PRELIMINARY PROSPECTUS DATED SEPTEMBER 22, 1972

A registration statement relating to these securities has been filed with the Securities and Exchange Commission, but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

*PROSPECTUS*

# 340,000 Shares

# Redactron Corporation

## Common Stock

*($.10 Par Value)*

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."

*Of the shares offered hereby, 334,600 shares are to be sold by the Company and 5,400 shares are to be sold by the stockholders named herein under "Selling Stockholders". The Company will receive none of the proceeds of the sale of shares by the Selling Stockholders. The Common Stock of the Company is presently traded in the over-the-counter market. See "Price Range of Common Stock".*

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

| | Price to Public | Underwriting Discount (1) | Proceeds to Company (2) | Proceeds to Selling Stockholders (2) |
|---|---|---|---|---|
| Per Share ............... | | | | |
| Total .................... | | | | |

(1) The Company and the Selling Stockholders have agreed to indemnify the several Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

(2) Before deducting expenses estimated at $ payable by the Company and $ payable by the Selling Stockholders.

*These shares are offered subject to prior sale and when, as and if delivered to and accepted by the Underwriters, and subject to approval of certain legal matters by counsel. It is expected that delivery of the shares to the Underwriters will be made at the offices of Drexel Firestone, Incorporated, 60 Broad Street, New York, New York, on or about October , 1972.*

**Drexel Firestone**
INCORPORATED

*October , 1972*

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE COMMON STOCK AND THE 8% CONVERTIBLE SUBORDINATED DEBENTURES DUE JULY 1, 1981 OF THE COMPANY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## THE COMPANY

Redactron Corporation (the "Company") was incorporated in Delaware on July 30, 1969. The Company manufactures and markets an automatic editing typewriter system (the "Product"), the purpose of which is to increase the productivity and efficiency of office personnel. The Company began manufacturing the Product in September of 1971, and through September 15, 1972 had produced and shipped approximately 1,020 units, of which 596 had been sold, 176 had been rented, 194 were on consignment with sales agencies principally as demonstrators and 54 were in transit for sale or rental to customers. The Company also markets peripheral devices which were developed as components of the Product but which can be utilized independently. The Company's executive offices are located at 100 Parkway Drive South, Hauppauge, New York 11787 (Tel.: 516-543-8700).

## RISK FACTORS

From its inception through June 30, 1972 the Company incurred losses of $4,119,197, including a loss of $2,517,453 for the fiscal year ended June 30, 1972 (see "Statement of Operations"). From its organization through June 30, 1972, the Company's net cash outflow was approximately $7,037,000, and the Company's present rate of net cash outflow is approximately $500,000 per month. The current rate of net cash outflow is attributable largely to the Company's rental program for the Product and the buildup of inventory and accounts receivable.

A substantial portion of the proceeds of this offering will be used to finance the Company's rental program, which was offered initially to commercial customers in July of 1972, and the increased cash needs that result from this program (see "Use of Proceeds"). The funding of a rental program imposes substantial requirements for working capital upon the Company since manufacturing and marketing costs must be recovered over an extended rental period. Depending on the ratio of rentals to sales, expansion of the rental program may increase net cash outflow beyond its present rate (See "Business—Marketing—Rental Program"). The Company's ratio of units rented to units sold is presently increasing; there can be no assurance that additional financing which may be required will be available on favorable terms.

In marketing the Product, the Company is competing against International Business Machines Corporation (IBM), the largest manufacturer of automatic editing typewriter systems, and other companies which have substantially greater resources, experience and marketing capability than the Company (see "Business—Competition"). The Product does not presently account for a material portion of the market for automatic editing typewriters.

## PRICE RANGE OF COMMON STOCK

The Common Stock of the Company was offered to the public on July 7, 1971 in 2,588 units, each consisting of 85 shares of Common Stock and one 8% Convertible Subordinated Debenture due July 1, 1981 in the principal amount of $1,000. The initial public offering price per unit was $1,595. The following table reflects high and low bid prices for the Company's Common Stock, as reported by the National Quotation Bureau Incorporated, from July 12, 1971 through September 21, 1972. The prices set forth below are those quoted by dealers to each other and do not include retail mark-up, mark-down or commissions and do not represent actual transactions:

| | Bid Prices | |
|---|---|---|
| | High | Low |
| 1971: | | |
| July 12 through September 30 | 10½ | 6½ |
| Fourth Quarter | 11¾ | 5 |
| 1972: | | |
| First Quarter | 18¾ | 6 |
| Second Quarter | 22½ | 14¼ |
| Third Quarter through September 21 | 19¾ | 13 |

At the close of business on September 21, 1972, the representative quotation of all registered market makers for the Company's Common Stock in the NASDAQ system was 16¼ bid and 17 asked.

## CAPITALIZATION

The capitalization of the Company on August 31, 1972, adjusted to reflect bank borrowings since that date, and as further adjusted to reflect (i) the issuance and sale of the shares of Common Stock offered hereby by the Company and the application of the proceeds thereof, (ii) the anticipated conversion of the outstanding 8% Convertible Subordinated Debentures due July 1, 1981, which the Company intends to call for redemption on the effective date of this Registration Statement, into 153,200 shares of Common Stock, and (iii) the anticipated exercise of warrants to purchase 33,630 shares of Common Stock by application of the Company's 9% Subordinated Notes due 1974, which become due and payable upon receipt by the Company of its portion of the proceeds of this offering, is as follows:

| | Outstanding | As Adjusted |
|---|---|---|
| Short-term Bank Debt (1) | $2,800,000 | $ — |
| Long-term Debt: | | |
| 8% Convertible Subordinated Debentures due July 1, 1981 | $1,532,000 | $ — |
| 9% Subordinated Notes due 1974 | 235,406 | — |
| Equipment purchase obligations, due $12,038 per year until 1975 and $8,401 per year thereafter until 1977 | 49,023 | 49,023 |
| Total Long-term Debt | $1,816,429 | $ 49,023 |
| Stockholders' Investment: | | |
| Common Stock—par value $.10 per share | | |
| 3,000,000 shares authorized | | |
| 703,315 shares outstanding; 1,224,745 shares to be outstanding as adjusted(2) | $ 70,332 | $ 122,475 |
| Additional Paid-in Capital | 3,628,497 | |
| Deficit (as of June 30, 1972) | (4,119,197) | (4,119,197) |
| Total Stockholders' Investment | $ (420,368) | $ |
| Total Long-term Debt and Stockholders' Investment | $1,396,061 | $ |

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(1) The Company has entered into an agreement with The First National Bank of Boston pursuant to which it may borrow funds from time to time on a demand loan basis, at an interest rate equal to 2½% above that bank's base (prime) rate as in effect from time to time. Borrowings are secured by inventory and accounts receivable of the Company, as well as all other rights to the payment of money and contract rights, and are limited to a borrowing base consisting of 80% of eligible accounts receivable and a portion of the value of certain inventory. The borrowing base, as formally designated, at August 31, 1972 was approximately $1,700,000, but the bank has extended additional credit.

(2) Does not include 25,400 shares reserved for issuance upon exercise of other outstanding warrants and 123,550 shares reserved for issuance to employees under the Company's Stock Option Plans and agreements, pursuant to which 80,910 stock options are outstanding (see "Stock Options and Warrants").

(3) See "Business—Property" and Note 8 of Notes to Financial Statements for information with respect to long-term lease obligations.

## DIVIDENDS

The Company has not paid any dividends and does not intend to pay any dividends in the foreseeable future. For restrictions on the payment of dividends, see Note 5 of Notes to Financial Statements.

## USE OF PROCEEDS

The net proceeds to be received by the Company from this offering, after deduction of underwriting discount and expenses, will be approximately $            .

The Company will use approximately $2,800,000 to repay short-term bank indebtedness incurred for working capital purposes, and approximately $675,000 for capital expenditures, principally for tooling, fixtures and test equipment. The balance of $            will be used primarily to finance manufacturing, marketing and related costs anticipated in connection with the renting of the Company's Product to customers. (See "Business—Marketing".)

The Company proposes to call its 8% Convertible Subordinated Debentures due July 1, 1981 for redemption on the effective date of this Registration Statement. Because the current conversion price of these Debentures ($10 per share) is below the current market price of the Company's Common Stock (see "Price Range of Common Stock"), the Company anticipates that the Debentures will be fully converted into 153,200 shares of Common Stock. In addition, the Company is obligated to prepay its 9% Subordinated Notes due 1974 upon receipt of its portion of the proceeds of the offering made hereby (see "Certain Transactions"). Since the holders of these Notes also hold warrants for the purchase of 33,630 shares of Common Stock of the Company at an exercise price of $7 per share which will expire on the prepayment of these Notes, the Company anticipates that the holders of the Notes will exercise the warrants by applying the full principal amount of their Notes against the exercise price. Accordingly, the Company does not anticipate that any portion of the proceeds of this offering will be required for the repayment of this indebtedness. To the extent that this indebtedness is not so converted or applied, however, up to $1,844,006 of the proceeds will be applied to the repayment of such indebtedness (including redemption premium) and consequently that amount will not be available to finance the rental program.

The Company expects that it may require additional financing in the future (see "Risk Factors" and "Business—Marketing—Rental Program"). There can be no assurance that such financing will be available on terms favorable to the Company.

To the extent that the Company does not immediately utilize the proceeds of this offering, these funds will be invested in certificates of deposit, government securities or other high grade, interest-bearing securities.

The Company will not receive any of the proceeds from the sale of shares offered by the Selling Stockholders.

## STATEMENT OF OPERATIONS

The following statement of operations of Redactron Corporation for the period July 29, 1969 (date of incorporation) to June 30, 1972 has been examined by Touche Ross & Co., independent certified public accountants, as set forth in their report appearing elsewhere in this Prospectus. The statement of operations should be read in conjunction with the financial statements and related numerical notes thereto included elsewhere in this Prospectus.

| | July 29, 1969 (Date of Incorporation) to June 30, 1970 | Year Ended June 30, 1971 | Year Ended June 30, 1972 |
|---|---|---|---|
| Operating revenues (Note A) | $ — | $ — | $1,805,988 |
| Interest income | 26,637 | 14,054 | 56,963 |
| | $ 26,637 | $ 14,054 | $1,862,951 |
| Cost of products sold and rented (includes manufacturing start-up costs) (Note A) | — | — | 1,744,827 |
| Research and development (Note C) | 362,136 | 792,812 | 604,153 |
| Selling, general and administrative (including a provision of $21,200 for doubtful accounts in 1972) | 134,468 | 257,719 | 1,704,095 |
| Interest | 16,082 | 79,218 | 227,329 |
| Cancellation of financial consulting agreement (Note D) | — | — | 100,000 |
| | $ 512,686 | $ 1,129,749 | $4,380,404 |
| Net (loss) (Note E) | $ (486,049) | $(1,115,695) | $(2,517,453) |
| (Loss) per common share (Note F) | $(2.43) | $(5.58) | $(4.32) |
| Weighted average number of common shares outstanding | 200,000 | 200,000 | 582,721 |

See Notes to Statement of Operations on following page.

