Although the Partnership has an expression of intent from a reputable bank for a loan on the terms described above, it is continuing to explore the possibility of obtaining even more favorable terms from other competing banks. For his reason, the name of the bank which has already given the commitment is not being disclosed at this time. Persons who are seriously considering making an investment in the Partnership by means of the endorsement of a Partnership bank loan should contact James T. McGimpsey, Vice President - Finance of Capintec Imaging Systems, Inc. (1-201-391-3930) for guidance with respect to procedures to be followed in making such an endorsement.

Potential investors should also note that they may be in a position to obtain even more favorable loan terms from their own bank, in which case it may be to their advantage to arrange for their own financing and to subscribe (as to the Partnership) as an entirely cash subscriber.

[107, 1]

Investor Suitability Standards

Due to the risks involved, the high minimum investment required, and the restrictions on transferability of the investment, purchase of Limited Partnership Interests should only be considered by persons who have substantial means, who can afford a complete loss of their investment and who are in high income tax brackets.

The General Partner will have the sole discretion regarding the admission of an investor as a Limited Partner. In order to assure that purchase of a Limited Partnership Interest is suitable for a particular investor, the General Partners will require such investor to represent in writing that:

1. The investor has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and the risks of investment in the Partnership, or he is advised by persons who possess such qualifications.

2. The investor has the basic means of providing for his current needs and personal contingencies, he has no need for liquidity in this investment, he has the ability to bear the economic risk of his

investment, and he can afford a complete loss of his investment if the business of the Partnership does not succeed.

3. Either: (i) the investor has a net worth of at least $250,000 (exclusive of home, furnishings and automobiles); or (ii) the investor has a net worth of at least $150,000 (exclusive of home, furnishings and automobiles) and his income during his last tax year, or his expected income for his current tax year, was, or will be, such that (when his investment in the Partnership and other investments generating federal income tax deductions are disregarded) it was, or is expected to be, taxed at a marginal federal income tax rate of at least 50%.

In the case of sales to fiduciary accounts, the above conditions should be met by the fiduciary, by the fiduciary account, or by the donor who directly or indirectly supplies the funds for the purchase of the Limited Partner Interest.

The General Partner reserves the right, in certain cases, to accept investors whose net worth and/or income do not fully qualify as provided above.

Compliance with Securities Laws

The Interests offered hereunder are being offered pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), in accordance with the provisions of Rule 146 adopted under the Securities Act. Rule 146 requires that all of the provisions of that Rule be met in order for the exemption from registration to be available. Therefore, this offering will be made strictly in accordance with the requirements of that Rule.

Rule 146 permits the sale of Interests to a maximum of thirty-five (35) purchasers in a single offering. [107, 2]

Rule 146 requires that prior to making an offer of an Interest, there be reasonable grounds to believe that a potential investor can bear the economic risk of an investment herein. Therefore, before an offer can be made, an initial inquiry must be made as to whether or not such potential investor not only meets the suitability standards stated above but, as well, has the ability to bear the

economic risk of an investment herein. Before a potential investor will be treated as an Offeree, a Predistribution Offeree Questionnaire ("Attachment A") must be completed, which, in addition to eliciting certain requested data, is designed to determine whether an investor meets the suitability standards stated above and is also able to bear the economic risks of an investment herein.

Rule 146 further requires that prior to making a sale of an Interest, the General Partner must believe that the potential investor has such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of a prospective investment herein without outside assistance, or, if such potential investor does not have such knowledge and experience in financial and business matters, he must utilize an "Offeree Representative". An "Offeree Representative" is one who has such knowledge and experience in financial and business matters so that, together with the potential investor, he and the potential investor are capable of evaluating the merits and risks of the prospective investment herein.

In order to meet the requirements of Rule 146, a potential investor must also complete the Investor Questionnaire attached to this Confidential Memorandum ("Attachment B") which is designed to determine whether an investor has the requisite knowledge and experience in financial and business matters. If a potential investor does not have the requisite knowledge and experience, but is able to bear the economic risks of the investment, a potential investor will be required to retain a qualified Offeree Representative meeting the requisites set forth in Rule 146, to assist the investor in analyzing the merits and risks of this investment ("Attachment C").

Further, since the Interests are not being registered under the Securities Act, the Interests cannot be sold by an investor unless they are subsequently registered under such Act or unless an exemption from such registration is available at the time of the desired sale. Therefore, a purchaser must be able to bear the economic risks of the investment for an indefinite period of time. There is no public market for the Interests and none will be established. The Interests are only transferable with the consent of the General Partner, which consent may be granted or withheld in their sole discretion. A restrictive legend to this effect will be endorsed upon the certificates representing all Interests sold.

[107, 3]

Required Questionnaires

In order to subscribe to the offering, an investor who has received a copy of this Confidential Memorandum must execute and submit to the General Partner, the Investor Questionnaire ("Attachment B").

In the event an Offeree Representative is needed, an Offeree Representative Disclosure Questionnaire ("Attachment C") must also be completed and submitted.

All such items must be delivered to Capintec Imaging Systems, Inc., 135 Summit Avenue, Montvale, New Jersey 07645, Attention: Vice President - Finance.

Effect of Subscription

BY EXECUTING THE SUBSCRIPTION AGREEMENT AND THE SIGNATURE PAGE, THE INVESTOR IS AGREEING TO ALL THE TERMS AND CONDITIONS OF THE LIMITED PARTNERSHIP AGREEMENT (see the Limited Partnership Agreement, set forth as Exhibit III hereto). The provisions of the Limited Partnership Agreement are summarized under the caption "Summary of Limited Partnership Agreement". Each Limited Partner will receive a certificate of Limited Partnership Interest(s) indicating the extent of his interest in the Partnership. Each person who completes a Subscription Agreement states that he understands and agrees among other things, that:

(1) The Interests are not registered under the Securities Act;

(2) Partnership records shall be noted to reflect that the Interests are not registered, and that any transfer of the Interests must be registered under the Securities Act or comply with its applicable exemptions;

(3) He is warranting that he is purchasing the Interests solely for investment for his own account and without a view to distribution or in connection with any distribution in violation of the Federal or state securities laws and that he has no agreement or present intention with respect to any such distribution; and

(4) The certificates representing Interests shall contain a legend that evidences the restrictions and other provisions of the above paragraphs.

[107, 4] THE GENERAL PARTNER RESERVES THE RIGHT TO REJECT ANY SUBSCRIPTION FOR ANY REASON ON OR BEFORE NOVEMBER 15, 1981, OR AS EXTENDED. Any subscriptions not rejected on or before such date, or as extended, will be accepted and the investors will be admitted to the Partnership.

RIGHT OF INVESTOR TO RECEIVE ADDITIONAL INFORMATION.

RULE 146 REQUIRES THAT EACH INVESTOR BE GIVEN AN OPPORTUNITY TO ASK QUESTIONS OF, AND RECEIVE ANSWERS FROM, THE GENERAL PARTNER AND ANY PERSON ACTING ON BEHALF OF THE GENERAL PARTNER CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING AND TO OBTAIN ANY ADDITIONAL INFORMATION (TO THE EXTENT THE GENERAL PARTNER POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT REASONABLE EFFORT OR EXPENSE) NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED IN THIS CONFIDENTIAL MEMORANDUM IF AN INVESTOR OR OFFEREE REPRESENTATIVE HAS ANY QUESTIONS WHATSOEVER REGARDING THIS OFFERING OR DESIRES ANY ADDITIONAL INFORMATION OF DOCUMENTS TO VERIFY OR SUPPLEMENT THE INFORMATION CONTAINED IN THIS CONFIDENTIAL MEMORANDUM, PLEASE CONTACT CAPINTEC IMAGING SYSTEMS, INC., ATTENTION: PRESIDENT.

[107, 5]

USE OF PROCEEDS

The General Partner intends to apply the minimum and maximum gross proceeds from this offering substantially as set forth in the table below. It is anticipated that substantially all of the expenses will be paid prior to December 31, 1981, and that Item 1 in the table below will be deductible in 1981 (see "FEDERAL INCOME TAX CONSEQUENCES").

[107, 6]

		Minimum Offering		Maximum Offering	
		Amount	% of Offering	Amount	% of Offering
1.	Research and Development Expenses*	$ 1,880,000	85.5%	$ 3,770,000	87.7%
2.	Selling Agent Commissions	210,000	9.5%	420,000	9.8%
3.	Organizational Expenses	60,000	2.7%	60,000	1.4%
4.	Cash Reserves	50,000	2.3%	50,000	1.1%
	TOTAL	$ 2,200,000	100.0%	$ 4,300,000	100.0%

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* To be paid pursuant to contract (See BUSINESS OF THE PARTNERSHIP - Research and Development Program" and Exhibit I, the Agreement for Research and Development.)

** If sales agents are employed, sales commissions of up to 10% of the amounts received as a result of the efforts of such agents will be paid, thereby reducing the net proceeds available for research and development expenses.

[107, 7]

The General Partner estimates that the above minimum net proceeds will be sufficient to enable it to complete the research and development program in respect of medical applications.

If more than the above minimum is available for research and development, the entire such amount will be paid for an expedited and expanded research and development program with applications to not only the medical but also to biological sciences and industrial applications.

The net proceeds of this Offering will be applied principally to complete the testing, research and development necessary to enable the commercial sale or licensing of the Products to begin in 1982 or 1983.

In the event that completion of the Partnership's research and development program requires more funds than are available from the proceeds from this offering, the General Partner may, in its discretion and as an alternative to cessation of activities, offer additional Limited Partner Interests for sale in a subsequent offering on such terms as the General Partner considers necessary or advisable. The Limited Partners will be given the opportunity to subscribe for their pro rata share of any such additional Limited Partner Interests.

[107, 8]

BUSINESS OF THE PARTNERSHIP

Purpose of Partnership

The primary purpose of CRS is to develop a cost-effective multipurpose auxiliary image processing system (MPAIP) together with a large body of associated general and special purpose software packages which will have performance superior to image processing systems currently available. MPAIP will find use in medical diagnostic imaging, biological sciences and industrial applications.

Products to be Developed -- In General

CRS will seek to develop a large body of proprietary software programs and related hardware to create imaging and graphic display devices able:

(a) in the Medical Market - to provide full off-line image processing and diagnosis capabilities as well as to interface with existing CT, ultrasound, X-ray, nuclear medicine and anticipated new modes of medical diagnostic imaging devices.

(b) in the Biological Sciences Market - to interface with transmission or scanning electron microscopes for on-line data collection in chromosomal analysis and bacteriological research.

(c) in the Industrial Market - to interface with diverse process and quality control systems used in production of petrochemicals, petroleum, cement, electronics, aerospace structure and components and in energy production, conversion and conservation.

The intended products will permit on-site and remote accessing of mainframe computer equipment as well as special user programming and data evaluation and enhancement. Depending on the application and configuration, the contemplated system will sell in the range of $60,000 - $250,000, exclusive of special application software.

Initial Product

The first product, based on the MPAIP System, will be DIXIS I, an off-line multimodality/modality comparison system for diagnostic medical use in conjunction with X-ray, CT, ultrasound, nuclear medicine, digitized radiography and other mainframe imaging modalities. DIXIS I will be capable of image enhancement and selective display, as well as manipulation or images, in this off-line mode. It will be convenient for quick display, and will provide the user with a substantially improved capability to make meaningful analyses.

