the years ended December 31, 1989, 1988, and 1987, the Registrant's research and development expenses were, $3,846,814, $3,353,994, and $2,599,425 respectively.

Employees

As of March 28, 1990, the Registrant had 79 full-time employees which reflects staff reductions in August 1989 and February 1990. In addition, the services of consultants and part-time employees are utilized.

ITEM 2. PROPERTIES

The Registrant leases approximately 16,200 square feet of office space at 100 N. 20th Street, Philadelphia, Pennsylvania for a term expiring on June 1990 at an annual rent of $251,000, which served as the Registrant's principal offices until February 1990, when such offices were moved to 2130 Arch Street, Philadelphia, Pennsylvania, where the Registrant leases

[*16] [HARDCOPY PAGE 16]

approximately 28,072 square feet of office space at 2130 Arch Street, Philadelphia, Pennsylvania for a term expiring on July 31, 1990 at a yearly rent of $361,415. The Registrant has entered into two leases for approximately 46,376 square feet of office space and assembly facilities in Gulph Mills, Pennsylvania for terms expiring May 30, 2000, at a yearly rent of $602,000. During 1990, the Registrant expects to move all its operations to this facility. The Registrant believes its current facilities under lease are sufficient for its operations for the forseeable future.

[*17] [HARDCOPY PAGE 17]

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings against the Registrant.

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

None.

PART II

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

The following table sets forth the range of the high and low closing sales prices of the Registrant's Common Stock as reported by NASDAQ. The Registrant's Common Stock and $2.50 Cumulative Convertible Preferred Stock are traded in the NASDAQ National Market System.

	Closing Sales Prices	
	High	Low
1989		
First Quarter	10 7/8	8 5/8
Second Quarter	10 7/8	8
Third Quarter	10	7 3/4
Fourth Quarter	8 1/4	5 3/4
1988		
First Quarter	9 1/2	7 3/4
Second Quarter	10 1/4	7
Third Quarter	11 1/4	7 3/8
Fourth Quarter	12 3/4	8

As of March 28, 1990, there were 2,588 holders of record of the Registrant's Common Stock.

The Registrant has not paid dividends on its Common Stock since inception. It is anticipated that, in the foreseeable future, no cash dividends will be paid on the Common Stock and any cash otherwise available for such dividends will be reinvested in the Registrant's business. The payment of cash dividends will depend on the earnings of the Registrant, the prior dividend requirements on its Preferred Stock, the

[*18] [HARDCOPY PAGE 18]

Registrant's capital requirements, restrictions in loan agreements and other factors considered relevant by the Board of Directors of the Registrant.

[*19] [HARDCOPY PAGE 19]

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31 (1)		
1989	1988	1987

Operating Data:			
Net revenues	$4,471,037	$4,329,982	$2,396,548
Net loss (2)	(19,073,550)	(21,444,878)	(10,780,942)
Net loss per common share	(1.55)	(1.96)	(1.06)
Weighted average number of common shares outstanding	14,180,122	12,189,780	11,464,601

(TABLE CONTINUED)

	Year Ended December 31 (1)	
	1986	1985
Operating Data:		
Net revenues	$1,619,789	$269,536
Net loss (2)	(9,595,086)	(7,859,311)
Net loss per common share	(.95)	(.96)
Weighted average number of common shares outstanding	10,389,089	8,416,764

	Year Ended December 31 (1)		
	1989	1988	1987
Balance Sheet Data:			
Working Capital	$400,949 (3)	$457,336	$16,515,763
Total assets	24,690,097	25,256,069	34,266,783
Long-term liabilities	7,368,014	7,344,790	7,971,011
Shareholders' equity	2,430,272	4,103,970	20,970,327

(TABLE CONTINUED)

	Year Ended December 31 (1)	
	1986	1985
Balance Sheet Data:		
Working Capital	$6,817,797	$2,387,504
Total assets	16,298,416	6,711,847
Long-term liabilities	5,841,503	530,495
Shareholders' equity	8,794,299	3,519,460

(1) Prior to 1987, the Registrant reported as a development stage company.

(2) The Registrant has incurred significant losses during the last five years, and, as of December 31, 1989, its accumulated deficit was $91,279,722. See Note 1 to the Consolidated Financial Statements for further discussion.

(3) The Registrant has classified its $7,500,000 Convertible Subordinated Note as a current liability due to the possibility the Note may be deemed to be in default. See Note 9 to the Consolidated Financial Statements for further discussion.

[*20] [HARDCOPY PAGE 20]

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

Results of Operations

The Registrant's net loss in 1989 was $19,073,550 compared to $21,444,878 and $10,780,942 in 1988 and 1987, respectively. The Registrant's net loss in 1989 and 1988 resulted primarily from costs associated with operations, development, production, marketing, selling and support of the Ultraphone system and other related costs. In 1987, the losses were primarily associated with start-up costs and with producing, marketing and selling Ultraphone systems.

The Registrant has experienced significant losses during the last five years and, as of December 31, 1989, its accumulated deficit was $91,279,722. Substantial funds will continue to be required by the Registrant to produce and market the Registrant's Ultraphone system. There is no assurance that any additional financing will be available when needed, that the products of the Registrant will receive a sufficient level of commercial acceptance, or that the Registrant will achieve a profitable level of operations.

Revenues in 1989 were $4,471,037 compared to $4,329,982 and $2,396,548 in 1988 and 1987, respectively. Ultraphone sales in 1989 were $3,519,912 compared to $2,776,466 and $1,019,157 in 1988 and 1987, respectively. Increases in Ultraphone sales were due principally to increased shipments of the Ultraphone 100 system. In 1989, $951,125 of the Registrant's revenues were earned under a contract awarded in February 1986 to IMMI to conduct training for the U.S. Army compared to $1,465,833 and $1,284,998 in 1988 and 1987, respectively. On September 30, 1989, the U.S. Army did not exercise its option for the fifth and final year of its contract, and substantially all of IMMI's operations have, therefore, been discontinued. The costs associated with the termination of the contract were billed to the U.S. Army pursuant to the agreement. See "Business - Other Activities - International Mobile

Machines Institute, Inc."

The cost of Ultraphone sales was $3,005,078 in 1989 and $3,887,457 and $1,588,062 in 1988 and 1987, respectively. In 1988 and 1987 the cost of Ultraphone sales exceeded revenues therefrom due to higher costs associated with initial installations and pricing in the Initial Production Contracts (as defined below).

Operations and development expenses were $8,958,216 in 1989 compared to $11,584,717 and $4,958,134 in 1988 and 1987, respectively. These expenses include research and development expenses respecting Ultraphone technology of $3,846,814, $3,353,994 and $2,599,425 for 1989, 1988 and 1987, respectively. The increases in 1989 and 1988 relate primarily to research and development for Ultraphone digital cellular radio technology by the

[*21] [HARDCOPY PAGE 21]

Registrant. The remainder of the research and development expenses in 1988 and the research and development expenses in 1987 relate primarily to development efforts for the Ultraphone 100 system by the Registrant and HNS.

Operations and development expenses other than for research and development were $5,111,402, $8,230,723 and $2,358,709 in 1989, 1988 and 1987, respectively. Such expenses primarily relate to the commencement of assembly operations for the Ultraphone 100 network stations, product enhancements and modifications, and service and support of the Ultraphone 100 systems. Included in these expenses for 1988 is an accrual of $2,200,000 relating to certain costs which were incurred by the Registrant in cancelling a portion of certain Ultraphone 100 production contracts executed in December 1986 and February 1987 (the "Initial Production Contracts"). There were no such expenses in 1989 or 1987. Also included in operations and development expenses for 1989 and 1988 were charges of $1,344,406 and $2,311,000, respectively, for write-downs of Ultraphone 100 inventory cost. The per unit cost under the Initial Production Contracts was greater than the expected average per unit sales price for Ultraphone 100 product sales. There were no such expenses in 1987.

The Registrant also incurred expenses relating to the amortization of deferred product costs of $1,829,181 in 1989 and in 1988 and $152,432 in 1987. Substantially all of the deferred product costs represent that portion of the costs incurred under a Commercialization Agreement with M/A-COM, executed in January 1986, subsequent to the establishment of the preproduction prototype of the Ultraphone 100 system. See Note 5 of the Notes to the Registrant's Consolidated Financial Statements under Item 8.

Selling, general and administrative expenses in 1989 were $8,584,463 compared to $7,657,889 and $5,664,272 in 1988 and 1987, respectively. These expenses were higher in all three years in order for the Registrant to expand its marketing and selling of Ultraphone products.

Financial Position, Liquidity and Capital Requirements

The Registrant has incurred losses since December 31, 1989, and, at March 30, 1990, had a working capital deficit and had cash available and bank line of credit availability of approximately $1,500,000. See Note 7 of the Notes to the Registrant's Consolidated Financial Statements under Item 8. Accordingly, the Registrant currently needs additional funds to sustain its operations. The Registrant believes that it will be able to obtain sufficient funds to meet its obligations during 1990.