## NOTES TO STATEMENT OF OPERATIONS

A. Included in operating revenues are revenues from the rental of equipment manufactured by the Company. The Company recognizes income from these rentals on an operating basis and amortizes the cost of the product over a 48 month period. Such income has not been material to date.

Sales to two major customers accounted for approximately 43% of revenues.

B. Depreciation and amortization amounted to $6,344, $29,405, and $101,695 in the fiscal years 1970, 1971 and 1972, respectively.

C. It is management's opinion that technological changes occurring in the industry will require that a continuing program of research and development be maintained, devoted not only to the development of new products but also towards advancing the existing system. Accordingly, the Company has adopted the accounting policy of expensing such research and development costs as incurred.

D. Under the terms of an underwriting agreement entered into for the Company's public offering completed in July, 1971, the managing underwriter of that offering was retained as a financial consultant to the Company for a period of three years at compensation of $33,333 per year. That underwriter was also granted, for a five-year period, certain preferential rights with respect to future public or private financings by the Company. In February of 1972 10,000 shares of the Company's common stock (market price, $10 per share) were issued in cancellation of the remaining obligations under these commitments.

E. The Company has available for future periods the following net operating loss carryovers:

| Date of Expiration | Net Operating Loss |
|---|---|
| June 30, 1975 | $ 486,049 |
| June 30, 1976 | 1,115,695 |
| June 30, 1977 | 2,517,453 |

F. Net loss per common share was computed by dividing net loss by the weighted average number of common shares outstanding during each period. The inclusion of common equivalent shares would have an antidilutive effect upon per share computations.

G. If the holders of the 9% subordinated notes due 1972, amounting to $820,500 (Note 1), had surrendered their notes and exercised all the warrants to purchase 164,100 shares of common stock, and if the proceeds of the July, 1971 public offering were available to the Company to repay debt to banks of $275,000 at July 1, 1971, the loss per share would have been $4.26 per share for the year ended June 30, 1972.

Assuming the conversion of the 8% convertible subordinated debentures due 1981 and the exercise of the warrants pertaining to the 9% subordinated notes due 1974, as anticipated by this Prospectus, the loss per share would have been $2.74 for the year ended June 30, 1972.

H. The Company has not paid dividends since its inception.

(All references to numerical notes relate to Notes to Financial Statements appearing elsewhere in this Prospectus.)

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The increase in selling, general and administrative expenses during the fiscal year ended June 30, 1972 was attributable mainly to the development of sales, marketing and field engineering staffs required to sell, market and service the Product. The increased loss during this fiscal year was attributable to these factors, as well as to manufacturing start-up costs.

# BUSINESS

## General

The Company manufactures and markets an automatic editing typewriter system designed to permit an operator to type the text of a letter or other document in the normal fashion. The text is simultaneously recorded on a magnetic storage medium. Dictation or copy work can be typed at the operator's maximum speed and mistakes can be corrected on the magnetic storage medium by backspacing and typing over the incorrect material. If additions, deletions, modifications or insertions are required, they can be entered without the necessity of retyping the unchanged portions. After the changes have been entered, the typewriter will automatically print a clean and corrected copy, adjusting the margins in the process. If the document requires successive revisions, a permanent record is kept on the magnetic storage medium to avoid manual retyping of unchanged portions.

Automatic editing typewriters are intended to increase the productivity and efficiency of stenographers, secretaries, typists and transcription machine operators and to eliminate the mechanical and repetitive aspects of this kind of work. Among the uses of automatic editing typewriters are transcription typing, revision typing and statistical typing. Major customers for this kind of product include insurance companies, banks, lawyers, government agencies, and other commercial customers with substantial requirements for text processing.

The Product consists of the following standard units: an input-output typewriter, a magnetic card or magnetic tape cassette transport, an electronic control unit, a power supply and a console. The Company has adapted the IBM Selectric®* typewriter for use in its system by converting it to an input-output typewriter attached by cable to the console which contains the other equipment. This adaptation permits the console equipment to control all the operations of the typewriter so that information can be transferred between the typewriter and the magnetic storage medium.

There are four basic models of the Product. In two models, a magnetic card acts as the storage medium; in the other two, a magnetic tape cassette serves that purpose.

The card models of the Product are available with either one or two card transports and are designed for secretarial, statistical and certain legal applications where the one card to one page relationship is convenient for the operator. In these models, data is recorded on a card which stores as many as 64 lines of up to 160 characters each. This accommodates a legal-sized page of typing, single-spaced, or a statistical tabulation on a page 15 inches wide by 13 inches in length (13 inches by 10.7 inches of typing area).

The one card model is designed for limited editing of data. All information is initially recorded on the magnetic card in a sequential manner, each typed line on a separate track of the card. Editing of data may be performed by rerecording new material over the older data, or adding data to the unused portion of the track on the card. When editing within the text, revisions may only be made within the limits of the available storage space on the tracks where the data being revised is recorded. Substantial revisions, such as the addition of a paragraph, often require retyping the remainder of the page.

The two card system offers editing flexibility and revision capabilities not found in one card systems. Initially, data is entered in the same manner as the one card system. In the two card model, however, data can be transferred from one card to a second card at a rate of approximately 300 characters per second. This capability enables the operator to make extensive editorial revisions, such as paragraph

* A registered trademark of IBM.

additions, deletions or rearrangements, by transferring unchanged data to the second card up to the point of revision, adding the desired material to the second card, and then completing the data transfer. While the edited data is being transferred to the second storage card, the operator can have the same data printed in fully corrected copy at the speed of the input-output typewriter, 185 words per minute, with the proper margin, spacing and format adjustments. The Company offers the only two card system currently available in the industry.

The cassette models of the Product are available in both a one transport system for limited editing work and a two transport system for applications requiring substantial editing and revision. These models perform the same functions as the equivalent card models and have some additional capabilities not available in magnetic card systems. Approximately 1,000 lines of typing (estimated to exceed the average daily output of a typist) can be stored on a magnetic tape cassette. Both models permit the operator to automatically locate desired paragraphs or pages of previously stored material. The two cassette model has a high speed automatic assembly capability which permits the operator to specify the order in which these paragraphs or pages are to appear. The system then prints the material in the order specified, simultaneously and automatically performing the necessary margin and format adjustments. The applications for cassette systems are primarily those where much of the information is pre-stored, as is the case for many legal documents or for programmed letterwriting, or where storage of large quantities of information in a specified order is desired, as is the case for mailing lists or directories.

The Product's retail sales price in the United States ranges from $6,400 for the basic one cassette model up to $8,200 for the basic two card model, on a 30-day net basis. Rental prices range from $176 per month to $278 per month for the same models, including a maintenance charge.

There are available several competing automatic editing typewriter systems. IBM is the Company's principal competitor and the only other manufacturer currently utilizing a magnetic card as the storage medium (see "Business—Competition"). The Company believes that the Product has most standard features available on IBM models and has significant additional standard features which IBM does not offer. For example, IBM does not offer a two card transport system. In addition, the Product has been designed to enable the operator to use conventional typing techniques to a greater extent than is possible with the IBM systems. However, there is no assurance that IBM or other companies will not in the future incorporate in their equipment additional features not available in the Product. The Product does not presently account for a material portion of the market for automatic editing typewriters.

### Manufacturing and Quality Assurance

Manufacturing commenced in September of 1971. Through September 15, 1972 the Company had manufactured approximately 1,020 units, of which approximately 176 had been rented to customers and 596 had been sold to customers (including other manufacturers); most of the remainder are in use as demonstrators at various locations. As of that date, the Company had firm orders for 540 units to be delivered through January, 1973, including units to be delivered to other manufacturers and to foreign distributors; backlog as of September 15, 1971 was insignificant. The Company is currently manufacturing at the rate of approximately 200 units per month. In May of 1972, the entire manufacturing operation, including management personnel, was moved to a new leased facility of 30,000 square feet at a cost of approximately $175,000 for leasehold improvements and moving expenses. The Company believes the production capacity of the new facility is approximately 400 units per month.

In the manufacturing process, each of the component units is assembled from standard parts, or from parts fabricated to the Company's specifications by outside vendors using tooling developed for and owned by the Company. The Company has alternative sources for most parts supplied by outside vendors, except for the IBM Selectric® typewriter. These typewriters are purchased from IBM without discount. The Company believes these typewriters will be available as needed in accordance with IBM's policy and past practice. The Company has found that its manufacturing capability has been reduced at times by delays in the delivery of satisfactory parts; however the Company believes that these problems have been substantially resolved and does not anticipate dislocations which would materially affect the Company's delivery capability. At the present time, the Product is being delivered within eight weeks from receipt of customer orders. The Company plans to reduce this delivery time to thirty days and to maintain an inventory equal to approximately four weeks' anticipated orders, but there can be no assurance that these objectives will be met.

The Company's engineering staff has developed a variety of test equipment which is used extensively in the manufacture of the Product. Each of the component units is independently tested at various stages before final assembly and the finished Product undergoes extensive testing to assure Product quality. Approximately one-third of the Company's direct labor force is engaged in testing operations. In addition, each finished Product is examined by a separate quality assurance group within the Company to assure that the Product as shipped fully conforms to its design specifications.

### Marketing

*Domestic Sales.* The Company has directed its major marketing efforts to sales of the Product to customers who require the preparation of large numbers of documents, as in the insurance, banking and legal fields. The Company's customers include large industrial and financial concerns and governmental agencies as well as smaller offices. Comparatively few of the Company's customers have more than one unit installed, and no customer has more than five units installed.

As its principal means of marketing the Product, the Company has developed a network of independent sales agencies, which also service the Product. The Company sells the Product directly to customers of its independent sales agencies and approximately 90% of its domestic sales to date (excluding sales to other manufacturers) have been made through these sales agencies. At the present time, the Company has contracts with 27 sales agencies, which market the Product in a total of 36 marketing areas (many of which include more than one city). The Company is negotiating contracts with additional sales agencies in other locations, some of which have already begun to market the Product. Most of the sales agencies are independent distributors of other office equipment and have prior experience in the office equipment business as well as established service capability.

