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P COM INC
Form 10-K405
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-25356

P-COM, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware 77-0289371
(State or Other Jurisdiction of (IRS Employer Identification Number)
Incorporation or Organization)

3175 S. Winchester Boulevard, Campbell, California 95008
(408) 866-3666

(Address and Telephone Number of Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, \$0.0001 par value

Preferred Stock Purchase Rights

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. YES NO

The aggregate market value of the voting stock held by non-affiliates of

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the Registrant, as of February 28, 2002, was approximately \$9,227,700 (based upon the closing price for shares of the Registrant's Common Stock as reported by the Nasdaq National Market on that date. Shares of Common Stock held by each executive officer, director and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 28, 2002, approximately 84,958,300 shares of the Registrant's Common Stock, \$0.0001 par value, were outstanding.

Part I

Item 1. Business

The following Business section contains forward-looking statements, which involve risks and uncertainties. Forward-looking statements are characterized by words such as "plan," "expect," "believe," "intend," "would" and similar words. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations-- Certain Risk Factors Affecting the Company" and elsewhere in this Annual Report on Form 10-K.

Overview

P-Com develops, manufactures, and markets Point-to-Multipoint, Point-to-Point, and Spread Spectrum radio systems for the worldwide telecommunications market. Cellular and Personal Communications Services ("PCS") providers employ our Point-to-Point systems for backhaul between remote tower sites and switching centers in their growing global markets. Network service providers and Internet service providers are able, through the deployment of P-Com equipment and systems, to respond to the increasing global demands for high-speed wireless access services, such as Internet access associated with Business-to-Business and E-Commerce business processes. Through deployment of our systems, network providers can quickly and efficiently establish integrated Internet, data, voice, and video services for their customers, then expand and grow those services as demand increases. Our market is a subset of the global telecom, cellular, PCS, Wireless Internet access, and private network markets. Because of the number of sub-markets for various products within the nations of the world, reliable market statistics are not readily available.

Most of our revenue is currently derived from our Point-to-Point products. We believe that in the future our Point-to-Multipoint and Spread Spectrum products will generate an increasing share of our revenue.

Our wholly owned subsidiary, P-Com Network Services, Inc. ("PCNS"), provides engineering, installation support, program management and maintenance support services to the telecommunications industry in the United States. Network service providers (wireless and traditional wireline) outsource these tasks to approved service suppliers on a project-by-project basis. Microwave service projects are typically short in duration--one to two weeks--and primarily involve logistical installation or maintenance of millimeter wave radio systems. Central office services projects involve ordering materials and substantial man-hour commitments and can last up to three months.

Since January 1, 2000, we have acted to strengthen our core business by raising \$61.2 million in private equity financings and raising additional capital by disposing of several previously acquired businesses (Technosystem, Cemetel,

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Control Resources, and RT Masts), which we determined no longer fit with our business plan and strategy. Our sales, total assets, working capital and employee headcount contracted sharply in 2001 due to a slowdown affecting the entire telecommunications infrastructure equipment industry and the financial distress of several of our potential customers.

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Industry background

There is a growing demand for multimedia communications infrastructure globally, particularly in the Asia-Pacific rim areas. In the last several years, Internet usage has grown significantly, and has become the key driver, along with demand for global telephone accessibility. Communication networks' expansion is required. Speed, reliability and economies of scale are the key elements inherent in commercially successful networked systems globally. Broadband Wireless Access ("BWA") is an efficient and particularly economical means to meet this growing demand for information transfer. P-Com's BWA products and services are targeted to add value to the integrated service providers and wireless telephone operators globally. Our products are designed to be frequency specific by country where required.

The BWA market has developed into two commercially recognized architectures for voice and data transmission: Point-to-Point and Point-to-Multipoint. P-Com has developed and sold equipment in commercial quantities for both formats. BWA providers have just begun to utilize high frequency Point-to-Multipoint systems as produced by P-Com.

Although P-Com believes the overall markets within which it competes are in a long-term growth phase, P-Com cannot ensure the proliferation of its products or guarantee a given market share of the global telecom equipment market in future years. Currently there is a significant slowdown in the entire telecommunications equipment industry and demand for BWA products is deeply depressed. Additionally, there are competing technologies which service the communication sector's hardware demands. P-Com does not provide products for wireline sub-sectors of the telecommunications market, including wireline systems and cable systems.

Drivers of Broadband Wireless Access Growth

Global deregulation of telecommunications markets and the related set-aside of radio frequencies for BWA transmission have spurred competition to supply wireless-based systems as a cost effective alternative to traditional wireline service delivery systems. New network service providers are operating in the United States and other high demand markets to create integrated digital network solutions to meet the growing demand for multi-purpose efficient telecommunications systems. Broadband wireless systems are competitive due to the relatively short set up and deployment time compared to wireline alternatives, high return on capital investment, and ability to "turn on" customers quickly once the transmission hardware and software infrastructure are in place. There are less capacity restraints for transmission levels compared to T1/E1 lines and DSL alternatives with lower potential of "stranded capital costs" as ultimate user locales expand or change over time. Incumbent exchange carriers can also create more flexible systems via adjunct buildouts of BWA systems which integrate with their existing trunk lines.

In the United States, incumbent Regional Bell Operating Companies ("RBOC") were traditionally the sole providers of the copper wire interconnection network that connected business and residential subscribers to the Public Switched Telephone

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Network ("PSTN"), commonly known as the "last mile" connection. The Telecommunications Act of 1996 required incumbent telephone companies to lease portions of their networks, including this last mile, to Competitive Local Exchange Carriers ("CLECs"), with the intention to create a competitive telecommunications industry domestically. Although the CLECs have generally been unsuccessful to date, additional competition has risen between traditional telephone companies and cable television operators expanding services into the others' traditional markets.

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The initial market deregulation in the United States has fostered similar deregulation actions globally. Newly allocated frequencies have been auctioned or apportioned for BWA usage. Service providers of the new systems are differentiating themselves from "commodity" status of existing private or state-owned wireline carriers through deploying and marketing integrated, digital, high-speed access services to business and residential customers. Based upon providers' choice to deploy BWA as the quickest, most economical and scalable means of providing reliable, cost effective telecommunications service, the demand for this technology portends significant growth globally.

In most locales, P-Com's Point-to-Point and Point-to-Multipoint radio systems are marketed to spectrum license holders who hold rights to transmit via BWA. Such license holders have various options from competing technologies and equipment providers who are in direct competition with P-Com for the business. P-Com also markets a line of spread spectrum radios, which are used by unlicensed service providers, primarily in Asian, South American and African markets.

Global Privatization and Deregulation: Stimuli to Broadband Wireless Access Growth

In many parts of the world, communication services are either inadequate or non-existent due to the lack of existing infrastructure. Additionally, many such countries have privatized the state-owned telecommunications monopoly and opened their markets to competitive network service providers. In these markets, we believe competitive service providers often find deployment of BWA the quickest, most economical and scalable means of provisioning reliable, modern telecommunications services.

For the communications service providers of the world to be able to utilize P-Com's BWA systems (which include P-Com's Point-to-Multipoint and Point-to-Point radio systems), they must own the licenses required to operate such systems. Once the service provider has obtained the license, they must then determine from a number of competing systems (including non-BWA systems), the one that appears best suited for their particular application.

Network Architecture Bottlenecks

Fiber optic networks have received much attention because of the speed and quality associated with such technology. Increasingly, network service providers are constructing fiber optic interoffice backbones to meet the significant demand created by Internet and data, video conferencing, and voice services. To satisfy the growing user demand for high-speed access, the fiber optic channels would (if not supplemented by other systems) have to extend all the way into the buildings in which the users reside. Such is the case today in only about ten percent of the commercial buildings within the United States, and that number is not expected to grow much because of the extremely high cost to extend fiber optic channels to buildings. Instead, the fiber optic channel usually ends short of the building, at the beginning of the "last mile". Thus, users are often

forced to use slower dial-up modem connections and ISDN (Integrated Services Digital Network) services, or ADSL (Asymmetrical Digital Subscriber Line) service, subject to its distance limitations. This local access "bottleneck" denies users the real benefits afforded by fiber optic backbones because the highest speed which users can experience is that of the local access portion of their end-to-end connection. To overcome such limitations in a quick and efficient manner, we believe BWA is attractive to incumbent and competitive carriers alike because the local access speed restrictions are obviated, and because wireless systems can be installed and become operational in weeks as compared to months or years for wired infrastructure, and at a much reduced cost.

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Wireless Access Solutions

Point-to-Multipoint BWA service is a wireless technology that provides the high speed symmetrical access service. This service is drawing significant attention and growing interest because it can be rapidly deployed; it is highly efficient, reliable, and scalable; it is cost effective because it can serve many subscribers from one hub, and can be expanded as demand for service dictates. Nonetheless, the traditional system providers' buildout approach has resulted in P-Com's and its competitors' Point-to-Multipoint products only gradually gaining market share in the BWA market.

Point-to-Point BWA is a dedicated link wireless technology enabling symmetrical voice and data services between a subscriber and the network. For each new subscriber using this service, the network service provider provides a separate set of dedicated access equipment. Backhauls between mobile wireless towers and the mobile switching office on cellular phone networks are a typical application for Point-to-Point equipment. As mobile service usage continues to grow, cellular service providers will have to continue to scale down existing cells into smaller ones to reuse precious spectrum. With each such division of cells comes opportunity for new wireless Point-to-Point applications because of the need for more backhauls.

Certain limitations are common to all BWA systems like those provided by P-Com. Among the more common of these limitations are the requirement for line-of-sight between the hubs and the remote sites; spacing between the hubs and the remote stations; signal transmit/receive power level interference; poor performance if there is improper antenna alignment; and adjacent cell interference due to improper power levels. Professional execution of path and limitations. P-Com Network Services can provide the professional engineering and installation services required for wireless access system operation, which adds an element of competitive advantage for P-Com.

The P-Com Strategy

Our goal is to be the leading worldwide supplier of high-performance Point-to-Multipoint, Point-to-Point, and Spread Spectrum wireless access equipment. Our strategy to accomplish this objective is to:

- o Focus on Point-to-Multipoint, Point-to-Point, and Spread Spectrum microwave Markets. P-Com designs products specifically for the millimeter wave and spread spectrum microwave frequency bands. We have designed P-Com's core architecture to optimize the systems for operation at millimeter and microwave frequencies.
- o Focus on full Engineering, Furnishing and Installation ("EF&I") in Central Office operations for DC power and transmission in the U.S domestic

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market.

- o Continue expansion of our identified global market opportunities. We have met the standards established by the European Telecommunications Standards Institute ("ETSI") and achieved regulatory approval for our systems in Argentina, Australia, Austria, Brazil, Canada, China, the Czech Republic, Latvia, France, Germany, Greece, Hungary, Italy, Japan, Mexico, Spain, and the United Kingdom, as well as the United States. We maintain sales and/or support offices in major international markets.
- o Build and sustain manufacturing cost advantage. We have designed our system architecture to reduce the number of components incorporated into each system, and to permit the use of common components across the range of our products. Such an approach assists in manufacturing cost reduction

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through volume component purchases and through enablement of a standardized manufacturing process. Utilization of turnkey contract manufacturers eliminates expensive in-house manufacturing assembly, and provides ability to scale up or down as conditions dictate.