The Registrant has historically experienced liquidity problems due to its lack of significant revenues, and it has addressed such problems primarily by public and private offerings of its

[*22] [HARDCOPY PAGE 22]

securities. During 1989, the Registrant received gross proceeds of $8,721,322 from the sale of restricted Common Stock and the exercise of stock options and warrants, $10,000,000 (of which $4,810,618 was applied to the Registrant's payables to HNS) from the sale to HNS of the Registrant's $3.00 Convertible Preferred Stock and Common Stock Purchase Warrants and $7,500,000 from the sale of a convertible subordinated promissory note to a third party (the "Subordinated Note"). See "Business - Mobile and Portable Applications of the Ultraphone System - General" and Notes 9, 11, 12 and 14 of the Notes to the Registrant's Consolidated Financial Statements under Item 8.

The cash payments for Preferred Stock dividends were $1,810,642 in 1989 and $1,265,560 and $682,480 in 1988 and 1987, respectively. Such increase is due to the payment of an increased portion of the dividends in cash on the $2.50 Cumulative Convertible Preferred Stock issued in June 1987 as required by the holders thereof.

The Registrant's working capital was $400,949 at December 31, 1989 as compared to $457,336 at December 31, 1988. At December 31, 1989, the Registrant's cash and cash equivalents were $6,695,112 compared to $4,822,308 at December 31, 1988. The Registrant's net cash used in operations in 1989 was $21,520,857 compared to $14,167,045 and $13,341,762 in 1988 and 1987, respectively. The increase in 1989 was mainly due to the payments made for payables under contracts. Inventories decreased to $4,445,706 as of December 31, 1989 from $6,656,038 as of December 31, 1988. The decrease was due mainly to the sale of Ultraphone systems during the year and an addition to the inventory reserve in the amount of $1,344,406. Deposits on inventory purchase commitments increased to $1,795,385 at December 31, 1989 as required under the 1987 Production Agreement for 54,000 subscriber units. Current payables under contract were $1,954,509 in 1989 compared to $6,604,133 in 1988. The decrease is mainly due to the payment for the delivery of inventory from HNS under one of the Initial Production Contracts.

Short-term borrowings as of December 31, 1989 increased to $2,000,000 compared to $1,887,000 in 1988. See Note 7 to the Notes to the Registrant's Consolidated Financial Statements under Item 8. In December 1987, the Registrant entered into the 1987 Production Agreement to purchase 54,000 Ultraphone subscriber units in advance of orders for such production. If the Registrant were to terminate production under this contract prior to completion, it would be liable for termination costs which, under certain circumstances, could be substantial. See "Business - The Ultraphone 100 - Manufacturing" and Note 5 to the Notes to the Registrant's Consolidated Financial Statements under Item 8.

The Registrant is obligated to M/A-COM pursuant to a promissory note in the principal amount of $7,700,000 due June 30, 1992. See Note 5 of s to the Registrant's Consolidated

[*23] [HARDCOPY PAGE 23]

Financial Statements under Item 8. As of December 31, 1989, the Registrant had not paid interest of $462,428 and certain principal payments when due. A non-payment cured by the Registrant after a formal notice of default will require an additional payment of 25% of certain of the amounts unpaid. M/A-COM cannot take action against the Registrant for the non-payment for a period of one year or, under certain circumstances, two years from a default notice. In the event that the Registrant does not cure the non-payment within such periods, it may lose rights to certain Ultraphone technology. As of March 30, 1990, a formal default notice has not been received. As a result of the foregoing, a default may be deemed to have occurred under the Subordinated Note. Although the Registrant does not believe that such a default has occurred, there can be no assurances in this regard. See 9 to Notes to the Registrant's Consolidated Financial Statements under Item 8.

In addition to the funds currently needed to sustain its operations, the Registrant will require additional funds to satisfy its obligations to M/A-COM (and with respect to the Subordinated Note, if it is currently in default and is required to be paid) and to achieve its objectives of producing, improving and marketing Ultraphone 100 systems, to develop and commercialize the mobile and portable applications of the system and for other corporate purposes in the future. The amount of funds needed for such purposes has not yet been determined and may be offset, in whole or in part, by revenues, as to the timing and amount of which there can be no assurances. Management believes that additional financing sources for the Registrant include private and public financing, long-term and short-term borrowings, financing provided by strategic business relationships, such as its digital cellular system consortium, joint ventures, licensing arrangement, partnership or distribution arrangements, and financing respecting the FCC construction permit for Indiana 4. See "Business - Mobile and Portable Applications of the Ultraphone System - General." While there can be no assurances that such financings and arrangements will be completed when needed, the Registrant believes that it will be able to obtain sufficient funds to meet its obligations during 1990. See Note 1 to Notes to the Registrant's Consolidated Financial Statements under Item 8.

The report of Independent Public Accountants with respect to the Registrant's Consolidated Financial Statements for the years ended December 31, 1989, 1988 and 1987 makes reference to the Registrant's significant investments in inventories and related deposits, prepaid engineering, property and equipment, deferred product costs and patents and to the potential of a default under the Subordinated Note. The report notes that the realization of such investments is dependent upon the success of future operations and that the occurrence of a default under the Subordinated Note would raise a substantial doubt as to the ability of the Registrant to continue as a going concern. The Registrant believes that its profitability depends on the successful commercialization of its Ultraphone technology. In spite of its history of losses, the

[*24] [HARDCOPY PAGE 24]

Registrant believes that its investments in inventories and related deposits, prepaid engineering and non-current assets are stated on its December 31, 1989 balance sheet at realizable values. The inventories and related deposits are recorded at realizable values based on the expected selling prices in 1990. The prepaid engineering will be realized through services to be rendered to the Registrant in 1990. Property and equipment are currently being utilized in the Registrant's on-going business activities, and the Registrant believes that no write-downs are required at this time due to lack of use or technical obsolescence. With respect to other assets, the Registrant believes that its investment in deferred product costs, which relate to the Ultraphone 100, is realizable through future sales of Ultraphone 100 systems and that the value of its patents is at least equal to the value included in the December 31, 1989 balance sheet.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The Index to Financial Statements and the Financial Statement Schedules begin on page F-1.

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

FINANCIAL DISCLOSURE

Not applicable.

[*25] [HARDCOPY PAGE 25]

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning directors, appearing under the caption "Election of Directors" in the Registrant's Proxy Statement (the "Proxy Statement") to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on June 22, 1990, is incorporated herein by reference.

The executive officers of the Registrant are:

Name	Position	Age
Sherwin I. Seligsohn	Chairman of the Board and Director	54
Lt. Gen. William J. Hilsman (U.S.A. Retired)	President, Chief Executive Officer and Director	58
D. Ridgely Bolgiano	Vice President-Research, Chief Scientist and Director	57
Richard W. Pryor	Chief Operating Officer and Director	57
G. James Bracknell	Executive Vice President	48
Dr. George Calhoun	Senior Vice President	37
Gilbert E. LaVean	Senior Vice President	56
Richard G. Saunders	Senior Vice President	55

Sidney D. Rosenblatt	Senior Vice President-Chief Financial Officer and Treasurer	42
Steven V. Abramson	Senior Vice President - Licensing, General Counsel and Secretary	38
Brian G. Kiernan	Vice President - Commercial Systems	43

Sherwin I. Seligsohn has been Chairman of the Board of Directors of the Registrant since its inception in 1972. He served as President and Chief Executive Officer of the Registrant from February 1981 until September 1983.

William J. Hilsman has been a director of the Registrant since October 1983. He became President and Chief Executive Officer in September 1983. General Hilsman served in the United

[*26] [HARDCOPY PAGE 26]

States Army for over 29 years in various capacities in the fields of communications and computers. From 1980 until his retirement in September 1983, he served as Chief of Communications for the U.S. Department of Defense. From 1977 through 1980, he was the Commanding General of the United States Army's Signal Corps Center and, from 1975 until 1977, he served as Commanding General of the United States Army's Communications Research and Development Laboratories.

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

Richard W. Pryor has been a director of the Registrant since June 1989 and was elected Chief Operating Officer in May 1989. Prior to that time, he served as Executive Vice President of Electronic Data Systems

Communications Corporation from November 1986 to May 1989, where he was responsible for the company's international operations. From November 1984 to September 1986, he served as President and General Manager of ITT Christian Rovsing, a European computer hardware and software systems company. Mr. Pryor served as Senior Vice President of ITT Communications Services Group and President and General Manager of ITT World Communications from July 1982 until November 1984, where he was Director of Engineering and Operations for ITT's communications group.

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

George Calhoun was elected Senior Vice President in May 1985. He served as Vice President-Planning from February 1983 until May 1985 and as the Registrant's director of planning since December 1981.

[*27] [HARDCOPY PAGE 27]

Gilbert E. LaVean was elected Senior Vice President for Networks and Cellular in August 1988. From 1986 until 1988, Mr. LaVean served as Group Vice President for Information Systems at Networks Corporation where he had engineering and program management responsibility for the company's C-3 sector. From December 1984 to March 1986 he served as President and Chief Executive Officer of United Digital Networks, Inc. From December 1983 to December 1984 he was Vice President-Engineering for the Registrant.

Richard G. Saunders was elected Senior Vice President in May 1985. He served as Vice President-Development from April 1984 until May 1985 and as Vice President-Ultraphone Development from September 1983 until April 1984. Mr. Saunders served in the United States Army for over 25 years and retired with the rank of colonel in September 1983. During that period, he specialized in the communications-electronics operations, research and development and production.

Sidney D. Rosenblatt was elected Senior Vice President-Chief Financial Officer in January 1987. He served as Vice President-Finance from September 1983 until January 1987, and as the Registrant's Controller from August 1982 until March 1983.