Subsequent MPAIP systems will be designed to permit real-time and on-line use and will be supplemented with a comprehensive services of special application software packages. The product line, further, will be designed to permit the initial purchaser to expand its systems steadily from use with a basic software package to a complete software system without obsoleting its already purchased hardware.

[107, 9]

Reasons for Proposed Activity; Market Opportunities

On the basis of discussions with its medical and industrial customers, and on the basis of detailed evaluations arising from technical seminars held on leading medical doctors, researchers at leading technical institutions, and analysts, Capintec Imaging believes (i) that a significant market exists for multi-modality auxiliary imaging systems and related software; (ii) that Capintec Imaging possesses the reputation and expertise to enter this rapidly growing market vigorously and successfully, and (iii) that through such efforts Capintec Imaging can obtain a significant share, in medical applications alone, of what it anticipates to be a market of some $750,000,000 per year for the next 5-10 years for new off-line systems, for new on-line systems, for retrofit of existing mainframe imaging systems, and for the expected demand for multipurpose and special applications software, all as part of a larger current medical imaging market of some $3.2 billion.

The success of CRS in the medical area will depend, in substantial part, on the continued growth of existing mainframe imaging device sales and the growing

acceptance of new imaging modalities; in the biological sciences area on the applicability of image processing in nucleic acid and protein structure analyses and production processes; and, in the industrial area, to the precise time-frame in which the generally forecasted option of computer enhanced vision systems used in automatic process control and non-destructive testing will take place.

a. Medical Applications

On the basis of independent studies, Capintec Imaging is of the opinion that dramatic growth in the imaging area will occur in consequence of:

(i) the introduction of important new technologies (such as digitized radiography) that will expand and improve the diagnostic capabilities and cost efficiencies of existing X-ray systems and other existing imaging modalities;

(ii) the development of new imaging systems such as Positron Emission Tomography (PET) and Nuclear Magnetic Resonance (NMR) capable of recording images on a variety of storage media which will provide the doctor and clinician with diagnostic information not now obtainable;

(iii) the development of the above-mentioned new imaging modalities which will expand the diagnostic information available to the clinician and increase the demand for cross comparison among imaging modalities;

(iv) the development of diagnostic techniques (including digitized radiography) which will, in conjunction with adequate image display, extend the use of existing mainframe imaging modalities to such additional or expanded medical areas as intravascular contrast studies (coronary and venous angiography) and non-vascular contrast studies (urography, cholangraphy, cholescystography and tumor imaging);

[107, 10]

(v) the ability of a multi-purpose auxiliary imaging system to provide substantial cost saving to hospitals, doctors and patients in terms of (a) avoidance of duplicating image processing systems; (b) optimal use of expanded professional technical time; and (c) reduced storage costs;

(vi) the ability of multi-purpose auxiliary imaging systems to generate new or expanded medical diagnostic applications in consequence of special software developments to be used with this system;

(vii) the demand for 3 Dimensional display/viewing as an important adjunct to diagnostic imaging.

b. Biological Sciences Applications

Based upon past experience of Capintec personnel in the rapidly expanding bioengineering fields, as well as in more conventional biological analysis, it is believed that image processing would facilitate an understanding of the processes being studied. Although initial imaging applications would be in research laboratories, successful techniques could be translated into production processes, particularly that part related to product quality control and testing. In addition, a relatively inexpensive 3-D display/viewing capability may, in research, aid in achieving a better understanding of process and structure.

c. Industrial Applications

On the basis of other studies, CIS is also of the opinion that signficiant markets exist for the MPAIP system in industrial applications because of:

(i) the demand for commercially viable automated on-line process control and automated quality control inspection which will result in greater productivity and improved product quality;

(ii) the need, particularly in energy-intensive industries, to reduce energy consumption through more precise control of process

that image processing would facilitate an understanding of

paramaters leading to higher product yields and lower production costs;

(iii) the improvement in parameter sensing technologies such as noncontact infrared temperature detectors, solid state gamma and X-ray detectors, electro-optical sensors and sensing systems incorporation such detectors. Such improvements permit parameter sensing technologies to be used more effectively and economically in such automated noncontact process measurement and control and in automated non-destructive testing;

(iv) the availability of a relatively low cost proprietary 3-dimensional display and viewing peripheral which will (i) permit the human supervisor to better evaluate the information being presented and (ii) permit "robotics" technology to be more successfully utilized in these automated procedures.

[107, 11]

System Features

CRS will develop image processors and interface hardware that will either be unique to CRS or will represent special proprietary configurations and adaptations of generally available hardware. In either case, it is anticipated that the system will not be "machine dependent". CRS will also develop proprietary 3 Dimensional display/viewing peripherals for use with the MPAIP.

The initial system (DIXIS I) will include a general purpose computer, peripherals (floppy disk, hard disk, tape, printer), special hardcopy units (color prints, X-ray, film, etc.) and an image digitizer (video or other) to be obtained from various manufacturers on an off-the-shelf and OEM basis. Input into the first version of MPAIP System (DIXIS I) will initially be through films.

Subsequently the MPAIP will be expanded to accomodate diverse media, with special reference to floppy disk. Data inputed into the system will be processed initially in an off-line mode using a simpler user oriented conversational mode of address. The system will thereafter

be expanded to permit selective on-line and real-time use in conjunction with mainframe imaging equipment.

The systems dispay output will be in color and/or in black/white. Output will be achieved on a floppy disk, hard disk and/or magnetic tape.

Output will also be available on a hardcopy unit such as a printer/plotter or film. The 3-D option will also be available.

The DIXIS I, from inception, would be usable with any film media emanating from X-ray, CT, ultra-sound, nuclear medicine or other mainframe imaging modality.

The DIXIS I would provide the following benefits:

a. the ability to be utilized in diverse imaging modes, thereby freeing the user from obtaining overlapping and limited systems which are dedicated to a single modality;

b. concurrent cross-comparisons of output from diverse imaging modalities;

c. simultaneous data acquisition and processing;

d. fuller mainframe utilization through off-line analysis of images;

e. centralized archiving and ease of retrieval;

f. image enhancement that can yield a useful medical reading and spare the patient a repeat X-ray or additional diagnostic procedure. The result is a savings in respect of X-ray film used, and avoidance of unnecessary exposure of patients to radiation;

g. the ability to perform image "enhancement" and "manipulation" so that the doctor or technician may evaluate the images and derive a more sophisticated interpretation of the patient's condition;

h. the ability to analyze the images in an off-line remote access mode, thereby permitting doctors and technicians to evaluated images free of the pressure of immediate decision required by the presence of the patient in the course of diagnosis or treatment; and

i. the ability to enhance an image digitally to permit a more precise analysis of an industrial radiograph.

[107, 12] MPAIP in its more sophisticated versions would provide the following additional benefits:

a. the ability to operate on-line in a real-time mode so that doctors and technicans may apply the results of the imaging to direct patient diagnosis and treatment;

b. the availability of a series of special application software packages which will be designed in conjunction with doctors to provide specialized imaging analyses;

c. as an enhancement to the initial system, the ability to operate via sensor feedback in a real-time mode to control process variables;

d. the ability to analyze and compare images, thereby reducing industrial personnel requirements; and

e. 3 D display/viewing peripherals spatially orienting the viewer for analysis of complex structures and processes in both medical and industrial applications.

Special Application Software

As part of the development of MPAIP systems, the proceeds of the offering will also be applied to the development of special application software in conjunction with, and in response to the needs of, institutional and individual users.

Such special software will be sold or licensed, either alone or as part of a system sale.

Projected Market Size and Share

On the basis of discussions with consultants and practitioners, Capintec projects a market for medical multipurpose auxiliary image processing systems of approximately $500 million in 1983, and projects that such market will increase thereafter at the rate of some 10% per year for the next 5 years. Such projections reflect studies of the medical imaging market (including mainframe imaging equipment) conducted by F. Eberstadt & Co., Arthur D. Little, the United States Bureau of Radiological Health and others (See Attachments). In these studies, overall medical imaging sales for 1980 were estimated at $2.3 billion, and a market of $3.3 billion is estimated for 1983.

The projections for auxiliary image processing systems reflect:

(i) the anticipated growth of demand for auxiliary systems and 3-D peripherals as a function of increased use of mainframe imaging systems;

(ii) the availability of a substantial retrofit market;

(iii) the dramatic growth in such new imaging modalities as digitized radiography, positron emission tomography, and nuclear magnetic resonance.

[107, 13] Capintec Imaging anticipates, on a conservative basis, that CRS will be able to attain an initial 2.0% share of the market for medical auxiliary image processing equipment. Capintec's market penetration record indicates it generally has achieved a much more significant market share. Capintec Imaging further anticipates that this market share will increase to 7%-12% over the next eight years.

Capintec has conducted a preliminary examination of the size of the industrial market, and believes the industrial market to be less well defined and developed than

the medical market, but nonetheless to be significantly larger and to be subject to significant penetration by Capintec Imaging.

No formal evaluation of market size for biological applications has yet been made, but will be initiated at the inception of CRS's programs.

Transfers to the Partnership of Know-How

Upon formation of the Partnership, Capintec Imaging will transfer to the Partnership, through a license agreement, all of the know-how which it possesses to the extent related to the MPAIP Technique.

Under the terms of the license between Capintec Imaging and the Partnership, the Partnership will receive the exclusive and royalty-free right to use all of the know-how of Capintec Imaging existing at such date or thereafter arising, to the extent related to the MPAIP Technique and contemplated MPAIP Products in their diverse applications. Such license will continue for the duration of the Partnership, or until any earlier cessation of developmental activities by the Partnership.

[108, 4]

The Partnership will have the unrestricted right to use such know-how in furtherance of the MPAIP Technique and contemplated Products in their diverse applications, but will be required to abstain from other applications of such know-how and will further undertake to hold such know-how in confidence in recognition of its substantial proprietary content.

Such transfers and sub-license shall in no manner restrict the right of Capintec Imaging, Capintec, or their affiliated companies to engage in the development, assembly manufacture or sale of medical or temperature devices, nor shall they be precluded from engaging in joint-ventures or acquisitions with companies which may (without participation by Capintec Imaging or their affiliates) be engaged in activities potentially or actually competitive with those of the Partnership.

The Research and Development Program

Upon its formation, the Partnership will engage Capintec Imaging to conduct the research and development program for the Partnership. Such engagement will be made

pursuant to an Agreement for Research and Development, a copy of which is attached to this Confidential Memorandum as Exhibit I.

The Agreement for Research and Development provides that Capintec Imaging shall use its best efforts, to the extent of the proceeds under the Agreement for Research and Development, to conduct the research and development program. The amounts payable to Capintec Imaging under the R&D Agreement include amounts applicable to the overhead of Capintec Imaging as well as a 10% profit component and reimbursement for expenses incurred on behalf of the intended business of the Partnership. Capintec Imaging may, but is not required to, contract with others, including its affiliated corporations, in furtherance of the research and development program. Capintec Imaging may, and intends that it shall, subcontract a subtantial portion of its research and development activities to Capintec and to university-affiliated research institutions.

Although the General Partner believes that the proceeds from this Offering will be sufficient to enable the successful completion of the research and development program, research and development programs may encounter unforseen or unforseeable problems. Accordingly, no assurance can be given that the research and development program set forth below can be completed or if completed, that the results will be successful.