Contracts with the sales agencies vary between three and five years, and provide for commissions of approximately 30% of the retail sale price of the Product and up to 30% of the rental price of the Product. Contracts provide for exclusive territories, but are cancellable if the agency does not meet its predetermined sales quota. The Company expects that some sales agencies will require replacement for non-performance and in such areas sales may be reduced until the agency is replaced. The Company provides two demonstrator units for each city served by its agencies but does not consign other equipment to the agencies except in connection with short term requirements such as special shows and demonstrations. The Company also provides sales and service support to agencies, including product literature, advertising and training. Agencies are required to purchase a minimum spare parts inventory of approximately $5,000 for each city in which they have marketing rights and also incur costs and expenses related to training personnel to install and service the Product. The Company requires each agency to send at least one employee to a field engineering training course of six weeks at the Company's headquarters. Experience has shown that the initial costs to sales agencies have ranged up to approximately $75,000. For this reason, the Company may experience difficulty in finding additional sales agencies to handle the Product.

The Company's marketing staff consists of 30 persons employed as sales support staff for training of salesmen and installation personnel. In addition, the Company has developed its own selling organization for the metropolitan New York area, including New York City, northern New Jersey, Long Island, Westchester County and Fairfield County in Connecticut. This New York City sales district consists of a District Manager plus 18 salesmen and support personnel. Subsidiary sales offices have recently been opened at Bridgeport, Connecticut, Jericho, Long Island, and Clifton, New Jersey.

*Foreign Distribution—Agreement with International Trading Corporation.* In February and April of 1972, the Company entered into a series of agreements with International Trading Corporation (ITC), an unaffiliated corporation, for the distribution of the Product throughout Europe, including Great Britain, Ireland and Eastern Europe, the U.S.S.R., South Africa, Australia and New Zealand. ITC was formed in July, 1971 by persons with international marketing experience for the purpose of marketing various products outside the United States. Under the agreements, ITC has set up a wholly-owned distribution organization called Redactron International S.A. Organized in Switzerland, this company's sole function is to serve as the exclusive distributor of the Company's Product to dealers for these specified territories. Redactron International S.A. has advised the Company that as of August 26, 1972 it had dealer arrangements in 17 cities in Western Germany in addition to representation in Denmark, Austria, France, Switzerland and Norway.

Pursuant to an agreement with the Company (and its wholly-owned export subsidiary) and ITC, Redactron International S.A. purchases units from the Company at discount prices and is responsible for all marketing and service expenses, including training of field engineering and installation personnel, as well as preparation of foreign language sales materials. Units delivered to Redactron International S.A. are designed for foreign language keyboards and codes and use on foreign electrical circuits. Redactron International S.A. markets the Product on its own terms and has no recourse against the Company if it cannot market the Product, but the Company must indemnify Redactron International S.A. for damages (including litigation costs) arising from claims of infringement of any copyright, trademark, patent or proprietary right.

The Company's contract with Redactron International S.A. has a 10 year term commencing April 1, 1972. This distribution contract establishes quotas for sales to Redactron International S.A. which are defined as a proportion of all sales and rentals made by the Company. The Company has the option of cancelling the contract at the end of the third contract year and each contract year thereafter if Redactron International S.A. fails to attain its annual performance quotas. The Company also has the option under a separate agreement of purchasing the distribution contract and related distribution organization at a price based on Redactron International S.A.'s performance. However, in the event that purchases by Redactron International S.A. exceed 30% of all of the Company's revenues (25% under some circumstances), ITC may at the end of the third contract year and each contract year thereafter require the Company to purchase the distribution contract and related distribution organization of

Redactron International S.A. at a price which is determined in accordance with the terms of the contract. The purchase price is based upon a complex formula which takes into account the Company's sales to Redactron International S.A. during the third year of the agreement, and the adjusted price per share of the Company's Common Stock. The Company retains the right to determine whether the purchase price will be paid in cash or in shares of Common Stock of the Company and, in the event payment is made in shares of Common Stock, the purchase price cannot be less than 45,000 shares and may not exceed 200,000 shares; a cash payment may not exceed $2,500,000 if the purchase is made prior to March 31, 1977, which amount increases in stages to a maximum of $4,000,000 after March 31, 1979. In the event the purchase option is exercised and payment is made in shares of the Company's Common Stock, ITC may require the Company to include, at the Company's expense, the shares of Common Stock of the Company in any registration statement to be filed thereafter by the Company. In the event the purchase option is exercised, Redactron International S.A. and ITC agree for a period of two years thereafter not to engage in any activities competitive with those of the Company within the sales territory and not to interfere in any way with the Company's distributors who continue to sell the Company's equipment in that territory. Based on the Company's sales experience and projections for Redactron International S.A., management does not believe that ITC will be able to require the Company to purchase the distribution contract and related distribution organization of Redactron International S.A., but there can be no assurance that this will not occur.

Pursuant to its agreements with ITC, the Company has loaned $60,000 to Redactron International S.A., repayable by March 31, 1975, with interest at an annual rate of 4%. In return for this loan, the Company has been granted certain rights to participate in the profits of Redactron International S.A., if any; the Company does not anticipate that these rights will have any material effect on its results of operations in the foreseeable future.

The Company believes that the agreements with ITC permit the development of an international distribution organization with limited financial investment on the part of the Company. However, the Company will be dependent upon the sales ability and financial resources of ITC and Redactron International S.A. for the development of this part of the export market. Since it is anticipated that Redactron International S.A. will be a principal customer of the Company, the Company will be dependent upon the ability of Redactron International S.A. to finance its purchases and operations, and the inability of Redactron International S.A. to meet its obligations would have a material adverse effect on the Company. Pursuant to its agreements with the Company, ITC has capitalized Redactron International S.A. with $200,000, which the Company believes will be adequate to support the operations of that company, but there can be no assurance that this level of capitalization will be adequate. In the event that the capitalization of Redactron International S.A. proves to be inadequate to meet its working capital needs, the Company has no present intention of providing additional funds to it.

The Company has signed an agreement for distribution of the Product throughout Canada with NTI National Ltd. (NTI), an established distributor of office products. The agreement grants NTI a five-year exlusive distributorship for the retail sale and servicing of the Product, terminable by NTI on thirty days' notice and by the Company at any time if NTI's predetermined minimum sales quota is not met. NTI is presently operating sales offices in Montreal, Toronto, Ottawa and Quebec City, and is negotiating arrangements with sub-distributors in Western Canada. Field engineering training for the Canadian distribution operation has been completed for Montreal and Toronto and is in process for other locations. Delivery of equipment to customers has begun.

*Sales to Other Manufacturers.* On October 14, 1971, the Company entered into a contract with the Remington-Rand Division of Sperry Rand Corporation ("Remington-Rand") for the sale of the Product for resale under the Remington-Rand name and for the sale of subassemblies. The contract calls for a fixed schedule of deliveries through June 1974, with minimum purchases of approximately $3.45 million. The number of units of the Product covered by the contract is subject to a 20% increase at the option of Remington-Rand, and Remington-Rand is currently ordering at the increased rate and has indicated its intention to continue to do so in the future. Through September 15, 1972, Remington-Rand had purchased 238 units. The terms of the contract require dedication of the Company's manufacturing facility to the extent necessary to meet this contractual obligation. At the present time, the Company's obligation to deliver units to Remingon-Rand represents less than 30% of its average monthly output, and the Company does not expect this contract to impair its capability to maintain its own marketing efforts. The Company and Remington-Rand are free to negotiate for additional sales under mutually agreeable terms and Remington-Rand has recently agreed to purchase approximately $940,000 in additional units of the Product for delivery through June 1973.

After January 1974, and upon payment of a specified royalty for the period 1974-78 which cannot exceed $300,000 per year, Remington-Rand also has the right to obtain a license for the manufacture and sale of the Product in competition with the Company. This license can be obtained prior to that date in the event the Company does not comply with the delivery requirements of the contract, or if the Company merges with any other corporation or sells substantially all its assets, or if voting control is changed. The rights of Remington-Rand under its contract, including any rights as licensee in the future, are exclusive (except as to the Company) in the secretarial office equipment market in the United States, Canada and Mexico. Remington-Rand may sublicense its affiliates for the manufacture and marketing of the Product under the license. The license terminates on the expiration date of the last of the Company's patents, but the Company's right to royalty payments terminates in 1978.

Under the terms of the contract, if the Company grants to any customer in the United States, Canada or Mexico prices or terms more favorable than those available to Remington-Rand, then equivalent prices and terms are required to be granted to Remington-Rand. Subsequent to termination of the contract, the Company is required to continue to provide spare parts to Remington-Rand at a substantial discount from its then list price for a 7-year period. The contract also provides that changes and improvements in the Product must be disclosed in advance to Remington-Rand and that Remington-Rand has the right to require the Company to incorporate any such changes and improvements in units of the Product delivered thereafter under the contract. The prices for any such changes and improvements will be at a substantial discount from the Company's retail sales prices. Although the Company must also disclose any new models to Remington-Rand in advance of customer deliveries, prices for new models are subject to negotiation.

The Company has entered into a distributorship agreement with Graphic Systems, Inc. for the retail sale of the Product for printing and publishing applications in the United States. The agreement prohibits the Company from competing with Graphic Systems, Inc. in these retail markets but the Company may make similar arrangements with other manufacturers. The Company has received an initial order for a limited number of units from Graphic Systems, Inc. but the contract does not provide any minimum obligation for purchases.

The Company is also considering sales arrangements with other manufacturers in markets not covered by the Remington-Rand contract. All such sales to manufacturers for resale under their own name, including sales to Remington-Rand and Graphic Systems, Inc., are at a substantial discount from retail prices. To the extent that such sales are significant, the Company may be competing for retail sales against its own Product distributed by manufacturers and distributors with substantially greater resources.

*Rental Program.* Up to the present time, the marketing of the Product has been primarily through sales, including sales financed through third party leasing transactions arranged by customers or by the Company's sales agencies. There are also a limited number of units on rent to customers under short-term trial plans which are no longer being offered. The Company now provides a 30-day conditional sale plan during which the customer can evaluate and test the equipment before purchase. Under this plan sales are not recorded until the customer has accepted the Product.

Since many of the Company's domestic customers and potential customers have indicated a preference for renting rather than purchasing the Product, the Company began to offer a rental program to commercial customers in July of 1972 (rentals had been available to governmental agencies prior to that time). The rental agreement provides for a minimum twelve-month rental, is renewable annually and cancellable upon sixty days' notice prior to the end of each year. Rental is payable monthly and a deposit of one month's rent as security is required. Rental customers have a purchase option which permits application of a portion of rental payments to the purchase price of the Product. The Company believes that ultimately at least a majority of its equipment installed in domestic customer locations will be rented.