Steven V. Abramson was elected Senior Vice President-Licensing in May 1989. He has served as Secretary of the Registrant since February 1983 and General Counsel since December 1982.

Brian G. Kiernan was elected Vice President-Commercial Systems of the Registrant in February 1989. Prior to that he served as Director Engineering of the Registrant from February 1984 to February 1989 and was Senior Member, Technical Staff, GTE Systems from December 1983 to February 1984.

The Registrant is the beneficiary of $2,000,000 insurance policies on each of Mr. Hilsman's and Mr. Seligsohn's lives.

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

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the section titled "Executive Compensation" in the Registrant's Proxy Statement, with respect to executive compensation, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information contained in the section titled "Security Ownership of Certain Beneficial Owners and Management" in the Registrant's Proxy Statement, with respect to security ownership

[*28] [HARDCOPY PAGE 28]

of certain beneficial owners and management, is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

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

(1) Financial Statements: The list of Financial Statements is on page F-1.

(2) Financial Statements Schedules.

(3) Exhibits

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

(*) 3.2 By-Laws of the Registrant, as amended (Exhibit 3.2 to the 1987 Registration Statement)

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

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

(*) Incorporated by reference.

[*29] [HARDCOPY PAGE 29]

(*) 4.2 Copy of Warrant Agreement respecting Warrants issued in 1983 public offering. (Exhibit 2(a) to Form 8-A filed on April 30, 1984 ["Form 8-A"]).

(*) 4.4 Letter Agreement between the Registrant and D.H. Blair & Co., Inc. ("Blair"). (Exhibit 4.4 to the Registrant's Registration Statement No. 2-9867 filed on June 7, 1985 [the "1985 Registration Statement"]).

(*) 4.5 1984 Warrants issued to Blair. (Exhibit 4.5 to the 1985 Registration Statement).

(*) 4.6 Warrant sold to Butcher & Singer Inc. in 1986 public offering (Exhibit 4.7 to the Registrant's Registration Statement No. 33-4570 filed on April 4, 1986).

(*) 4.7 Warrant Agreement dated May 29, 1987 between the Registrant and Drexel Burnham Lambert, Inc. (Exhibit

4.7 to the Registrant's Form 10-K for the year ended December 31, 1987 [the "1987 Form 10-K"]).

(*) 4.8 Form of Amendment to Common Stock Purchase Warrant Agreement dated July 7, 1988 (Exhibit 4.8 to the Registrant's Registration Statement No. 33-23118 filed on August 5, 1988 [the "1988 Registration Statement"]).

(*) 10.1 Incentive Stock Option Plan (Exhibit 10.1 to the 1988 Registration Statement).

(*) 10.2 Non-Qualified Stock Option Plan (Exhibit 10.2 to the 1988 Registration Statement).

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

(*) Incorporated by reference.

[*30] [HARDCOPY PAGE 30]

(*) 10.4 Employment Agreement effective June 19, 1984 between the Registrant and James F. Mullen (Exhibit 10.11 to the 1985 Registration Statement).

(*) 10.6 Cross Technology License Agreement effective as of October 31, 1984 among the Registrant, T.A.C.T. Technology, Inc. and ComputerSentry Partners, Ltd. (Exhibit 10.11 to the 1987 Registration Statement).

(*) 10.15 Purchase Agreement and Option Agreement dated March 28, 1985 between the Registrant and W.W. Keen Butcher (Exhibit 10.31 to the 1985 Registration Statement).

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

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

Form 10-K"]).

(*) 10.18 Warrant Agreement dated February 12, 1986 between the Registrant and W.W. Keen Butcher. (Pursuant to instruction 2 to Item 601 of Regulation S-K, the Warrant Agreements, which are substantially identical in all material respects except as to the parties thereto, between the Registrant and the following individuals are not being filed: Lyman C. Hamilton, Jr., Peter F. Erb and Robert B. Liepold.) (Exhibit 10.33 to 1985 Form 10-K).

(*) Incorporated by reference.

[*31] [HARDCOPY PAGE 31]

(*) 10.20 Original Equipment Manufacturer Agreement between the Registrant and ITT Telecom Products Corporation. (Exhibit 10.37 to the 1986 Registration Statement).

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

(*) 10.23 Employment Agreement effective as of July 20, 1987 between the Registrant and John Goetz. (Exhibit 10.31 to the 1987 Form 10-K).

(*) 10.24 Employment Agreement effective as of October 14, 1987 between the Registrant and William J. Hilsman. (Exhibit 10.32 to the 1987 Form 10-K).

(*) 10.25 Note and mortgage dated November 1, 1987 of William J. and Emily J. Hilsman. (Exhibit 10.33 to the 1987 Form 10-K).

(*) 10.26 Letter Agreement between the Registrant and William J. Hilsman dated February 8, 1989.

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

(*) 10.28 Warrant dated November 19, 1987 issued to W.W. Keen Butcher. (Exhibit 10.36 to the 1987 Form 10-K).

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

(*) Incorporated by reference.

[*32] [HARDCOPY PAGE 32]

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

(*) 10.33 Production Agreement dated January 26, 1988 between the Registrant and Hughes Network Systems, Inc. (not including exhibits) (Exhibit 10.40 to the 1987 Form 10-K).

(*) 10.34 General Purchase Agreement Dated September 23, 1988 between the Registrant and BellSouth Services, Inc. (Exhibit 10.30 to the 1988 Form 10-K).

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

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

(*) 10.37 Basic Ordering Agreement dated April 13, 1989 between the Registrant and Consorcio Industrial Electronico S.A. de C.V., not including certain exhibits (Exhibit 10.38 to the Registrant's 1989 Registration Statement).

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

(*) 10.39 Employment Agreement dated May 24, 1989 between the Registrant and Richard W. Pryor (Exhibit 10.40 to the Registrant's 1989 Registration Statement).

(*) Incorporated by reference.

[*33] [HARDCOPY PAGE 33]

(*) 10.40 Intellectual Property License Agreement between the Registrant and Hughes Network Systems, Inc. (Exhibit 10.34 to the Registrant's 1990 Registration Statements).

(*) 10.41 Engineering Services and Development Agreement between the Registrant and Hughes Network Systems, Inc. (Exhibit 10.35 to the Registrant's 1990 Registration Statements).

(*) 10.42 Market Development Agreement between the Registrant and Hughes Network Systems, Inc. (Exhibit 10.36 to the Registrant's 1990 Registration Statement).

(*) 10.43 1989 Cumulative Convertible Preferred Stock and Warrant Purchase Agreement between the Registrant and Hughes Network Systems, Inc. (Exhibit 10.37 to the 1990 Registration Statement).

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

(*) 10.45 Loan Agreement dated December 4, 1989 between the Registrant and Century Cellular Corp. (Exhibit 10.1 to the Registrant's Form 8-K dated December 5, 1989) ("December 1989 Form 8-K).

(*) 10.46 Security Agreement dated December 4, 1989 between between the Registrant and Century Cellular Corp. (Exhibit 10.2 to the Registrant's December 1989 Form 8-K).

10.47 Agreement of Lease for Building A between Swedeland Road Corporation and the Registrant dated October 25, 1989.

10.48 Agreement of Lease for Building F between Swedeland Road Corporation and the Registrant dated October 25, 1989

(*) Incorporated by reference.

[*34] [HARDCOPY PAGE 34]

10.49 Warrant Agreement dated December 1, 1989 between the Registrant and W.W. Keen Butcher. (Pursuant to instruction 2 to Item 601 of Regulation S-K, the Warrant Agreements, which are substantially identical in all material respects except as to the parties thereto, between the Registrant and the following individuals are not being filed: D. Ridgely Bolgiano, William J. Hilsman, V. Louise McCarren, Theodore L. Simis and Robert B. Liepold).

(*) 22 Subsidiaries of the Registrant (Exhibit 22 to the Registrant's 1985 Form 10-K).

(b) Reports filed on Form 8-K during the last quarter of 1989:

One report on Form 8-K was filed by the Registrant on December 5, 1989 disclosing that the Registrant borrowed $7,500,000 from Century Cellular Corp.

(*) Incorporated by reference.

[*35] [HARDCOPY PAGE F-1]

[PART IV ITEM 14 (CONT'D)]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND SCHEDULES

CONSOLIDATED FINANCIAL STATEMENTS:

Report of Independent Public Accountants

Consolidated Balance Sheets as of December 31, 1989 and 1988

Consolidated Statements of Operations for each of the three years in the period ended December 31, 1989

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 1989

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1989
s to Consolidated Financial Statements

Schedules:

Schedule I Marketable Securities - Other Investments

Schedule II Amounts Receivable from Related Parties, Underwriters, Promoters and Employees Other than Related Parties

Schedule X Supplementary Income Statement Information

All other schedules are omitted because the amounts involved are not significant, or the required information is otherwise included in the Consolidated Financial Statements or notes thereto.