- o Leverage and maintain software leadership. We differentiate our systems through proprietary software embedded in the IDU ("InDoor Unit") and ODU ("OutDoor Unit"), and in the Windows and SNMP-based software tools. This software is designed to allow us to deliver to our customers a high level of functionality that can be easily reconfigured by the customer to meet changing needs. Software tools are also used to facilitate network management.

Range of Product Choices

We offer access providers around the world a range of wireless systems that encompass Point-to-Multipoint BWA, Point-to-Point BWA, and Spread Spectrum systems. Our systems utilize a common architecture in the millimeter wave and spread spectrum microwave frequencies, including 2.4 GHz, 5.7 GHz, 7 GHz, 13 GHz, 14 GHz, 15 GHz, 18 GHz, 23 GHz, 24 GHz, 26 GHz, 28 GHz, 31 GHz, 38 GHz, and 50 GHz. Both FDMA (Frequency Division Multiple Access) and TDMA (Time Division Multiple Access) technologies are designed into our Point-to-Multipoint systems.

Point-to-Multipoint and Point-to-Point BWA systems operate in specific radio frequency bands uniquely allocated by the telecommunications authorities of the nations of the world. To participate in the BWA markets of the world, BWA manufacturers must provide systems that conform to these national frequency specifications systems. The systems are subjected to stringent testing and must pass local homologation procedures. The greater the number of frequencies provided for by the BWA manufacturer, the greater the manufacturer's potential market penetration.

One of the main objectives of the access providers which buy BWA products from us or our competitors is the establishment of an access system that enables them to derive from their allocated frequency bandwidth the maximum amount of revenue-producing traffic, also known as "throughput." The greater the "throughput" capability of a BWA system, the greater the access provider's revenue production potential.

Access providers determine from studies of their market whether to provide a Point-to-Multipoint or Point-to-Point system, or a combination of both, to best meet their business plan objectives. Additionally, access providers determine if TDMA or FDMA, or a combination of both, best satisfies their engineering

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requirements. Although TDMA appears to offer the most cost effective use of bandwidth, FDMA has the advantage of being easier to deploy and allows providers to better guarantee service levels to their customers. It is not yet clear which will be the eventual dominant technology either throughout the world or in specific geographic regions. As a result, P-Com has elected to offer both FDMA and TDMA. P-Com provides greater versatility for the customer and higher levels of network flexibility by allowing both FDMA and TDMA to be simultaneously deployed within a section.

CLECs, ISPs, and other carriers are currently identifying how Point-to-Multipoint technology might most effectively integrate into existing and newly built systems. As a result the products required are evolving as well. All equipment provider companies in this market must be aware and able to react to product developments to remain competitive. Broad market trends are sometimes difficult to identify during the current industry wide slowdown because only relatively small volumes of PMP are being ordered.

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We provide both Point-to-Multipoint and Point-to-Point systems in a broad range of frequencies and provide both TDMA and FDMA capability, as stated above. P-Com's competitors' generally provide either Point-to-Multipoint or Point-to-Point, but seldom both. Through provision of such a broad range of design options, and through the application of a network management system that is common across all of our systems, we give BWA service providers broader design latitudes than those available from many competing systems and enables providers to tailor their purchases to help maximize their "throughput." In addition, our relatively broad range of product offerings tends to cushion P-Com against the risk that a particular frequency or standard might, for whatever reason, come to dominate all marketplace alternatives, or be mandatory for a particular country or project.

Software embedded in our systems allows the user to easily configure and adjust system settings such as frequency, power, and capacity without manual tuning and mechanical adjustments. Software provided with our systems includes sophisticated diagnostics, maintenance, network management, and system configuration tools.

We first produced and marketed our Point-to-Point systems in 1993. P-Com's Point-to-Multipoint systems became commercially available in 1999, and P-Com's Spread Spectrum Systems became available through our acquisition of Cylink Corporation assets in 1998. The revenue mix in 2001 for the Point-to-Point, Point-to-Multipoint, and Spread Spectrum systems are 74.3%, 12.5%, and 13.2% of total product sales respectively.

Services

P-Com Network Services, Inc. ("PCNS") is an installation services company providing three distinct services lines in the United States: Central Office DC Power Services, Central Office Transmission Services, and Wireless Services. PCNS installs and services a wide variety of central office DC power and transmission equipment produced and distributed by several manufacturers. Typically, Central Office Group projects involve full engineering, furnishing and installation (EF&I) services. PCNS also installs millimeter wave radio equipment produced by several manufacturers. Installations are generally performed in commercial buildings and consist of site preparation/construction, equipment installation and equipment commissioning into a customer network. Both the Central Office Group and Wireless Group offer full program or project management of appropriate complexity and length of time. Central Office projects are performed primarily in the Mid-Atlantic region. PCNS Wireless projects are

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generally performed in areas surrounding PCNS field offices in Los Angeles and San Francisco, CA; Salt Lake City, UT; Phoenix, AZ; Denver, CO; Kansas City, KS; Milwaukee, WI; Detroit, MI; Atlanta, GA; Tampa, FL; and Dulles, VA.

Due to the curtailment of capital spending by the Regional Bell Operating Companies ("RBOC"), PCNS's business declined significantly in second half of 2001.

Manufacturing and Testing

Our Campbell, California facility received its initial ISO 9001 registration in December 1993, and was subsequently recertified in December of 1999. Our ISO 9001 registration for its United Kingdom sales and customer support facility was received in 1996 and recertified in 1999; our ISO 9001 registration for its Tortona facility in Italy was first received in 1996 and recertified in 2000. Our production facility in Melbourne, Florida and its former Dietzenbach, Germany repair center were ISO 9001 certified in 1999.

Once a system reaches commercial status, we contract with one or more of several turnkey fabricators to build radio system units in commercial

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quantities. Utilization of such fabricators relieves us of expensive investments in manufacturing facilities, equipment, and parts inventories. This strategy enables us to quickly scale to meet varying customer demands and changes in technology.

We test manufacture systems in our California and Florida locations prior to shipment to its customers. Testing includes the complete IDU-ODU (indoor-outdoor unit) assembly, thereby providing customers completely tested end-to-end systems unit.

Sales Channels and P-Com Customers

Our wireless access systems are sold internationally and domestically directly through our own sales force, as well as through strategic partners, distributors, systems providers, and original equipment manufacturers ("OEMs"). Our services are sold directly through PCNS internal sales force.

Our customers include:

- o Verizon
- o Orange Personal Communications System ("OPCS")
- o Mercury One-2-One
- o D2 Vodafone (Mannesmann)
- o AT&T Local Services
- o Lucent Technologies
- o Tellabs
- o Siemens
- o New Century Global Network (Japan)
- o NEC USA
- o Sonatel C&E (India)
- o Science Technology Park India
- o Philcom Corporation (Phillipines)
- o Sonatel (Senegal)
- o Guangzhou Broadband (China)
- o China Mobile

During 2001, sales to Verizon, OPCS and Mercury One-2-One accounted for

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approximately 18%, 16% and 13% of our total sales, respectively. We expect that sales to relatively few customers will continue to account for a high percentage of our sales in the foreseeable future. Although the composition of the group comprising our largest customers may vary from period to period, the loss of a significant customer or a major reduction in orders by any significant customer, including reductions due to market, economic or competitive conditions in the telecommunications industry, may have a material adverse effect on our business, financial condition and results of operations. While we generally enter into written agreements with our major customers, they generally do not provide for minimum purchase commitments. Our ability to maintain or increase our sales in the future will depend, in part upon our ability to obtain orders from new customers as well as the financial condition and success of our customers, the telecommunication industry and the economy in general. Economic conditions in the industry are currently depressed.

We operate in two segments: Product Sales and Service Sales. The Product Sales segment consists of organizations located primarily in the United States, the United Kingdom, and Italy, which develop, manufacture and/or market network access systems for use in the worldwide wireless telecommunications market. The Service Sales segment, located in the United States (and UK prior to February 2001), performs engineering, furnishing installation and program management services through its Central Office Group and Wireless Group. See Note 8 to the Consolidated Financial Statements for additional information regarding the operations of our operating segments, as well as the allocation of sales by geographic customer destination.

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Our backlog was approximately \$5.9 million as of December 31, 2001, as compared to approximately \$41.9 million as of December 31, 2000. The decrease was due to severe reduction in capital spending in the United States and globally within the telecommunications industry and the bankruptcy of a significant customer, Winstar Communications Inc. ("Winstar") in April 2001. We include in backlog only those firm customer commitments to be shipped within the following twelve months. A significant portion of our backlog scheduled for shipment in the twelve months following December 31, 2001 can be cancelled since orders are often made substantially in advance of shipment, and most of our contracts provide that orders may be cancelled with limited or no penalties up to a specified period before shipment, and in some cases at any time. Therefore, backlog is not necessarily indicative of future sales for any particular period.

Technology

P-Com's technological approach to Point-to-Multipoint, Point-to-Point, and Spread Spectrum radio systems is, we believe, meaningfully different from conventional approaches. Through use of proprietary digital signal processing, frequency conversions, antenna interface technology, and proprietary software and custom application-specific integrated circuits, produces highly integrated, feature-rich systems. The results of this integrated design are reliability and cost advantages. The microprocessor and embedded software in both the IDU and ODU enclosures enable flexible customization to the user's specific telecommunications requirements.

Wireless transmission of voice, data and video traffic has become a desirable alternative to wired solutions due to its advantages in the ease and cost of implementation and maintenance. P-Com's Point-to-Point technology uses four-level ("FSK") modulation which is spectrally efficient and very impervious to interference. This robust quality results in improved frequency reuse distances which is beneficial to operators of large-scale Point-to-Point radio network deployments.

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FSK modulation is generated with low-component-count circuitry, and it is therefore very cost-effective. It is also reasonably insensitive to circuit linearity and can therefore be multiplied to higher frequencies without degradation. This in turn enables a range of high frequency millimeter wave bands to be supported with inexpensive circuitry. This technology is also quite suitable for high-volume manufacturing.

Our Point-to-Point and Spread Spectrum microwave radios consist of three primary assemblies: the IDU, the ODU and the antenna. The IDU houses the digital signal processing and the interfaces to the ODU via a single coaxial cable. The ODU, a radio frequency ("RF") enclosure, establishes the specific transmit and receive frequencies and houses the proprietary P-Com frequency converter. The antenna interfaces directly to the ODU via a proprietary P-Com wave-guide transition technology.

We believe our millimeter wave technology is meaningfully different from that contained in most conventional systems. When transmitting, our IDU sends signal to the ODU where it is received by the IF processor, routed to the transmit converter and mixed with a synthesized frequency source. This signal is then amplified and passed through to our proprietary frequency converter to establish the appropriate millimeter wave frequency. The signal is then routed to the antenna for transmission to the millimeter wave radio system at the receiving end. At the receiving end, the incoming signal is routed to the frequency converter and mixed in the down-converter with the same frequency that was used when transmitting. The signal is passed to the IDU where it is sent to the end-user's equipment.

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Our spread spectrum products use biphase shift keying ("BPSK"), minimal shift keying ("MSK"), quadrature phase shift keying ("QPSK") or quadrature amplitude modulation ("QAM") in the IDU. This signal is converted into a microwave frequency in the ODU, or in the case of some products, a single, stand-alone terminal can be installed indoors or outdoors. This signal is then routed to the antenna to be transmitted. The receiving antenna captures the signal power and routes it to the ODU. The ODU down-converts the signal to be demodulated in the IDU.

