

The Little Company that Conned?

It was about three months ago that the press release from INTERNATIONAL AUTOMATED SYSTEMS (NASDAQ: IAUS) hit our fax machine here at Fool HQ. We aren't really sure how they got our fax number, but the reason for us receiving the fax was quite evident -- they were advertising the demonstration of a modem using proprietary technology that would allow users to send and receive messages at 1.2 gigs per second -- about six million baud over current cable lines and 600,000 baud over current phone lines. Yes, you read that correctly. Six million baud. Expressed in conventional modem nomenclature, that would be 6000.0 compared to the speeds us mere mortals use, like 14.4 or 28.8.

Anyway, I promptly looked over the press release, scratched my head, and tried to find some information on the company. The only thing was, there is no information on this company. Any database that has any information about companies yielded nothing on International Automated Systems. The only thing that I had to even suggest that this company existed in the realm we call reality is the press release I had in my hand -- a press release that said it was going to demonstrate a product so impossible they might as well have said it was a light sabre or pixie dust. A consumer-priced modem that did six million baud? Cable modems, wireless modems, direct satellite connections and just about anything else you could ever think of would just kiss their markets goodbye.

Now, let me preface the rest of what I have to say about International Automated Systems by saying that I do not know anything about this company other than the single press release they put through Fool HQ's fax machine. I have no balance sheet. I have no information about who their officers are. All I have is a non-Motley Fool message board and a historical chart of the company that looks like a major mountain range. I don't even know when they started telling people about this modem product, although February looks like a likely candidate as that is when the stock started to trade in *any* appreciable volume. What do I mean by any? Simply the fact that INTERNATIONAL AUTOMATED SYSTEMS sees 10,000 shares trade on a good day. Their biggest day ever -- until today -- was 90,000 shares. Almost all of this volume is blocks smaller than 200 shares, meaning it is individual speculators passing shares back and forth.

I say this is all I know about International Automated Systems, but frankly as a Fool I believe it is all I really need to know. A penny stock that comes out of obscurity to a high price with a product that no one has ever seen? Not very Foolish. I urge people to remember that all of those winners in the Fool Portfolio were products that consumers had already seen and begun to use. The products weren't vapor, they were absolutely concrete, in the consumer's hand, causing much excitement and joy. Whether Iomega, America Online, Sears, The Gap, Medicis or any other Fool stock, someone somewhere had used the darn thing and had talked about it. With International Automated Systems, we had a press release saying they would demo an impossible product using new technology that was so complicated they could not even explain it without sounding like atomic theorists.

These press releases talking about the demo faxed out to individual investors caused quite a reaction. Here is a typical one culled from a message board:

<<IAS just sent me an invitation to be on hand when they demonstrate their new Digital Wave Modulation Prototype. The company tells me that such giants as AT&T, MCI, Sprint, Motorola and other large companies have requested to attend. The demonstration will be soon, sometime in the first or second quarter of 1996. I am excited to be there to witness what they say will be "A world-altering technology with implications exceeding \$2 trillion.">>

Now, nowhere is anyone asking why Integrated Automated Systems wants Joe Investor to show up and rub elbows with Sprint, MCI and AT&T. In fact, the company did not *just* send broadcast faxes -- they took out full page ads in Investor's Business Daily. They wanted investors excited about the DWM modem -- so much so that they neglected in May to mention their other products, like fingerprint machines (and any other hot bit of technology that gets the juices of small investors going).

There is another aspect of Integrated Automated Systems that is disturbing -- the spread. Although it was down to a mere \$1.50 today, reports in the message board I was checking out indicate it was as high as \$7 during most of the stock's rise -- signifying an extremely illiquid company that would move *big* either way. The fact that they have all of 1.5 million shares probably explains why the spread is so massive. On its best day this was a \$75 million company. At the beginning of the year, it was worth \$4.5 million.

But it gets more interesting. Apparently, requests to Integrated Automated Systems for a 10-K yield zippo, at least according to one person out on the message board. The company also recently sold 250,000 shares on a restricted basis at \$0.40 a share -- pretty cheap. This individual also stressed the fact that the company has four employees, and two do not get paid. An investor who called the company to confirm this information was told it was erroneous, but was also informed that, <<IAUS has been offered billions of dollars for their technology. They haven't sold it because they believe they can make much more from being a mfg, licensing and oem the technology.>> A quick check of the web site reveals the company has 17 employees currently in various capacities, although it does not list any salaries.

Out on their website (<http://www.iaus.com>), the company has an in-your-face attitude toward skeptics:

<<On June 27th, IAS will unveil its operational DWM prototype. This prototype will prove that DWM works and that DWM is entirely capable of living up to its claims as stated above.

Engineers have argued that DWM is impossible, based on three mathematical formulas: Fourier Transformation Theorem, Nyquist's Rule, and Shannon's Law. IAS will go into detail on these formulas at the press conference; however, until then, we will throw the engineers a bone to chew on -- the key is in the filter. See you in a couple of weeks!>>

Those who went to the demonstration last night had quite a bit to chew on -- the company told them that it was not going to demonstrate the modem because of concerns about the competition getting a look at their technology before they had it all patented. Anyone who did come was treated to a pretty lengthy dissertation on the technology that most said went way over their heads. Regardless of the explanation for not doing the demo, apparently investors lost faith with International Automated Systems today, sending the stock down \$22 1/2 to \$17 1/2.