[*36] [HARDCOPY PAGE F-2]

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Mobile Machines Corporation:

We have audited the accompanying consolidated balance sheets of International Mobile Machines Corporation (a Pennsylvania corporation) and subsidiaries as of December 31, 1989 and 1988, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Mobile Machines Corporation and subsidiaries as of December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

As reflected in the accompanying financial statements, the Company has incurred significant losses from inception through December 31, 1989, and has continued to incur losses since December 31, 1989. The Company has significant investments in inventories and related deposits, prepaid engineering expense, property and equipment, deferred product costs and patents. As discussed further in Note 1, the realization of these investments is dependent upon the success of future operations. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

[*37] [HARDCOPY PAGE F-3]

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 9 to the financial statements, the Company has classified its $7,500,000 convertible subordinated note as a current liability due to the possibility that the note may be deemed to be in default. If the note is currently due, there would be substantial doubt as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

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

ARTHUR ANDERSEN & CO.
PHILADELPHIA, PA.,
MARCH 30, 1990

[*38] [HARDCOPY PAGE F-4]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	1989	1988
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of $2,000,000 in 1989 and 1988 (Notes 2 and 7)	$6,695,112	$4,822,308
Receivables-		
Ultraphone and other	1,007,940	511,995
U.S. Army (Note 3)	-	409,068
Inventories (Notes 2 and 4)	4,445,706	6,656,038

Deposits on inventory purchase commitments (Note 5)	1,795,385	1,444,500
Prepaid engineering expense (Note 5)	931,000	-
Other current assets	416,717	420,736
Total current assets	15,292,760	14,264,645
PROPERTY AND EQUIPMENT (Note 2):		
Machinery and equipment	1,529,258	1,355,468
Computer equipment	1,561,373	1,433,954
Leasehold improvements	6,367	351,740
Furniture and fixtures	770,907	699,698
	3,867,905	3,840,860
Less- Accumulated depreciation and amortization	(2,132,259)	(1,662,307)
Net property and equipment	1,735,646	2,178,553
OTHER ASSETS:		
Deferred product costs, net of accumulated amortization of $3,810,794 in 1989 and $1,981,613 in 1988 (Notes 2 and 5)	5,335,081	7,164,262
Patents, net of accumulated amortization of $413,000 in 1989 and $223,000 in 1988 (Note 2)	1,805,985	1,345,971
Other	520,625	302,638
Total other assets	7,661,691	8,812,871
	$24,690,097	$25,256,069

The accompanying notes are an integral part of these statements.

[*39] [HARDCOPY PAGE F-5]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONT'D)

	December 31	
	1989	1988
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		

Short-term borrowings (Note 7)	$2,000,000	$1,887,000
Convertible subordinated note (Note 9)	7,500,000	-
Current portion of long-term debt (Note 8)	141,691	150,035
Accounts payable	604,135	1,392,966
Payables under contracts (Note 5)	1,954,509	6,604,133
Accrual for cancelled purchase commitment (Note 5)	1,250,000	2,200,000
Accrued compensation and related taxes	825,195	1,165,094
Other accrued expenses	616,281	408,081
Total current liabilities	14,891,811	13,807,309
LONG-TERM DEBT (Note 8)	228,114	279,040
PAYABLES UNDER CONTRACTS (Note 5)	7,139,900	7,065,750
COMMITMENTS AND CONTINGENCIES (Notes 5 and 10)		
SHAREHOLDERS' EQUITY (Notes 11, 12, 13 and 14):		
Preferred stock, $ .10 par value, 14,398,600 shares authorized - $2.50 Cumulative Convertible Preferred, 1,000,000 shares issued and outstanding in 1989 and 1988 (liquidation value of $25,000,000 at December 31, 1989)	100,000	100,000
$3.00 Cumulative Convertible Preferred, 400,000 shares issued and outstanding in 1989 and none in 1988 (liquidation value of $10,000,000 at December 31, 1989)	40,000	-
Common stock, $ .01 par value, 50,000,000 shares authorized, 14,916,042 shares in 1989 and 13,113,758 shares in 1988 issued and outstanding	149,160	131,138
Additional paid-in capital	93,820,691	73,551,495
Accumulated deficit	(91,279,722)	(69,303,974)
	2,830,129	4,478,659
Less - Receivables on common stock sold	(350,861)	(263,133)
Deferred compensation (Note 10)	(48,996)	(111,556)
Total shareholders' equity	2,430,272	4,103,970
	$24,690,097	$25,256,069

The accompanying notes are an integral part of these statements.

[*40] [HARDCOPY PAGE F-6]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31		
	1989	1988	1987
REVENUES:			
Ultraphone sales (Note 2)	$3,519,912	$2,776,466	$1,019,157
U.S. Army contract (Note 3)	951,125	1,465,833	1,284,998
Other	-	87,683	92,393
	4,471,037	4,329,982	2,396,548
OPERATING EXPENSES (Notes 2, 3 and 10):			
Cost of Ultraphone sales	3,005,078	3,887,457	1,588,062
U.S. Army contract operating costs	786,064	1,273,745	1,121,964
Operations and development	8,958,216	11,584,717	4,958,134
Selling, general and administrative	8,584,463	7,657,889	5,664,271
Amortization of deferred product costs	1,829,181	1,829,181	152,432
	23,163,002	26,232,989	13,484,863
OTHER INCOME (EXPENSE):			
Interest income (Note 2)	412,279	566,908	1,130,472
Interest expense (Notes 5, 7, 8 and 9)	(793,864)	(108,779)	(21,477)
Loss on investment in ComputerSentry Partners, Ltd. (Note 6)		-	(801,622)
	(381,585)	458,129	307,373
NET LOSS	(19,073,550)	(21,444,878)	(10,780,942)
PREFERRED STOCK DIVIDENDS (Note 12)	(2,902,198)	(2,500,000)	(1,420,928)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (21,975,748)	$ (23,944,878)	$ (12,201,870)
NET LOSS PER COMMON SHARE (Note 2)	$ (1.55)	$ (1.96)	$ (1.06)

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 2)	14,180,122	12,189,780	11,464,601

The accompanying notes are an integral part of these statements.

[*41]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	First Series Preferred Stock	Class A and B Preferred Stock	$2.50 Cumulative Convertible Preferred Stock
BALANCE, DECEMBER 31, 1986	$25,850	$4,200	$ -
Sale of $2.50 cumulative convertible preferred stock, net of expenses (Note 11)	-	-	100,000
Redemption of first series preferred stock	(25,850)	-	-
Redemption of Class A and Class B preferred stock	-	(4,200)	-
Exercise of common stock options (Note 13)	-	-	-
Exercise of common stock warrants (Note 13)	-	-	-
Grants of common stock and options below fair market value (Note 10)	-	-	-
Amortization of deferred compensation (Note 10)	-	-	-
Dividend of common stock to first series preferred shareholders (Note 12)	-	-	-
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	-	-	-
Net loss	-	-	-
BALANCE, DECEMBER 31, 1987	-	-	100,000
Sale of restricted common			

stock (Note 11)	-	-	-
Exercise of common stock options (Note 13)	-	-	-
Grants of common stock below fair market value (Note 10)	-	-	-
Amortization of deferred compensation (Note 10)	-	-	-
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)			-
Net loss	-	-	-
BALANCE, DECEMBER 31, 1988	-	-	100,000
Sale of $3.00 cumulative convertible preferred stock, net of expenses (Note 11)	-	-	-
Sale of restricted common stock (Note 11)	-	-	-
Exercise of common stock options (Note 13)	-	-	-
Exercise of common stock warrants (Note 13)	-	-	-
Grants of common stock and options below fair market value (Note 10)	-	-	-
Amortization of deferred compensation (Note 10)	-	-	-
Dividend of common stock and cash to $2.50 cumulative preferred shareholders (Note 12)	-	-	-
Dividend of common stock to $3.00 cumulative preferred shareholders (Note 12)	-	-	-
Net loss	-	-	-
BALANCE, DECEMBER 31, 1989	$ -	$ -	$100,000

(TABLE CONTINUED)

	$3.00 Cumulative Convertible Preferred Stock	Common Stock	Additional Paid-in Capital

BALANCE, DECEMBER 31, 1986	$ -	$111,927	$42,200,656
Sale of $2.50 cumulative convertible preferred stock, net of expenses (Note 11)	-	-	22,482,934
Redemption of first series preferred stock	-	3,424	10,536
Redemption of Class A and Class B preferred stock	-	-	-
Exercise of common stock options (Note 13)	-	769	472,747
Exercise of common stock warrants (Note 13)	-	900	469,100
Grants of common stock and options below fair market value (Note 10)	-	250	215,515
Amortization of deferred compensation (Note 10)	-	-	-
Dividend of common stock to first series preferred shareholders (Note 12)	-	185	200,743
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	-	837	536,682
Net loss	-	-	-
BALANCE, DECEMBER 31, 1987	-	118,292	66,588,913
Sale of restricted common stock (Note 11)	-	8,912	4,901,581
Exercise of common stock options (Note 13)	-	1,994	598,775
Grants of common stock below fair market value (Note 10)	-	388	229,338
Amortization of deferred compensation (Note 10)	-	-	-
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	-	1,552	1,232,888
Net loss	-	-	-
BALANCE, DECEMBER 31, 1988	-	131,138	73,551,495
Sale of $3.00 cumulative convertible preferred stock, net of expenses (Note 11)	40,000	-	9,945,690
Sale of restricted common stock (Note 11)	-	11,928	7,144,774

Exercise of common stock options (Note 13)	-	1,343	571,005
Exercise of common stock warrants (Note 13)	-	3,000	1,077,000
Grants of common stock and options below fair market value (Note 10)	-	438	440,484
Amortization of deferred compensation (Note 10)	-	-	-
Dividend of common stock and cash to $2.50 cumulative preferred shareholders (Note 12)	-	783	688,575
Dividend of common stock to $3.00 cumulative preferred shareholders (Note 12)	-	530	401,668
Net loss	-	-	-
BALANCE, DECEMBER 31, 1989	$40,000	$149,160	$93,820,691