Our architecture is designed to achieve reliability, cost, installation and maintenance benefits over conventional approaches. We employ a common architecture in the ODU for all stages of the system other than the frequency converter used to establish the millimeter wave frequency at which the system operates. Finally, in our systems, the IDU and ODU are connected with a single coaxial cable, in contrast to many conventional systems that require multiple cable connections.

P-Com's Point-to-Multipoint radios provide further software configurable options. The system is comprised of Base Station equipment transmitting to many Remote Terminals within a sector. This "downlink" carries Asynchronous Transfer Mode ("ATM") cells over the link. The return, or up-link from the Remote to the Base Station, can operate in either FDMA or TDMA mode. This gives the network service provider the option of selecting the most efficient transmission method for the type of traffic to be carried. FDMA is efficient for constant bit rate, high-capacity traffic, while TDMA is more suitable for fractional rate, or bursty type data. The system can operate concurrently in both modes within the sector thereby providing the network access operator the flexibility to design systems that uniquely match the specific traffic profiles within individual sectors.

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The transport of ATM cells over the link allows multimedia transmission to be supported, including voice, data, fax, IP, Frame Relay, 10 BaseT, and many other services.

The modulation of each carrier can also be software configured from 4-level to 16- or 64-level QAM, as well as QPSK. This provides the network provider with the capability to best match the capacity demands of customers with the range trade-off of each modulation level. Such flexibility enables operators to optimally use the available spectrum.

The modular design of this Point-to-Multipoint system allows the user to start with a low capacity installation, and then by plugging cards into the sector IDU, to increase the number of carriers, and hence capacity, within the sector. This is achieved without the duplication of any of the more expensive microwave ODU equipment.

All of these innovations result in a highly flexible, yet cost-effective, Point-to-Multipoint system that enables network system providers to optimize spectrum utilization, and correspondingly, revenue generation.

Research and Development

P-Com has a continuing research and development program in order to enhance its existing systems and related software tools and to introduce new systems. We invested approximately \$19.8 million, \$20.2 million and \$32.4 million in 2001, 2000, and 1999, respectively, in research and development efforts and expects to continue to invest significant resources in research and development. Our research and development efforts can be classified into two distinct efforts: (1) increasing the functionality of its Point-to-Point and Point-to-Multipoint radio systems under development by adding additional

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frequencies and capacities to its product portfolio, modifying its network management system software offering, and developing other advancements to its radio systems under development, and (2) integrating new functionality to extend the reach of its products into the customers' networks, such as access technology which allows the customer to manage telecommunications services at its site and integrate voice, data, video and facsimile in one offering. There can be no assurance that current efforts will result in new product introductions or modifications to existing products. The wireless communications market is subject to rapid technological change, frequent new product introductions and enhancements, product obsolescence, changes in end-user requirements and evolving industry standards. Our ability to be competitive in this market will depend in significant part upon its ability to develop successfully, introduce, and sell new systems and enhancements and related software tools on a timely and cost effective basis that respond to changing customer requirements. The Company has experienced and may continue to experience delays from time to time in completing development and introduction of new systems, and enhancements or related software tools. There can be no assurance that errors will not be found in our systems after commencement of commercial shipments, which would result in the loss of or delay in market acceptance. The inability of the Company to introduce in a timely manner new systems, enhancements, or related software tools that contribute to sales could have a material adverse effect on our business, financial condition, and results of operations.

Sales and Marketing

Our sales and marketing efforts are directed from our executive offices in

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Campbell, California. We have sales and customer support facilities in the United Kingdom and Italy that serve as bases for the European market and in China and Singapore for the Asian market. Internationally, we use a variety of sales channels, including system providers, OEMs, dealers and local agents. We also sell directly to its customers. In addition, we have established agent relationships in numerous other countries in the Asia/Pacific region, the Middle East, South America, and Europe.

Typically, our sales process commences with the solicitation of bids by prospective customers. If selected to proceed further, we may provide systems for incorporation into system trials, or may proceed directly to contract negotiations. When system trials are required and successfully completed, we then negotiate a contract with the customer to set technical and commercial terms of sale. These terms of sale govern the purchase orders issued by the customer as the network is deployed.

The Company believes that due to the complexity of its radio systems, a high level of technical sophistication is required on the part of our sales and marketing personnel. In addition, we believe that customer service is fundamental to its success and potential for follow-on business. New customers are provided engineering assistance for installation of the first units as well as varying degrees of field training depending upon the customer's technical aptitude. All customers are provided telephone support via a 24-hour customer service help desk. Our customer service efforts are supplemented by our system providers.

The Company believes that it must continue to expand its sales and marketing organization worldwide. Any significant sales growth will be dependent in part upon our expansion of marketing, sales and customer support capabilities which will require significant expenditures to build the necessary infrastructure.

Competition

The worldwide wireless communications market is very competitive. P-Com's wireless radio systems compete with other wireless telecommunications products and alternative telecommunications transmission media, including copper and

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fiber optic cable. We have experienced competition worldwide from a number of leading telecommunications companies that offer a variety of competitive products and services, including Alcatel Network Systems, Floware, DMC Stratex Networks, Ericsson, Harris-Farion Division, Nokia, Nortel, SIAE, Hughes Network Systems, and Western Multiplex Corporation, many of which have substantially greater installed bases, financial resources and production, marketing, manufacturing, engineering and other capabilities than P-Com. We face actual and potential competition not only from these established companies, but also from start-up companies that are developing and marketing new commercial products and services, such as DSL. We may also face competition in the future from new market entrants offering competing technologies. Our results of operations may depend in part upon the extent to which customers, which choose to rely on wireless strategies, elect to purchase from outside sources rather than develop and manufacture their own radio systems. There can be no assurance that such customers will rely on, or expand, their reliance on the Company as an external source of supply for their radio systems. Recently, certain of our competitors have announced the introduction of competitive products, including related software tools, and the acquisition of other competitors and competitive technologies. Competition is especially intense during the current period of depressed demand for telecommunications infrastructure equipment. We expect our competitors to continue to improve the performance and lower the price of their

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current products, and to introduce new products or new technologies that provide added functionality and other features. New product introductions and enhancements by our competitors could cause a significant decline in sales or loss of market acceptance of our systems or intense price competition, or make our systems or technologies obsolete or noncompetitive. The Company has experienced significant price competition and expects such price competition to intensify in view of the current market downturn, and this may materially adversely affect its gross margins and its business, financial condition and results of operations. The Company believes that to be competitive, it will continue to be required to expend significant resources on, among other items, new product development and enhancements.

The principal elements of competition in our market, and the basis upon which customers may select our systems, include price, performance, software functionality, and ability to meet delivery requirements and customer service and support.

Government Regulation

Radio communications are subject to extensive regulation by the United States and foreign governmental agencies and international treaties. Our systems must conform to a variety of domestic and international requirements established to, among other things, avoid interference among users of radio frequencies and to permit interconnection of equipment. Each country has a different regulatory process. Historically, in many developed countries, the limited availability of frequency spectrum has inhibited growth of wireless telecommunications networks. In order for the Company to operate in a foreign jurisdiction, it must obtain regulatory approval for its systems and comply with different regulations in each jurisdiction. Regulatory bodies worldwide are continuing the process of adopting new standards for wireless communication products. The delays inherent in this governmental approval process may cause the cancellation, postponement or rescheduling of the installation of communications systems by the Company and its customers, which in turn may have prevent or delay the sale of systems by the Company to such customers.

The failure to comply with current or future regulations or changes in the interpretation of existing regulations could result in suspension or cessation of in the country operations in the particular jurisdiction. Such regulations or such changes could require the Company to modify its products and incur

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substantial costs and delays to comply with such time-consuming regulations and changes. In addition, the Company also affected to the extent that domestic and international authorities regulate the allocation and auction of the radio frequency spectrum. Equipment to support new services can be marketed only if permitted by suitable frequency allocations, auctions and regulations, and the process of establishing new regulations is complex and lengthy. To the extent PCS operators and others are delayed in deploying these systems, we could experience delays in orders. Failure by the regulatory authorities to allocate suitable frequency spectrum could have a material adverse effect on our business, financial condition and results of operations.

The regulatory environment in which we operate is subject to significant change. Regulatory changes, which are affected by political, economic and technical factors, could significantly impact our operations by restricting development efforts by our customers, making current systems obsolete or increasing the opportunity for additional competition. Any such regulatory changes, including changes in the allocation of available spectrum, could have a material adverse effect on our business and results of operations. We might deem it necessary or

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advisable to modify its systems to operate in compliance with such regulations. Such modifications could be extremely expensive and time consuming.

Intellectual Property

We rely on a combination of patents, trademarks, trade secrets, copyrights and a variety of other measures to protect its intellectual property rights. We currently hold fourteen U.S. patents and five U.S. copyrights on software. We generally enter into confidentiality and nondisclosure agreements with service providers, customers and others, and attempts to limit access to and distribution of its proprietary technology. We also enter into software license agreements with its customers and others. However, there can be no assurance that such measures will provide adequate protection for our trade secrets or other proprietary information, that disputes with respect to the ownership of its intellectual property rights will not arise, that our trade secrets or proprietary technology will not otherwise become known or be independently developed by competitors or that we can otherwise meaningfully protect its intellectual property rights. There can be no assurance that any patent owned by the Company will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to the Company or that any of our pending or future patent applications will be issued with the scope of the claims sought by the Company, if at all. Furthermore, there can be no assurance that others will not develop similar products or software, duplicate our products or software or design around the patents owned by us or that third parties will not assert intellectual property infringement claims against the Company. In addition, there can be no assurance that foreign intellectual property laws will adequately protect our intellectual property rights abroad. Failure to protect our proprietary rights could have a material adverse effect on its business, financial condition and results of operations.

Litigation may be necessary to enforce our patents, copyrights and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations regardless of the outcome of the litigation. There can be no assurance that infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims will not be asserted in the future or that such assertions will not materially adversely affect our business, financial condition and results of operations. If any

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claims or actions are asserted against the Company, we may seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that a license will be available under reasonable terms or at all. In addition, should we decide to litigate such claims, such litigation could be extremely expensive and time consuming and could materially adversely affect our business, financial condition and results of operations, regardless of the outcome of the litigation.

Employees

As of February 28, 2002, the Company and our subsidiaries employed a total of 356 employees, including 116 in Operations, 95 in Research and Development, 54 in Sales and Marketing, 21 in Quality Assurance and 70 in Administration. We believe that future results of operations will depend in large part on its ability to attract and retain highly skilled employees. None of our employees are represented by a labor union, and we have not experienced any work stoppages

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to date. P-Com Germany employed 15 prior to its closure in July 2001. RT Masts employed 170 before it was sold in February 2001. Due to the drastic downturn in the U.S. CLEC market, we decreased our workforce in the first, second, third and fourth quarters of 2001 by 41, 118, 136 and 17 employees, respectively.