[108, 5] Under the Agreement for Research and Development, the Partnership will obtain rights to inventions and know-how to the extent applicable to the Products. Capintec Imaging and Capintec will retain all resulting rights and information to the extent not applicable to the Products. Also under the R&D Agreement, Capintec Imaging will retain ownership to tools, machinery and equipment purchased by it in furtherance of the research and development program.

Marketing of Product; Royalties

If the research and development activities are completed successfully to the satisfaction of Capintec Imaging, the Partnership will sell all rights to Capintec Imaging which will conduct the manufacture, sale, licensing, and marketing of the commercial Products.

The marketing of the Products will occur pursuant to an Agreement for Sale of Technology, a copy of which is attached to this Confidential Memorandum as Exhibit II. Pursuant to such agreement, the Partnership will, if the research and development program Capintec Imaging to the satisfaction of Capintec Imaging as purchaser, sell to Capintec Imaging all rights of the Partnership in the resulting technology. Capintec Imaging, in return, will undertake to market Products incorporating the MPAIP System. Capintec Imaging will pay to the Partnership royalties at the rate of five percent (5%) on the net proceeds realized from the sale of the Products.

Proceeds under software "program licenses" associated with the sale of a system shall be deemed proceeds from the sale of products.

In addition, a royalty of twenty-five percent (25%) will be payable in respect of amounts received as the proceeds of Product licenses granted by Capintec Imaging.

Where any sale includes components in addition to the Product, the purchase price shall be equitably allocated and the royalty shall be payable in respect of the portion of the aggregate price allocable to the Product.

[108, 6]

In lieu of acquiring the MPAIP System Technology upon completion of the research and developmental activities, Capintec Imaging may defer the purchase for a period of up to 24 months, and may, during such period, obtain a non-exclusive license to utilize the MPAIP System Technology in consideration of payment of a royalty of 150% x. the royalty which would otherwise have been payable.

Activities to Date

Capintec and Capintec Imaging will license CRS to utilize all present and future discoveries and techniques to the extent applicable to multi-purpose auxiliary image processing.

Capintec and Capintec Imaging have been actively engaged in preliminary R&D activities specifically related to DIXIS for approximately 12 months and have expended approximately $150,000 on activities to date. Capintec Imaging estimates that it will continue to support these

activities in the amount of approximately $40,000 per month until commencement of CRS.

Such initial activities have included research on the imaging software to be included in the initial system.

Related Activities by Capintec

Capintec has commenced, and intends that it and its subsidiaries will continue, research projects on such prospective products as scanning IR Imaging Devices (including pyrovidicon cameras) and other thermographic devices with applications to:

a) Energy production
b) Energy conservation
c) Energy conversion
d) Quality Control/ Inspection
e) Continuous Processing

In addition, Capintec plans to continue research projects on such prospective products as solid state detection systems for X-ray and gamma rays with diverse medical, scientific and industrial applications, and fiber optic detection systems with applications to:

a) Digitized Radiography (Medical & Industrial)

b) Noncontact Temperature Measurement for Research and High Technology Operations Monitoring

Such activities, if and to the extent continued by Capintec, may provide a source of related product sales which will support the sale of associated auxiliary imaging systems to be developed by CRS.

[107, 14]

Panel of Experts; Key Personnel; Institutional Affiliations

A Panel of Experts will assist CRS in the conduct of the development of the multipurpose imaging system.

The Panel of Experts will include:

Stanley J. Goldsmith, M.D.
Director of the Andre Meyer Dept.
of Physics and Nuclear Medicine
Mount Sinai Hospital and School of Medicine
New York, New York

Paul B. Hoffer, M.D.
Professor of Diagnostic Radiology
Director, Section of Nuclear Medicine
Yale University School of Medicine

Richard M. Lambrecht, PH.D.
Scientist, Chemistry Department
Brookhaven National Laboratory

Dennis L. Leavitt, Ph.D.
Assistant Professor Radiology
University of Utah Medical Center

F. David Rollo, M.D., Ph.D.
Profession of Radiology,
Vanderbilt University School of Medicine
Vice President, Advanced Medical Technology
in Medical Affairs Humana, Inc.

William Sacks, Ph.D.
Biochemist, Research Facility
Rockland State Hospital
Rockland County, New York

H. William Strauss, M.D.
Dirctor, Nuclear Medicine Division
Radiologist, Massachusetts General Hospital
Associate Professor, Harvard Medical School

Brent Baxter, Ph.D.
University of Utah Medical Center
Research Department

Dietrich Baeu
Infrared Temperature Measurement
& Imaging Consultant
Formerly President of AGA

Robert J. Kanzler
Industrial Products Sales Engineer
Formerly Associated with Capintec,
Barnes Engineering and E.I. DuPont

[107, 15]

The Panel of Experts is intended as an advisory body, and the Partnership reserves the right to make its own determinations on all matters relating to the MPAIP Technique. However, it is contemplated that the Partnership will place substantial reliance on the views and recommendations of the Panel of Experts.

The expenses and compensation of the Panel of Experts will be included in the application of funds during the research and experimental program. In addition, Capintec Imaging may, in its discretion, offer the Panel of Experts further comepnsation based upon the future success of the Products; in such event, the future compensation will be borne by Capintec Imaging and will not be an expense of the Partnership.

In addition, the following key employees of Capintec and/or Capintec Imaging will be active on behalf of CRS:

Arthur M. Weis, President
Ralph E. Bish, Vice President
Boine T. Johnson, Vice President
James T. McGimpsey, Treasurer
Arata Suzuki, Ph.D., Vice President,
Engineering Department
Giora Ram, Manager, Software Sciences Department
Kenneth Rich, Ph.D., Applications Programmer
Brad Schreck, Applications Programmer
Ralph Waters, Applications Programmer
Warren Yeiseley, Ph.d., Applications Programmer
David Robinson, Radiation Physics Specialist
Walter Wasserman, Operations,
Computer-Directed Systems
Frank Barker, Vice President of Marketing,
Medical Products
Eric M. Weis, Vice President & General
Manager Industrial Products
Joseph Kilroy, National Sales Manager,
Infrared Engineering Development
Yakov Altshuler, Ph.D., Manager, Infrared
Engineering Development
William Tyberg, Senior Electronics Engineer
Jessica I. Bede, Manager of Administration

together with a support staff of advanced-degree computer experts.

Pertinent biographies are attached.

Consultants and Experts

In addition to the Panel of Experts, as described above, Capintec Imaging will engage the services of various consultants and experts to provide supplemental technical information.

Supporting Facilities

CRS will also participate in research projects with the University of Utah (in respect of enhanced radiation treatment planning systems and in respect of 3D imaging techniques) and with Rensselear Polytechnic Institute Image Processing Laboratory (particularly in respect of industrial imaging). The expenses of such engagement will be included in the application of R&D funds.

Servicing, Training and Warranty

Servicing will be provided, as applicable, (i) by personnel of Capintec and Capintec Imaging who will provide installation, training and operational servicing assistance; and (ii) by service personnel and service centers of such computer hardware component manufacturers as pertinent. It is intended that the systems will be sold under a 6 or 12 month warranty, at the end of which a prepaid service contract or per call charge arrangement will apply.

[108, 1]

Competition

The activities of CRS will be conducted in competition with (i) mainframe imaging manufacturers which expand their activities to include auxiliary image processing; (ii) computer hardware manufacturers which expand their activities to include the manufacturer of auxiliary imaging equipment and the development of related software; and (iii) companies presently or hereafter active in the specific development of auxiliary imaging equipment and of related software.

In addition, companies presently active in the graphics area may expand their operations into the imaging area.

Presently identifiable competitors in medical diagnostic imaging include such mainframe manufacturers as General Electric, Siemens, Picker, Technicare Corporation (a Johnson & Johnson company) and Elscint, and companies presently active in ultrasound, such as ATL, Irex, and Diasonics, any or all of which may develop auxiliary image processing systems dedicated to their mainframe imaging systems; and such computer manufacturers as Digital Equipment Corporation which have engaged on a limited basis in activities in the medical area.

At least seven companies are currently active in the medical auxiliary image processing area in the United States, including ADAC, MDS, a subsidiary of Medtronic, Inc., and Informatek. Their activities, to date, have been primarily in nuclear medical imaging (the largest market along with CT for image processing), and they are believed to represent 80% of the market.

It is the opinion of Capintec that it enjoys a market acceptance in the medical equipment area, particularly in nuclear medicine, radiation therapy and diagnostic radiology, and possesses a signficant base of expertise relating to general and specialized imaging applications. In consequence, Capintec believes that Capintec Imaging will be able to establish a significant market share in this new and expanding area.

Capintec is also of the opinion that its expertise in the medical area with enable CRS to develop special application software packages which will find wide acceptance in this market.

It is also the opinion of Capintec that the anticipated multi-purpose image processing devices and related software will possess a competitive advantage over an image processing system which is dedicated to and can be used only with a specific mainframe device.

Regulation

CRS will conduct its operations to comply with applicable Federal and other regulations. The pertinent regulations include (i) those promulgated or to be promulgated under the Federal Medical Devices Amendments Act as administered by the Food and Drug Administration; and (ii) counterpart regulations of foreign governmental

authorities. Customers may be required to obtain a "Certificate of Need" before purchasing medical devices.

Business Plan

A Business Plan for CRS is available upon request for review by prospective investors and their representatives.

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THE GENERAL PARTNERS; OTHERS

Capintec Imaging Systems, Inc.

The General Partner of CRS is Capintec Imaging Systems, Inc.

Capintec Imaging is a New Jersey corporation that was formed in 1981. It is a subsidiary of Capintec, Inc., ("Capintec") a New Jersey corporation which was organized in 1964. Capintec is an established and successful manufacturer of radiation detection instruments, instrumentation, and computer systems including radioisotope calibrators, radiation dosimeters, computer-directed radiation treatment planning systems, as well as opto-electrical temperature measurement devices and systems having medical, laboratory and industrial applications. Capintec and Capintec Imaging are located at 136 Summit Avenue, Montvale, New Jersey 07645.

Capintec Imaging has been organized for purposes of this project. It will, with the support of Capintec, engage in the commercial development of computer-directed medical and industrial imaging systems, including advanced versions of Capintec's Radiation Treatment Planning Systems.

Capintec Imaging contemplates that its products will include components obtained from unrelated companies on an "original equipment manufacturer" basis, or as part of a joint venture.

Up to 10% of the shares of Capintec Imaging have been or may hereafter be issued to key employees and advisors of Capintec Imaging.

It is contemplated that Capintec Imaging's affiliated companies will provide various supporting services and facilities to Capintec Imaging in furtherance of its marketing of the Products.

Intended Capitalization of Capintec Imaging

Immediately prior to the formation of the partnership, the capitalization of Capintec Imaging shall be increased so that, at the time of formation of the Partnership, the capitalization of Capintec Imaging shall be 10% of the aggregate capitalization of the Partnership.

[108, 11]

Capintec, Inc.

Capintec, Inc., founded in 1964, pioneered the development of radioisotope calibrators and is the major producer of this analytical system used in nuclear medicine to measure radiopharmaceutical dose prior to patient administration. Capintec calibrators are recognized worldwide as the standard for reliability, performance and accuracy. Capintec is also a major supplier of radiation dosimeters that are used in diagnostic radiology, radiation therapy and CT scanning.

