

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
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### FILER

#### **INTERNATIONAL META SYSTEMS INC/DE/**

CIK: **820475** | IRS No.: **330146747** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10QSB** | Act: **34** | File No.: **000-17945** | Film No.: **96665032**  
SIC: **6770** Blank checks

Business Address  
*100 NORTH SEPULVEDA  
BOULEVARD  
SUITE 601  
EL SEGUNDO CA 90245  
3105249300*

United States Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

For Quarter Ended September 30, 1996  
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Commission File Number 33-16416-LA  
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International Meta Systems, Inc.  
100 N. Sepulveda Blvd., Suite 601  
El Segundo, CA 90245  
(Exact name of registrant as specified in its charter)

Delaware  
-----

(State or other jurisdiction of  
incorporation or organization)

0146747  
-----

I.R.S. Employer  
Identification Number

Registrant's telephone number, including area code: (310) 524-9300

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 12(g) 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

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International Meta Systems, Inc.

("Company" or "Registrant")

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date.

Common Stock, \$.0001 Par Value - 37,418,325 as of September 30, 1996.

PART I.

FINANCIAL INFORMATION

Item 1 - Financial Statements

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INTERNATIONAL META SYSTEMS, INC.  
BALANCE SHEETS  
September 30, 1996 and December 31, 1995  
ASSETS

	September 30 1996 ----- (unaudited)	Dec. 31 1995 ----- (unaudited)
Current Assets		
Cash and Cash Equivalents	\$ 6,025,254	\$ 919,417
Accounts Receivable	300,000	0
Inventory	20,818	20,818
Prepaid expenses and other current assets	15,902	38,311
	-----	-----
TOTAL CURRENT ASSETS	6,361,974	978,546
Furniture and Equipment at cost less accumulated depreciation	 738,788	 237,672
Computer Software Costs, at cost, less accumulated amortization	665,957	1,081,061

Patents	65,048	56,131
	-----	-----
TOTAL ASSETS	\$ 7,831,767	\$2,353,410
	-----	-----
	-----	-----

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INTERNATIONAL META SYSTEMS, INC.  
BALANCE SHEETS  
September 30, 1996 and December 31, 1995

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30 1996	Dec. 31 1995
	----- (unaudited)	----- (unaudited)
Current Liabilities		
Accounts Payable	\$ 88,069	\$ 66,380
Accrued Payroll and payroll taxes	83,762	69,481
Capitalized lease payable - current portion	3,823	13,581
Dividends payable	20,500	27,850
	-----	-----
TOTAL CURRENT LIABILITIES	196,154	177,292
Shareholders' Equity		
Preferred stock: \$.0001 par value authorized 1,000,000 shares		
Series A convertible preferred stock, 10,000 shares issued and outstanding	1	1
Series B convertible preferred stock, 250 shares issued and outstanding	1	1
Common stock \$.0001 par value, authorized 50,000,000 shares; issued and outstanding 27,395,455 shares (1995) 37,418,325 (1996)	3,742	2,739
Additional paid-in capital	18,293,124	8,653,679
Subscription Receivable	(28,570)	0
Deferred Compensation	0	(89,072)
Accumulated deficit	(10,632,685)	(6,391,230)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	7,635,613	2,176,118
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TOTAL LIABILITIES AND

INTERNATIONAL META SYSTEMS, INC.  
STATEMENTS OF OPERATIONS  
(unaudited)

<TABLE>  
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	Quarter Ended		Nine Months Ended	
	Sept. 30 1996	Sept. 30 1995	Sept. 30 1996	Sept. 30 1995
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Revenue				
Sales	0	10,000	0	310,000
Contract Payment	300,000	200,000	300,000	300,000
	300,000	210,000	300,000	610,000
Cost and Expenses				
Research and Development	1,093,989	97,936	2,507,275	242,886
Selling, general and admin.	483,646	265,431	1,665,567	555,690
Depreciation and Amort.	164,673	156,797	484,972	331,132
Loss from Operations	(1,442,308)	(310,164)	(4,357,814)	(519,708)
Other Income (Expenses)				
Interest Net	102,468	32	230,292	799
Unrealized Capital Loss	(8,308)	0	(52,552)	0
NET LOSS	\$ (1,348,148)	\$ (310,132)	\$ (4,180,074)	\$ (518,909)
Net Loss per share	\$ (.04)	\$ (.00)	\$ (.12)	\$ (.02)
Weighted average number of shares outstanding	37,386,790	26,611,873	34,327,838	26,577,308