Item 2. Properties

| Location of Lease Facility (1) ----- | Functions ----- | Square Footage ----- | Date Lease Expires ----- |
|--|--|----------------------------|--------------------------------|
| HEADQUARTERS Campbell, CA | Administration Customer Support/ Sales/Engineering/ Manufacturing | 61,000 | November 2005 |
| Campbell, CA | Manufacturing/Research | 25,000 | September 2002 |
| San Jose, CA | Warehouse | 34,000 | September 2003 |
| Redditch, England | Sales/Customer Support | 5,500 | June 2005 |
| Watford, England | Research/Development | 7,500 | April 2008 |
| Redditch, England | Warehouse | 6,800 | September 2004 |
| Dulles, VA | Administration | 8,750 | October 2007 |
| Sterling, VA | Sales/Customer Support/Warehouse | 15,000 | July 2007 |
| Orange, CA | Services | 3,400 | February 2002 |
| Phoenix, AZ | Services | 2,540 | January 2003 |
| Denver, CO | Services | 2,000 | July 2003 |
| Englewood, CO | Administration | 2,000 | July 2003 |
| Melbourne, Florida | Research/Development | 36,250 | July 2004 |
| Beijing, China | Sales/Customer Support | 4,200 | July 2002 |
| Singapore | Sales and Customer Support | 11,000 | October 2002 |

(1) All locations support product sales except Orange, CA; Phoenix, AZ; Englewood, CO; Sterling, VA and Dulles, VA, which support services sales.

P-Com Italia, S.p.A., owns and maintains its corporate headquarters in Tortona, Italy. This facility, approximately 36,000 square feet, provides design, test, manufacturing, mechanical and warehouse functions.

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Item 3. Legal Proceedings

In September and October 1998, several putative class action complaints were filed in the Superior Court of California, County of Santa Clara, on behalf of P-Com stockholders who purchased or otherwise acquired its Common Stock between April 1997 and September 11, 1998. The plaintiffs alleged various state securities laws violations by P-Com and certain of its officers and directors. The complaints sought compensatory, punitive and other damages, attorneys' fees and injunctive and/or equitable relief.

On December 3, 1998, the Superior Court of California, County of Santa Clara, entered an order consolidating all of the above complaints. On June 30, 2000 the Superior Court issued a notice of ruling certifying this matter as a class action.

We reached an agreement in principle on October 25, 2001 to settle the consolidated securities class action suit. On February 8, 2002, pursuant to that agreement in principle, the court entered final judgment approving the settlement. Under the terms of the settlement, all claims against the Company

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and all other defendants will be dismissed without admission of liability or wrong doing by any party. The settlement was funded entirely by our directors and officers liability insurance.

Item 4. Submission of Matters to a Vote of Security Holders

None

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our Common Stock is quoted in the Nasdaq National Market under the symbol PCOM. To maintain the listing of our common stock on The Nasdaq National Market, we are required to meet certain listing requirements, including a minimum bid price of \$1.00 per share. We received a letter of notice dated June 20, 2001 from the Nasdaq National Market stating that due to our minimum bid price levels remaining under the \$1 level for 30 consecutive trading days, we could be subject to a delisting procedure should the bid price continue to remain under the \$1 level for an additional 90-day period, unless our stock attains a bid price of \$1 or more for a period of ten consecutive days during such 90-day period. Shortly after September 11 Nasdaq issued a moratorium on the minimum bid price requirement until January 2, 2002. We received a new letter of notice dated February 14, 2002 from Nasdaq stating that due to our minimum bid price levels remaining under \$1 for 30 consecutive days, we were again put on notice that it is subject to delisting procedures. Management received in September 2001 shareholders' approval for a reverse stock split calling for one share of newly issued Common Stock to be issued in place of each five shares of existing stock as of the date at which the reverse stock split is effected. We have not implemented the reverse stock split in part because there is no assurance that it would enable us to achieve and maintain compliance with the minimum bid price requirement. If we fail to meet the minimum bid process for 10 consecutive days during the grace period, our Common Stock may be delisted from the NASDAQ National Market. Even if we are able to comply with the minimum requirement, there is no assurance that in the future we will continue to satisfy NASDAQ listing requirements, with the result that our common stock may be delisted from The Nasdaq National Market. Should our common stock be delisted from NASDAQ National Market, it would likely be traded on Nasdaq Small Cap Market, and if delisted from The Nasdaq Small Cap Market, would likely be traded on the "Over-the-counter Bulletin Board" of the National Association of Securities Dealers, Inc. However, this alternative could result in a less liquid market available for existing and potential shareholders to exchange shares of our stock and could ultimately further depress the trading price of our Common Stock.

The following tables sets forth the range of high and low sale prices, as reported on the Nasdaq National Market for each quarter in 2001 and 2000. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

As of Feb 28, 2002, there were 517 stockholders on record of our Common Stock.

Price Range of Common Stock

| High | Low |
|------|-----|
|------|-----|

Year Ended December 31, 2000:

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| | | | | |
|-------------------------------|----|-------|----|------|
| First Quarter | \$ | 23.72 | \$ | 9.00 |
| Second Quarter | | 15.00 | | 5.56 |
| Third Quarter | | 8.44 | | 5.18 |
| Fourth Quarter | | 6.13 | | 1.53 |
| | | | | |
| Year Ended December 31, 2001: | | | | |
| First Quarter | \$ | 5.50 | \$ | 1.25 |
| Second Quarter | | 1.49 | | 0.55 |
| Third Quarter | | 0.69 | | 0.26 |
| Fourth Quarter | | 0.38 | | 0.14 |

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Recent Sales of Unregistered Securities

In July 2001 the Company issued 3,797,468 shares of Common Stock to two existing stockholders at a per share price of \$0.79, for an aggregate proceed of \$3.0 million. The unregistered shares were priced at an amount greater than the public market trading price of the Common Stock and was based on the pro forma calculation of Adjusted Net Tangible Book Value ("NTBV") per share. There were no underwriters or commissions involved, and the Company relied on the provisions of Securities Action section 4(2).

Dividends

To date, we have not paid any cash dividends on shares of our Common Stock. We currently anticipate that we will retain any available funds for use in the operation of our business, and do not anticipate paying any cash dividends in the foreseeable future.

Item 6. Selected Financial Data

The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations." The balance sheet data as of December 31, 2001 and 2000 and the Statement of Operations data for the years ended December 31, 2001, 2000, and 1999, have been derived from the audited financial statements included in Item 8 of this document.

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Statement of Operations Data

| | 2001(2) | 2000(3) (4) | 1999(5) | 1998(6) |
|----------------|---------------------------------------|-------------|------------|------------|
| | ----- | ----- | ----- | ----- |
| | (in thousands, except per share data) | | | |
| Sales: | | | | |
| Product | \$ 73,236 | \$ 183,606 | \$ 116,409 | \$ 118,948 |
| Service | 30,838 | 50,795 | 40,470 | 43,597 |
| | ----- | ----- | ----- | ----- |
| Total sales | 104,074 | 234,401 | 156,879 | 162,545 |
| | ----- | ----- | ----- | ----- |
| Cost of sales: | | | | |

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| | | | | |
|---|-------------|-------------|--------------|-------------|
| Product | 94,890 | 160,965 | 107,378 | 93,829 |
| Service | 23,624 | 38,170 | 28,274 | 30,777 |
| | ----- | ----- | ----- | ----- |
| Total cost of sales | 118,514 | 199,135 | 135,652 | 124,606 |
| | ----- | ----- | ----- | ----- |
| Gross profit (loss) | (14,440) | 35,266 | 21,227 | 37,939 |
| | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | |
| Research and development | 19,800 | 20,241 | 32,431 | 38,882 |
| Selling and marketing | 7,776 | 11,972 | 17,135 | 19,224 |
| General and administrative | 33,371 | 26,893 | 25,179 | 24,260 |
| Goodwill amortization | 8,034 | 19,598 | 6,547 | 5,023 |
| Restructuring and other charges | -- | -- | 3,300 | 4,332 |
| Acquired in-process research and development (8) | -- | -- | -- | 15,442 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 68,981 | 78,704 | 84,592 | 107,163 |
| | ----- | ----- | ----- | ----- |
| Income (loss) from operations | (83,421) | (43,438) | (63,365) | (69,224) |
| Interest expense | (1,961) | (4,750) | (8,175) | (8,652) |
| Gain on sale of a subsidiary | 9,814 | -- | -- | -- |
| Other income (expense), net | (545) | (6,977) | (2,537) | 1,446 |
| | ----- | ----- | ----- | ----- |
| Income (loss) from continuing operations before income taxes, extraordinary item and cumulative effect of accounting change | (76,113) | (55,165) | (74,077) | (76,430) |
| Provision (benefit) for income taxes | (575) | 11,140 | 1,407 | (11,501) |
| | ----- | ----- | ----- | ----- |
| Income (loss) from continuing operations before extraordinary item and cumulative effect of accounting change | (75,538) | (66,305) | (75,484) | (64,929) |
| Discontinued operations(7): | | | | |
| Loss from operations | -- | (4,000) | (13,903) | (2,869) |
| Loss on disposal | -- | -- | (26,901) | -- |
| | ----- | ----- | ----- | ----- |
| | -- | (4,000) | (40,804) | (2,869) |
| Extraordinary gain on retirement of notes | -- | 1,890 | 13,239 | 5,333 |
| Cumulative effect of accounting change(3) | -- | (1,534) | -- | -- |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ (75,538) | \$ (69,949) | \$ (103,049) | \$ (62,465) |
| | ===== | ===== | ===== | ===== |
| Charge related to Preferred Stock discount | -- | -- | -- | (1,839) |
| Loss on Conversion of Preferred Stock to Common Stock | -- | -- | (18,521) | -- |
| Net income (loss) applicable to Common Stockholders | \$ (75,538) | \$ (69,949) | \$ (121,570) | \$ (64,304) |
| Basic income (loss) from Continuing Operations (1) | \$ (0.91) | \$ (0.85) | \$ (1.32) | \$ (1.50) |
| Diluted income (loss) from Continuing Operations (1) | \$ (0.91) | \$ (0.85) | \$ (1.32) | \$ (1.50) |
| Basic net income (loss) applicable to Common Stockholders (1) | \$ (0.91) | \$ (0.90) | \$ (2.13) | \$ (1.49) |
| Diluted net income (loss) applicable to Common Stockholders (1) | \$ (0.91) | \$ (0.90) | \$ (2.13) | \$ (1.49) |

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Balance Sheet Data (in thousands)

| | 2001 (2) ----- | 2000 (3) (4) ----- | 1999 (5) ----- | 1998 (6) ----- |
|---------------------------|-------------------|-----------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 7,103 | \$ 27,541 | \$ 11,629 | \$ 29,241 |
| Working capital | (10,185) | 76,823 | 31,984 | 78,967 |
| Total assets | 92,234 | 216,219 | 218,746 | 315,217 |
| Long-term debt | 769 | 30,290 | 39,858 | 97,769 |
| Mandatorily redeemable | | | | |
| Preferred Stock | -- | -- | -- | 13,559 |
| Mandatorily Redeemable | | | | |
| Common Stock Warrants | -- | -- | -- | 1,839 |
| Retained earnings | | | | |
| (accumulated deficit) | (294,460) | (218,922) | (148,973) | (45,924) |
| Stockholders' equity | \$ 24,256 | \$ 95,247 | \$ 89,215 | \$ 99,409 |

- (1) See Note 9 of Notes to Consolidated Financial Statements for an explanation of the method used to determine share and per share amounts.
- (2) In 2001, we recorded charges of approximately \$30 million related to excess inventory and inventory purchase commitments, \$5.8 million related to a write-down of goodwill and other intangibles, and a \$11.6 million increase in bad debt expense related to a customer bankruptcy.
- (3) We recorded a non-cash charge of approximately \$1.5 million on January 1, 2000 to account for the cumulative effect of the accounting change made to comply with SAB 101. See Note 2 of Notes to Consolidated Financial Statements.
- (4) In 2000, we recorded charges of approximately \$21.7 million related to excess inventory and inventory purchase commitments, \$15.0 million related to a write-down of goodwill, and a \$9.9 million increase in the valuation allowance against the carrying value of deferred tax assets.
- (5) In 1999, we recorded restructuring and other charges of approximately \$36.5 million.
- (6) In 1998, we recorded restructuring and other charges of approximately \$26.6 million.
- (7) Losses from discontinued operations in 1999 were in part attributable to Technosystem, which was reclassified to discontinued operations in the third quarter of 1999. The gain on disposal in 2001 was from the sale of RT Masts in February 2001.
- (8) In connection with the acquisition of substantially all of the assets of the Cylink Wireless Group in 1998, \$15.4 million of purchase price attributed to in-process research and development was expensed.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "--Certain Factors Affecting the Company" contained in this Item 7 and elsewhere in this Annual Report on Form 10-K.