(TABLE CONTINUED)

	Accumulated Deficit	Receivables on Common Stock Sold
BALANCE, DECEMBER 31, 1986	$ (33,157,226)	$ (184,366)
Sale of $2.50 cumulative convertible preferred stock, net of expenses (Note 11)	-	-
Redemption of first series preferred stock	-	-
Redemption of Class A and Class B preferred stock	-	-
Exercise of common stock options (Note 13)	-	(71,267)
Exercise of common stock warrants (Note 13)	-	-
Grants of common stock and options below fair market value (Note 10)	-	-
Amortization of deferred compensation (Note 10)	-	-
Dividend of common stock to first series preferred shareholders (Note 12)	(200,928)	-

Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	(1,220,000)	-
Net loss	(10,780,942)	-
BALANCE, DECEMBER 31, 1987	(45,359,096)	(255,633)
Sale of restricted common stock (Note 11)	-	-
Exercise of common stock options (Note 13)	-	(7,500)
Grants of common stock below fair market value (Note 10)	-	-
Amortization of deferred compensation (Note 10)	-	-
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	(2,500,000)	-
Net loss	(21,444,878)	-
BALANCE, DECEMBER 31, 1988	(69,303,974)	(263,133)
Sale of $3.00 cumulative convertible preferred stock, net of expenses (Note 11)	-	-
Sale of restricted common stock (Note 11)	-	(90,000)
Exercise of common stock options (Note 13)	-	2,272
Exercise of common stock warrants (Note 13)	-	-
Grants of common stock and options below fair market value (Note 10)	-	-
Amortization of deferred compensation (Note 10)	-	-
Dividend of common stock and cash to $2.50 cumulative preferred shareholders (Note 12)	(2,500,000)	-
Dividend of common stock to $3.00 cumulative preferred shareholders (Note 12)	(402,198)	-
Net loss	(19,073,550)	-
BALANCE, DECEMBER 31, 1989	$ (91,279,722)	$ (350,861)

(TABLE CONTINUED)

	Deferred Compensation	Total
BALANCE, DECEMBER 31, 1986	$ (206,742)	$8,794,299
Sale of $2.50 cumulative convertible preferred stock, net of expenses (Note 11)	-	22,582,934
Redemption of first series preferred stock	-	(11,890)
Redemption of Class A and Class B preferred stock	-	(4,200)
Exercise of common stock options (Note 13)	-	402,249
Exercise of common stock warrants (Note 13)	-	470,000
Grants of common stock and options below fair market value (Note 10)	(196,975)	18,790
Amortization of deferred compensation (Note 10)	181,568	181,568
Dividend of common stock to first series preferred shareholders (Note 12)	-	-
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	-	(682,481)
Net loss	-	(10,780,942)
BALANCE, DECEMBER 31, 1987	(222,149)	20,970,327
Sale of restricted common stock (Note 11)	-	4,910,493
Exercise of common stock options (Note 13)	-	593,269
Grants of common stock below fair market value (Note 10)	(104,043)	125,683
Amortization of deferred compensation (Note 10)	214,636	214,636
Dividend of common stock and cash to $2.50 cumulative convertible preferred shareholders (Note 12)	-	(1,265,560)
Net loss	-	(21,444,878)
BALANCE, DECEMBER 31, 1988	(111,556)	4,103,970
Sale of $3.00 cumulative		

convertible preferred stock, net of expenses (Note 11)	-	9,985,690
Sale of restricted common stock (Note 11)	-	7,066,702
Exercise of common stock options (Note 13)	-	574,620
Exercise of common stock warrants (Note 13)	-	1,080,000
Grants of common stock and options below fair market value (Note 10)	(34,553)	406,369
Amortization of deferred compensation (Note 10)	97,113	97,113
Dividend of common stock and cash to $2.50 cumulative preferred shareholders (Note 12)	-	(1,810,642)
Dividend of common stock to $3.00 cumulative preferred shareholders (Note 12)	-	-
Net loss	-	(19,073,550)
BALANCE, DECEMBER 31, 1989	$ (48,996)	$2,430,272

The accompanying notes are an integral part of these statements.

[*42] [HARDCOPY PAGE F-8]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31		
	1989	1988	1987
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (19,073,550)	$ (21,444,878)	$ (10,780,942)
Adjustments to reconcile net loss to net cash used for operating activities -			
Depreciation and amortization	2,840,152	2,930,265	674,271
Compensation on stock issued and stock options granted	503,439	340,319	200,358
Write-down of inventory	1,344,406	2,311,000	-

Other	(189,583)	268,758	(512,273)
Decrease (increase) in current assets -			
Receivables	(86,877)	522,091	(972,593)
Inventories	865,926	(5,481,498)	(3,417,225)
Deposits on inventory	(350,885)	462,500	(1,907,000)
Prepaid engineering	(931,900)	-	-
Other current assets	4,019	109,040	96,208
Increase (decrease) in current liabilities -			
Accounts payable	(788,831)	338,657	705,933
Payables under contracts	(4,575,474)	2,803,006	2,084,878
Accrual for cancelled purchase commitment	(950,000)	2,200,000	-
Accrued compensation and related taxes	(339,899)	365,145	219,762
Other accrued expenses	208,200	108,550	266,861
NET CASH USED FOR OPERATING ACTIVITIES	(21,520,857)	(14,167,045)	(13,341,762)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment, net of amounts acquired under capital leases of $105,867, $279,884 and $232,820, respectively	(300,558)	(897,740)	(1,228,832)
Deferred product costs, net of amounts included in payables under contracts of $2,388,562 in 1987	-	-	(650,000)
Patents	(650,014)	(587,248)	(269,354)
NET CASH USED FOR INVESTING ACTIVITIES	(950,572)	(1,484,988)	(2,148,186)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from sale of common stock, preferred stock and exercise of stock options and warrants	18,707,012	5,503,762	23,455,183
Proceeds from short-term borrowings, net	113,000	1,887,000	-
Cash dividends on preferred stock	(1,810,642)	(1,265,560)	(682,480)
Payments on long-term debt	(165,137)	(126,599)	(106,018)
Proceeds from convertible			

subordinated note	7,500,000	-	-
Redemption of preferred stock for cash	-	-	(16,090)
NET CASH PROVIDED BY FINANCING ACTIVITIES	24,344,233	5,998,603	22,650,595
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,872,804	(9,653,430)	7,160,647
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,822,308	14,475,738	7,315,091
CASH AND CASH EQUIVALENTS, END OF YEAR	$6,695,112	$4,822,308	$14,475,738

The accompanying notes are an integral part of these statements.

[*43] [HARDCOPY PAGE F-9]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1989

1. Background:

International Mobile Machines Corporation (the Company) was incorporated in 1972 and is engaged primarily in the development and commercialization of the Ultraphone system, a digital radio-telephone system. In 1987, the Company began selling, producing and installing the fixed application of the Ultraphone system.

The Company was also engaged in providing telecommunications training and consulting both directly and through International Mobile Machines Institute, Inc. (IMMI), a wholly owned subsidiary (see Note 3). The Company, through its wholly owned subsidiary, T.A.C.T. Technology, Inc. (TACT), was also engaged in the computer security business via ComputerSentry Partners, Ltd. (the Partnership) (see Note 6).

The Company has experienced significant losses during the last five years and, as of December 31, 1989, its accumulated deficit was $91,279,722. Substantial funds will continue to be required by the Company to produce and market the Company's Ultraphone system. There is no assurance that any additional financing will be available when needed, that the products of the Company will receive a sufficient level of commercial acceptance, or that the Company will achieve a profitable level of operations.

The Company has incurred losses since December 31, 1989, and, at March 30, 1990, had a working capital deficit and had cash available and bank line of credit availability of approximately $1,500,000. As a result, the Company currently needs additional funds to sustain its operations. The Company believes that it will be able to obtain sufficient funds to meet its obligations during 1990.

2. Summary of Significant Accounting Policies:

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, IMMI and TACT. All significant intercompany accounts and transactions have been eliminated in consolidation.

[*44] [HARDCOPY PAGE F-10]

Cash and Cash Equivalents

The Company invests its excess cash in various short-term investments. These investments are included in cash and cash equivalents and are as follows:

	December 31	
	1989	1988
Commercial paper (Note 7)	$4,400,000	$2,000,000
Repurchase agreement	-	2,270,945
Certificates of deposit	1,080,000	-
	$5,480,000	$4,270,945

Repurchase agreements mature in one to three days and are fully collateralized by U.S. Government securities.

Inventories

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

Revenue Recognition

The Company recognizes revenues from Ultraphone system sales when the system has been installed and accepted by the customer. Beginning January 1, 1990, the Company will recognize revenues from Ultraphone system sales upon shipment. If this change in accounting policy had been effective on January 1, 1987, the results of operations in 1987, 1988 and 1989 would not have been materially different from the results reflected in the accompanying Statements of Operations. In 1987, Ultraphone sales include $310,000 generated from an Ultraphone technology development contract with the U.S. Army Department of Defense.