There are substantial costs associated with the development of a rental program. These include the financing of the cost of rental equipment, marketing costs (including commissions) and associated administrative expenses. The funding of a rental program imposes substantial requirements for working capital upon the Company, since these costs must be recovered over an extended rental period. In this connection, management intends to market any used rental equipment which reverts to the Company. The Company expects to use a major portion of the proceeds of this offering to support this rental program. The Company can give no assurance that its rental arrangements will be profitable since profitability will depend upon the length of time the equipment remains on rent.

The Company has under consideration, as an alternative to bank or other financing, the development of third party leasing arrangements for rentals. However, no such arrangements have been made, nor is there any assurance that such arrangements will be made.

*Major Customers.* At the present time, Remington-Rand and Redactron International S.A. represent major customers for the Company's Product. During the past fiscal year, sales to Remington-Rand accounted for approximately 21% of the Company's total revenues and sales to Redactron International S.A. accounted for approximately 22% of the Company's total revenues; the backlog of orders attributable to these customers as of September 15, 1972 represented approximately 63% and 18%, respectively, of total unit backlog as of that date. The Company has also negotiated a contract with the General Services Administration ("GSA") which makes the Product eligible for rental or sale to various United States government agencies. Customers purchasing or renting under the GSA contract represent, in the aggregate, a major customer for the Product. The loss of Remington-Rand or Redactron International S.A. as customers, or cancellation of the GSA contract, would have a material adverse effect on the Company. All GSA contracts are renegotiated annually.

**Peripheral Devices**

Components developed in connection with the Product such as the magnetic card and cassette transports have applications in equipment manufactured by other companies for use in other fields.

The Company has entered into contracts with manufacturers' representatives, on customary commission and other terms, for the sale of these devices in markets throughout the United States.

Peripheral devices are now being manufactured and delivered to customers. The sale of peripheral devices has accounted for a small proportion of the total revenues to date, and is expected to continue to represent a small proportion of the Company's business.

### Engineering and Development

The Company has developed its own electromechanical and electronic adapter for converting the typewriter used in the Product to an input-output typewriter. The Company has also developed the magnetic tape cassette transports and magnetic card transports used with the magnetic storage media. The Product's electronic control unit uses MOS/LSI circuitry ("Metal-Oxide-Semiconductor/Large Scale Integration") which, in the Company's opinion, combines high reliability with low cost.

The Company has an engineering and design group of 29 persons whose principal activities are the development of new products as well as new features to be offered as additional charge options. This group also is engaged in continuing activity relating to refinement of present production and testing techniques.

A number of additional charge options have been developed and will be available for sale starting in November 1972 at prices ranging from $150 to $775. Some of the features are offered primarily in order to expand the Product's areas of applicability. Examples of such additional applications include: continuous printing of variable-length documents, special indexing for scientific and library documents, and the extension of the Product's locating capability from 100 to 1,000 items on a cassette. Other features provide for improved operation of the Product, such as a repaging feature and an improved margin positioning feature.

The Company has developed a converter designed to permit transfer and conversion of data from Redactron magnetic tape cassettes and magnetic cards to computer-compatible magnetic tape, and vice versa. The converter is scheduled for production in November of 1972, but there can be no assurance as to the successful marketing of this device. The converter may also be used in conjunction with a computer to convert data stored on IBM magnetic tape cartridges to Redactron's cassettes or cards. It is anticipated that both of these applications will afford the Company additional marketing opportunities.

The Company anticipates continuing engineering and development expenditures and believes that its success will depend on its ability to maintain a competitive position in the face of rapid technological development.

### Servicing

Management believes that the Company's success in marketing the Product will require, among other things, the furnishing of reliable and efficient maintenance service. The Product has been designed to make possible repairs and servicing by replacement of defective subassemblies; in management's opinion this permits maintenance and repair work to be performed by persons who do not have extensive electronics training. It is the Company's objective to provide for response to most service calls within four hours (twenty-four hours where the customer is located at some distance from the sales office). Accordingly, the Company has assigned sales territories which, in the Company's opinion, can be serviced by the sales agency in accordance with this standard. However, the Company has no direct supervision of servicing activities of its sales agencies and must rely on its contacts with customers and reports from its field support personnel to ascertain whether these objectives are being met. The Company began to ship units to customers in September 1971. Based on limited field experience to date, management believes that maintenance and servicing of the Product have been satisfactory.

The Company's field engineering support department consists of 24 persons, including a field engineering manager, a training staff, a technical support group and a technical writing group. The technical writing group is responsible for the preparation of maintenance manuals and instructions. The training staff prepares courses and materials for the training of all field service personnel employed by the Company and its agencies and distributors. All agencies and distributors are required to have at least one field service engineer attend a six-week training course at the Company's plant, and the Company operates two such courses on a continuous basis. A technical support staff is available to assist field service personnel of the Company and its agencies and distributors with problems encountered in the field, and records of all field repairs made to every machine are reported to the Company in order to identify actual or potential operating problems.

A service and maintenance program is available to all purchasers or renters of the Product at a cost of approximately $36 to $45 per month. The Company warrants the replacement of defective parts for 90 days from date of installation except for the MOS circuits included in the Product which are warranted for one year from installation. All maintenance functions for units sold or rented through the Company's agencies are performed by personnel of the agencies and the service charge payable by customers is retained by the agencies.

In addition to field engineering support personnel, the Company has six field service engineers who perform servicing and maintenance for equipment sold or rented directly by the Company in the New York metropolitan area.

### Personnel

The Company currently employs 285 persons: 169 in manufacturing and quality assurance, 29 in engineering, 49 in marketing, 24 in field engineering, and 14 in general management and administration. Thirty-seven of the Company's employees hold degrees from universities or colleges, including five who hold advanced degrees. The Company does not anticipate any substantial additions to its technical staff in the near future.

Future success of the business of the Company will be dependent to a substantial degree upon its ability to retain skilled technical and professional personnel. The Company believes that relations with employees are satisfactory.

### Property

The Company's facilities are located in two adjacent plants in Hauppauge, New York. One of these is a 20,000 square foot plant rented under a seven year lease expiring in 1976 at an annual rental of $36,000. The lease is renewable for two five year terms at an annual rental of $42,750 per year during the first term and $49,500 per year during the second term. The Company's engineering, marketing and administrative activities are located on these premises. The second plant is a 30,000 square foot plant used for manufacturing only. It is rented under a five year lease at an annual rental of $57,000. The lease is renewable for an additional five year term at an annual rate of $67,000. Under both of these leases the Company is also liable for real estate taxes and fire insurance premiums.

The Company also leases space in New York City as a sales and service office. This space is rented under a twenty year lease at an annual rental of $28,809 for the first five years, $39,702 for the second five years, and $47,337 for the next ten years. The Company also rents space in Burlingame, California, Bridgeport, Connecticut, and Jericho, New York with aggregate rentals of approximately $8.000 per year.

The Company believes that its present facilities are adequate for anticipated needs, but additional field offices for sales support personnel may be opened from time to time.

### Competition

The Company's principal competitor is IBM, which markets the MT/ST and MC/ST typewriters. The IBM MT/ST is an automatic editing typewriter using magnetic tape cartridges as the storage medium, and the MC/ST is an automatic editing typewriter using a single magnetic card as the storage medium. IBM also offers a higher priced version of the MC/ST which it calls the MC/ET and which includes a proportional-spacing "Executive" Selectric® typewriter. The sales prices for the Company's Product are below those of comparable IBM models; however, there is no assurance that IBM will not lower its prices and, in any event, the Company believes that most IBM machines have been rented rather than sold. The Company believes that its new rental program (see "Business—Marketing") is generally competitive with that offered by IBM, but experience to date has been limited and the Company is unable to predict the response that will be afforded to this program. IBM is the largest manufacturer and distributor of automatic typewriter equipment in the world and has an international sales and marketing force, service facilities and reputation. In view of IBM's position in this market, management believes that the Company will remain a minor factor in the market.

Other companies with substantially greater resources and experience than the Company are currently marketing competitive devices and the Company assumes there will be additional competition. The Company may also be competing against Remington Rand and other manufacturers who purchase the Product for resale to end users. There can be no assurance that the terms of the Company's sales and rental arrangements for the Product will be as favorable, in all respects, as those offered by IBM and its other competitors.

### Proprietary Rights

The Product has been developed by an engineering and design team through extensive experimentation, development and testing. Although management does not believe that the issuance of patents would afford protection for the Product, the Company has filed seven U. S. patent applications covering the proprietary aspects of the Product and the peripheral devices, and one of these applications has also been filed in Great Britain, France, West Germany, The Netherlands and Japan. One U. S. patent has been granted and an amendment has been filed to another application pursuant to official notice of action. No comprehensive patent search has been made on all elements of the Product, and there is no assurance that patents do not exist which might be the basis for a claim of infringement against the Company on account of its design and sale of the Product. Should there be any such patents, the Company believes that, in accordance with industry practice, it would be able to obtain licenses to use the concepts covered by such patents at a reasonable royalty, although there is no assurance that such licenses would be available to the Company.

At the request of IBM, representatives of the Company and IBM have met and discussed the patent position of IBM with respect to certain aspects of the technology of the Product. If it appears after further discussion and investigation that the design or manufacture of the Product conflicts with any IBM patent, the Company believes, based on the position taken by IBM representatives in discussions to date, that it will be able to enter into a satisfactory licensing or cross-licensing arrangement with IBM which will not have a material adverse effect on its business. Representatives of the Company and IBM also discussed copyright claims of IBM relating to the Company's operators' training manual.

The Company has agreed with IBM to make certain revisions in connection with the preparation of its new manual and to use its best efforts to recall all copies of the existing manual. The Company believes that this agreement with IBM will not result in any material expense to it.

The Company has been notified of the existence of a patent relating to certain technology incorporated in the cassette transport used in cassette models of the Product and also marketed independently as a peripheral device. The Company is reviewing the patent and believes that any claim which may be made with respect to it will be resolved without any material adverse effect on the Company's business.

## MANAGEMENT

The directors and officers of the Company are as follows:

| | |
|---|---|
| Evelyn Berezin | President, Treasurer and Director |
| Anthony Mauro | Vice President and Director |
| Edgar Wolf | Vice President |
| Emanuel Intoci | Vice President |
| Bernard J. Meislin | Secretary |
| Milton Schwartz | Director |
| Robert Simon | Director |
| William I. Thompson | Director |

Ms. Berezin and Messrs. Wolf, Mauro and Intoci entered into an agreement, which expired on July 7, 1971, under which they were bound to use their best efforts to elect at least two representatives of American Science Associates to the Board of Directors. Milton Schwartz and Robert Simon, partners of American Science Associates, continue to serve on the Board of Directors.