Overview

We supply equipment for wireless access to worldwide telecommunications networks, and engineering, furnishing wireless and installation services in the U.S. central office and wireless telecommunication market. We were founded in April 1991 to develop, manufacture, market and sell millimeter wave radio systems for wireless networks. Currently, we ship 2.4 GHz and 5.7 GHz spread spectrum (unlicensed) radio systems, as well as 7 GHz, 13 GHz, 14 GHz, 15 GHz, 18 GHz, 23 GHz, 26 GHz, 38 GHz and 50 GHz Point-to-Point radio systems. Our performance in 2001 reflects the most challenging period the telecommunications equipment and services industry has experienced. Over-capacity resulting in a severe reduction in capital spending in the United States and globally within the telecommunications industry and the bankruptcy of a significant customer, Winstar Communications Inc ("Winstar") in the first quarter of 2001 has dramatically impacted our equipment sales this year. Our service revenue was also negatively impacted by certain major customers implementing spending control programs since mid-2001. The net loss in 2001 was also increased by inventory related charges to product costs of sales of \$30 million, accounts receivable valuation charges of \$11.6 million primarily due to the bankruptcy of Winstar, and a goodwill and other intangibles impairment write-off of \$5.8 million. We instituted cost reduction programs since the first quarter of 2001, including a headcount reduction of approximately 310 employees or 34% compared to previous year's headcount and termination of facility leases. These were insufficient to offset the impact of reduction in revenue. Our services business was profitable in 1999 and 2000 and nearly broke even in 2001; our product business had significant losses in all these years.

In February 2000, we completed the divestiture of two Italian subsidiaries, Technosystem, S.p.A. and Cemetel S.r.L., resulting in additional losses for the first quarter of approximately \$4.0 million and \$3.5 million, respectively.

In 2001 we revised our method for recognizing revenue for sales of radio systems as a result of the adoption of Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." We previously recognized revenue upon shipment of product, provided no significant obligations remained and collection was probable. This was changed to recognition upon transfer of title and risk of loss, which is generally upon shipment of the product provided no significant obligations remained and collection was probable. In accordance with SAB No. 101, we recorded a non-cash charge of approximately \$1.5 million on January 1, 2000 to account for the cumulative effect of the accounting change.

The cumulative effect of this accounting change primarily resulted from contracts where revenue had historically been recognized upon shipment, however, under the terms of the underlying contracts, title and risk of loss did not transfer until either delivery or subsequent receipt of payment. Under our revised revenue recognition method, revenue relating to such sales is deferred until both title and risk of loss is assumed by the customer. As a result of this change, approximately \$12.0 million in revenue and \$10.5

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million in related costs originally recognized in 1999 were deferred and re-recognized in the first quarter of 2000.

Critical accounting policies

Managements discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue recognition

Revenue from product sales is recognized upon transfer of title and risk of loss, which is upon shipment of the product provided no significant obligations remain and collection is probable. Provisions for estimated warranty repairs, returns and other allowances are recorded at the time revenue is recognized. Revenue from service sales is recognized ratably over the contractual period or as the service is performed.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses from the inability of our customers to make required payments. We evaluate our allowance for doubtful accounts based on the aging of our accounts receivable, the financial condition of our customers and their payment history, our historical write-off experience and other assumptions. In order to limit our credit exposure, we require irrevocable letters of credit and even prepayment from certain of our customers before commencing production.

Inventory

Inventory is stated at the lower of cost or market, cost being determined on first-in, first-out basis. We assess our inventory carrying value and reduce it if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimate given the information currently available. Our customers' demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the company. Our inventories include parts and components that are specialized in nature or subject to rapid technological obsolescence. We maintain an allowance for inventories for potentially excess and obsolete inventories and gross inventory levels that are carried at costs that are higher than their market values. If we determine that market conditions are less favorable than those projected by management, such as an unanticipated decline in demand not meeting our expectations, additional inventory write-downs may be required.

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Goodwill

Our business acquisitions have typically resulted in goodwill, which affects the amount of future period amortization expense and possible impairment expense that the Company will incur. The determination of the value of goodwill requires management to make estimates and assumptions that affect the Company's consolidated financial statements. In assessing the recoverability of the Company's goodwill, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded. On January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, and will be required to analyze its goodwill for impairment during the first six months of fiscal 2002, and then on a periodic basis thereafter. During the year ended December 31, 2001, the Company recorded an impairment loss related to goodwill of \$5.8 million.

Accounting for Income Taxes

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we consider historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Years Ended 2001, 2000 and 1999

Sales

Sales consist of revenues from radio systems, repairs and support services offered, as well as central office and transmission infrastructure service support for major telecom providers.

In 2001, 2000 and 1999, sales were approximately \$ 104.1 million, \$234.4 million, and \$156.9 million, respectively. The 55.6% decrease in sales from 2000 to 2001 was primarily due to dramatically decreased product sales to Competitive Local Exchange Carriers ("CLEC") customers, on which we had heavily relied. Most CLECs are now in financial distress. The worldwide market for telecommunication equipment has also contracted substantially in 2001. Our sales were especially slow in the third and fourth quarters of 2001, probably due in part to post-September 11 caution exhibited by customers in the purchasing processes. Our United States based service sales were similarly affected by certain major customers implementing spending control programs beginning mid-2001, and we sold our United Kingdom based services business in February 2001. The 49.4% increase in sales from 1999 to 2000 was primarily due to increased radio system delivery levels under a large order from Winstar in the second half of the year and 25% increase in the services business sales in the U.S. and UK combined.

Our 2001 sales fell significantly in each of our product categories. During 2001, the Tel-Link Point-to-Point product line represented 52.2% of our total sales, compared to 61.0% of our total sales during 2000 and 59.0% during 1999. The Spread Spectrum (unlicensed) product line represented approximately 9.3% of our total sales in 2001, as compared to 8% during 2000 and 11.3% of our total sales during 1999. Our Point-to-Multipoint product line, which was introduced in late fourth quarter 1999, represented 8.8% of our total sales in 2001, 6% in 2000 and only approximately \$1.1 million of sales in 1999. Total sales for the Point-to-Multipoint line of approximately \$9 million in 2001 and

\$13.9 million in 2000 did not meet our expectations. Customers, particularly in the U.S. CLEC markets, did not place orders equivalent to forecasted orders. However, these same customers increased their Point-to-Point radio orders to bring actual sales levels for this line higher than originally forecasted for 2000. The bankruptcy of our major U.S. based CLEC customer, Winstar, in the first quarter of 2001 adversely impacted our equipment sales in the U.S. for the remainder of the year.

Sales to Orange Personal Communications Services ("OPCS") accounted for approximately 16%, 7% and 20% of total sales in 2001, 2000 and 1999, respectively. Sales to Mercury One-to-One and Verizon accounted for approximately 13% and 18% of 2001 sales, respectively. Sales to Winstar accounted for approximately 6%, 28% and 11% of total sales in 2001, 2000 and 1999, respectively. Sales to Bosch Telecom accounted for approximately 13% of total sales in 1999. Sales to Lucent Technologies accounted for approximately 12% of total sales in 2000.

During 2001, we generated 45.2% of our sales in the United States, 31.1% in the United Kingdom, and 15.8% in Asia. The United States share remained relatively high, despite poor product sales in the United States, due to the US central services business representing a relatively larger share of the total sales mix compared to the geographically-dispersed products business sales in 2001. During 2000, we generated 55.9% of our sales in the United States, 24.3% in the United Kingdom, 7.8% in Continental Europe and Middle East markets, and 12.0% in other geographic regions, particularly in the Pacific Rim. The increased United States share was due primarily to product sales to Winstar and other CLECs. During 1999, we generated 30.8% of our sales in the U.S., 34.5% in the United Kingdom, 18.0% in Europe excluding the UK, 6.1% in Asia, and 10.7% in other geographic regions.

Product sales for 2001 were \$73.2 million, a decrease of \$110.4 million or 60%, when compared to 2000. Product sales for 2000 were \$183.6 million during the year, an increase of \$67.2 million or 57.7%, when compared to 1999 levels. Product sales represented 70.4%, 78.3% and 74.2% of sales in 2001, 2000 and 1999, respectively. The decrease in 2001 product sales was due to bankruptcy of our major CLEC customer, Winstar, and the worldwide contraction of the telecommunications equipment market in 2001. The increase in 2000 product sales resulted from larger orders from U.S. CLEC customers and an order from a China based customer under a multi-year contract for Point-to-Multipoint products announced in mid-2000.

Service sales for 2001 decreased approximately \$20 million or 39.3% when compared to 2000 due to certain major customers implementing spending controls from mid-2001 through the remainder of the year, and the sale of the RT Masts service unit in February 2001. RT Masts' revenues were approximately \$20 million and \$18 million in 2000 and 1999, respectively. Service sales for 2000 increased approximately \$10.3 million or 25.5% from the prior year levels of installation services in the U.K., and a significant increase in central office maintenance work performed by the U.S. service group for a major RBOC group.

Service sales represented 29.6%, 21.7% and 25.8% of total sales in 2001, 2000, and 1999, respectively. The increased percentage in 2001 was due to lower levels of equipment sales compared to 2000; On dollar level basis, services' sales also declined in 2001.

Many of our largest customers use our products and services to build telecommunication network infrastructures. These purchases are significant

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investments in capital equipment and are required for a phase of the rollout in a geographic area or a market. Consequently, the customer may have

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different requirements from year to year and may vary its purchases from us accordingly.

We provide our customers with significant volume price discounts, which would lower the average selling price of any particular product line as more units are sold to a given customer up to a maximum discount level offered. In addition, we expect that the average selling price of any particular product line will also decline as a given product matures and as competition increases in the future. Accordingly, our ability to maintain or increase sales will depend upon many factors, including our ability to increase unit sales volumes of our systems and our ability to introduce and sell new systems at prices sufficient to compensate for reduced revenues resulting from declines in the average selling price of our more mature products. The significant worldwide contraction in the capital spending of telecommunication equipment industry negatively affected our sales in 2001. We expect this trend to continue into 2002. We were not able to adjust operating expense levels drastically enough to result in a profitable operating result in 2001, and given the sales level decline experienced, we could not expect to be profitable at the sales levels experienced in 2001.