Capintec Systems, Inc. is the computer systems subsidiary of the Company. Capintec Systems manufactures and markets a low-cost computer-based radiation treatment planning system used for evaluating alternative radiation therapy combinations and determining the optimum treatment schedule. The assets and activities of Capintec Systems, Inc. will in whole or substantial part be transferred to Capintec Imaging.

Capintec Instruments, Inc., the industrial subsidiary of the Company has developed and incorporated the two-color ratioing technique into a product line of rugged infra-red pyrometers used in numerous industrial and laboratory temperature measurement applications.

If the research and development program is successful, and marketing of the Products occurs, Capintec Imaging believes that it would benefit from the established Capintec name in the medical field and Capintec's technical expertise in the design and manufacture of opto-electrical temperature measurement devices.

ALTHOUGH CAPINTEC IMAGING WILL BE ABLE TO DRAW UPON CERTAIN SUPPORTING SERVICES AND FACILITIES OF CAPINTEC, AND INTENDS TO CONDUCT MARKETING OF THE IRM DEVICE OR DEVICES IN CONJUNCTION WITH CAPINTEC, NEITHER CAPINTEC, INC. NOR ANY OTHER CAPINTEC SUBSIDIARY CORPORATION SHALL BE DEEMED A PARTNER IN THE PARTNERSHIP, NOR SHALL CAPINTEC OR ITS OTHER SUBSIDIARY CORPORATIONS INCUR ANY LIABILITY TO THE PARTNERSHIP OR BE DEEMED CO-VENTURERS WITH IT.

[108, 7]

Compensation and Benefits of the General Partner

The General Partner will have a potential 50% interest in the income and profits of the Limited

[illegible] subsidiary of the Company has developed and incorporated the

Partnership at such time, if any, as the Limited Partners have received allocations equal to 3x. their investment in the Partnership. Prior thereto, income and profits will be allocated 1% to the General Partner and 99% to the Limited Partners until the Limited Partners have been allocated an amount equal to their aggregate investment, and will be allocated 25% to the General Partner and 75% to the Limited Partners until the Limited Partners have been allocated amounts equal to 3x. their aggregate investment.

Capintec Imaging will be paid substantially all of the net proceeds of the offering pursuant to the Agreement for Research and Development. Under such agreement, Capintec Imaging shall be entitled to a profit of 10% of the costs incurred in the conduct of the R&D ordered by the Partnership.

The General Partner will also be reimbursed for all expenses it incurs in connection with managing and administering the Partnership's affairs, including legal, accounting and other professional fees.

No management fee will be payable.

If Capintec Imaging elects to purchase the results of the R&D program in accordance with the Agreement for Sale of Technology, it will bear the risks of commercially marketing the Products, and, in connection therewith, will be entitled to certain potential profits.

Under the provisions of the Agreement for Research and Development, Capintec Imaging will be permitted to retain such tangible equipment as may be acquired in furtherance of the R&D program, and will also be permitted to retain developments not relating to the MPAIP System or the Products.

[108, 8]

Directors and Officers of Capintec Imaging

Capintec Imaging will be directed and its activities conducted by its directors and officers, as identified below, who may engage the services of others (including affiliates of Capintec Imaging) in support of Capintec Imaging activities.

The sole director of Capintec Imaging is Arthur M. Weis (age 56), who also serves as the President and chief

executive officer of Capintec Imaging. Mr. Weis is the President of Capintec, Inc. and the Chairman of its Board of Directors and has so served since 1968.

James McGimpsey (age 34) is the Secretary-Treasurer of Capintec Imaging and its chief financial officer. Mr. McGimpsey also serves as Treasurer of Capintec, Inc. and has been an employee of Capintec since 1976. Prior thereto, Mr. McGimpsey was a certified public accountant employed by Ernst & Ernst (now Ernst & Whinney) as an audit supervisor.

Reference is made to "BUSINESS OF THE PARTNERSHIP -- Panel of Experts, Key Personnel" for a description of the key Capintec Imaging and Capintec personnel whose services will be available to Capintec Imaging.

[108, 12]

FINANCIAL PROJECTIONS

The Partnership's projected taxable income (loss) for the years 1982 through 1987 and an analysis of the projected Federal income tax and cash flow consequences expected to be derived by investors in various tax brackets are set forth in Project Information. These materials are based on estimates and assumptions set forth therein, and are included for the information and convenience of prospective investors and their professional advisers.

The materials represent a mere predicted illustration of future events based on assumptions which may or may not occur and should not be relied on to indicate the actual results which will be obtained.

The projections have been prepared internally and have not been reviewed by independent public accountants for the Partnership.

EACH PROSPECTIVE INVESTOR SHOULD OBTAIN AND MUST RELY ON THE ADVICE OF HIS OWN ADVISERS WITH RESPECT TO ANY INVESTMENT IN THE PARTNERSHIP.

[108, 13]

FINANCIAL STATEMENTS

The Partnership has not been formed and has no assets, liabilities or contingent liabilities.

[103, 5]

FEDERAL INCOME TAX CONSEQUENCES

Introduction

Whether or not a Limited Partner will be able to obtain favorable federal income tax treatment with respect to an investment in the Partnership is a material factor for an investor to consider in making a decision as to whether to invest in the Partnership. Set forth in the following paragraphs is a general discussion of the likely federal income tax consequences to the Limited Partners of their investment in the Partnership. However, this is intended to be only a general discussion, and prospective Limited Partners are urged to consult with their own tax advisors as to the federal and state income tax consequences which apply to Limited Partner investing in the Partnership. Neither the Partnership nor the General Partners assume any responsibility for the tax consequences of this transaction to a Limited Partner.

Opinion of Counsel

The following discussion is based upon advice of Leon I. Jacobson, P.C., special counsel to the Partnership. This discussion summarizes, among other things, certain matters discussed in greater detail in the tax opinion letter ("Opinion") provided to the Partnership. The Opinion sets forth the anticipated significant federal income tax consequences to Limited Partners of the Partnership ith respect to an investment in the Partnership. A copy of the Opinion is attached as Opinion 1.

The Opinion is to the effect that:

1. Under the Internal Revenue Code as presently in effect, and Regulations, interpretations, and judicial decisions thereunder, the Partnership will be treated for federal income tax purposes as a "Partnership" and not as an "association" taxable as a corporation.

2. Although the matter is not free from doubt, primarily by reason of the uncertain scope of the Supreme Court's opinion in Snow v. Commissioner, 350 U.S. 831 (1974), and the limited body of authority determining what constitutes a "research or experimental expenditure" within the meaning of Section

174 of the Internal Revenue Code of 1954, as amended (the "Code"), the Partnership should be entitled to deduct, when paid, substantially all of its payments to Capintec Imaging to the extent they are attributable to expenditures that Capintec Imaging has represented to us that it reasonably expects to result in the development of the Technology (as defined in the Agreement for Research and Development). No opinion is expressed as to the deductibility of payments to the extent they are attributable to other expenditures or for other items. In addition the Internal Revenue Service should not be entitled under Sections 446 or 461 of the Code to require deferral of a particular Limited Partner's distributive share of Partnership deductions in order to clearly reflect his income. Such a position, if taken by the IRS would appear to be contradictory to the express language of Section 174 and to the implicit policy underlying such section; to the express exclusion of qualifying research and experimental expenditures from the provisions of Code section 263 which deny a deduction for certain capital expenditures; and to the general rule for methods of accounting set forth in regulation section 1.446-1(a)(1) which recognizes as a proper "method of accounting" not only the cash receipts and accrual methods and combinations thereof, but also "combinations of the foregoing with various methods provided for the accounting treatment of special items", including "the accounting treatment prescribed for research and experimental expenditures". However, no precedential authority exists on this issue.

3. In determining the amount which is "at risk" for purpose of determining the extent to which the Limited Partner may claim deductions for his allocable share of Partnership losses, such basis will include his share of the borrowing by the Partnership to the extent he has guaranteed such borrowing and therein incurred personal liability.

exclusion of qualifying research and

[113, 8]

4. Under existing law a court could reasonably conclude that gain (other than that treated as interest income as described below) recognized by the Partnership on the transfer of the principal elements of the Technology pursuant to the Sale of Technology Agreement is gain from the sale of either property described in Section 1231(b) of the Code or capital assets. However, the issue involves various questions which are subject to interpretation by a court, and there can be no assurance as to the outcome. A portion of the payments will be ordinary income to the extent of any interest imputed on such payments under Section 483 of the Code; the portion of each payment which constitutes interest will increase the longer the period of time between the sale of the Technology and receipt of the payment. Finally, no opinion is expressed with respect to the character of a Limited Partner's distributive share of gain recognized from the sale of Technology if such Limited Partner might be treated as a "dealer" in property such as the Technology."

The Opinion is based upon counsel's interpretation of the Internal Revenue Code of 1954, as amended ("Code"), Income Tax Regulations, administrative interpretations and rulings, and judicial decisions. However, such Opinion has no binding effect or official status of any kind with respect to any matter discussed. The tax aspects of investment in the Partnership are complex and not free from doubt due to uncertainty in the law and facts in certain respects. No private ruling will be requested by the Partnership from the Internal Revenue Service ("IRS" or "Service"). There is the possibility that the IRS may not concur with the legal interpretations and certain factual determinations upon which the Opinion is based. Therefore, no assurance can be given that the IRS will agree with the Opinion or that such Opinion will be sustained by a court, if contested. Further, there is the possibility that legislative changes or judicial decisions will change the law upon which the Opinion as to tax consequences is based. Administrative interpretations or rulings could also provide a basis for a successful IRS challenge to the tax consequences described in the Opinion.

[illegible] gain recognized from the sale of

If the IRS were to challenge the tax consequences set forth in the Opinion, the Limited Partners should recognize that they might be forced to incur substantial legal and accounting costs in resisting such a challenge even if the challenge ultimately proved unsuccessful. The General Partners intend to protect the Limited Partners against this risk, however, by causing the Partnership, at its own expense, to assist in the defense of an audit of a Limited Partner, insofar as the audit relates to Partnership transactions, if requested to do so and if such assistance will, in their judgment, be in the best interests of all of the Limited Partners.

[103, 6]

Partnership Status

The General Partner has not requested a ruling from the Service as to the Partnership's "partnership" status for Federal income tax purposes. In the opinion of counsel to the Partnership, the Partnership will be classified as a partnership for Federal income tax purposes, with tax consequences to the Partners being those normally attendant on such a classification. This opinion is predicated on: (1) the organization of the Partnership as a limited partnership under the laws of a state which has adopted the Uniform Limited Partnership Act; (2) the adherence and continuation without change of both the basic business objectives and structure described in the section captioned "BUSINESS OF THE PARTNERSHIP" hereinabove, and to the Agreement of Limited Partnership summarized in the section herein so captioned; and (3) the continuing adherence by the Partnership and its Partners to the conditions required currently by the Service in connection with advance rulings concerning the classification of limited partnerships as partnerships for Federal tax purposes where a corporation is the sole general partner.

Under Section 7701 (a) (2) and (3) of present provisions of the Internal Revenue Code and the test set forth in the present regulations thereunder, all of which are subject to change, the Partnership should be treated as a partnership for Federal income tax purposes and the items of income and deduction realized by it allowed among and reportable on the Federal tax returns of the Investors and the General Partner in accordance with the Partnership Agreement. The General Partner does not propose to request a ruling from the Internal Revenue Service as to the tax

attendant on such a classification. This opinion is

treatment to be accorded to the Partnership for Federal income tax purposes.