Evelyn Berezin, Anthony Mauro, Edgar Wolf and Emanuel Intoci may be deemed to be "promoters" and "parents" of the Company, as those terms are defined in the Securities Act of 1933, as amended, and the rules and regulations thereunder. American Science Associates, a partnership consisting of Robert Simon, Milton Schwartz, Seymour L. Lubliner, Gerson Pakula and Carl W. Stursberg, Jr., may also be deemed a "promoter" and "parent" of the Company.

EVELYN BEREZIN, 47, has been in the data processing and communications fields, in both engineering and marketing capacities, since 1951. From 1957 until 1960 Ms. Berezin was head of the logic design section of The Teleregister Corporation, Stamford, Connecticut, developers and manufacturers of on-line computer systems and stock quotation systems. From 1960 until forming the Company in 1969, she was employed by Digitronics Corp., Albertson, Long Island, which manufactures and markets data processing and data acquisition equipment and related materials, in various capacities ranging from Manager of Systems Design to Director of Product Planning. She holds six patents. She received an A.B. Degree in physics in 1946 from New York University and has held fellowships from New York University and the Atomic Energy Commission for graduate research.

ANTHONY MAURO, 40, has approximately 11 years of marketing experience in the data processing industry. From 1960 through 1969, when he participated in the formation of the Company, he was Product and Marketing Manager of the Peripheral Equipment Group for Digitronics Corp., Albertson, Long Island.

Edgar Wolf, 45, was employed from 1957 to 1969 in various capacities by Digitronics Corporation, Albertson, Long Island, including Manager of Advanced Development. He holds seven patents and has applications pending for nineteen additional patents, five of which relate to the Product. He received his Bachelor's Degree in Electrical Engineering in 1950 from City College of New York and a Master's Degree in Electrical Engineering in 1967 from Polytechnic Institute of Brooklyn.

Emanuel Intoci, 45, has been engaged in various capacities involving production management for electronic equipment for approximately 26 years. From May, 1967 through September of 1969 he was employed by EICO Electronic Corp., Brooklyn, New York, manufacturers of high fidelity tuners and test equipment, as Plant Manager. From April of 1963 to May of 1967 he was employed as Plant Manager for Electronics Communications, Inc., White Plains, New York, manufacturers of FM and two-way radios.

Bernard J. Meislin, 44, is a partner in Bressler, Meislin, Tauber & Bressler, counsel to the Company, and has been a practicing lawyer since 1951.

Milton Schwartz was a founder and President of Alphanumeric, Incorporated, a company engaged in the design and manufacture of high-speed photocomposition equipment for the printing and graphics industries, from March, 1964 to December, 1967 and Chairman of the Board of said company until September, 1968. From April, 1969 he has served as a principal and founder of American Science Associates, a venture capital investment organization specializing in high technology industries.

Robert Simon is a partner in American Science Associates.

William I. Thompson is President and chief executive officer of Oxford Pendaflex Corp., Long Island, New York, manufacturers of office equipment and supplies.

### Remuneration

During the fiscal year ended June 30, 1972, all officers and directors (7 persons) received an aggregate of $117,949 in compensation from the Company; no officer or director received as much as $30,000 in direct compensation. Since July, 1971, each of the Company's four principal officers has been compensated at an annual rate of $30,000; directors do not receive any compensation for their services as directors. The Company does not have employment agreements with any of its officers. (See also "Stock Options and Warrants".)

The foregoing amounts do not include amounts paid to American Science Associates, of which Robert Simon and Milton Schwartz are partners, pursuant to a consulting agreement. (See "Certain Transactions".)

For the year ended June 30, 1972, the firm of Bressler, Meislin, Tauber & Bressler, of which Bernard J. Meislin is a partner, received approximately $50,000 in legal fees from the Company.

## CERTAIN TRANSACTIONS

The Company was incorporated on July 30, 1969. Shortly thereafter, the Company issued 100,000 shares of Common Stock in exchange for all rights to product development and marketing plans prepared by the following officers or directors of the Company in connection with the Product: Evelyn Berezin—33,333 shares, Anthony Mauro—25,000 shares, Edgar Wolf—25,000 shares and Emanuel Intoci—16,667 shares. Actual out-of-pocket expenses incurred in connection with these plans were nominal. These rights are valued on the Company's books at $10,000.

In October of 1969, the Company sold to a group of investors, represented by American Science Associates, a venture capital investment organization, a total of $250,000 principal amount of 9% Subordinated Notes due 1974 at par and 100,000 shares of Common Stock at a price of $5.00 per share. The partners of American Science Associates are Milton Schwartz and Robert Simon, directors of the Company, and Seymour L. Lubliner, Gerson Pakula, and Carl W. Stursberg, Jr. As part of this transaction, Evelyn Berezin, Anthony Mauro, Emanuel Intoci and Edgar Wolf purchased for an aggregate consideration of $24,000 a total of $7,200 principal amount of the 9% Subordinated Notes due 1974 and 2,880 shares of Common Stock, and American Science Associates purchased for an aggregate consideration of $109,500 a total of $32,850 principal amount of Notes and 13,140 shares of Common Stock, in each case on the same terms as the other investors in the offering. In addition, American Science Associates received a total of 9,000 shares of Common Stock and $22,500 principal amount of Notes from the other investors as a fee for arranging the financing.

Pursuant to an agreement dated September 29, 1970, the Company sold in September and October of 1970 to substantially the same group of investors, represented by American Science Associates, for an aggregate purchase price of $820,500, 9% Subordinated Notes due 1972 in that principal amount, together with Warrants expiring September 29, 1973 to purchase 164,100 shares of the Company's Common Stock at a price of $5.00 per share. All holders of these Notes and Warrants exercised the Warrants by surrendering the Notes in July and September of 1971. As part of this transaction, Evelyn Berezin, Edgar Wolf and Emanuel Intoci acquired a total of $9,000 principal amount of Notes and Warrants to purchase 1,800 shares of Common Stock on the same terms as the other investors in the offering and exercised their Warrants at the same time as the other investors. American Science Associates purchased $500,000 principal amount of these Notes and Warrants for the purchase of 100,000 shares of Common Stock on the same terms as the other investors in the offering, and received $36,020 from the Company as a fee for arranging the financing.

In October of 1969 American Science Associates purchased, for $1.25 per Warrant, Warrants to purchase 3,000 shares of Common Stock at an exercise price of $5.00 per share in connection with certain consulting services. In September of 1970 American Science Associates entered into a management consultant agreement with the Company pursuant to which Milton Schwartz, a partner of American Science Associates, provided technological and management consultant services for a minimum of 3 days per week. Under the agreement, which was extended to June 30, 1972 following its termination date, the Company paid to American Science Associates an aggregate of $57,500 and issued to American Science Associates Warrants for the purchase of 15,000 shares of Common Stock of the Company at a price of $5.00 per share.

In October of 1969 the Company sold Warrants for the purchase of a total of 660 shares of Common Stock at an exercise price of $5.00 per share to Bernard J. Meislin, Secretary of the Company, at a purchase price of $1.25 per Warrant, and Warrants to purchase an additional 1,340 shares were purchased at the same price by other members of the firm of Bressler, Meislin, Tauber & Bressler.

The terms of the 9% Subordinated Notes due 1974 required the Company to prepay the Notes from the proceeds of the Company's first public offering. Purchasers also received the right, at the Company's expense, to require the filing of a Registration Statement covering the Common Stock acquired by them upon request of holders of 50% or more of such stock, exercisable after October 24.

1971. At the time of its initial public offering in July, 1971, the Company issued to the Noteholders Warrants to purchase a total of 35,715 shares of Common Stock at an exercise price of $7.00 per share in exchange for their agreement to defer such prepayment and registration rights; 7,824 of these Warrants were acquired by American Science Associates. As required, the Company will offer to prepay these Notes out of the proceeds of this offering, although it anticipates that the Notes will be applied to exercise the foregoing Warrants (see "Use of Proceeds").

As a result of the foregoing transactions, Evelyn Berezin, Anthony Mauro, Edgar Wolf and Emanuel Intoci will own, subsequent to this offering and the exercise of the Warrants held by them, 27,483, 22,037, 17,894 and 16,218 shares, respectively, of the Common Stock of the Company and will have options to purchase additional shares of Common Stock as described below under "Stock Options and Warrants—Employee Stock Options". For information concerning the aggregate holdings of securities of the Company by American Science Associates, see "Principal Stockholders".

## STOCK OPTIONS AND WARRANTS

### Employee Stock Options

On August 30, 1969 the Company adopted a Qualified Stock Option Plan (the "1969 Plan") for the purpose of granting options to purchase shares of Common Stock of the Company to certain key employees of the Company selected from time to time by the Board of Directors. Under the 1969 Plan, as heretofore amended, 40,000 shares of Common Stock have been reserved for such options and the Board of Directors has authorized, subject to the approval of stockholders and compliance with the Economic Stabilization Program, the reservation of an additional 40,000 shares for such purpose. The 1969 Plan is currently administered by a committee consisting of Evelyn Berezin, Anthony Mauro, Edgar Wolf and Emanuel Intoci, none of whom is eligible to receive options thereunder.

Options granted under the 1969 Plan are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code of 1954, as amended. The option price may not be less than the fair market value of the Common Stock at the date of grant. Options under the 1969 Plan will expire no more than 5 years from the date of grant and are not exercisable during the first year after the date of grant. Thereafter each option becomes exercisable to the extent of 25% of the shares covered thereby at the beginning of each of the second, third, fourth and fifth years from the date of grant. The Company has the right to buy back, at the option price, any stock purchased upon the exercise of an option granted under the 1969 Plan by an employee who voluntarily leaves the Company's employ within two years of the date of grant. The options are non-transferable and contain anti-dilution provisions to adjust for stock dividends and other capital changes. From August 30, 1969 through August 31, 1972 options were granted under the 1969 Plan to 102 employees for the purchase of an aggregate of 37,360 shares of Common Stock of the Company. None of these options was granted to an officer or director of the Company. On August 31, 1972, options for an aggregate of 35,810 shares were outstanding under the 1969 Plan at exercise prices ranging from $5.55 to $18.50 per share (with a weighted average of $8.96 per share) expiring between November 2, 1974 and August 8, 1977.

On March 15 and September 8, 1971 the Company also granted stock options, expiring on March 14, 1976 and September 7, 1976, to 4 employees, none of whom is an officer of the Company, for the purchase of an aggregate of 5,100 shares of Common Stock of the Company at $5.55 per share. These options do not qualify for special treatment under the Internal Revenue Code of 1954, as amended, since they may be exercised whether or not a prior option granted at a higher exercise price remains outstanding. The terms of these options are similar to those of the options granted under the 1969 Plan except that the options were immediately exercisable with respect to 50% of the shares covered thereby at the date of grant and become exercisable with respect to the remaining 50% on the first anniversary of the date of grant. On August 31, 1972 all of these options remain outstanding.