</TABLE>

INTERNATIONAL META SYSTEMS, INC.  
STATEMENTS OF CASH FLOWS  
(unaudited)

<TABLE>  
<CAPTION>

	Nine Months ended	
	Sept. 30, 1996	Sept. 30, 1995
	<C>	<C>
<S>		
Cash flows from operating activities		
Net loss	\$ (4,180,074)	\$ (518,909)
Reconciliation of net loss to net cash used in operating activities		
Amortization of deferred compensation	89,072	92,241
Issuance of common stock for services	23,140	27,671
Depreciation and amortization	484,972	331,132
(Increase) decrease in:		
Accounts Receivable	(300,000)	
Inventory	0	(10,877)
Prepaid expenses and other current assets	22,409	4,453
Increase in:		
Accounts payable and accrued expenses	35,970	4,977
	(3,824,511)	(63,312)
Net cash used in operating activities		
Cash flows from investing activities		
Increase in deferred software development cost	0	(533,139)
Acquisition of furniture and equipment	(570,984)	(165,638)
Increase in patent costs	(8,917)	(8,170)
	(579,901)	(706,947)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issuance of common stock, net	9,520,007	19,619
Proceeds from issuance of preferred stock, net	0	980,000
Payments on capitalized leases payable	(9,758)	(4,348)
	9,510,249	995,271
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	5,105,837	(219,012)
Cash and cash equivalents, beginning of period	919,417	409,812
	\$ 6,025,254	\$ 628,824
Cash and cash equivalents, end of period		

</TABLE>

INTERNATIONAL META SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 1996

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 1995.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

THE COMPANY

IMS designs and develops microprocessor chip technologies, focusing on ways to raise the performance and functionality of industry-standard microprocessors while lowering their cost. IMS intends to sell its technologies through licensing arrangements with industry leaders or will sell end products directly to consumers.

IMS has established a focused business strategy to achieve future growth. It includes:

- Develop proprietary technology for leading-edge designs.
- Establish partnerships and joint development or marketing arrangements with select, industry leaders.
- Market a diverse product line that targets mainstream industry-compatible devices to meet the needs of major computer, entertainment and telecommunications markets and the high end of the emerging Internet access market.

This strategy, coupled with the Company's plan to leverage and reuse its technology, is intended to permit IMS to develop and market products that are anticipated to have substantial consumer demand.

IMS PRODUCTS

IMS is currently focusing on completion of the Meta 6000, an Intel-compatible processor, and conducting prototype development and market

acceptance studies for an Internet language accelerator, the Meta Expresso.

## INTEL-COMPATIBLE PROCESSORS

Over the past decade, IMS has designed and produced a series of microprocessors, the Meta 3230, 3240 and 3250, that emulate both high-level languages and industry-standard machine languages. The Meta 3240 emulated Motorola's 68000 instruction set, while the Meta 3250 could emulate both the Motorola 68040 and the Intel 486 instruction sets. These emulators performed well and exhibited good fidelity, running industry-standard software like DOS and Windows.

In partnership with a major international semiconductor manufacturer, the development partner, IMS is developing the Meta 6000, a fully custom socket-compatible version of the Intel Pentium-TM-. Performance is targeted to approximate that of a 300 MHz Pentium-TM-. Special features include:

- Deep pipeline with multiple execution units with out-of-sequence execution.
- On-chip MMX (Intel's Multimedia Unit) calculated to be 30% more powerful than Intel's P55C MMX, on a clock-for-clock basis.
- Process accelerator mechanisms. IMS-proprietary branch prediction and memory structures help avoid pipeline breakage due to control transfers or memory access delays, increasing the number of instructions that can be executed in a single cycle. Each of these design elements is individually reusable.