If the Partnership should be treated as an association taxable as a corporation and not as a Partnership for Federal Income tax purposes, research and development expenses could not be deducted by the Limited Partners. These deductions would be taken by the Partnership against its income if any. In this event, any distributions from the Partnership to the Partners might be treated as dividends taxable to the Partners.

The determination of partnership status is somewhat uncertain as a result of the holding of the Tax Court in the withdrawn decision in Phillip G. Larson, 65 T.C. 10 (1975). Prior to that decision, a partnership would generally be examined under Section 7701 of the Code and the regulations promulgated thereunder and if a partnership had more corporate attributes than noncorporate attributes it would be deemed an association taxable as a corporation. The existence of any three of the corporate attributes (i.e., (1) Continuity of Life; (2) Centralization of Management; (3) Limited Liability; and (4) Free Transferability of Interest) would be enough to give the Partnership corporate tax status. However, if only two such attributes were present, the Partnership would be deemed a partnership.

[103, 7] In the Larson case, the Tax Court held that where there were two corporate attributes and two noncorporate attributes the Partnership could nevertheless be deemed an association. The original decision in Larson has been withdrawn and a new decision was handed down, 66 T.C. 159 (1976), wherein the Tax Court followed the traditional approach and found the entity to be a partnership as opposed to an association even though the entity had two corporate attributes and two non-corporate attributes. There were a number of dissenting opinions to the new decision. If these dissents were to become law, many limited partnerships, including this one, could be deemed associations. In addition, the reissued decision cast considerable doubt on the continued viability of the Regulations since the Court, in essence, invited the Internal Revenue Service to rewrite the Regulations. However, in Revenue Ruling 79-106 the Service stated that it would follow the Larson case in classifying an organization as a partnership. Therefore, it would appear as of the present date that the Service will not rewrite the Regulations under Section 7701.

The Service has announced in Rev. Proc. 72-13 that it will consider requests for advance rulings concerning the classification of limited partnerships for Federal tax purposes where a corporation is the sole general partner only when the following conditions exist:

(1) The limited partners do not own, directly or indirectly, individually or in the aggregate, more than 20% of the corporate general partner or any affiliates, as defined in Section 1504(a) of the Code.

(2) The corporate general partner has at all times a net worth on a current fair market basis (exclusive of any interest in any limited partnership and notes and accounts receivable from and payable to any limited partnership in which the corporate general partner has any interest) which will meet the following standards:

(a) Where the corporate general partner has an interest in only one limited partnership:

(i) If the total contributions to that partnership are less than $2,500,000, the net worth of the corporate general partner at all times must be at least 15% of such total contributions or $250,000, whichever is the lesser; and

(ii) If the total contributions to that partnership are $2,500,000 or more, the net worth of the corporate general partner at all times must be at least 10% of such total contributions.

(b) Where the corporate general partner has interests in more than one limited partnership the net worth requirements set forth in (a) must be applied separately for each limited partnership and the corporate general partner must have at all times a net worth at least as great as the sum of the amounts required under (a) for each separate limited partnership.

(3) The purchase of a limited partnership interest by a limited partner does not entail either a mandatory or discretionary purchase or option to purchase any type of security of the corporate general partner or its affiliates.

(4) The organization and operation of the limited partnership is in accordance with the applicable state statutes relating to limited partnerships.

While adherence to the foregoing conditions does not necessarily insure classification of a limited partnership as a partnership for Federal tax purposes, the General Partners have committed to adhere to these conditions.

[103, 8] The Service announced in Rev. Proc. 74-17 certain additional conditions it will consider in requests for advance rulings concerning the classification of limited partnerships as partnerships for Federal tax purposes. Rev. Proc. 74-17 operating rules require the following: (i) at all times during a partnership's existence, the aggregate percentage interest of the general partner in each material item of partnership income, gain, loss, deduction, or credit must be at least 1%; (ii) the aggregate amounts to be deducted by the partners as their distributive shares of partnership losses for the first two years of its operations will not exceed the amount of equity capital invested in the partnership; and (iii) a creditor who makes a non-recourse loan to the partnership cannot have or acquire, at any time, as a result of making the loan, any direct or indirect interest in the profits, capital, or property of the partnership.

In accordance with this policy of the Service, the General Partner has committed to maintain at all times during the Partnership's existence a minimum of 1% interest in each material item of Partnership income, gain, loss, deduction, or credit. The General Partner has also committed that the aggregate amounts to be deducted by the Partners as their distributive shares of Partnership losses for the first two years of the Partnership's operations will not exceed the amount of equity capital invested in the Partnership.

On the basis of the foregoing, the Partnership will file partnership returns and will advise each Limited Partner of his share of Partnership income, gain, loss, credit and deductions and the income tax character of each element thereof in the opinion of its tax accountants or tax counsel. If the Partnership as a result of any change in law or its interpretation, or for any other reason, should

be held to be an association taxable as a corporation, only the Partnership, and not the Limited Partners, would be entitled to the deductions for the costs incurred in its operations. Limited Partners would then be taxed on distributions from the Partnership as dividends to the extent of current and accumulated earnings and profits of the Partnership. Excess distributions would be treated first as a reduction of basis and the balance as capital gain. However, in the opinion of counsel, the Partnership will be treated for tax purposes as a partnership and not as an association taxable as a corporation. The following discussion is based upon this premise.

Taxation of Limited Partners

The Limited Partners will be taxed on their pro rata share of the Partnership's taxable income and gain, if any, whether or not actually distributed to them. A Limited Partner's pro rata share of the Partnership's losses, deductions and tax credits, if any, may be deducted on his Federal Income Tax return to the extent of his tax basis in his Limited Partnership Interest at the end of the Partnership's taxable year in which such losses occur.

To the extent that the Partnership may have undistributed net income which is not offset by Federal income tax deductions, Limited Partners will be required to report their distributive share of Partnership income on their personal income tax returns whether or not they have received cash distributions from the Partnership.

[103, 9]

The Limited Partner's respective distributive shares of the Partnership's items of income, gain, loss, deductions and credits for Federal income tax purposes will be determined in accordance with the allocation of income, gain, loss, deductions and credits provided for in the Partnership Agreement. The allocation of income, gains, losses, deductions and credits of the Partnership has "substantial economic effect" and does not have as its principal purpose the avoidance of tax liability. There can be no assurance that such allocation of income, gains, losses, deductions and credits will not be successfully challenged by the Service. In such event, the Service may reallocate the income, gains, losses, deductions and credits of the Partnership for tax purposes in such manner as the Service deems reasonable and assuming that the Partnership is unsuccessful in any efforts to challenge such

reallocation could cause Limited Partners to recognize either an increase or decrease in the income, gains, losses, deductions and credits of the Partnership for tax purposes, depending upon the manner in which the Service makes this reallocation.

Although the legal relationship between the Partnership and the General Partners is set forth in the Agreement for Research and Development and the Agreement for Sale of Technology, this characterization is not necessarily controlling for tax purposes if the economic effect of that contract is equivalent to a different form of transaction. The Service might attempt recharacterizations of the transactions indicated herein on the basis that the Partnership has made a loan to or entered into a joint venture with the General Partner. In the opinion of counsel to the Partnership, such transaction has independent business substance and should not be treated as a loan or joint venture. There can be no assurance that the Service will not challenge such opinion. The Service's success in establishing any recharacterization would result in a significant diminution or total elimination of the deduction which would have otherwise been available to the Partnership.

Certain Tax Effects of Partnership Borrowings

Any Partnership income applied to the payment of the principal of Partnership borrowings will remain taxable to the Partners, even though no distribution is made to them. Moreover, if a foreclosure, sale or other disposition of any Partnership property should cause a reduction of any indebtedness which is reflected in a Partner's basis in his Partnership Interest, the Partner will be considered to have received a cash distribution equal to his share of such reduction.

Deductibility of Research and Development Expenses

It is the opinion of the Partnership's counsel that each Limited Partner will be entitled to deduct his allocable share of the Partnership's allowable research and development expenditures. Section 174(a)(1) of the Code, and the Income Tax Regulations thereunder, provide that a taxpayer may at his election deduct "research and experimental expenditures which are paid or incurred * * *

during the taxable year in connection with his trade or business * * *." Section 1.174-2(a)(2) of the Income Tax Regulations specifically allows a deduction for expenses paid by the taxpayer for research and development carried on in his behalf. The amount of the deduction for research and development expenditures should be the sum of the amount paid for research and development work plus expenses attributable to obtaining patents, if any.

[103, 10] It is the opinion of the Partnership's counsel that the above-described research and development expenditures will qualify for deduction under Section 174 of the Code, although such qualification is not entirely free from doubt. In past years, the IRS has attempted to limit the deductibility of expenditures under Section 174 for new ventures. The IRS reasoned that start-up ventures were not yet in a trade or business and therefore research and development expenditures were not incurred "in connection with * * * his trade or business." In the United States Supreme Court case of Snow v. Commissioner (1974) 416 U.S. 500, the reasoning of the IRS was rejected. There, the Supreme Court held that a partner in a partnership formed to develop a marketable product was entitled to deduct his share of Section 174 deductions and losses in the year they were incurred even though the partnership was not yet in the trade or business since it had not offered a product for sale during the taxable year. The Supreme Court stated that the Congressional purpose of Section 174 would be frustrated if it was to follow the IRS position and read the "trade or business" test restrictively and thereby deny deductions under Section 174 to new ventures.

The Snow case provides substantial support for concluding that the Partnership's research and development expenditures will be deductible by the Partnership. Other judicial decisions as well as certain Revenue Rulings issued by the Treasury Department provide additional support for such deductibility. Nevertheless, it is possible that the IRS may attempt to distinguish the facts in the Snow case from the facts present with respect to the Partnership. However, the Partnership's counsel is of the opinion that the IRS would not be successful in such an attempt. In the event that the IRS were to challenge the deductions under Section 174 and succeed, the Partnership would have to capitalize all research and development expenditures and amortize them over a period of time. This would have a substantial adverse impact on the benefits to be derived by

a Limited Partner in making an investment in the Partnership.

Timing of Deductions

The Partnership will pay to the corporate performer of research and development the full contract price for the research and development work to be performed under the Agreement for Research and Development. It has been represented that the full prepayment under the Agreement for Research and Development has been required in order to commence and continue research and development work immediately and to minimize the overall contract costs and the time required to complete the work. By having immediate access to the funds, the corporate performer of research and development will have the working capital necessary to hire employees, enter into subcontracts, take advantage of quantity discounts, secure necessary components, etc. In addition, but incidental to the foregoing, the corporate performer of research and development is requiring prepayment as the best method of assuring that payment will be made.

[103, 11] As indicated above, the Partnership will elect under Section 174 of the Code to deduct its research or experimental expenditures in the year paid. The General Partner believes that deduction of research or experimental expenditures by the Partnership when paid will clearly reflect the income of the Partnership for Federal income tax purposes.