On February 3, 1972, the Board of Directors authorized, subject to the approval of stockholders and compliance with the Economic Stabilization Program, a new Qualified Stock Option Plan (the "1972 Plan"), administered by the Board of Directors, for the purpose of granting options to purchase a total of 40,000 shares of the Company's Common Stock to certain persons in the Company's management. Options granted under the 1972 Plan are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code of 1954, as amended. On February 3, 1972, the Board of Directors also granted options under the 1972 Plan, subject to such approvals, for the purchase of the 40,000 shares covered by the 1972 Plan at a price of $10.00 per share, the fair market value of the Common Stock on such date, as follows: 12,499 shares to Evelyn Berezin; 9,167 shares to Anthony Mauro; 9,167 shares to Edgar Wolf and 9,167 shares to Emanuel Intoci. None of such options is exercisable until October 1, 1973 at which time each becomes exercisable with respect to ⅓ of the shares covered thereby. Each such option becomes exercisable with respect to an additional 1/36 of the shares covered thereby each month thereafter beginning on November 1, 1973 and will be fully exercisable on October 1, 1975. The options are non-transferable, expire on February 3, 1977, may only be exercised while the option holder is employed by the Company and contain anti-dilution provisions to adjust for stock dividends and other capital changes. In connection with the grant of these options, the foregoing persons have agreed that no further options or other stock of any kind will be acquired by them from the Company until after October 1, 1975 except rights or stock acquired in a public offering or in a distribution made ratably to all shareholders of the Company. During the option period the Board of Directors of the Company has the right to require the holders of these options to refrain from competing with the Company for a period of eighteen months following termination of their employment. In the event the Board of Directors invokes the non-competition agreement, the holder of the option is entitled under certain circumstances to be compensated at his most recent salary level throughout the period that the non-competition agreement remains in effect.

### Warrants

The Company has issued Warrants to purchase shares of Common Stock in the transactions described under "Certain Transactions". On August 31, 1972, Warrants to purchase an aggregate of 59,030 shares of Common Stock of the Company were outstanding with exercise prices and expiration dates as follows: 22,250 shares at $5.00 per share expiring from November 3, 1974 to May 15, 1976; 2,900 shares at $10.00 per share expiring from July 27, 1976 to February 3, 1977; 250 shares at $18.50 per share expiring June 24, 1977; and 33,630 shares at $7.00 per share expiring on September 29, 1974. As of that date officers and directors of the Company as a group owned Warrants to purchase 18,660 shares at $5.00 per share expiring from October 3, 1974 to May 15, 1976 and Warrants to purchase 8,854 shares at $7.00 per share expiring on September 29, 1974, including Warrants to purchase 7,824 shares at $7.00 per share expiring on September 29, 1974 held by American Science Associates, of which Messrs. Milton Schwartz and Robert Simon, directors of the Company, are general partners. The Warrants which have a September 29, 1974 expiration date are subject to earlier expiration in connection with prepayment of the 9% Subordinated Notes due 1974 (see "Use of Proceeds").

The outstanding Warrants provide for adjustment of the exercise price in the event of any recapitalization, consolidation, merger or sale of the assets of the Company, or issuance of any stock or securities convertible into Common Stock of the Company for a consideration less than the exercise price (except for the sale of Common Stock pursuant to any of the Warrants or pursuant to the 1969 or 1972 Qualified Stock Option Plans.)

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During the time periods that the Warrants and stock options are exercisable, the holders thereof are given the opportunity to profit from any rise in the market price of the Common Stock, with a resulting possible dilution in the interest of the holders of the Common Stock outstanding prior to such exercise. For the life of the Warrants and stock options the Company may be deprived of favorable opportunities to procure additional equity capital if it should be needed for its business. The holders of the Warrants and options might be expected to exercise them at a time when the Company would in all likelihood be able to obtain any needed capital by a sale of stock on terms more favorable than those provided for in the Warrants and options.

For recent prices of the Common Stock of the Company, see "Price Range of Common Stock".

## PRINCIPAL STOCKHOLDERS

The following table shows, as of August 31, 1972, the record and beneficial ownership of the shares of Common Stock before and after the offering made hereby, of (a) each person owning of record or, to the knowledge of the Company, beneficially, 10% or more of the outstanding shares of Common Stock of the Company, and (b) all directors and officers as a group:

| | Owned Prior to Offering | | To be Owned After Offering (3) | |
|---|---|---|---|---|
| **Name and address** | **Shares** | **%** | **Shares** | **%** |
| American Science Associates (1) 1345 Avenue of the Americas New York, N. Y. 10019 (a partnership in which Milton Schwartz and Robert Simon, directors of the Company, are partners) | 101,906 | 14.5 | 101,906 | 8.3 |
| All officers and directors as a group (including 7 individuals and American Science Associates) (2) | 189,108 | 26.9 | 194,138 | 15.9 |

(1) Does not include 3,400 shares owned by Milton Schwartz and 1,700 shares owned by the wife of another partner of American Science Associates.

(2) Does not include 6,000 shares owned by the husband of Evelyn Berezin and 5,043 shares owned by the wife of Edgar Wolf, as to which Ms. Berezin and Mr. Wolf disclaim beneficial ownership.

(3) Assumes conversion of the Company's 8% Convertible Subordinated Debentures due July 1, 1981 into 153,200 shares of Common Stock and issuance of 33,630 shares upon exercise of Warrants by application of 9% Subordinated Notes due 1974 (see "Use of Proceeds"). Includes 7,824 shares which will be owned by American Science Associates upon exercise of Warrants owned by it and 4,000 shares which will be owned by Milton Schwartz, a director of the Company upon conversion of $40,000 principal amount of Debentures owned by him. Does not include 3,900 shares to be owned by relatives and associates of partners of American Science Associates upon conversion of $39,000 principal amount of Debentures owned by them.

In addition to the shares referred to above to be owned after the offering, additional shares of Common Stock of the Company may be acquired by the persons referred to above pursuant to outstanding warrants as follows: American Science Associates—18,000 shares, and officers and directors as a group (including American Science Associates)—18,660 shares. (See "Certain Transactions" and "Stock Options and Warrants".)

The 100,000 shares of Common Stock issued to Ms. Berezin and Messrs. Mauro, Wolf and Intoci on October 24, 1969 in connection with the organization of the Company were placed in escrow and have been released at the rate of 1/36th per month. Pursuant to an agreement with the Company, any of them who leaves the Company prior to October 24, 1972 will forfeit to the Company all shares remaining in escrow.

## SELLING STOCKHOLDERS

The following table sets forth the number of shares of Common Stock being offered for the account of various stockholders, and related information:

| Name | Number of Shares Owned* | Number of Shares Being Offered | Number of Shares To Be Owned* |
|---|---|---|---|
| Larry Spruch and Grace Marmor Spruch, as joint tenants | 3,498 | 400 | 3,098 |
| Fred Stein | 2,443 | 1,000 | 1,443 |
| The Stuyvesant Capital Corp. | 6,060 | 4,000 | 2,060 |
| Total | 12,001 | 5,400 | 6,601 |

* Assumes conversion of the Company's 8% Convertible Subordinated Debentures due July 1, 1981 and issuance of shares upon exercise of Warrants by application of 9% Subordinated Notes due 1974 (see "Use of Proceeds").

## DESCRIPTION OF COMMON STOCK

Each share of Common Stock, $.10 par value, of the Company, the only class of stock authorized by its certificate of incorporation, is entitled to share pro rata in dividends and distributions, including distributions upon liquidation, dissolution or winding up of the affairs of the Company, and to one vote for the election of directors and for all other purposes. The outstanding Common Stock of the Company is, and upon issuance and sale as set forth in this Prospectus the shares offered hereby will be, fully paid and non-assessable and no liability will attach to holders thereof by reason of ownership.

There are no pre-emptive rights.

### Non-Cumulative Voting

The holders of Common Stock of the Company have non-cumulative voting rights, which makes it possible for holders of more than 50% of the shares voting for the election of directors to elect 100% of the directors if they choose to do so, and in such event, the holders of the remaining less than 50% of the shares voting for the election of directors will not be able to elect any person or persons to the Board of Directors.

**Transfer Agent**

The Transfer Agent for the Common Stock of the Company is Franklin National Bank of New York, N. Y.

**Reports to Stockholders**

It is the policy of the Company to furnish to its stockholders, at least annually, a report as to its business, including a balance sheet and profit and loss statement, certified by independent public accountants. In addition, the Company intends to issue unaudited quarterly statements of operations.

## UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below have severally agreed to purchase from the Company an aggregate of 334,600 shares of Common Stock and from the Selling Stockholders an aggregate of 5,400 shares of Common Stock, each Underwriter having agreed to purchase the total number of shares set opposite its name below.

| Name | Number of Shares |
| --- | --- |
| Drexel Firestone, Incorporated .......................... | |
| **Total** .................................. | 340,000 shs. |

The Underwriting Agreement provides that the obligations of the several Underwriters thereunder are subject to approval of certain legal matters by counsel and to various other conditions. The nature of the Underwriters' obligations is such that they are committed to take and pay for all of the shares if any are taken.

The Underwriters propose to offer the shares to the public at the public offering price set forth on the cover page hereof and to certain dealers at such price less a concession of $ a share. The Underwriters may allow and such dealers may reallow a discount not in excess of $ a share to other dealers.

The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933. In addition, the Company has agreed to indemnify the Selling Stockholders against such liabilities.

The Selling Stockholders and American Science Associates have agreed not to sell or otherwise dispose of any Common Stock or Warrants to purchase Common Stock of the Company for a period of 90 days after the date of the offering made hereby without the consent of the Underwriters.

## LEGAL OPINIONS

Legal matters in connection with the sale of the Common Stock being offered by this Prospectus will be passed upon for the Company and the Selling Stockholders by Messrs. Bressler, Meislin, Tauber & Bressler, 90 Broad Street, New York, N. Y. 10004, and for the Underwriters by Messrs. Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York 10005. Bernard J. Meislin, Secretary of the Company, and other members of the firm of Bressler, Meislin, Tauber & Bressler, own warrants to purchase a total of 2,000 shares of the Company's Common Stock at a price of $5.00 per share and a total 2,200 shares of the Company's Common Stock.

## EXPERTS

The financial statements and schedules included in this Prospectus and in the Registration Statement have been examined by Touche Ross & Co., independent certified public accountants, as stated in their report appearing herein, and are included in reliance upon the report of such firm and upon their authority as experts in accounting and auditing.

## ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission a registration statement (which, with all amendments thereto, is herein called the "Registration Statement") under the Securities Act of 1933, as amended, with respect to the securities referred to on the cover page of this Prospectus. For further information with respect to the Company and such securities, reference is made to the Registration Statement, including the financial statements and exhibits filed as a part thereof. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Redactron Corporation
Hauppauge, New York

We have examined the balance sheet of Redactron Corporation as of June 30, 1972 and the related statements of operations, stockholders' investment and changes in financial position for the period July 29, 1969 (date of incorporation) to June 30, 1970 and for the two years ended June 30, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Redactron Corporation at June 30, 1972, and the results of its operations and changes in its financial position for the periods indicated, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.
Certified Public Accountants

Melville, New York
August 31, 1972

## REDACTRON CORPORATION

### BALANCE SHEET

June 30, 1972

ASSETS

| | |
|---|---|
| **Current Assets:** | |
| Cash | $ 177,005 |
| Accounts receivable, trade, less allowance for doubtful accounts of $21,200 (Note 4) | 1,067,242 |
| Inventories (Notes 3 and 4) | 1,962,191 |
| Prepaid expenses and other current assets | 20,299 |
| Total Current Assets | $ 3,226,737 |
| Equipment Rented to Customers, at cost, less accumulated depreciation of $4,906 (Notes 2 and 4) | 97,334 |
| Property and Equipment (Notes 2 and 5) | 783,213 |
| Unamortized Debt Expense (Note 1) | 294,513 |
| Other Assets | 77,631 |
| | $ 4,479,428 |

LIABILITIES

| | |
|---|---|
| **Current Liabilities:** | |
| Notes payable to bank (Note 4) | $ 1,500,000 |
| Accounts payable | 1,159,117 |
| Accrued expenses: | |
| Interest | 12,042 |
| Commissions, salaries and withholdings | 284,206 |
| Other | 31,411 |
| Current installments on long-term debt | 7,131 |
| Total Current Liabilities | $ 2,993,907 |
| Long-Term Debt (Notes 1 and 5) | 2,674,460 |
| Commitments and Contingencies (Note 8) | |
| Stockholders' Investment (Notes 1, 5, 6, 7 and 8): | |
| Common stock, par value $.10 per share; Authorized 3,000,000 shares; issued and outstanding, 614,144 shares | 61,414 |
| Additional paid-in capital | 2,868,844 |
| Deficit | (4,119,197) |
| | $(1,188,939) |
| | $ 4,479,428 |

**See notes to financial statements.**

## REDACTRON CORPORATION

### STATEMENT OF STOCKHOLDERS' INVESTMENT

| | Common Stock Outstanding | | Additional Paid-in Capital | (Deficit) |
|---|---|---|---|---|
| | Shares | Amount | | |
| Balance at July 29, 1969 | — | $ — | $ — | $ — |
| Shares issued in exchange for intangible assets | 100,000 | 10,000 | — | — |
| Proceeds from the sale of stock | 100,000 | 10,000 | 490,000 | — |
| Proceeds from sale of 5,000 warrants (Note 6) | — | — | 6,250 | — |
| Net (Loss) | — | — | — | (486,049) |
| Balance at June 30, 1970 | 200,000 | $20,000 | $ 496,250 | $ (486,049) |
| Proceeds from sale of 1,950 warrants (Note 6) | — | — | 2,437 | — |
| Value of 11,550 warrants issued for services (Note 9) | — | — | 14,438 | — |
| Net (Loss) | — | — | — | (1,115,695) |
| Balance at June 30, 1971 | 200,000 | $20,000 | $ 513,125 | $(1,601,744) |
| Proceeds from sale of 1,650 warrants (Note 6) | — | — | 2,063 | — |
| Value of 5,250 warrants issued for services (Note 9) | — | — | 6,563 | — |
| Proceeds from sale of stock (Note 1) | 219,980 | 21,998 | 1,308,532 | — |
| Proceeds from sale of stock upon exercise of employees qualified stock options (Note 6) | 1,550 | 155 | 8,448 | — |
| Application of 9% subordinated notes due 1972 to the exercise of warrants (Note 1) | 164,100 | 16,410 | 773,320 | — |
| Application of 9% subordinated notes due 1974 to the exercise of warrants (Note 5) | 514 | 51 | 3,549 | — |
| Conversion of 8% convertible subordinated debentures, due July 1, 1981, less expenses of $23,956 | 18,000 | 1,800 | 154,244 | — |
| Value of 10,000 shares issued for cancellation of underwriting and consulting agreements | 10,000 | 1,000 | 99,000 | — |
| Net (Loss) | — | — | — | (2,517,453) |
| Balance at June 30, 1972 | 614,144 | $61,414 | $2,868,844 | $(4,119,197) |

See notes to financial statements.

## REDACTRON CORPORATION

### STATEMENT OF CHANGES IN FINANCIAL POSITION

| | July 29, 1969 (Date of Incorporation) to June 30, 1970 | Year Ended June 30, 1971 | Year Ended June 30, 1972 |
|---|---|---|---|
| **Application of Funds:** | | | |
| Funds applied to operations | $ 486,049 | $1,115,695 | $2,517,453 |
| Less items not requiring the use of funds: | | | |
| Depreciation and amortization | (6,344) | (29,405) | (101,695) |
| Amortization of debt expense | — | (10,256) | (31,327) |
| Issuance of stock covering cancellation of consulting and underwriting agreements | — | — | (100,000) |
| Warrants issued for services | (3,750) | (14,062) | (6,563) |
| | 475,955 | 1,061,972 | 2,277,868 |
| Additions to property and equipment | 95,753 | 228,097 | 591,901 |
| Decrease in long-term debt due to conversions | — | — | 1,004,100 |
| Decrease in other long-term debt | 4,243 | 3,636 | 7,713 |
| Deferred registration costs | — | 99,275 | (97,785) |
| Additions to equipment rented to customers | — | — | 102,240 |
| Increase in other assets | 4,701 | 51,873 | 21,315 |
| | $ 580,652 | $1,444,853 | 3,907,352 |
| **Source of Funds:** | | | |
| Sale of common stock, less expenses of $209,330 for year ended June 30, 1972 | $ 500,000 | $ — | $1,330,530 |
| Sale of common stock upon exercise of employee qualified stock options | — | — | 8,603 |
| Sale of 9% subordinated notes, due October 6, 1974 | 250,000 | — | — |
| Sale of 9% subordinated notes, due September 28, 1972 | — | 820,500 | — |
| Sale of warrants | 2,500 | 2,813 | 2,063 |
| Sale of 8% convertible subordinated debentures, due July 1, 1981, less expenses of $348,306 | — | — | 2,239,694 |
| Application of 9% subordinated notes, due September 28, 1972 to the exercise of warrants, less expenses of $30,769 | — | — | 789,731 |
| Application of 9% subordinated notes, due October 6, 1974 to the exercise of warrants | — | — | 3,600 |
| Conversion of 8% convertible subordinated debentures, due July 1, 1981 | — | — | 180,000 |
| Increase in other long-term debt | 18,186 | — | 17,467 |
| | $ 770,686 | $ 823,313 | $4,571,688 |
| Net increase (decrease) in working capital | $ 190,034 | $ (621,540) | $ 664,336 |
| **Changes in working capital components:** | | | |
| Increases (decreases) in current assets: | | | |
| Cash | $ 239,538 | $ (133,706) | $ 71,173 |
| Receivables | — | — | 1,067,242 |
| Inventories | — | 174,542 | 1,787,649 |
| Other | 17,146 | 2,613 | 540 |
| | $ 256,684 | $ 43,449 | $2,926,604 |
| (Increases) decreases in current liabilities: | | | |
| Accounts payable and accrued expenses | $ (63,013) | $ (389,989) | $ (1,033,774) |
| Notes payable and current portion of long-term liabilities | (3,637) | (275,000) | (1,228,494) |
| | $ (66,650) | $ (664,989) | $ (2,262,268) |
| Net increase (decrease) in working capital | $ 190,034 | $ (621,540) | $ 664,336 |

See notes to financial statements.

## REDACTRON CORPORATION

### NOTES TO FINANCIAL STATEMENTS

**1. The Company:**

Redactron Corporation was organized under the laws of the State of Delaware on July 29, 1969 with authorized capital of 500,000 shares, $.10 par value common stock. In October, 1970, the Company amended its articles of incorporation, increasing the authorized common stock to 3,000,000 shares, $.10 par value.

In July, 1971, the Company sold through a public offering 219,980 shares of common stock at $7 per share, and $2,588,000 of 8% convertible subordinated debentures, due July 1, 1981 (convertible into common stock at $10 per share, through June 30, 1974; at $12.50 through June 30, 1976; and at $15 thereafter), for which it received approximately $3,570,000. The Company used part of the net proceeds of the underwriting to retire short-term debt of $275,000. A portion of the costs incurred in connection with the public offering has been allocated to the debentures sold and is being amortized over the term of the debt.

In connection with that public offering, the holders of the 9% subordinated notes due 1972 amounting to $820,500, surrendered their notes in connection with the exercise of the accompanying warrants to purchase 164,100 shares of common stock at $5 per share.

**2. Property and Equipment:**

Property and equipment, at cost, consists of the following:

| | |
|---|---|
| Machinery, machine tools and equipment | $391,814 |
| Furniture, fixtures and leasehold improvements | 373,547 |
| Demonstration and test equipment | 150,390 |
| | 915,751 |
| Less accumulated depreciation and amortization | 132,538 |
| | $783,213 |

Depreciation and amortization of property and equipment is being provided on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Machinery, machine tools and equipment | 3-10 years |
| Furniture and fixtures | 10 years |
| Leasehold improvements | Duration of lease |
| Demonstration and test equipment | 5 years |

The Company is amortizing the cost of equipment rented to customers over a 48 month period, without giving effect, if any, to residual values.

Expenditures for maintenance and repairs are charged to operations. Expenditures for betterments and major renewals are capitalized. The Company's policy is that if assets are sold or retired, costs thereof and the related amounts of accumulated depreciation will be eliminated from the accounts. Any resulting gain or loss will be reflected in operations in the year of disposal.

## REDACTRON CORPORATION

### NOTES TO FINANCIAL STATEMENTS—(Continued)

**3. Inventories:**

Inventories, valued at lower of cost (first in, first out method) or market, used in the computation of cost of products sold are as follows:

| | |
|---|---|
| June 30, 1972: | |
| Raw materials and purchased parts | $ 863,441 |
| Work in process | 510,085 |
| Finished goods | 588,665 |
| | $1,962,191 |
| July 1, 1971 | $ 174,542 |

**4. Notes Payable to Bank:**

The Company has entered into a financing agreement with a bank whereby the Company can borrow on certain accounts receivable and equipment rented to customers. This financing is collateralized by a lien on all accounts receivable, inventory, all other rights of the Company to the payment of money and all contract rights of the Company. The Company is currently paying interest at the rate of 2½% per annum over the bank's base rate.