The Meta 6000 will be manufactured using a .35 micron production process, The Company anticipates migrating the design to a .25 micron process. This can result in a chip called the Meta 6500 that may have a substantial performance increase over the Meta 6000. No assurances can be provided that the Meta 6000 will achieve all of its performance objectives. Also, no assurances can be given that IMS will be successful in obtaining agreement from the development partner for the Meta 6500 project or that the anticipated performance increase will be achieved.

In July, Dr. Hanan Potash joined the Company as Vice President, Operations with the responsibility of coordinating and directing the efforts of the Meta 6000 team and synchronizing the Company's efforts with the requirements of our development partner. He is located in the Austin Design Center.

## INTERNET LANGUAGE ACCELERATORS

IMS has deep roots in designing very high level language engines -- the Meta 3230 and 3240. These products were developed to execute SMALLTALK byte-codes in addition to standard machine languages, such as C, C++ and FORTRAN. Indeed, the Meta 3240 ran SMALLTALK programs 10-30 times faster than competing microprocessors.

The mechanisms and techniques developed by IMS for supporting these early products are directly applicable to JAVA, a simple, general purpose programming language for Internet applications. The JAVA language is designed so that applications written in it will run in a network of computers made by different manufacturers, or using different microprocessors. Typically, the JAVA instructions are interpreted in these machines using their own native



instructions which often significantly slows down their execution time. Many companies are looking for ways to accelerate JAVA and obtain much higher levels of performance. When applied to JAVA, the existing 3240 design yields substantially improved performance over software interpretation of JAVA on standard Reduced Instruction Set ( RISC) engines.

IMS is using this technology to develop a prototype of a high-performance JAVA chip, the Meta Espresso-TM-, which will support inexpensive JAVA - programmable devices. The Company is currently evaluating potential approaches for marketing a Java capability and is seeking a development partner.

As more elaborate multimedia human interfaces and broader use of JAVA as a general-purpose language create the need for even greater performance, IMS may develop an even higher performance engine, the Meta Double-Expresso-TM-, by applying the super-scalar technologies and mechanisms under development for the Meta 6000. No assurance can be given that IMS will be successful in developing or marketing either of these processors.

#### RESULTS OF OPERATIONS, 3RD QUARTER, 1996

The operating loss for the quarter increased by \$1,132,144 compared to the same period in 1995, while the net loss increased by \$1,038,016. The Meta 6000 Microprocessor Design Project was at nearly full staffing during this reporting period, while in the same 1995 period, the contract had just been awarded in April and the staffing effort was underway. A Design Center was opened in Austin, TX, in November, 1995. The expenses incurred in this expansion, which focused on supporting the Meta 6000 project, accounts for the vast majority of the increase in net loss for the period.

The Company received \$300,000 in revenue from sales or development contract payments during the reporting period. This is an increase of \$90,000 from 1995. Due to the uneven phasing of development contract payments, there can be substantial variations from period to period.

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Research and Development expense during the reporting period increased by \$996,053 over the comparable period in 1995. This increase was primarily due to the increase in technical staffing from 10 to 55. The staff of 55 consists of mostly full time employees and a number of part-time and full-time consultants to support the Meta 6000 development and the other Company projects. Many of the expenses associated with completing the expansion of the Austin Design Center from 4376 square feet to 5704 square feet were incurred in this quarter. There were no expenses associated with the Austin Center during the comparable period in 1995.

Selling, general and administrative expense during the reporting period increased by \$218,215 over the comparable period in 1995. This increase was due to the addition of administrative staff to support the increase of 45 engineers and the creation of the Austin Design Center. There were also increases in travel and communications charges required to coordinate the Meta 6000 development between headquarters and the Austin Design Center, recruiting fees for staffing, relocation fees for new employees, consulting fees for product studies. Also, Federal and state taxes and insurance associated with employee headcount increased proportionately with the increase in staffing.