However, although the General Partner believes that such a result would be inconsistent with the policy of Section 174, there can be no assurance that the IRS or the courts would not find the current deductions for payments by the Partnership for research or experimentation do not clearly reflect income and would require deferral of deductions for such expenditures until the income associated with such expenditures is received. Moreover, even if income is clearly reflected at the Partnership level, it is possible that the IRS or a court would conclude that deductions at the Partner level materially distort income and require a deferral of such deductions. In either case, such a deferral could result in a substantial reduction in the value of anticipated tax benefits to the Limited Partners, in that all or a portion of the deductions available to the Limited Partners for research and

development expenditures would be deferred until 1982 and possibly 1983.

Other Partnership Expenses

Under the Code, the Partnership may elect to amortize organization expenses over 60 months. Organizational expenses are those costs incurred for the actual formation of the Partnership, including the costs of drafting the Partnership agreement and filing with the Secretary of State.

Syndication expenses of the Partnership must be capitalized and may not be amortized nor depreciated (Section 709(a)). Syndication expenses are the costs incurred in the sale of Partnership Interests such as the costs of the offering, including the legal, accounting, and consulting fees related thereto, the costs of printing the offering documents, and any commissions paid on the sale of interests.

Until income is recognized, there is a high risk the Partnership will not qualify as being in a trade or business for purposes of Section 162. Accordingly, ordinary and necessary business expenses normally deductible under Section 162, such as telephone and office expenses, may not be deductible when incurred. However, recurring accounting expenses should be deductible assuming they are incurred in connection with the determination of the Partnership's taxable income.

[103, 12]

Tax Treatment of Royalty Income

Section 1235 of the Code provides that the transfer of property consisting of all substantial rights to a patent by any holder thereof will be considered the sale or exchange of a capital asset held for the period required for long-term capital gain treatment, even though payments in consideration of such transfer are payable periodicially or are contingent upon the productivity, use or disposition

Until income is recognized, there is a high risk

of the transferred property. It is unclear, and cannot be determined in advance, whether and to what extent the rights transferred by the Partnership under the Agreement for Sale of Technology will constitute a transfer of rights to a patent qualifying for long-term capital gain treatment under Section 1235. Such uncertainty reflects (i) the difficulty of determining the "patentability" of the Technology and Products to be developed; and (ii) the likely assertion by the IRS that the patent was created by either Capintec Imaging or by the Partnership as employer with the resulting unavailability of Section 1235. Moreover, if no patents ultimately issue due to the rejection of patent applications, it is unlikely that long-term capital gain treatment under Section 1235 will be available.

Even if long-term capital gain treatment is available under Section 1235 with respect to a portion of the royalty income, Limited Partners who are not individuals or who are "related" to the General Partner (within the meaning of Code Section 1235(d)) will not qualify for such treatment.

If the Technology developed by the Partnership should be purchased after a deferral of purchase in excess of twelve months, the General Partner intends to report any gain on such sale as long-term capital gain from the sale of capital assets and/or Section 1231(b) Property, (except to the extent that such payments include an element of imputed interest, which will be ordinary income and will increase in amount the longer the period of time between the sale of the Technology and receipt of the payment). The treatment of such gain as capital gain is subject to uncertainty because the IRS might argue, inter alia, that: (a) the Technology was developed solely or primarily for ultimate sale and is therefore property held "primarily for sale to customers in the ordinary course of [the Partnership's] trade or business" or constitutes an asset whose disposition occurs as part of the everyday operation of the Partnership's trade or business; or (2) to the extent the Technology represents "know-how" or other information that is not the subject of a patent, the Technology does not constitute "property" which can be the subject of a sale or exchange and therefore result in capital gain; or (3) even if the Technology

constitutes "Property", the non-static nature of the Technology precludes its being "held" for a period of more than one year. The Partnership believes that it has substantial arguments in response to each of these potential contentions by the IRS. Moreover, the gain could be taxable in the hands of any particular Partner as ordinary gain depending for example, on the Partner's activities involving property of the type constituting the Technology or the amount of that Partner's gain and losses with respect to Section 1231 (b) Property.

[113, 9]

Allocation of Profit and Loss

The Tax Reform Act of 1976 amended Section 704(b) of the Code to provide that the allocation to a Partner of income, gain, loss, deduction or credit will be recognized for federal income tax purposes only if it has substantial economic effect. In the event such allocation of income, gain, loss, deduction or credit is determined not to have substantial economic effect, the amount shall be reallocated among the partners of a partnership in accordance with their interests in the Partnership determined by taking into consideration all facts and circumstances. The allocations described below should have substantial economic effect. However, since the test of whether an allocation has "substantial economic effect" is in part a question of fact, no assurance can be given that the IRS may not challenge the allocation. If successful, such a challenge could have the effect of changing the amount of profit, loss and cash distributions allocable to each Limited Partner for federal income tax purposes.

[103, 13]

Substantial initial losses for the Partnership are anticipated for 1981 (see above sections on "Deductibility of Research and Development Expenses" and "Timing of Deductions") due to the expenditures for research and development work. It is estimated that the "loss" reported for federal income tax purposes will amount to approximately 85% of the sum of the amount contributed in cash to the Partnership by the Limited Partners. Ninety-nine percent of such loss will be allocated to the Limited Partners as a group and 1% will be allocated to the General Partner. Each Limited Partner will be allocated a pro rata share of

economic effect, the amount shall be reallocated

the loss based upon his share of the aggregate cash contributions by Limited Partners.

The amounts received by the Partnership from royalties under the Agreement for Sale of Technology will constitute gross income. The amount of taxable income or profit which will be taxable to the Partners in the aggregate will be the gross income to the Partnership less ordinary and necessary business expenses (and other tax deductions).

Profit and cash available for distribution will be allocated and/or distributed as follows: (i) 99% to the Limited Partners and 1% to the General Partner until the Limited Partners have been allocated aggregate amounts equal to two times their investment in the Partnership; (ii) thereafter, 75% to the Limited Partners and 25% to the General Partner until the Limited Partners have been allocated aggregate amounts (inclusive of payments under (i) above) equal to three times their investment in the Partnership; and (iii) thereafter, 50% to the Limited Partners and 50% to the General Partner.

For purposes of these allocations, the investments of the Limited Partners will include amounts which they have guaranteed.

Each Limited Partner will be allocated a pro rata share of the profits allocated to the Limited Partners as a group based upon such Limited Partner's share of the total interests arising from cash contributions by Limited Partners. Each Limited Partner will be allocated a pro rata share of cash available for distribution allocated to the Limited Partners as a group in the same proportion as his share of the profits.

No tax ruling from the Internal Revenue Service has been requested with respect to whether the allocations set forth in the Partnership Agreement have substantial eonomic effect. Moreover, certain recent developments effecting Partnership allocations may have a bearing on the validity or likelihood of challenge by the Service of the allocations made in the Partnership Agreement. During the course of an audit of a limited partnership engaged in oil and gas exploratory activities, the national office of the Service held that the portion of the limited partners'

contributions to the Partnership equal to the excess of the limited partners' pre-payout percentage interest over their post-payout percentage interest over their income, gain, loss, deductions and credit, was, in substance, a nonrecourse loan from the limited partners to the general partners. The Service concluded, following this rationale, that the limited partners were entitled to take into account, on their federal income tax returns, items of partnership income, gains, losses, deduction and credit only to the extent of their post-payout percentage interest therein. Thus the limited partners were denied deductions allocable to them in excess of their reduced post-payout percentage. Certain portions of this technical advice memorandum may be interpreted in a manner which casts doubt on the apparent meaning of certain rulings and regulations of the Service dealing with special allocations. The Service may, applying this position, take the position that the disproportionate part of deductions allocable to the Limited Partners are not allowable.

[103, 14]

Income Tax Basis; Amount At Risk

A Limited Partner may offset his share of Partnership losses in any taxable year against income from other sources to the extent of such Limited Partner's adjusted tax basis of his Interest in the Partnership. Initially, a Limited Partner's tax basis for his Limited Partner Interest will be the amount of cash contributed by him to the Partnership plus his share of Partnership liabilities. The amount of the Partnership borrowing which a Limited Partner endorses or personally guarantees will constitute a Partnership liability with respect to which such Limited Partner has personal liability. Such amount will therefore be included in such Limited Partner's tax basis and will be included in the amount which he has "at risk" for purposes of determining the limitations upon the losses which he may deduct.

A Limited Partner's tax basis must be adjusted each taxable year. Each Limited Partner must increase (or decrease) his tax basis by the amount of such Limited Partner's allocable share of the Partnership's net income (or loss) for the year and by his share of any increase (or decrease) of Partnership liabilities, and must reduce such tax basis by the amount of any cash distributions during such year (see "Allocations of Profits and Loss").

If the tax basis of a Limited Partner's Partnership interest should be reduced to zero, the amount of any cash distributions (other than in liquidation of the Limited Partner's interest in the Partnership) plus the amount of the reduction in the Limited Partner's share of the Partnership liabilities for any year (in excess of his share of the income of the Partnership for the year generally) will be taxable income to such Limited Partner.

Sale of Interests

In the event of the sale of the Interests by Limited Partners who have held such Interests for over 12 months, or in the event the General Partners acquire the Interests (see "SUMMARY OF LIMITED PARTNERSHIP AGREEMENT - Acquisition of Interests"), gain recognized by a Limited Partner on the sale of an Interest will generally be taxable as long-term capital gain, except to the extent of a Limited Partner's share of "unrealized receivables". That portion of a Limited Partner's share of "unrealized receivables", as defined in Section 751 of the Code, would be treated as ordinary income subject to tax at tax rates currently up to a maximum of seventy percent (70%) in 1981, and fifty percent (50%) thereafter. Included in "unrealized receivables" can be rights to payment for services rendered or to be rendered in the future, including accrued royalties. The Partnership should not have any "unrealized receivables" within the definition of Section 751 of the Code other than possible earned but unpaid royalties. Should the Service challenge the appropriateness of a Limited Partner's claim to long-term capital gain on the sale of limited partnership interests, the result of the Service succeeding in any such challenge would subject such transaction to ordinary income taxes at rates up to the maximum applicable rate of tax.

[103, 15] A Limited Partner who sells an Interest during a taxable year may be required to report his share of the Partnership's income on his personal income tax return, even though he may not have received distributions during the period of his ownership, or the amount distributed to him bears no relationship to the amount he is required to report.

ordinary income subject to tax at tax rates currently up to

Tax Benefit Rule

In Rev. Rul. 72-528, 1972-2 C.B. 481, the IRS ruled than an insurance recovery with respect to a pilot model whose costs were deducted under Section 174 was taxable under the tax benefit rule as ordinary income. The tax benefit rule characterizes as ordinary income the recovery of an amount deducted in a prior taxable year to the extent it decreased the taxpayer's taxable income. The General Partner believes that this revenue ruling is distinguishable from a sale or exchange of the Technology by the Partnership because there would not be a recovery of the identical items that were deducted as research or experimental expenditures, and that the tax benefit rule should not apply to recharacterize, as ordinary income, gain otherwise taxable as capital gain on a sale of the Technology (although the tax benefilt rule may apply to engineering or pilot models or similar property included in the Technology). Nevertheless, this ruling indicates that the IRS may assert that the tax benefit rule should apply to recharacterize a Limited Partner's distributive share of gain from a sale or exchange of the Technology as ordinary income to the extent his distributive share of deductions for research or experimental expenditures paid by the Partnership previously decreased his taxable income.