Gross Profit

Cost of sales consists primarily of costs related to materials, labor and overhead, freight and duty, and in the case of the services business, direct labor and materials. In 2001, 2000, and 1999, gross profit (loss) was \$(14.4) million, \$35.3 million, and \$21.2 million, respectively, or (13.8%), 15.0%, and 13.5% of sales, respectively.

In 2001, 2000, and 1999, product gross margins were affected by inventory and other related charges of \$30.0 million, \$21.7 million, and \$15.1 million, respectively (See Restructuring and Other Charges below). Product gross profit as a percentage of product sales, not including the effect of the inventory charges described above, was approximately 11.4%, 23.9%, and 26.1% in 2001, 2000, and 1999, respectively. In 2001, the reduced gross profit margins related to reduced economics of scale and to pricing pressure on the Point-to-Point Tel-Link products as a result of the relative maturity of this legacy product line, the global economic slowdown and availability of highly competitive alternative products in the marketplace. Gross profit turned negative in the second half of 2001. Unless sales recover significantly, coupled with the existing cost cutting measures in place, we will remain unprofitable. In 2000, the reduced gross profit margins related to high materials cost for the Point-to-Multipoint products due to industry wide part shortages, and higher overhead applied to sales due to lower than expected unit sales of the Point-to-Multipoint line in the second half of 2000. Additionally, the Point-to-Point Tel-Link products were subjected to margin pressure due to the existence of highly competitive alternative product lines in the marketplace in 2000.

Service gross profit as a percentage of service sales was approximately 23.4%, 25.0%, and 30.1% in 2001, 2000, and 1999, respectively. The decrease in the service gross percentage in 2001 was caused by the significant decline of US sales in the second half without a corresponding decrease in expenses. The decrease in service gross profit percentage in 2000 was due to fixed contract rates charged in the UK market for RT Masts' largest customer and shifts in service job type mix. Fourth quarter 2000 revenue in the U.S. service market was heavily weighted to lower margin radio installation work directly related to our

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higher sales volume of radios to Winstar.

Research and Development

Research and development expenses consist primarily of costs associated with new product development. Our research and development activities include the development of additional radio products, frequencies and upgrading operating

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features and related software tools. Software development costs incurred prior to the establishment of technological feasibility are expensed as incurred. Software development costs incurred after the establishment of technological feasibility and before general release to customers are capitalized, if material. To date, all software development costs incurred after the establishment of technological feasibility have been immaterial.

In 2001, 2000, and 1999, research and development expenses were approximately \$19.8 million, \$20.2 million, and \$32.4 million, respectively. As a percentage of sales, research and development expenses increased from 8.6% in 2000 to 19.0% in 2001, primarily due to lower sales level. Research and development expenses in 2001 continued to be significant due to the substantial final development efforts on the new Encore Point-to-Point and AirPro Gold Spread Spectrum products in preparation for commercial rollout in 2001 and 2002. The percentage however decreased from 20.7% in 1999 to 8.6% in 2000 due to our Point-to-Multipoint development project being completed in the fourth quarter of 1999. The wind down of this development project resulted in reduced spending for this project in 2000, and the fact that overall sales levels increased in 2000 compared to 1999. Our absolute dollar R&D costs are more consistent than the percentages are due to the year-to-year sales swings.

Selling and Marketing

Selling and marketing expenses consist of salaries, sales commissions, travel expenses, customer service and support expenses and costs related to business development and trade shows. In 2001, 2000, and 1999, selling and marketing expenses were \$7.8 million, \$12.0 million, and \$17.1 million, respectively. As a percentage of sales, selling and marketing expense increased from 5.1% in 2000 to 7.5% in 2001, primarily due to lower dollar sales levels. The decrease in absolute dollar spending in 2000 was due to closure of the German subsidiary in July 2001, and the cost control measures that were achieved since the first quarter of 2001. As a percentage of sales, selling and marketing expenses decreased from 10.9% in 1999 to 5.1% in 2000, primarily due to smaller marketing staff levels as a result of the sales of Control Resources Corporation and Technosystem subsidiaries in early 2000 and due to 2000's higher sales.

General and Administrative

General and administrative expenses consist primarily of salaries and other expenses for management, as well as finance, accounting, data processing, legal and other professional services. In 2001, 2000, and 1999, general and administrative expenses, excluding a \$11.6 million receivable valuation charge in the first quarter of 2001 relating to the bankruptcy filing of Winstar, were \$21.8 million, \$26.9 million and \$25.2 million, respectively. As a percentage of sales, general and administrative expenses increased from 11.5% in 2000 to 20.9% in 2001 due to the inability to reduce fixed expenses in 2001 as rapidly as the decrease in sales in our major markets during this period. General and administrative expenses increased 6.8% in 2000 compared to 1999. The expansion of the services business, predominantly in the U.S. market, significantly increased the related administrative expenses overall level in 2000. General and

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administrative expenses for the manufacturing operations were reduced in 2000 as compared to 1999 due to better cost controls and due to significant write-offs of accounts receivable in 1999 which did not recur in 2000.

Goodwill Amortization

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of acquired companies accounted for as purchase business combinations. Goodwill is amortized on a straight-line basis over

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the period of expected benefit of 20 years. In 2001, 2000 and 1999 goodwill amortization was approximately \$8.3 million, \$19.6 million and \$7.8 million, respectively. In the second quarter of 2000, management reviewed the carrying value of goodwill related to its 1998 acquisition of the Cylink Wireless Group. Based upon its assessment of future value of revenue flows estimated to be provided from this acquisition, a \$15 million impairment charge was recorded. Management also determined it appropriate to amortize the remaining goodwill related to the Cylink Wireless Group over a 4 1/2 year period beginning in July 2000. Other than the impairment charge of \$15 million, the amortization of goodwill for 2000 totaled \$4.6 million compared to \$6.5 million in 1999. In 2001 management again reviewed the carrying value of goodwill related to Cylink. Based on the changes to the forecast future cash flows and the replacement of the Cylink spread spectrum products with its successor "AirPro Gold" line, we determined that the residual goodwill arising from the acquisition of Cylink in 1998 was impaired and recorded a charge of \$5.8 million in the third quarter of 2001. The remaining goodwill relates to PCNS and was being amortized over 20 years. Amortization of goodwill will cease effective January 1, 2002 due to adoption of a new accounting principle, FAS 142. In connection with the adoption of FAS 142, the Company will be required to perform a transitional goodwill impairment assessment. The Company has not yet determined the effect the goodwill impairment assessment will have on its financial position and results of operations.

Restructuring and Other Charges

In the first quarter of 2001, we recorded a \$10 million inventory related charge to product cost of sales, and incurred a \$11.6 million receivable valuation charge, a direct result of the bankruptcy of Winstar. In the third quarter of 2001, we determined that there was a need to reevaluate our inventory carrying value in the light of the significant slowdown in the global telecommunication market, and the phasing out of and replacement of current product designs. The evaluation included an assessment of future demand for certain of its lower speed and lower frequency Tel-Link Point-to-Point products, and resulted in total charges to product costs of sales of approximately \$18 million in the third quarter of 2001. Additionally \$2 million was charged to product cost of sales in the fourth quarter of 2001.

In the second quarter of 2000, we determined that there was a need to reevaluate its inventory levels and related accrued liabilities in light of recent changes in product and customer mix. The evaluation was prompted by a change in customer mix away from the UK and other European markets and toward the U.S. market, and the resulting anticipated decrease in demand for certain of its lower speed and lower frequency Tel-Link Point-to-Point product line, and resulted in total charges of approximately \$21.7 million during the second quarter of 2000. These charges consisted of increases to inventory reserve of approximately \$17.4 million and accrued liabilities of approximately \$4.3 million, both relating to our product segment. In addition, we performed a review of the carrying value and remaining life of long-lived assets associated with our product segment and

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recorded write-downs of approximately \$15.0 million of goodwill, and an approximately \$9.9 million write-off of deferred tax assets.

We increased inventory reserves and related purchases liabilities through charges to product cost of sales in the second quarter of 2000. Of the \$17 million charge for additional reserves, \$15.4 million related to the aforementioned Tel-Link Point-to-Point product line. An additional reserve of approximately \$1.0 million was added in the second quarter to adjust carrying value of certain modules of the Point-to-Multipoint radio line.

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Our management approved restructuring plans in 1999, which included initiatives to integrate the operations of acquired companies, consolidate duplicate facilities, and reduce overhead. Total accrued restructuring and other charges of approximately \$36.5 million were recorded in 1999, relating to these initiatives, all relating to our product segment.

Operating expenses overall declined in fiscal 2000 due to cost reduction actions and the sale of Control Resources Corporation in April 2000.

Interest Expense

In 2001, 2000, and 1999, interest expense was \$2.0 million, \$4.8 million and \$8.2 million, respectively. In 2001, interest expense primarily relates to the 4.25% Convertible Subordinated Notes (the "Notes"), due in November 2002, fees incurred in setting up the Loan and Security Agreement with Foothill Capital Corporation and interest on equipment leases. For 2000 and 1999, interest expense consisted primarily of interest and fees incurred on the Notes and borrowings under our bank lines of credit, interest on the principal amount of equipment leases, and contractual penalties for late filing of the registration statement in connection with the issuance of the Series B Convertible Preferred Stock and the related warrants. Approximately \$1.9 million was charged to interest expense during the year related to amortization of fair value of warrants issued to our lender group in January 2000. The reduction in interest expense in 2001 and 2000 compared to prior year was primarily due to reduced debt levels outstanding in these periods.

Gain on sale of a subsidiary

We recognized a gain of approximately \$9.8 million in 2001 on the sale of RT Masts in February 2001.

Other Income (Expense), net

In 2001, other expense was comprised primarily of losses related to the write-down of property and equipment and foreign currency translation loss offset by an earnout royalty payment related to the 2000 sale of the Control Resources Corporation subsidiary, and investment income from available cash balances. In 2000, other income and expense represents primarily a \$3.5 million loss in the first quarter on the sale of our Cemetel unit, foreign exchange losses of approximately \$5 million and the write-off of a 1998 investment in a Poland-based telecom venture of \$1.3 million. This was partially offset by interest income on excess cash balances, and a gain of \$2.6 million on the sale of Control Resources Corporation in April 2000.

Sales contracts negotiated in foreign currencies have been primarily limited to British Pound Sterling contracts and Euro (previously Deutschmark) contracts. The impact of translating balance sheet accounts due to currency fluctuations in the British Pound Sterling or Euro for 2001 and 2000 was related to

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strengthening of the U.S. dollar versus these currencies through most of the year. We may in the future be exposed to the risk of foreign currency gains or losses depending upon the magnitude of a change in the value of a local currency in an international market.

Provision (Benefit) for Income Taxes

In 2001, we recorded a net tax benefit of \$(0.6) million relating to recovery of prior year's federal income tax, offset by income taxes attributable to foreign jurisdictions that had local taxable income for 2001.

In 2000 and 1999, we recorded tax provisions of \$11.1 million and \$1.4 million, respectively, representing effective tax rates of (20.2)% and (1.4)%, respectively. The tax provision for 2000 is comprised of a \$9.9 million write-off of deferred tax assets taken in 2000 and income taxes attributable to foreign jurisdictions that had taxable income for 2000. The tax provision

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for 1999 is comprised of income taxes attributable to foreign jurisdictions that had taxable income for 1999. No benefit was recognized in 2001, 2000 or 1999 for net operating losses incurred.