Depreciation and Amortization increased during the reporting period by

\$7,876 over the comparable period in 1995. Amortization of the Meta 3250 software represents the largest item in the increase.

Interest Income increased by \$102,436 during the reporting period over the comparable period in 1995. This increase was earned on the remaining balance of the \$10,000,000 that was raised at the end of 1995 and during the first quarter of 1996.

Unrealized capital loss of \$8,308 occurred due to the impact of the fluctuation of interest rates on the temporary investments of the Company. There were no corresponding expenses in 1995.

#### RESULTS OF OPERATIONS, NINE MONTHS ENDING SEPT 30, 1996

The loss for the nine months increased by \$3,661,165 compared to the same period in 1995. During the same period in 1995, the Company was operating at a much lower staffing level. The Meta 6000 Microprocessor Design Project was started in April of 1995. In addition, in April of 1995, the Company relocated from Torrance to larger offices near the Los Angeles Airport, and the Austin Design Center was opened in November, 1995. During the first nine months of 1996, the Company was fully focused, staffed, equipped and working to complete the Meta 6000 project.

There was \$300,000 from sales or development contract payments during the reporting period. This is a decrease of \$310,000 from 1995 when the Company received \$300,000 of development contract payments, and the Company sold a non-exclusive license for rights to the Meta 3250 for \$300,000. Due to the uneven phasing of development contract payments, there can be substantial variations from period to period.

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Research and Development expense during the reporting period increased by \$2,264,369 over the comparable period in 1995. This increase was primarily due to the significant increase in technical staffing from 4 at the beginning of 1995 to the current 55. The staff of 55 consists of mostly full time employees and a number of part-time and full-time consultants to support the Meta 6000 development and the other company projects. In addition, the 4376 square foot Austin Design Center, which was opened in November of 1995, was expanded to 5704 square foot during second quarter of 1996. There were no expenses associated with the Austin Center during the comparable period in 1995.

Selling, general and administrative expense during the reporting period increased by \$1,109,877 over the comparable period in 1995. This increase was due to the addition of administrative staff to support the increase of 51 engineers, the relocation from Torrance to larger offices near the Los Angeles Airport, and the creation of the Austin Design Center. There were also increases in travel and communications charges required to coordinate the Meta 6000 development between headquarters and the Austin Design Center, recruiting fees for staffing, relocation fees for new employees, consulting fees for product studies. Also, Federal and state taxes and insurance associated with employee headcount increased proportionately with the increase in staffing.

Depreciation and Amortization increased during the reporting period by \$153,840 over the comparable period in 1995. Amortization of the Meta 3250 software began in this period and represents the largest item in the increase.

Interest Income increased by \$229,493 during the reporting period over the comparable period in 1995. This increase was earned on the remaining balance of the \$10,000,000 that was raised at the end of 1995 and during the first quarter of 1996.

Unrealized capital loss of \$52,552 occurred due to the impact of the fluctuation of interest rates on the temporary investments of the Company. There were no corresponding expenses in 1995.

## LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

The Company's cash or cash equivalent position was \$6,025,254 at the end of the quarter compared to \$919,417 at the end of 1995. This cash, combined with anticipated progress payments from its Meta 6000 development contract should allow the Company's activities related to the Meta 6000 Project to proceed through initial chip production. The anticipated progress payments are tied to milestone achievements, and no assurance can be given that all or any of such milestones will be achieved.

Additional funding will be required for IMS to market and inventory the chip for the retrofit market or for direct sales to Original Equipment Manufacturers for inclusion in computer

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systems. No assurances can be given that the Company will be able to obtain such funding on acceptable terms. Business opportunities related to follow-on chips such as the Meta 6500, Java products or other projects would require additional funds to initiate these new projects. No assurances can be given that any new project will be initiated or that funding for such projects can be obtained.

The Company elected to pay interest, due June 30, 1996, on its Series A and Series B Convertible Preferred Stock in shares of Common Stock. The amount of such interest aggregated \$41,000, and resulted in the issuance of 20,752 shares of Common Stock. The company may elect to satisfy interest due on December 31, 1996 and June 30, 1997 on both series of stock, and on November 30, 1997 on the Series B in cash or through the issuance of additional shares of Common Stock.