Major Customers

As a result of the specialized nature of the Company's product, four, two and five customers accounted for approximately 65%, 54% and 90% of the Company's Ultraphone sales in 1989, 1988 and 1987, respectively. Each of these customers accounted for at least 10% of Ultraphone sales in each year, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method. The estimated useful life for machinery and equipment, computer equipment and furniture and fixtures is three to five years; leasehold improvements are being amortized over their lease term.

[*45] [HARDCOPY PAGE F-11]

Deferred Product Costs

Deferred product costs are described in Note 5 and are being amortized over five years beginning December 1987, which was the date revenue was first recognized on the fixed application of the Ultraphone system.

Patent Costs

The costs to obtain certain patents for the Company's Ultraphone technology have been capitalized and are being amortized on a straight-line basis over their estimated useful lives, generally 10 years. Amortization was $190,000, $128,000 and $55,000 in 1989, 1988 and 1987, respectively.

Research and Development Costs

The Company expenses all research and development costs as incurred. Research and development costs were $3,846,814, $3,353,994 and $2,599,425 in 1989, 1988 and 1987, respectively.

Net Loss Per Common Share

The net loss per share is based on the weighted average number of shares of Common Stock outstanding during each year.

Statements of Cash Flows

The Company considers investment instruments with maturities of three months or less to be cash equivalents for purposes of the Consolidated Statements of Cash Flows.

Supplemental Cash Flow Information

Interest paid was $292,445, $82,770 and $21,477 in 1989, 1988 and 1987, respectively. Interest received was $400,466, $712,567 and $1,005,032 in 1989, 1988 and 1987, respectively.

3. U.S. Army Contract:

In February 1986, IMMI was awarded a contract to conduct communications-electronics training for the U.S. Army. The contract provided for payments to IMMI of its costs plus a fixed fee. Revenue was recognized as the services were performed. In 1989, the contract was not renewed by the U.S. Army and, therefore, IMMI has ceased substantially all operations. All costs related to the discontinuance of IMMI's operations have been paid by the U.S. Army as provided in the original contract.

[*46] [HARDCOPY PAGE F-12]

4. Inventories:

	December 31	
	1989	1988
Component parts and work-in-progress	$2,035,683	$2,543,584
Finished goods	2,410,023	4,112,454
	$4,445,706	$6,656,038

5. Ultraphone Development and Production Contracts:

In January 1986, the Company entered into a commercialization contract with M/A-Com, Inc. and its subsidiaries (M/A-Com) to design, fabricate, test and deliver equipment for the fixed application of the Ultraphone system. The contract was modified in September 1986. The contract, as amended, included five milestones. Milestones 1 and 2 involved further equipment development and installation at the initial beta test site. Milestones 3, 4 and 5 involved installation of a second beta test site, equipment upgrades and enhancements, software development and delivery of documentation. In September 1987, the M/A-Com subsidiary, with which the Company had its contractual relationship, was acquired by Hughes Aircraft Corporation and renamed Hughes Network Systems, Inc. (HNS).

The contract price, as amended, was $15,525,000 and has been allocated as follows:

Milestones 1 and 2	$6,786,000
Milestones 3, 4 and 5	8,589,000
Other	150,000
	$15,525,000

The Company expensed the costs of the first two milestones and, in October 1986, began to capitalize the costs of the remaining milestones. Upon completion of the first two milestones, technological feasibility of the fixed application of the Ultraphone system was established and the working model and its design had been completed. Also, the completeness of the working model and its consistency with the product design had been confirmed by testing. As of December 31, 1987, the contract costs of Milestones 3, 4 and 5 of $8,589,000 had been capitalized as deferred product costs.

[*47] [HARDCOPY PAGE F-13]

In February 1987, the Company entered into a production contract with HNS (formerly M/A-Com) to manufacture, test and deliver certain Ultraphone products. Included in this contract was approximately $557,000 of costs related to nonrecurring engineering services which have been capitalized as deferred product costs. As required under the contract, a $2,000,000 down payment was made in 1987 and was to be credited against inventory purchases over the life of the contract. In 1988, $200,000 of this deposit was expensed as it was used for additional engineering work performed by HNS related to the contract. In 1989, the Company cancelled a portion of this contract at a cost of $1,850,000 of which $1,800,000 was expensed in 1988. The cancellation charge was funded with the application of the remaining $600,000 of the inventory deposit and $1,250,000 in cash to be paid in 1990. As of December 31, 1989, the Company has no future commitments under this contract.

In December 1987, the Company entered into a second production contract with HNS to engineer and manufacture certain Ultraphone products for delivery through July 1992. The Company's purchase commitment is for

54,000 Ultraphone subscriber units. Initial deliveries under this contract are expected in the third quarter of 1990. The contract required deposits of $1,750,000, which were made as of December 31, 1989. These deposits will be credited ratably against inventory purchases over the life of the contract. The remaining costs of the contract will be paid over the life of the contract based upon the delivery and acceptance of Ultraphone products. If the Company were to terminate this contract, it would be liable for termination costs which, under certain circumstances, could be substantial.

In July 1989, the Company engaged HNS to provide engineering services related to enhancements of the Ultraphone system over 18 months for a minimum cost of $2,000,000, of which $1,000,000 has been prepaid. As of December 31, 1989, HNS had provided $68,100 in engineering services to the Company.

Also, in July 1989, the Company granted HNS certain nonexclusive, nontransferable licenses to the Company's intellectual property (subject to certain restrictions) for use in HNS products in the United States and certain foreign countries. The Company will be paid a royalty based on sales of HNS products. The royalty percentage has not yet been determined and no royalties were earned in 1989.

In December 1986, the Company entered into a purchase commitment with Marubeni Corporation to purchase certain radios utilized in the Ultraphone system. Although the contract expired in June 1989, the Company has not purchased its full commitment of radios. The Company believes that no termination charge will be required to be paid for the unfilled purchase commitment.

[*48] [HARDCOPY PAGE F-14]

Payables under contracts comprise the following:

	December 31	
	1989	1988
payable to M/A-Com, including $462,428 of accrued interest in 1989	$8,162,428	$7,700,000
Payables to HNS	931,981	5,969,883
	9,094,409	13,669,883
Less - Current portion	(1,954,509)	(6,604,133)
	$7,139,900	$7,065,750

The note payable to M/A-Com of $7,700,000 bears interest at prime plus 1%, payable semiannually. Interest on the note began to accrue on July 1, 1989. Principal is payable quarterly in installments as Ultraphone subscriber units are sold, with any unpaid balance due on June 30, 1992. As of December 31, 1989, the Company had not paid interest of $462,428 and certain principal payments when due. A nonpayment cured by the Company after a formal notice of default will require an additional payment of 25% of certain of the amounts unpaid. M/A-Com cannot take action against the Company for the nonpayment for a period of one year or, under certain circumstances, two years from a default notice. In the event that the Company does not cure the nonpayment within such periods, it may lose rights to certain Ultraphone technology. As of March 30, 1990, a formal default notice had not been received. The balance due may be converted by M/A-Com at any time into shares of the Company's Common Stock at a rate of $14.50 per share, subject to adjustment under certain conditions.

6. Investment in and Advances to Computersentry Partners, Ltd.:

ComputerSentry Partners, Ltd. (the Partnership) was formed in 1984. In 1987, the Company made advances of $643,047 to the Partnership which were expensed when made. In November 1987, the Company acquired substantially all of the limited partnership interests in exchange for 118,000 warrants to purchase the Company's Common Stock. The warrants are exercisable at $13.75 per share and expire on June 3, 1992. In connection with this acquisition, the Company recorded a loss of $158,575 from the write-down of the acquired Partnership assets. In 1988, the business of the Partnership was sold for future royalties, if any. No royalties have been received to date.

7. Short-Term Borrowings:

In 1987, the Company entered into a line of credit agreement with a bank for $2,000,000. The interest rate on borrowings under the line is at prime and the line is secured by an assignment of $2,000,000 of the Company's investment in commercial paper (see Note 2), which is held in trust by the bank. The

[*49] [HARDCOPY PAGE F-15]

line of credit expires on July 31, 1990. As of December 31, 1989 and 1988, the outstanding balance on this line was $2,000,000 and $1,887,000, respectively, with interest at 10.5% at each year-end. The average balance outstanding on the line during 1989 and 1988 was $1,906,000 and $1,140,000 at a weighted average interest rate of 11.0% and 9.9%, respectively. The maximum balance outstanding on the line during 1989 and 1988 was $2,000,000 and $1,887,000. Interest expense was $209,563 and $71,184 in 1989 and 1988 on the line. No borrowings were made on the line in 1987.

8. Long-Term Debt:

	December 31	
	1989	1988
Capital lease obligations	$342,645	$386,629
s payable to vendors	27,160	42,446
	369,805	429,075
Less - Current maturities	(141,691)	(150,035)
	$228,114	$279,040

s payable to vendors and capitalized lease obligations are payable in monthly installments at various interest rates through 1994. Maturities are as follows: $141,691 in 1990, $93,926 in 1991, $80,243 in 1992, $50,063 in 1993 and $3,882 in 1994.