Discontinued Operations

In August 1999, we decided to divest our broadcast equipment business, Technosystem. Accordingly, beginning in the third quarter of 1999, this business was reported as a discontinued operation and the financial statement information related to this business was presented on one line in the 1999 Consolidated Balance Sheet, "net assets of discontinued operations", and in the "discontinued operations" line of the Consolidated Statements of Operations. The "net assets of discontinued operations" represented the assets intended to be sold, offset by the liabilities anticipated to be assumed by the buyers of the business. The disposition of Technosystem was completed by the end of the first quarter of 2000.

In 1999 we recorded an estimated loss on disposal of \$26.9 million, including the write-off of approximately \$12.5 million of goodwill, related to the disposal of Technosystem. Losses from discontinued operations were \$4.0 million and \$13.9 million in 2000 and 1999, respectively.

Extraordinary Item

In January 2000, we repurchased \$7.0 million of our Notes by issuance of 677,000 shares of newly issued common stock with a fair market value of \$5.1 million. The extraordinary gain resulting from this transaction amounted to \$1.9 million. In January and February of 1999, we repurchased an aggregate of \$25.5 million of our Notes for an aggregate of 2,792,000 shares of our Common Stock with a fair market value of \$18.3 million and recorded an extraordinary gain of \$7.2 million. In December 1999, we repurchased an aggregate of \$23.8 million of our Notes for an aggregate of 2,359,000 shares of our Common Stock with a fair market value of \$17.8 million. This transaction resulted in an extraordinary gain of \$6.0 million.

Charge related to preferred stock discount

In June 1999, we exchanged all 15,000 shares of our Series B Convertible Preferred Stock for 5,135,000 shares of redeemable Common Stock. We also required outstanding mandatorily redeemable warrants to purchase 1,242,000 shares of Common Stock, which were held by the Series B Convertible Preferred

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Stockholders, for new warrants with an exercise price of \$3.00 per share rather than \$3.47 per share. We recorded a charge in 1999 of approximately \$12.2 million resulting from these exchanges.

In November 1999, we entered into agreements with the former Series B preferred shareholders to eliminate their redemption rights and their past and future late registration premiums and penalties in exchange for 220,000 shares of Common Stock, warrants to purchase 443,000 share of Common Stock, and a \$400,000 promissory note convertible (with interest) into Common Stock at a conversion price of approximately \$4.72 per share. As a result of these transactions, we recorded a charge in 1999 of approximately \$6.3 million relating to these agreements.

Liquidity and Capital Resources

Since our inception in August 1991, we have financed our operations and capital requirements through net proceeds of approximately \$89.5 million from our initial and two follow-on public offerings of our Common Stock, three private placements of Common Stock yielding approximately \$18.2 million in August 2000, \$43.0 million in January 2000, \$38.3 million in June 1999; an issuance of Common Stock to two existing stockholders in July 2001 for \$3 million; 4 preferred stock financings aggregating approximately \$32.2 million, including a \$13.6 million preferred stock financing in 1998; notes with net

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proceeds of approximately \$97.5 million in 1997; and borrowings under bank lines of credit and equipment lease arrangements.

In 2001, we used approximately \$17.5 million of cash in operating activities, primarily due to the net loss of \$75.5 million, offset by depreciation and amortization of goodwill aggregating \$11.6 million, non-cash charges to cost of sales for inventory related charges aggregating \$30.0 million, the gain on disposal of RT Masts of \$9.8 million and an impairment charge related to goodwill of \$5.8 million. In addition, we experienced decreases in accounts payable, other accrued liabilities, accounts receivable, inventories and prepaid expenses related to lower levels of sales and related activities.

During 2001, we received net proceeds of approximately \$6.3 million through investing activities. The net proceeds resulted primarily from the sale of RT Masts of \$12.1 million, offset by acquisition of property and equipment of \$2.9 million and an increase in restricted cash of \$2.9 million.

In 2001, we used approximately \$9.3 million in financing activities. We repaid approximately \$11.1 million of borrowings under our bank line of credit and remitted \$2.6 million under our capital lease obligations, and received approximately \$3 million in net proceeds from issuance of Common Stock in July 2001 to two existing stockholders.

Our principal sources of liquidity as of December 31, 2001 consisted of approximately \$7.1 million of cash and cash equivalents. Cumulative operating losses have seriously affected our liquidity in 2001. The \$2.9 million restricted cash resulted from an attachment in the third quarter of 2001, as part of a dispute with a vendor. The dispute has been fully resolved and the attachment dissolved in February 2002, resulting in approximately \$1.4 million being released to us in 2002. At December 31, 2000, we had approximately \$27.5 million in cash and cash equivalents. At December 31, 2000, we had outstanding borrowings of approximately \$11.0 million under our line of credit, which expired and was paid off, with accrued interest, on January 31, 2001.

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At December 31, 2001, we had negative working capital of approximately \$10.2 million. The negative working capital resulted from classification of our 4.25% convertible subordinated notes due in November 2002 to a current liability. We are presently in negotiation with certain holders of the Notes to extend the maturity due date and/or convert their Notes to Common Stock. We are presently engaged in processes designed to raise additional equity capital and put in place a working capital credit facility. If the Note holders elect to hold their Notes until the November 2002 maturity date and demand payment, and we are unable to find additional financing to pay the Notes at maturity, we will have insufficient capital to continue to fund our operations. Even if the Note holders give us relief, we might have insufficient capital to pay the notes to fund our operations unless we generate sufficient revenues from new or existing products, obtain additional equity financing and or obtain additional debt financing.

In February 2001, we sold RT Masts, our U.K. services unit, for approximately \$12 million in cash at the date of sale; an additional \$750,000 was retained in escrow by the purchaser for six months to cover any contingencies; and a seven year note receivable for \$750,000, interest due annually at LIBOR. The \$750,000 held in escrow was collected in the third quarter of 2001.

On March 29, 2001, the Company and Foothill Capital Corporation entered into a Loan and Security Agreement with a borrowing capacity of up to \$25 million. We never borrowed under this Agreement. We were in default of certain financial covenants as of December 31, 2001. The agreement was terminated in February 2002. We are currently seeking other debt financing sources, but there is no guarantee that we will be successful due to the negative impact on us and our financial statements of the current market downturn.

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We are generally able to pay our debts and pay our obligations as they become due. Nevertheless given the size and working capital needs of our business and our recent history of losses, and the required repayment of the outstanding Notes on November 1, 2002, additional funding will be needed. There can be no assurance that any additional financing will be available to us on acceptable terms, or at all, when required by us. Without sufficient capital to fund our operations it is unlikely that we will be able to continue as a going concern despite making significant reductions in our operating expense levels over the past twelve months. In addition to receiving new funds, we need to significantly increase sales, reach agreement with the holders of our 4.25% convertible subordinated notes to extend the notes' maturity date and/or convert them to equity, reduce our short-term liabilities (other than the notes) by inducing large creditors to convert their receivables into our Common Stock or to offer extended payment terms. There can be no assurance that we will be able to increase sales, or reach such agreements with any or enough of our creditors. As a result of these circumstances, our independent accountants' opinion on our consolidated financial statements includes an explanatory paragraph indicating that these matters raise substantial doubt about our ability to continue as a going concern. If additional funds are raised (or liabilities are received) through issuance of equity securities, further dilution to the existing stockholders will result.

The following summarizes our contractual obligations at December 31, 2001, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

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| | Less than one year | One to three years | Three to five years | After five years | Total |
|--|-----------------------|-----------------------|------------------------|---------------------|-----------|
| Obligations (in \$000): | | | | | |
| Convertible subordinated notes | \$ 29,299 | \$ -- | \$ -- | \$ -- | \$ 29,299 |
| Non-cancelable operating lease obligations | 3,654 | 9,948 | 1,121 | -- | 14,723 |
| Capital lease obligations | 2,282 | 700 | -- | -- | 2,982 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 35,235 | \$ 10,648 | \$ 1,121 | \$ -- | \$ 47,004 |
| | ----- | ----- | ----- | ----- | ----- |

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (FAS 141 and FAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets." FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. FAS 141 and FAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of FAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under FAS 141 will be reclassified to goodwill. The company adopted FAS 142 on January 1, 2002. In connection with the adoption of FAS 142, we will be required to perform a transitional goodwill impairment assessment. The Company has not yet determined the effect the goodwill impairment assessment will have on its financial position and results of operations.

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In June 2001, the FASB issued FASB Statement No. 143 (FAS 143), "Accounting for Asset Retirement Obligations". FAS 143 requires that the fair value of a liability for an asset retirement obligation be realized in the period in which it is incurred if a reasonable estimate of fair value can be made. Companies are required to adopt FAS 143 for fiscal years beginning after June 15, 2002, but early adoption is encouraged. We have not yet determined the impact this standard will have on our financial position and results of operations.

In August 2001, the FASB issued FASB Statement No. 144 (FAS 144). "Accounting for the Impairment or Disposal of Long-lived Assets". FAS 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends APB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. We adopted FAS 144 on January 1, 2002 do not expect the adoption of this standard will have a material impact on our financial position and results of operations.

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Certain Risk Factors Affecting The Company

Worldwide Industry Slowdown

A severe worldwide slowdown in the telecommunications equipment and services sector is affecting us. Customers, specifically systems operators and integrated system providers, are deferring capital spending and orders to suppliers such as our Company, or canceling orders, and, in general, not building out any significant additional infrastructure at this time. In addition, our accounts receivable, inventory and stability can be jeopardized if our customers experience financial distress. In the third quarter 2001, many large telecommunications equipment manufacturers reduced or eliminated their estimates of product sales levels for the remainder of 2001. We recorded large valuation charges and other write-offs in the first quarter of 2001 because our largest customer, Winstar Communications Inc., declared bankruptcy on April 18, 2001. 10% of our sales in the first quarter of 2001 were to Winstar. We recorded additional write down of inventory on hand at September 30, 2001 to properly state our inventory to its net realizable value, given current market conditions and sales activity projections. Our services business' largest customer began a slowdown and deferral of previously committed work orders as of the end of the second quarter.

Deterioration of Business and Financial Positions

Due to the worldwide industry slowdown as noted above, our business and financial positions have deteriorated significantly. Our core business product sales levels were reduced sharply in the second half of 2001 and are unlikely to recover while the industry-wide slowdown persists. Our December 31, 2001 cash, working capital, accounts receivable, inventory, total assets, employee headcount, backlog and total stockholders' equity were all down very substantially from levels as of December 31, 2000. Our working capital is negative. Our gross margin on sales was negative in fiscal 2001 and in each of the last two quarters of 2001. Our aggregate net loss for the last four fiscal years is approximately \$310,000,000. We have \$29.3 million of Notes maturing in November 2002 that our current resources would not enable us to pay. Our largest customer declared bankruptcy in April 2001, leaving us with unpaid receivables and inventory purchase obligations to our own suppliers.