### AVAILABILITY OF NOLS

The Company estimates that it had, for federal income tax purposes, net operating loss carryforwards ("NOLs") amounting to approximately \$8,028,000 at December 31, 1995, which expire at various amounts through the year 2010 if not utilized before then to offset taxable income.

Section 382 of the Internal Revenue Code of 1986, as amended, and regulations issued thereunder, impose limitations on the ability of corporations to use NOLs, if the corporation experiences a more than 50% change in ownership during certain periods. The determination of whether an ownership change with in the meaning of Section 382 has occurred during the most recent period has not yet been made. The detailed information necessary to determine testing dates and percentage ownership increases of five percent owners, if any, is not readily available; therefore, a determination of the testing dates and percentage ownership increases will not be made until the NOL is utilized.

"SAFE HARBOR" STATEMENT UNDER  
THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The forward-looking statements in this quarterly report may be affected by a number of factors including but not limited to changes in the market for microprocessors, competitive actions taken by competitors, the ability of the Company to recruit the necessary technical staff, or the availability of financing. No assurance can be given that any projected schedule can be met or that the specifications required for the products to be successfully marketed can be achieved.

PART II  
OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

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Item 2. CHANGES IN SECURITIES

None.

Item 3. DEFAULTS IN SENIOR SECURITIES

There have been no defaults in any security issued by IMS.

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

ANNUAL MEETING

At the Company's annual meeting on July 10th, 1996, the shareholders approved all proposals presented by the Company. They included:

a) Adoption and approval of the amendment to the Company's Certificate of Incorporation to increase the amount of authorized shares of Common Stock from 50,000,000 to 70,000,000 and to reduce from 8 to 6 the threshold at which directors of the Company must be elected to staggered terms of office.

For	Against	Abstain
-----		
24,162,761	834,907	152,325

b) Ratification of the appointment of Singer, Lewak, Greenbaum & Goldstein, certified Public Accountants, as auditors of the Company for the fiscal year ending December 31, 1996.

For	Against	Abstain
-----		
32,394,658	26,911	159,015

c) Adoption and approval to elect to the Board of Directors five (5) directors, to serve until the next Annual Meeting of Stockholders of the Company or until their successors are elected and qualify, subject to their prior death,

resignation or removal. The directors are: George W. Smith, Masahiro Tsuchiya, Frank LaChapelle, Sigmund Hartmann, and Martin S. Albert.

For	Against	Abstain
32,458,008	58,413	64,163

d) Adoption and approval of the form of indemnity agreements between the Company and the members of the Company's Board of Directors.

For	Against	Abstain
31,541,517	781,872	234,695

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e) Adoption and approval of the Company's 1996 Stock Option Plan and to reserve up to 4,500,000 shares of the Company's Common Stock for issuance under the 1996 Stock Option Plan.

For	Against	Abstain
28,464,080	729,912	403,780

Item 5. Other Information.

In connection with a private placement of common stock in 1994, 460,000 warrants to purchase common stock at \$2.50 per share were issued, which were to expire in October 1996. The Board of Directors voted at their September 5, 1996 meeting to extend the expiration date of the common stock purchase warrants from October 31, 1996 to April 30, 1997.

At the November 4, 1996 Board of Directors meeting, Dr. Philip M. Neches was elected to fill a vacant seat on the International Meta Systems, Inc., Board of Directors. Dr. Neches was a founder, Chief Scientist, and Vice President of Teradata Corporation from 1979 to 1988. He served as Vice President and Chief Scientist of NCR Corporation from 1989 to 1994. From 1994 to 1996, Dr. Neches was enlisted by AT&T as their Vice President and Group Technical Officer of Multimedia Products and Services

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

None

Pursuant to the requirements 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 META SYSTEMS, INC.

Date: November 13, 1996

/s/ Paul Sefchek  
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Paul Sefchek, Vice President Finance and  
Chief Financial Officer

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