9. Convertible Subordinated Note:

In December 1989, the Company issued a $7,500,000 Convertible Subordinated Note (the Note) due on December 1, 1999, subject to acceleration and to optional and manditory prepayment under certain conditions. Interest is at 12% and is payable semi-annually commencing on June 1, 1990. As of December 31, 1989, interest of $65,000 has been accrued. At the option of the Company and in the absence of any default on the Note any interest payment can be made by issuing to the holder of the Note a warrant to purchase 450,000 shares of Common Stock. The warrant would be exercisable for five years from the date of grant. The exercise price of the warrant would be based on the average closing price to the Company's Common Stock for the thirty consecutive trading days prior to the grant, subject to adjustment under certain conditions. Commencing on May 5, 1990, the holder of the Note may convert the outstanding principal balance of the Note into shares of Common Stock at a conversion price of $8.10 per share, subject to reset and adjustment under certain conditions. In connection with the issuance of the Note, the holder of the Note received a five-year warrant to purchase 750,000 shares of Common Stock at an exercise price of $8.10 per share, subject to reset and adjustment under certain conditions. These warrants are exercisable commencing May 5, 1990.

[*50] [HARDCOPY PAGE F-16]

The Note is secured by a security interest in all of the Company's assets. If the Company is unable to pay the principal balance of the upon maturity, or if the Company defaults in its obligations relating to the Note (which include covenants and representations relating to the level of its working capital, solvency, additional permitted borrowings and sales of assets), and the holder declares the full amount of the Note and accrued interest due and payable, the holder would have the right to foreclose on its security interests.

The holder of the Note has a right of first refusal to purchase the Company's construction permit or operating system for a cellular radio system licensed to operate in a certain six county portion of Indiana, such right to be exercised at a price of $20,907,000, subject to adjustment. The price may be paid in part by the application of the principal of the Note and any warrants issued in payment of interest thereon. The right of first refusal does not obligate the Company to sell the construction permit or operating system, nor does it give the holder any rights to purchase the construction permit or operating system absent a decision by the Company to sell.

As a result of certain nonpayments under a note payable to M/A-Com (see 5), a default may be deemed to have occurred under this Note.
Although the Company does not believe that a default has occurred, in light of the foregoing, it has reflected the Note as a current liability in the accompanying Consolidated Balance Sheet as of December 31, 1989. The occurence of a default under this Note would raise substantial doubt as to the ability of the Company to continue as a going concern.

10. Commitments:

The Company has entered into various lease agreements primarily for office space. Total rent expense was $1,077,825, $862,137 and $537,550 in 1989, 1988 and 1987, respectively. Minimum future rental payments for operating leases are as follows:

1990	$704,410
1991	722,786
1992	812,043
1993	821,435
1994	841,151
1995 and thereafter	4,732,033
	$8,633,858

The Company has entered into contracts with certain key employees which provide for minimum annual compensation of $542,554 in 1990, $397,000 in 1991, $335,250 in 1992, $150,000 in 1993 and $58,767 in 1994. In connection with these contracts and the hiring of certain other employees, restricted shares of Common Stock were issued at prices below fair market value. The aggregate

[*51] [HARDCOPY PAGE F-17]

differences between the fair market value of the Common Stock on the dates of issuance and the issue price was $34,553, $104,043 and $196,975 in 1989, 1988 and 1987, respectively, and have been classified as deferred compensation in the accompanying Consolidated Balance Sheets. These amounts are being amortized over a two-year period according to the vesting provisions of the contracts. The amortization in 1989, 1988 and 1987 was $97,113, $214,636, and $181,568, respectively.

In May 1986, the Company entered into an agreement with a manufacturer whereby the manufacturer agreed to supply the Company with certain switching equipment utilized in the Ultraphone system. The Company agreed that this manufacturer would be the exclusive supplier of this equipment to commercial customers in the United States and its possessions through 1990. In the event of the termination of this agreement by the Company, the Company would be obligated to pay a termination charge.

In July 1989, the Company and HNS agreed for seven years to market jointly the Ultraphone system outside the United States. This agreement is exclusive for five years in specified foreign countries. In addition, the Company agreed that HNS will manufacture at least 50% of the Company's subscriber unit requirements (in excess of the production agreement discussed in Note 5) through July 1995.

11. Stock Offerings:

In June 1987, the Company completed a public offering of 1,000,000 shares of $2.50 Cumulative Convertible Preferred Stock ($2.50 Convertible Preferred Stock). The net cash proceeds received by the Company were $22,582,934.

In 1988, the Company sold in a private offering, 891,195 shares of restricted Common Stock for net cash proceeds of $4,910,493.

On July 31, 1989, HNS purchased 400,000 shares of the Company's $3.00 Convertible Preferred Stock for $9,985,690, net of $14,310 in expenses. Of this amount, $4,810,618 was used to repay a portion of the Company's payable under contracts to HNS (see Note 5).

In 1989, the Company sold, in a private offering, 1,192,784 shares of restricted Common Stock for net cash proceeds of $7,156,702.

12. Preferred Stock:

The holders of the $2.50 Convertible Preferred Stock are entitled to receive, when and as declared by the Company's Board of Directors, cumulative annual dividends of $2.50 per share payable in cash or Common Stock (as defined) at the election of the Company (subject to a cash election right of the holder) if legally available. Such dividends are payable semiannually on June 1 and December 1 of each year. In 1989 and 1988, dividends were paid with cash of $1,810,642 and $1,265,560, respectively, and 78,302 and 155,150 shares of Common Stock, respectively. In the event the Company fails to pay two

[*52] [HARDCOPY PAGE F-18]

consecutive semiannual dividends within the required time period, certain penalties may be imposed. The $2.50 Convertible Preferred Stock is convertible into Common Stock at any time prior to redemption at a conversion price of $12.00 per share (based upon the Convertible Preferred Stock issuance price of $25.00 per share) of Common Stock.

The holder of the $3.00 Convertible Preferred Stock is entitled to receive, when and as declared by the Company's Board of Directors, cumulative annual dividends of $3.00 per share payable in cash or Common Stock (as defined) at the election of the Company (subject to a cash election right of the holder, commencing December 1, 1991) if legally available. Payment of such dividends is subordinate to the payment of dividends on the Company's $2.50 Convertible Preferred Stock. Such dividends are payable semiannually on December 1 and June 1 of each year. In 1989, a dividend was paid with 52,990 shares of Common Stock. In the event the Company fails to pay two consecutive semiannual dividends within the required time period, certain penalties may be imposed. The $3.00 Convertible Preferred Stock is convertible into Common Stock at any time prior to redemption at a conversion price of $10.34 per share of Common Stock (subject to adjustment under certain conditions).

Upon any liquidation, dissolution or winding up of the Company, the holders of the $2.50 and $3.00 Convertible Preferred Stock, in that order of priority, will be entitled to receive, from the Company's assets available for distributions to shareholders, $25.00 per share plus all dividends accrued, before any distribution is made to holders of Common Stock. After such payment, the holders of Convertible Preferred Stock will be entitled to no other payments.

The $2.50 Convertible Preferred Stock may not be redeemed by the Company prior to June 1, 1990, unless the closing sale price of the Common Stock equals or exceeds 150% of the conversion price then in effect. The redemption price for each share of $2.50 Convertible Preferred Stock is $27.00 per share during the 12 months ended May 31, 1990, plus all accrued and unpaid dividends. The redemption price of $27.00 per share will decrease $ .25 per share for each 12-month period thereafter until the redemption price is fixed at $25.00 per share on June 1, 1997, and thereafter.

The $3.00 Convertible Preferred Stock is redeemable at the option of the

Company at any time. The initial redemption price for each share of $3.00 Convertible Preferred Stock is $35.75 per share. The redemption price decreases in installments to $25.00 per share on July 31, 1998.

The holders of the $2.50 Convertible Preferred Stock do not have any voting rights except on those amendments to the Articles of Incorporation which would adversely affect their rights, create any class or series of stock ranking senior to or on a parity with the $2.50 Convertible Preferred Stock, as to either dividend or liquidation rights, or increase the authorized number of shares of any senior stock. The holder of the $3.00 Convertible Preferred Stock has the right to elect one director of the Company and has certain other voting rights. In addition, if two or more consecutive semiannual dividends

[*53] [HARDCOPY PAGE F-19]

on the $2.50 or $3.00 Convertible Preferred Stock are not paid by the Company, the holders of the Convertible Preferred Stock, separately voting as classes, will be entitled to elect one and two additional directors of the Company, respectively.

13. Common Stock Option Plans, Warrants and Other Options:

Common Stock Option Plans

The Company has incentive and nonqualified stock option plans for officers and key employees of the Company and others. Under these plans, options may be granted for the purchase of up to 2,400,000 shares of Common Stock. The number of options to be granted and the option prices are determined by a committee of the Board of Directors in accordance with the terms of the plans. Under the terms of the incentive stock option plan, the option price cannot be less than 100% of the fair market value of the Common Stock at date of grant. Options granted become exercisable at 20% per year beginning one year after date of grant and generally remain exercisable for 10 years from the date of grant. No option is exercisable until the employee has been employed by the Company for at least one year.