Activities Not Engaged In For Profit (Hobby Loss)

Section 183 of the Code provides, as a general rule, that no deductions are allowable to an individual for "activities not engaged in for profit." Regardless of any profit motive of the Partnership, if an activity of an individual is deemed "not to be engaged in for a profit," the individual will be allowed deductions in connection with such activity only to the extent of (a) interest, taxes and other deductions which are allowable under the Code without regard to whether there is a profit motive ("Special Deductions") and (b) gross income for such year in connection with such activity in excess of the Special Deductions for such year. Although the Treasury regulations issued under Section 183 indicate that it is applicable to such activities as breeding, training, showing, or raising horses, operating a farm, running a vacation home, etc., there is no information available regarding the Service's position as to the applicability, if any, of Section 183 to the context of this Partnership. In the event Section 183

were applied with respect to a Limited Partner, a substantial portion of the deductions allocated to such Limited Partner for any year in excess of the Partnership's income allocated to him for such year would not be allowed either as a deduction in the year incurred or to offset income realized from the Partnership or any other income from any other year.

Section 754

The Code provides for optional adjustment to the basis of partnership property for measuring both depreciation and gain upon certain distributions of partnership property (Section 734) or transfers of partnership interests (Section 743) if a partnership election has been made pursuant to Section 754. The general effect of such an election is that transferees of partnership interests are treated, for purposes of depreciation and gain, as though they had acquired a direct interest in the partnership's assets and the partnership is treated for such purposes upon certain distributions to partners, as though it had newly acquired an interest in the partnership assets and therefore acquired a new cost for such assets. The General Partner will, in its discretion, cause the Partnership to make elections under Section 754 of the Code.

[104, 1]

Limitation on Interest Deduction

Section 163(d) limits the amount of the deduction for investment interest paid by a non-corporate taxpayer (or a Subchapter S corporation) to the sum of $10,000 plus the taxpayer's "net investment income" (as defined) and certain excess deductions attributable to net leases (as defined). Any investment interest disallowed under this provision is carried over and treated as having been paid or accrued in the succeeding taxable year. The legislative history indicates that this limitation is applicable only to interest on indebtedness incurred or continued to purchase or carry property held for investment. Thus, interest deductions on funds borrowed "in connection with" a trade or business are not affected by the limitation. H.R. No. 91-413 (91st Cong. 1st Sess (1969)).

The Partnership intends to borrow funds from the Bank secured by the Limited Partner's endorsements and letters of credit. As a result, the Partnership will incur substantial interest payments to the Bank over the term of

the loan. To the extent that such borrowings are treated as an obligation of the Partnership for tax purposes, the obligation should be treated as having been incurred "in connection with" the Partnership's trade or business, and therefore, the limitation on the deduction for investment interest should not be applicable. On the other hand, to the extent that such borrowings are treated as an obligation of the individual Partners for tax purposes (i.e., the Partners are treated as having borrowed the funds and then contributed such funds to the Partnership) the obligation could be treated as having been incurred to purchase an investment, and therefore, the limitation on the deduction for interest could apply. Under existing law, whether the Partnership or the Partners would be treated as the borrower for tax purposes depends upon all of the facts and circumstances, including inter alia, whether the Bank would have made the loan to the Partnership in the absence of the Recourse Notes and letters of credit furnished by the Limited Partners and the net worth of the General Partner.

[104, 2]

Tax Audits

Limited Partners should be aware that there is a significant probability that the Partnership's tax returns will be examined by the IRS. In this regard, the IRS has indicated its intention to increase the number of audits of tax returns filed by so-called "tax shelter" partnerships and to examine 25% of the tax returns of partnerships reporting losses in excess of $25,000. The tax returns of the Partnership are expected to show losses in excess of $25,000 for at least the first two taxable years of the Partnership, and therefore, it is expected that the Partnership's tax returns will be included in this audit category. Any adverse determination following an audit of the Partnership's return would result in proposed adjustments to the return of the Limited Partners. Such adjustments could also result in audits of the Limited Partners' returns and adjustments of non-Partnership, as well as Partnership, items. In each case, the handling of such audit activities is the sole responsibility of the Limited Partner involved, and any expenses incurred by a Limited Partner in disputing any aspect of such returns with the IRS (or any other tax authorities) will be borne by the Limited Partner and not by the Partnership.

Partnership Tax Returns

The Partnership expects to file its tax return on a cash basis. The tax returns filed by the Partnership may be audited by the Service. Adjustments (if any) resulting from such audits might require the Limited Partners to file amended tax returns and may result in an audit of the Limited Partner's own returns.

The Partnership will provide the Limited Partners with tax information by March 31st of each year.

1981 Federal Legislation and Developments

The Economic Recovery Tax Act of 1981 ("ERTA") was signed on August 13, 1981. Some of the provisions of ERTA may have an effect upon the Partners and the Limited Partners. The following is a brief summary of some of these provisions:

[104, 3]

Decrease in Marginal Rates of Individual Tax. The 70% marginal rate of tax imposed on ordinary income will decrease to a maximum marginal rate of 50% effective for tax years beginning after December 31, 1981. In consequence, such royalties in periods after 1981 which are characterized as ordinary income will incur a maximum rate of tax of 50% rather than 70%. Similarly, if and to the extent if any that the deduction for research and development expenditures claimed in 1981 is disallowed and allocated to subsequent years, such deduction in later years will result in a net benefit after tax based upon a 50% maximum marginal rate of tax.

Reduction in Rate of Tax Upon Capital Gains. Effective June 9, 1981, the rate of tax upon long term capital gains will be 20%. In consequence such royalties which are characterized as long term capital gains will be taxed at the lower 20% rate.

Limited Credit for Research and Development Expenditures. Under ERTA, there is a nonrefundable 25 percent tax credit for incremental research and experimentation expenditures made after June 30, 1981, and before January 1, 1986. The credit applies to 25 percent of the excess (if any) of the taxpayer's qualified research expenses for the tax year over the research expenses in the base period (generally the three immediately preceding tax years).

Decrease in a maximum marginal rate of 50% effective for tax

Until clarification occurs of a number of the principal provisions of the credit, it is not possible to determine whether or to what extent if any the Limited Partners may obtain the benefit of all or any portion of the ERTA r&d credit.

The principal aspects requiring clarification include:

(i) the apparent limitation of the credit, as applicable to partners, only to the extent of the tax attributable to such partners income from interest in the business of the partnership;

(ii) the recognition of only 65% of the amount paid for research and development when research and development is performed pursuant to contract rather than on an "in house basis";

(iii) the apparent requirement that expenditures be deemed made over the period when research is actually conducted rather than when paid, in situations where the contracted research extends beyond the tax year of payment; and

(iv) the possibly restrictive meaning of the requirement that the expenses be paid or incurred "in carrying on any trade or business", a phrase which could be interpreted to deny the credit in situations where the research is intended to enable entry into a new or supplemental line of business or where the success of the research will give rise to royalty income;

(v) the apparently restrictive definition of what categories of costs will be recognized for purposes of the ERTA credit, a definition which could exclude, for example applicable general and administrative costs.

The determination of the availability of the ERTA credit will be made in light of evolving clarifications of these and other pertinent provisions of ERTA.

[104, 4]

Other Tax Consequences

The above discussion is not intended as an exhaustive summary of potential adverse tax consequences, including possible challenges by the IRS which, if successful, would deny Limited Partners tax benefits otherwise available. Each prospective Limited Partner and his tax advisor should carefully evaluate the possibilities of other potential adverse tax consequences.

Potential investors should also consult with their own tax advisers as to the effect of state taxation.

The advice of counsel on which the above general discussion is based should not be taken as a guarantee as to any of the income tax consequences of an investment by a Limited Partner in the Partnership.

The foregoing analysis is not intended as a substitute for careful tax planning, particularly since the income tax consequences of an investment in the Partnership are complex and certain of them will not be the same for all taxpayers. Accordingly, prospective purchaser of Interests are strongly urged to consult their tax advisors with specific reference to their own tax situation prior to investment in the Partnership.

[108, 14]

SUMMARY OF LIMITED PARTNERSHIP AGREEMENT

Description of Significant Terms

The Partnership's Limited Partnership Agreement ("Partnership Agreement") will be executed and the Partnership will be organized immediately after the Closing Date of the offering, provided that at least $2,100,000 in Limited Partner Interests are sold prior to the Closing Date. Set forth below is a summary of significant provisions of the Partnership Agreement not covered elsewhere in this Memorandum. This summary is intended to be a general and simplified discussion of such Partnership Agreement provisions. Any person considering investing in the Partnership as a Limited Partner should carefully review the entire Partnership Agreement, attached to this Memorandum as Exhibit III. The information concerning the Partnership Agreement summarized in this Confidential Memorandum is qualified in its entirety by reference to the text of the Partnership Agreement itself.

Formation

The Partnership will be a limited partnership formed under the New Jersey Uniform Limited Partnership Act ("ULPA").

Partners

Capintec Imaging Systems, Inc. will be the General Partner of the Partnership and the subscribers to the Limited Partner Interests offered by this Memorandum will be the initial Limited Partners.

Additional Contributions to Capital; Additional Limited Partners

After the receipt of the initial capital contributions, Limited Partners may make such additional contributions as may be permitted upon the affirmative votes of the General Partner and of a majority of the Limited Partners. In no event shall a Limited Partner be required to make any additional contributions to the capital of the Partnership. However, the General Partner may, after making a good faith judgment that funds reasonably necessary for

the conduct of the Partnership business are not otherwise available on reasonable terms from non-affiliated third-party sources, make a call upon the Limited Partners for additional capital contributions. A Limited Partner who, for any reason, does not pay his pro rata share of any call by the General Partner upon the Limited Partners for additional capital contributions will suffer no forfeiture, but his interest in the profits, losses and distributions of the Partnership may be adjusted (i.e., diluted) to account for additional capital contributions received by the Partnership. If the additional capital called for by the General Partner is not raised through additional contributions by all or some of the Limited Partners (including capital contributions in excess of their pro rata share by Limited Partners desiring to do so) the General Partner may then, in its sole discretion, formulate and implement a plan to obtain the necessary capital by the sale of additional Limited Partner Interests in a public or private offering, which plan may provide for disproportionate and/or preferential interests in the profits and losses and distributions of the Partnership. However, existing Limited Partners at the time the General Partner formulates such a plan shall be given a reasonable opportunity, on a pro rata basis, to purchase the additional Limited Partner Interests on the same terms and conditions as they are to be offered to others.

Allocations and Distributions

A detailed description of the allocation and distribution of profit, loss and cash available for distribution between and among the Limited Partners and General Partners is set forth in "FEDERAL INCOME TAX CONSEQUENCES - Allocation of Profit and Loss."

[108, 15]

Voting Rights

The Limited Partners have the limited right to vote upon certain matters affecting the Partnership and their interests therein. Each Limited Partner and the General Partner is entitled to vote in accordance with such Partner's interest in the Partnership.

The votes required on specific matters are as follows:

(1) Early termination of the Partnership (other than as specifically provided under "Term and Termination" below) requires the affirmative vote of the General Partner and seventy-five percent (75%) in interest of the Limited Partners.

(2) Formation of a new partnership to continue the business after the Partnership is dissolved in accordance with the Partnership Agreement shall require the unanimous vote of the Limited Partners and the General Partner of the new partnership.

(3) Technical amendments to the Partnership Agreement, including, but not limited to, amendments necessary to conform with applicable legal requirements and to qualify under applicable IRS requirements shall require the vote of fifty-one percent (51%) in interest of the Limited Partners.