**5. Long-Term Debt:**

Long-term debt consists of the following:

| | |
|---|---|
| 9% subordinated notes to shareholders, due 1974 | $ 246,400 |
| Equipment purchase obligations, due $7,130 per year until 1975 and $3,493 per year until 1977 | 20,060 |
| 8% convertible subordinated debentures, due July 1, 1981 | 2,408,000 |
| | $2,674,460 |

Under the terms of the note agreement relating to the 9% subordinated notes due 1974, the Company is subject to certain restrictions, the most limiting of which affect the payment of cash dividends. Such dividends are limited to 50% of the net earnings in excess of $1,000,000. In consideration of the waiver by the holders of the notes of their right to prepayment from the proceeds of the 1971 public offering and their agreement to defer such prepayment until the first public offering before 1974, the Company issued warrants to such holders to purchase 35,715 shares of common stock at $7 per share. The warrants expire October 24, 1974.

The 8% convertible subordinated debentures due July 1, 1981 are redeemable, at the option of the Company, at any time after July 1, 1972, in whole or in part, at various prices in excess of par.

Although the indenture provides for annual sinking fund payments beginning in 1976, no payments will be required due to conversions. The debenture holders have the right, at any time, to convert the principal amount of such debentures into shares of common stock at $10 per share until June 30, 1974, at $12.50 thereafter until June 30, 1976, and at $15 thereafter.

Debentures in the principal amount of $180,000 were converted into shares of common stock prior to June 30, 1972. In the two months ended August 31, 1972 certain holders of the 8% convertible subordinated debentures due July 1, 1981 converted the principal amount of $876,000 into shares of common stock.

The indenture prohibits the Company from paying dividends (other than dividends in its own capital stock) or making any distribution with respect to its capital stock and prohibits the Company from purchasing or redeeming any of the capital stock of the Company or warrants to purchase any of its capital stock, unless after giving effect to such declaration of a dividend or such purchase, redemption or distribution certain minimum requirements relating to retained earnings and stockholders' equity are met.

The 9% subordinated notes due 1974 and the 8% convertible subordinated debentures due July 1, 1981 are subordinated on an equal basis.

**6. Stock Option Plans and Stock Purchase Warrants:**

*Stock Options:*

Under the Company's 1969 Qualified Stock Option Plan, options to purchase 40,000 shares of common stock may be granted at prices not less than 100% of the fair market value of the common stock at the date of grant. These options, which are for a five-year period, become exercisable at the rate of 25% each year, commencing one year after the date of grant. The Board of Directors has authorized, subject to approval of the stockholders and compliance with the Economic Stabilization Program, an amendment to the 1969 Plan authorizing the issuance of options to purchase an additional 40,000 shares of common stock.

On February 3, 1972 the Board of Directors authorized, subject to the approval of the stockholders and compliance with the Economic Stabilization Program, a new stock option plan for the purpose of granting options to purchase a total of 40,000 shares of the Company's common stock. On that date the Board of Directors granted options subject to such approval for the purchase of 40,000 shares to certain officers of the Company. The options are not exercisable until October 1, 1973 at which time each becomes exercisable with respect to one-third of the shares covered. Beginning on November 1, 1973, options to purchase 1,111 shares of common stock become exercisable each month for a period of 24 months. The option price is $10 per share, the fair market value of the common stock on the date of grant.

At June 30, 1972, options to purchase common stock were outstanding as follows:

| Period of Grant | Number Of Shares Subject to Option | Option Price Per Share | Option Price Total | Market Value Per Share | Market Value Total |
|---|---|---|---|---|---|
| Year ended June 30, 1970 | 9,450 | $5.55 | $ 52,447 | $5.55(a) | $ 52,447 |
| Year ended June 30, 1971 | 4,190 | 5.55 | 23,254 | 5.55(a) | 23,254 |
| Year ended June 30, 1972 | 60,800 | 7.50–18.50 | 628,610 | 7.50–18.50(a) | 628,610 |
| | 74,440 | | $704,311 | | $704,311 |

In the year ended June 30, 1972 options to purchase 4,450, 4,510 and 2,200 shares of common stock granted in the years ended June 30, 1970, 1971 and 1972, respectively, lapsed due to termination of employment.

Options became exercisable as follows:

| Date | | | | | |
|---|---|---|---|---|---|
| Year ended June 30, 1971 | 3,138 | $5.55 | $ 17,416 | $5.55 | $ 17,416 |
| Year ended June 30, 1972 | 4,185 | 5.55 | 23,227 | 5.50–20.25(b) | 47,667 |
| | 7,323 | | $ 40,643 | | $ 65,083 |

Options exercised:

| | | | | | |
|---|---|---|---|---|---|
| Year ended June 30, 1972 | 1,550 | $5.55 | $ 8,603 | $17.50–18.00(c) | $ 27,375 |

(a) At date options were granted.
(b) At date options were exercisable.
(c) At date options were exercised.

On March 15, 1971 and September 8, 1971, certain employees were granted options to purchase a total of 4,500 and 600 shares of common stock, respectively, at $5.55 per share. These options, which are for a five-year period, are exercisable 50% on the date of grant and 50% one year after date of grant. At June 30, 1971 and June 30, 1972, 2,250 and 4,800 options, respectively, were exercisable.

Option prices are not less than market prices at date of grant. All options granted are not considered to involve compensation and, therefore, no amounts have been charged to operations with respect to them.

*Stock Warrants:*

The Company has issued warrants to purchase 25,400 shares of common stock at prices varying from $5 to $18.50 per share. In addition, the Company has issued to the holders of the 9% subordinated notes due 1974, warrants to purchase 35,715 shares of common stock at $7 per share of which 514 warrants have been exercised (See Note 5).

The above warrants expire at various dates through 1977.

REDACTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

**7. Common Stock Reserved:**

At June 30, 1972, a total of 424,951 shares of common stock were reserved as follows:

| | |
|---|---|
| Conversion of outstanding 8% Convertible Subordinated Debentures due July 1, 1981 | 240,800 |
| Issuance under stock options plans (See Note 6) | 123,550 |
| Issuance under stock warrants (See Note 6) | 60,601 |
| | 424,951 |

**8. Commitments and Contingencies:**

(a) *Leases:*

The Company is obligated under leases expiring on various dates to 1991. The aggregate minimum annual rentals (plus, as to certain leases, property taxes and insurance) for the next five years are as follows:

| Year ending June 30, | |
|---|---|
| 1973 | $126,339 |
| 1974 | 122,754 |
| 1975 | 121,809 |
| 1976 | 112,809 |
| 1977 | 91,952 |

The total commitments through the expiration dates of such leases aggregate approximately $1,280,000.

(b) *Marketing Agreement:*

The Company has entered into an agreement with a company for foreign distribution of the Company's product. The contract gives the Company the option of purchasing the distribution contract and related distribution organization at a price based on performance. In the event certain conditions are met, the foreign distributor may at the end of the third contract year require the Company to purchase the distribution contract. The Company retains the right to determine whether the purchase price will be paid in cash or in shares of Common Stock of the Company. (See "Business—Marketing—Foreign Distribution—Agreement with International Trading Corporation".)

(c) *Sales Contract with other Manufacturer:*

The Company has entered into a contract with a manufacturer for the sale of the Company's product for resale under that manufacturer's name. The contract calls for a fixed schedule of deliveries through June, 1974 with minimum purchases of approximately $3.45 million. The terms of the contract require dedication of the Company's manufacturing facility to the extent necessary to meet this contractual obligation. After January, 1974, and upon payment of a specified royalty the manufacturer has the right to obtain a license for the manufacture and sale of the product in competition with the Company. (See "Business—Marketing—Sales to other Manufacturers".)

## NOTES TO FINANCIAL STATEMENTS—(Continued)

### 9. Management Consulting Agreement:

The Company entered into an agreement on September 29, 1970 to receive management consulting services from American Science Associates for six months, at a rate of $3,000 per month plus warrants to purchase 7,500 shares of common stock at $5 per share. This agreement was extended for an additional six months at the same terms. Thereafter, American Science Associates has continued to receive $1,500 per month for such services. For the years ended June 30, 1971 and 1972, $41,062 (comprising $27,000 and 11,250 warrants valued at $1.25 per warrant) and $22,688 (comprising $18,000 and 3,750 warrants valued at $1.25 per warrant) were charged to operations, respectively.

### 10. Supplementary Profit and Loss Information:

| Column A | Column B — Charged Directly To Profit and Loss | | |
|---|---|---|---|
| Item | Cost of Products Sold and Rented | Other | Total |
| Period Ended June 30, 1970: | | | |
| Maintenance and repairs | $ — | $ 2,430 | $ 2,430 |
| Depreciation and amortization | $ — | $ 6,344 | $ 6,344 |
| Taxes, other than income: | | | |
| Payroll | $ — | $ 14,925 | $ 14,925 |
| Franchise | — | 676 | 676 |
| | $ — | $ 15,601 | $ 15,601 |
| Management contract | $ — | $ 8,000 | $ 8,000 |
| Rents | $ — | $ 29,142 | $ 29,142 |
| Year Ended June 30, 1971: | | | |
| Maintenance and repairs | $ — | $ 3,054 | $ 3,054 |
| Depreciation and amortization | $ — | $ 29,405 | $ 29,405 |
| Taxes, other than income: | | | |
| Payroll | $ — | $ 26,146 | $ 26,146 |
| Franchise | — | 903 | 903 |
| | $ — | $ 27,049 | $ 27,049 |
| Management contract | $ — | $ 41,062 | $ 41,062 |
| Rents | $ — | $ 44,315 | $ 44,315 |
| Year Ended June 30, 1972: | | | |
| Maintenance and repairs | $ 2,919 | $ 2,230 | $ 5,149 |
| Depreciation and amortization | $ 69,818 | $ 31,877 | $101,695 |
| Taxes, other than income: | | | |
| Payroll | $ 52,897 | $ 57,993 | $110,890 |
| Franchise | — | 12,375 | 12,375 |
| | $ 52,897 | $ 70,368 | $123,265 |
| Management contract | $ — | $150,063 | $150,063 |
| Rents | $ 8,505 | $ 73,546 | $ 82,051 |

**No dealer, salesman or other person has been authorized to give any information or make any representations other than those contained in this Prospectus in connection with this offering and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or by any of the Underwriters.**

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REDACTRON

**340,000 Shares**

# Redactron Corporation

**Common Stock**
*($.10 Par Value)*

*PROSPECTUS*

**Drexel Firestone**
INCORPORATED

*October , 1972*