Information with respect to stock options under the above plans is summarized as follows:

	Available for Grant	Outstanding Options Number	Price Range
BALANCE AT DECEMBER 31, 1987	171,138	1,530,244	$ .01-$17.625
Additional authorized	300,000	-	-
Granted	(210,931)	210,931	$7.375-$11.125

Cancelled	88,184	(88,184)	$6.625-$16.375
Exercised	-	(32,300)	$3.00-$8.875
BALANCE AT DECEMBER 31, 1988	348,391	1,620,691	$ .01-$17.625
Granted	(307,814)	307,814	$ .01-$10.50
Cancelled	107,159	(107,159)	$6.625-$17.625
Exercised	-	(29,328)	$ .01-$8.25
BALANCE AT DECEMBER 31, 1989	147,736	1,792,018	$ .01-17.625

WEIGHTED AVERAGE EXERCISE PRICE AT DECEMBER 31, 1989	$9.82
EXERCISABLE AT DECEMBER 31, 1989	1,452,677

[*54] [HARDCOPY PAGE F-20]

Common Stock Warrants and Other Options

As of December 31, 1989, in addition to the option plans discussed above, the Company has various warrants and options outstanding to purchase 2,189,440 shares of Common Stock at exercise prices ranging from $5.00 to $18.125 per share, with a weighted average exercise price of $9.97 per share. As of December 31, 1989, 1,224,440 of these warrants and options are currently exercisable. These warrants and options expire in 1990 through 1999. The exercise price and number of shares of Common Stock to be obtained upon exercise of certain of these warrants are subject to adjustment under certain conditions.

14. Related-Party Transactions:

All warrants and options granted to related parties, as described below, are included in the number of warrants and options disclosed as outstanding in Note 13.

In June 1987, the Company sold, for $175, warrants to purchase 175,000 shares of Common Stock at $12.50 per share to the representatives of the underwriters of the Company's 1987 public offering (see Note 11). The warrants expire in June 1992.

In September 1987, the Company granted a five-year warrant to purchase 45,000 shares of Common Stock to a Director. The exercise price of the warrants is $11.50 per share. In addition, this Director received warrants to purchase 19,000 shares of Common Stock for services rendered in the transaction described in Note 6 and otherwise with respect to

TACT.

In October 1987, the Company made a five-year mortgage loan of $400,000 to its President. This note was fully repaid, including accrued interest, on February 10, 1989.

In November 1987, the Company acquired the minority interest of TACT, which was owned by a Director, by or for the benefit of the members of his family and two other investors, in exchange for 18,000 warrants to purchase the Company's Common Stock. The warrants are exercisable at $13.75 per share and expire on June 3, 1992.

In 1987, 25,000 shares of restricted Common Stock were granted at $ .01 per share to certain officers and key employees.

In 1988, the Company granted a five-year warrant to purchase 25,000 shares of Common Stock to a Director. The exercise price of the warrant is $11.85 per share.

In 1988, 16,000 shares of restricted Common Stock were granted at $ .01 per share to certain officers and key employees.

[*55] [HARDCOPY PAGE F-21]

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

In 1989, in connection with the issuance of the $3.00 Convertible Preferred Stock (see Note 12), HNS received a warrant, exercisable for four years, commencing July 1, 1990, to purchase 200,000 shares of Common Stock at an exercise price of $10.77 per share.

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

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

15. Income Taxes:

The Company files a consolidated Federal income tax return including TACT and IMMI. The Company has experienced losses since inception. At December 31, 1989, the Company had net operating loss carryforwards of approximately $79,000,000 which begin to expire in 1992. Under the provisions of The Tax Reform Act of 1986, if a significant change in the

Company's ownership were to occur, the ability to utilize these net operating loss carryforwards could be limited. The Company also has significant tax credit carryforwards which begin to expire in 1998.

Effective January 1, 1988, the Company adopted the provisions of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The effect of adopting this statement had no impact on the Company's results of operations or financial position.

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SIGNATURES

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

INTERNATIONAL MOBILE MACHINES
CORPORATION
(REGISTRANT)

BY: WILLIAM J. HILSMAN
CHIEF EXECUTIVE OFFICER AND
DIRECTOR
MARCH 31, 1990

BY: SIDNEY D. ROSENBLATT
SENIOR VICE PRESIDENT AND
TREASURER
MARCH 31, 1990

Pursuant to the requirements of the Securities Act of 1933, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY: SHERWIN I. SELIGSOHN
DIRECTOR
AND CHAIRMAN OF THE BOARD
MARCH 31, 1990

BY: LYMAN C. HAMILTON
DIRECTOR
MARCH 31, 1990

BY: ROBERT B. LIEPOLD
DIRECTOR
MARCH 31, 1990

BY: DAVID E. KAPLAN
DIRECTOR

MARCH 31, 1990

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BY: D. RIDGELY BOLGIANO
DIRECTOR
MARCH 31, 1990

BY: S. W. KEEN BUTCHER
DIRECTOR
MARCH 31, 1990

BY: RODNEY L. JOYCE
DIRECTOR
MARCH 31, 1990

BY: PETER F. ERB
DIRECTOR
MARCH 31, 1990

BY: V. LOUISE MCCARREN
DIRECTOR
MARCH 31, 1990

BY: RICHARD W. PRYOR
DIRECTOR
MARCH 31, 1990

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SEC ONLINE INC.
SCHEDULE INDEX

[*59] [HARDCOPY PAGE F-22]

INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE I - MARKETABLE SECURITIES - OTHER INVESTMENTS

For the Two Years Ended December 31, 1989

Column A	Column B	Column C
Name of Issuer and Title of Each Issue	Number of Shares or Units-Principal Amount of Bonds and Notes	Cost of Each Issue
FOR THE YEAR ENDED DECEMBER 31, 1988:		
General Electric Credit - Commercial Paper	$2,000,000	$2,000,000
Drexel Burnham Lambert - Repurchase Agreement	2,270,945	2,270,945
	$4,270,945	$4,270,945
FOR THE YEAR ENDED DECEMBER 31, 1989:		
General Electric Credit - Commercial Paper	$1,900,000	$1,900,000
General Motors Acceptance Corp.		
Commercial Paper	1,800,000	1,800,000
Ford Credit - Commercial Paper	700,000	700,000
First Executive Bank - Certificate of Deposit	1,080,000	1,080,000
	$5,480,000	$5,480,000

(TABLE CONTINUED)

Column A	Column D	Column E
Name of Issuer and Title of Each Issue	Market Value of Each Issue at Balance Sheet Date	Amount at Which Each Portfolio of Equity Security Issues and Each Other Security Issues Carried in the Balance Sheet
FOR THE YEAR ENDED DECEMBER		

31, 1988:		
General Electric Credit -		
Commercial Paper	$2,000,000	$2,000,000
Drexel Burnham Lambert -		
Repurchase Agreement	2,270,945	2,270,945
	$4,270,945	$4,270,945
FOR THE YEAR ENDED DECEMBER 31, 1989:		
General Electric Credit -		
Commercial Paper	$1,900,000	$1,900,000
General Motors Acceptance Corp.		
Commercial Paper	1,800,000	1,800,000
Ford Credit -		
Commercial Paper	700,000	700,000
First Executive Bank -		
Certificate of Deposit	1,080,000	1,080,000
	$5,480,000	$5,480,000

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INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE II - AMOUNTS RECEIVABLE FROM RELATED PARTIES, UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES
For the Three Years Ended December 31, 1989

Column A	Column B	Column C
Name of Debtor	Balance at Beginning of Period	Additions
FOR THE YEAR ENDED DECEMBER 31, 1987:		
Advances to -		
ComputerSentry Partners, Ltd.	$ -	$643,047
William J. Hilsman	391,976	400,000 (A)
	$391,976	$1,043,047
FOR THE YEAR ENDED DECEMBER 31, 1988:		
Advances to -		

William J. Hilsman	$400,000	$ -
	$400,000	$ -
FOR THE YEAR ENDED DECEMBER 31, 1989:		
Advances to -		
William J. Hilsman	$329,305	$ -
	$329,305	$ -

(TABLE CONTINUED)

Column A	Column D	
	Deductions	
Name of Debtor	Amounts Collected	Other
FOR THE YEAR ENDED DECEMBER 31, 1987:		
Advances to -		
ComputerSentry Partners, Ltd.	$ -	$643,047 (B)
William J. Hilsman	391,976 (A)	-
	$391,976	$643,047
FOR THE YEAR ENDED DECEMBER 31, 1988:		
Advances to -		
William J. Hilsman	$70,695	$ -
	$70,695	$ -
FOR THE YEAR ENDED DECEMBER 31, 1989:		
Advances to -		
William J. Hilsman	$329,305	$ -
	$329,305	$ -

(TABLE CONTINUED)

Column A	Column E Balance at End of Period	
Name of Debtor	Not Current	Current
FOR THE YEAR ENDED DECEMBER 31, 1987:		
Advances to -		
ComputerSentry Partners, Ltd.	$ -	$ -
William J. Hilsman	15,021	384,979
	$15,021	$384,979
FOR THE YEAR ENDED DECEMBER 31, 1988:		
Advances to -		
William J. Hilsman	$26,667	$302,638
	$26,667	$302,638
FOR THE YEAR ENDED DECEMBER 31, 1989:		
Advances to -		
William J. Hilsman	$ -	$ -
	$ -	$ -

(A) See Note 14 to Consolidated Financial Statements.

(B) The advances were written off as made to reflect realizability.

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INTERNATIONAL MOBILE MACHINES CORPORATION AND SUBSIDIARIES

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
For the Three Years Ended December 32, 1989

	Charged to Costs & Expenses Year Ended December 31		
	1989	1988	1987

ADVERTISING	$369,094	$133,886	$170,840

Amounts for maintenance and repairs, depreciation of intangible assets and tzes other than payroll are not presented since these amount are less than one percent of total revenue or are disclosed separately in the Consolidated Financial Statements or notes thereto.

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