(4) Subject to express provision in the Partnership Agreement to the contrary, amendments to the Partnership Agreement which may affect the financial interest or voting rights of any Limited Partner, and the sale of all or substantially all of the assets of the Partnership (other than pursuant to the Agreement for Sale of Technology to Capintec Imaging Systems attached to this memorandum as Exhibit II, or pursuant to exercise by the General Partner of its option to acquire the Interests of the Limited Partners), shall require the vote of the General Partner and seventy-five percent (75%) in interest of the Limited Partners.

(5) The removal of the General Partner shall require the vote of the General Partner and seventy-five percent (75%) of the Limited Partners. The election of any new or successor General Partner shall require the vote of one hundred percent (100%) in interest of the Limited Partners, and the vote of the General Partner.

(6) The acceptance of proposals by the General Partner to acquire the Interests of the Limited Partners shall require approval by the vote of sixty percent (60%) in interest of the Limited Partners, as described in "Option of General Partner to Acquire Interests of Limited Partners" below.

[illegible] Partnership [illegible] pursuant to the Agreement for Sale

[109, 1]

Management

Subject to the terms of the Partnership Agreement and the ULPA, the General Partner shall have sole and complete charge of the affairs of the Partnership with respect to the Partnership business. Among other things, the General Partner will have the power to negotiate and enter into and cause to be carried out by the Partnership all contracts and agreements of every kind which they deem necessary or appropriate for the furtherance of the purposes or business of the Partnership. Specifically, the General Partner will cause the Partnership to enter into the Research and Development Agreement with Capintec Imaging attached to this Memorandum as Exhibit "I". Also, the General Partner on behalf of the Partnership, will enter into the Agreement for Sale of Technology attached to this Memorandum as Exhibit "II", which will obligate the Partnership to sell to Capintec Imaging at a future date all of its right, title and interest in the Technology contributed to the Partnership and enhanced by the research and development services to be performed by Capintec Imaging. Limited Partners should be aware that they are specifically precluded from taking any part in or in any manner interfering with the management, conduct or control of the Partnership business and affairs and shall have no right or authority to act for or on behalf of the Partnership. A Limited Partner interfering in the management or control of the Partnership will thereby lose his limited liability and become subject to liability as a general partner of the Partnership.

The General Partner may subcontract, at its expense, with any third party (including affiliates) to perform services on its behalf for the Partnership.

Exculpation

The General Partner shall not be liable to the Partnership or to any Limited Partner for any actions taken in good faith and reasonably believed to be in the best interests of the Partnership or for errors of judgment. The General Partner shall only be liable for willful misconduct, fraud, bad faith, gross negligence, or breach of its specific obligations under the Partnership Agreement.

specifically precluded from taking any part in or in any

[109, 2]

Term and Termination

The Partnership will continue in business until its expiration on December 31, 2001, unless sooner dissolved and terminated for any of the following reasons:

(i) the bankruptcy or insolvency of the General Partner or the institution of proceedings for liquidation by arrangement or composition by the creditors of the General Partner;

(ii) the removal of the General Partner by the written consent or approval of the General Partner and of Limited Partners owning seventy-five (75%) percent of the then outstanding Limited Partnership Interests; or

(iii) the election to terminate the Partnership by written consent or approval of the Limited Partners owning ninety (90%) percent of the then outstanding Limited Partnership Interests; or

(iv) the purchase by the General Partners of all of the interests of the Limited Partners as described below.

Option of General Partner to Acquire Interests of Limited Partners

The General Partner may acquire the interests of the Limited Partners as set forth below.

Commencing January 1, 1986, or at such earlier time as the Limited Partners have been allocated royalties equal to at least three times their investment in the Partnership, the General Partner may acquire all of the Interests of the Limited Partners if a purchase proposal to the Limited Partners consisting of cash and/or of securities of the General Partner is approved by at least 60% of the Limited Partners.

For purposes of this section, all references to "securities" of the General Partner or its affiliates shall include, without limitation, shares of capital stock and warrants or options entitling the holder to acquire shares of such capital stock.

Any proposal accepted by the specified minimum percentage of Limited Partners shall be deemed binding upon all Limited Partners. Any exercise of the option to purchase the Interests of the Limited Partners shall be exercised as to all, but no less than all of the Interests of the Limited Partners, and shall be binding upon the Limited Partners.

[109, 3] It is the present intention of Capintec Imaging to utilize marketable shares if it, or its affiliates, are then publicly held. If, however, marketable securities are not available for issuance, the securities issuable hereunder are expected to be restricted on nature, and will not be entitled to any rights of registration. Accordingly, investors should understand that such securities would not be readily marketable, and will be eligible for sale only in accordance with then applicable securities laws. Under present securities laws, holders of restricted shares who are not affiliates of the issuer may sell their shares in accordance with Rule 144 promulgated under the Securities Act of 1933. Under such rule, sales may occur after a two year holding period subject to procedural and quantitative limitations, and may occur after a three year holding period free of such quantitative restrictions. Such sales are available only if the issuer meets applicable Federal reporting requirements. If Rule 144 is not available, sale would be subject to the significantly more restrictive provisions of Rule 237.

If the cash funds to be distributed to the Limited Partner exceed twenty-five percent (25%) of the aggregate stock and cash value to be distributed, the General Partner may elect to make such distribution of cash funds in not more than twelve (12) equal quarterly payments commencing on the first business day of the calendar month. The obligation of the General Partner will not be evidenced by any form of note. However, interest, at the rate of ten percent (10%) per annum will be paid on the deferred cash installment amounts.

Exercise of the above option will cause a termination of the Partnership.

[illegible] period subject to procedural and quantitative

Transferability of Interests

Transferability of the Interests is limited. Assignments must be in a written form satisfactory to the General Partner. Assignees will be required to represent in writing that they are acquiring the Interests for their own account for investment only and not with a view to or for sale in connection with any distribution thereof.

An assignee shall only become a Substitute Limited Partner upon the written consent of the General Partner, which consent can be granted or withheld in the sole discretion of the General Partner. Upon the death or legal disability of any Limited Partner, his Interest in the Partnership shall pass to his legal representative, or his heirs or legatees, with full power to become substituted as a Limited Partner in his place. The General Partner is entitled to recognize only the record owner of an Interest unless or until it is transferred in accordance with the Agreement.

[109, 4]

In amplification of the foregoing, the sale or exchange of an Interest will not be permitted if the Interest sought to be sold or exchanged, when added to the total of all other Interests sold or exchanged within the period of twelve consecutive months ending with the proposed date of the sale or exchange, results in the termination of the Partnership under Section 708 of the Internal Revenue Code.

It should be noted that the Partnership may in its discretion elect, pursuant to Section 743 and Section 754 of the Code, to adjust the basis of Partnership property when a Partner sells his Interest. Accordingly, should a Partner sell his Interest at a price which exceeds his basis, the Substitute Limited Partner may obtain a special increased tax basis in the Partnership.

Reports and Meetings

Beginning with the year ending December 31, 1981, the General Partner will submit to each Limited Partner, within ninety (90) days after the calendar year ends, an annual report of the Partnership containing audited financial statements, examined by an independent certified public accountant. Beginning with the calendar quarter

ending March 31, 1982, the General Partner shall mail, within forty-five (45) days after the close of each semi-annual periods, reports to the Limited Partners, which reports shall include unaudited financial statements and progress reports. The Partnership will make its books and records available for inspection by any Limited Partners at any reasonable time. Beginning at the end of calendar year 1981, the information relevant to the determination of the Limited Partners' Federal income tax liability will be provided to the Limited Partners before March 31 of each year. Meetings of the Partnership may be called by the General Partner at any time and must be called at the request of holders of 50% of the Limited Partnership Interests.

Accounting and Distribution

The accounting period of the Partnership will end on December 31st of each year.

General Partner's Interest

The Interest of the General Partner in the Partnership is not transferable. The General Partner may not withdraw capital from the Partnership, except in accordance with the express terms of the Partnership Agreement.

Miscellaneous

Each Limited Partner is entitled to receive notices, financial statements and tax information in accordance with the Partnership Agreement provisions. Further, the records and accounts of the Partnership are open to inspection by any Limited Partner or his representative on reasonable notice and at any reasonable time during business hours for any purpose reasonably related to the Limited Partner's Interest. Each of the Limited Partners appoints the General Partner as his special attorney-in-fact to perform administrative tasks in connection with the Partnership Agreement such as filing and amending the Certificate of Limited Partnership required by the ULPA.

[illegible] the General Partner in the

[109, 12]

FIDUCIARY RESPONSIBILITY OF THE GENERAL PARTNER

A general partner is accountable to a limited partnership as a fiduciary and consequently must exercise good faith and integrity in handling partnership affairs. Where the question has arisen, courts have held that a limited partner may institute legal action on behalf of himself or all other similarly situated limited partners (a class action) to recover damages for a breach by the general partner of its fiduciary duty, or on behalf of the partnership (a partnership derivative action) to recover damages from third parties. Certain recent cases decided by the Federal Courts may also be construed to support the right of a limited partner to bring such actions under Rule 10b-5, pursuant to the Securities and Exchange Act of 1934, as amended, for the recovery of damages (including losses incurred in connection with the purchase or sale of a partnership interest) resulting from a breach by a general partner of its fiduciary duty.

Since the foregoing summary involves a rapidly developing and changing area of the law, Limited Partners who believe that a breach of a fiduciary duty by the General Partner has occurred should consult with their own counsel.

The Limited Partnership Agreement provides that the General Partner will not be liable to the Partnership or Limited Partners for, and the Partnership will indemnify the General Partner from, any loss or damage incurred by reason of any act or omission performed or omitted by it in good faith pursuant to the authority granted to it by the Limited Partnership Agreement, if such act or omission does not constitute gross negligence or willful misconduct, or other breach of fiduciary duty. Therefore, purchasers of Limited Partners Interests may have a more limited right of action than they would have absent the limitation in the Agreement of Limited Partnership.

IN THE OPINION OF THE SECURITIES AND EXCHANGE COMMISSION, INDEMNIFICATION FOR LIABILITIES ARISING UNDER THE SECURITIES ACT OF 1933 IS CONTRARY TO PUBLIC POLICY AND THEREFORE UNENFORCEABLE.

[109, 5]

RESTRICTIONS ON TRANSFER OF INTERESTS

In addition to the restrictions on transfer summarized above (See "SUMMARY OF LIMITED PARTNERSHIP AGREEMENT -- Transferability of Interests"), Limited Partner Interests are subject to certain restrictions on their transfer. As a result, the Interests will not be freely transferable and no trading market can or will develop for the Interests. The Interests are suitable only for long-term investors.

[109, 6]

ACCOUNTANTS

The Partnership intends that it will engage the services of the accounting firm of Touche, Ross & Co. to serve as the independent certified public accountants for the Partnership.

Touche, Ross & Co. serves as the independent certified public accountants for the General Partner and its affiliated corporations.

LEGAL OPINIONS

Legal opinions and advice in respect of this Offering, in respect of the operations of the Partnership, and in respect of other matters, will be obtained in respect of tax matters, from Leon I. Jacobson, P.C., 330 Madison Avenue, New York, New York 10017 which firm also serves as general counsel to the General Partner and its affiliated corporations.