Our independent accountants' opinion on our consolidated financial statements includes an explanatory paragraph indicating substantial doubt, on the basis described in that paragraph, about our ability to continue as a going concern. We are able generally to pay our debts and meet our obligations as they become due. Nevertheless to continue long-term as a going concern, we must ultimately reach agreement with the holders of our 4.25% convertible subordinated notes to extend the notes' maturity date and/or convert them into equity. In addition, to continue long-term as a going concern we will have to increase our sales, induce other creditors to forebear or to convert to equity, raise additional equity financing, and/or raise new debt financing. We cannot guarantee that we will be able to accomplish these things.

Nasdaq Delisting Notice

To maintain the listing of our common stock on The Nasdaq National Market we are required to meet certain listing requirements, including a minimum bid price of \$1.00 per share. We received a letter of notice dated June 20, 2001 from the Nasdaq National Market stating that due to our minimum bid price levels remaining under the \$1 level for thirty consecutive trading days, we is

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therefore on notice that it could be subject to a delisting procedure should the bid price continue to remain under the \$1 level for an additional 90-day period, unless our stock attains a bid price of \$1 or more for a period of ten consecutive days during such 90-day period. Shortly after September 11, NASDAQ issued a moratorium on delisting process until Jan 2, 2002. Management received in September 2001 shareholders' approval for a reverse stock split calling for one share of newly issued Common Stock to be issued in place of each five shares of existing stock as of the date at which the reverse stock split is effected. Depending upon our stock price at implementation of the reverse stock split, there can be no assurance that we will maintain compliance with the minimum bid price. If we fail to meet the minimum bid process for 10 consecutive days during the grace period, our Common Stock may be delisted from the NASDAQ National Market. NASDAQ regulations provide that companies that are served with delisting notices following the grace periods, may file an appeal with the NASDAQ regulators, from which they are allowed a hearing procedure to present a current business plan and other circumstances which can be considered in the final delisting decision. Even if we are able to comply with the minimum requirement, there is no assurance that in the future we will continue to satisfy The NASDAQ listing requirements, with the result that our common stock may be delisted from The NASDAQ National Market. Should our common stock be delisted from The NASDAQ National Market, it would likely be traded on The NASDAQ Small Cap Market, and if delisted from The NASDAQ Small Cap Market, would likely be traded on the so-called "pink sheets" or the "Electronic Bulletin Board" of the NASDAQ National Market. However, this alternative could result in a less liquid market available for existing and potential shareholders to exchange shares of our stock and could ultimately further depress the trading price of our Common Stock.

We received a new letter of notice dated February 14, 2002 from NASDAQ stating that due to our minimum bid price levels remaining under \$1 for 30 consecutive days, we are again on notice that the Company is subject to delisting procedures.

Small Player in Large Market

We do not have the customer base or other resources of more established companies, which makes it more difficult for us to address the liquidity and other challenges we face.

Although we have installed and have in operation over 150,000 radio units globally, we have not developed a large installed base of our equipment or the kind of close relationships with a broad base of customers of a type enjoyed by older, more developed companies, which would provide a base of financial performance from which to launch strategic initiatives and withstand business reversals. In addition, we have not built up the level of capital often enjoyed by more established companies, so from time to time we may face serious challenges in financing our continued operation. We may not be able to successfully address these risks.

Additional Capital Requirements

Even if we resolve our short term going concern difficulties, our future capital requirements will depend upon many factors, including development costs of new products and related software tools, potential acquisition opportunities, maintenance of adequate manufacturing facilities and contract manufacturing agreements, progress of research and development efforts, expansion of marketing and sales efforts, and status of competitive products. Additional financing may not be available in the future on acceptable terms or at all. The continued

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existence of a substantial amount of debt (including Notes which come due November 1, 2002) could also severely limit our ability to raise additional financing. In addition, given the recent price for our common stock, if we raise additional funds by issuing equity securities, significant dilution to our stockholders could result. We expect that if we reach agreements with the holders of the Notes and or other short-term liabilities to convert into equity financing in 2002, the new stock would be issued at a low price per share and would be significantly dilutive to our current stock holders.

If adequate funds are not available, we may be required to close business or product lines, restructure or refinance our debt or delay, scale back or eliminate our research and development, acquisition or manufacturing programs. We may also need to obtain funds through arrangements with partners or others that may require us to relinquish rights to certain of our technologies or potential products or other assets. Our inability to obtain capital, or our ability to obtain additional capital only upon onerous terms, could very seriously damage our business, operating results and financial condition and further erode our stock price.

Rapid Technological Change

Rapid technological change, frequency of new product introductions and enhancements, product obsolescence, changes in end-user requirements and period-to-period demand, and evolving industry standards characterize the communications market. Our ability to compete in this market will depend upon successful development, introduction and sale of new systems and enhancements and related software tools, on a timely and cost-effective basis, in response to changing customer requirements. Recently, we have been developing our new Point-to-Multipoint systems, and other upgraded products. Any success in developing new and enhanced systems and related software tools will depend upon a variety of factors. Such factors include:

- o new product development to meet market demand;
- o integration of various elements of complex technology;
- o timely and efficient implementation of manufacturing and assembly processes at turnkey suppliers and manufacturing cost reduction programs for existing product lines;
- o development and completion of related software tools, system performance, quality and reliability of systems; and
- o timely and efficient completion of system design.

We may not be successful in selecting, developing, manufacturing and marketing new systems or enhancements or related software tools. For example, to date, revenue generated through the sales of Point-to-Multipoint systems has not met

original expectations, and sales were down sharply in all product categories in the second half of 2001.

Also, errors could be found in our systems after commencement of commercial quantity shipments. Such errors could result in the loss of or delay in market acceptance, as well as expenses associated with re-work of previously delivered equipment.

Customer Concentration

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In 2001, sales to 3 customers accounted for 47.4% of sales. Sales to one service customer in the U.S. accounted for 62.0% of total service revenue, and 18% of total sales. Our ability to maintain or increase our sales in the future will depend, in part upon our ability to obtain orders from new customers as well as the financial condition and success of our customers, the telecommunications industry and the economy in general.

Our customer concentration also results in concentration of credit risk. In December 31, 2001, four customers represented almost 62% of our total accounts receivable. In 2001 Winstar, which was then our largest customer, declared bankruptcy and we had to write off \$11.6 million of Winstar receivables.

Many of our major product customers are located in foreign countries, primarily in the United Kingdom, Europe and the Pacific Rim. Some of these customers are implementing new networks and are themselves in the early stages of development. They may require additional capital to fully implement their planned networks, which may be unavailable to them on an as-needed basis, and which we cannot supply in terms of long-term financing.

If our customers cannot finance their purchases of our products or services, this may materially adversely affect our business, operations and financial condition. Financial difficulties of existing or potential customers may also limit the overall demand for our products and services. Both current customers and potential future customers in the telecommunications industry have, from time to time, reportedly undergone financial difficulties and may therefore limit their future orders or find it difficult to pay our billings to them. Any cancellation, reduction or delay in orders or shipments, for example, as a result of manufacturing or supply difficulties or a customer's inability to finance its purchases of our products or services, may materially adversely affect our business. Difficulties of this nature have occurred in the past and we believe they can occur in the future. Winstar which was our largest customer declared bankruptcy in April 2001.

Finally, acquisitions in the communications industry are common, which further concentrates the customer base and may cause some orders to be delayed or cancelled.

Fluctuations in Operating Results

We have experienced and will continue to experience significant fluctuations in sales, gross margins and operating results. The procurement process for most of our current and potential customers is complex and lengthy. As a result, the timing and amount of sales is often difficult to predict reliably. The sale and implementation of our products and services generally involves a significant commitment of senior management, as well as its sales force and other resources. The sales cycle for our products and services typically involve technical evaluation and commitment of cash and other resources and delays often occur. Delays are frequently associated with, among other things:

- o customers' seasonal purchasing and budgetary cycles, as well as their own buildout schedules;

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- o compliance with customers' internal procedures for approving large expenditures and evaluating and accepting new technologies;
- o compliance with governmental or other regulatory standards;

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- o difficulties associated with customers' ability to secure financing;
- o negotiation of purchase and service terms for each sale;
- o price negotiations required to secure purchase orders; and
- o education of customers as to the potential applications of our products and services, as well as related product-life cost savings.
- o The recent downward trends in sales, gross margins and operating results are primarily due to the industry-wide downturn, however, rather than to factors such as these.

Shipment delays

Due to logistics of production and inventory, a delay in a shipment near the end of a particular quarter for any reason may cause sales in a particular quarter to fall significantly below our and stock market analysts' expectations. A single customer's order scheduled for shipment in a quarter can represent a large portion of our potential sales for the quarter. Such delays have occurred in the past due to, for example, unanticipated shipment rescheduling, cancellations or deferrals by customers, competitive and economic factors, unexpected manufacturing or other difficulties, delays in deliveries of components, subassemblies or services by suppliers and failure to receive anticipated orders. We cannot determine whether similar or other delays might occur in the future, but expect that some or all of such problems might recur.

Uncertainty in Telecommunications Industry

Although much of the anticipated growth in the telecommunications infrastructure is expected to result from the entrance of new service providers, many new providers do not have the financial resources of existing service providers. For example in the US most CLECs are experiencing financial distress. If these new service providers are unable to adequately finance their operations, they may cancel or delay orders. Moreover, purchase orders are often received and accepted far in advance of shipment and, as a result, we typically permit orders to be modified or canceled with limited or no penalties. Any failure to reduce actual costs to the extent anticipated when an order is received substantially in advance of shipment or an increase in anticipated costs before shipment could materially adversely affect our gross margin for such orders. Ordering materials and building inventory based on customer forecasts or non-binding orders can also result in large inventory write-offs, such as occurred in 2000 and 2001.

Global economic conditions have had a depressing effect on sales levels in past years, including a significant slowdown in 1998. The soft economy and reported slowdown in capital spending in 2001 in the U.S. telecommunications market again had a significant depressing effect on the sales levels of products and services in 2001.

Inventory

Our customers have increasingly been demanding short turnaround on orders rather than submitting purchase orders far in advance of expected shipment dates. This practice requires we to keep inventory on hand to meet such market demands. Given the variability of customer need and purchasing power, it is difficult to predict the amount of inventory needed to satisfy customer demand. If we over or under-estimate inventory requirements to fulfill customer needs, our results of

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operations could continue to be adversely affected. In particular, increases in inventory could materially adversely affect operations if such inventory is ultimately not used or becomes obsolete. This risk was realized in the large inventory write-downs in 1999, 2000 and 2001.

Expenses

Magnifying the effects of any sales shortfall, a material portion of our manufacturing related operating expenses is fixed and difficult to reduce should sales not meet expectations.

Contract Manufacturers and Limited Sources of Supply

Our internal manufacturing capacity by design is very limited. We use contract manufacturers in large part to produce its systems, components and subassemblies and expect to rely increasingly on these manufacturers in the future. We also rely on outside vendors to manufacture certain other components and subassemblies. Our internal manufacturing capacity and that of our contract manufacturers may not be sufficient to fulfill our orders. Our failure to manufacture, assemble and ship systems and meet customer demands on a timely and cost-effective basis could damage relationships with customers and have a material adverse effect on its business, financial condition and results of operations.

In addition, certain components, subassemblies and services necessary for the manufacture of its systems are obtained from a sole supplier or a limited group of suppliers.

Our reliance on contract manufacturers and on sole suppliers or a limited group of suppliers involves risks. We have experienced an inability to obtain an adequate supply of finished products and required components and subassemblies. As a result, we have reduced control over the price, timely delivery, reliability and quality of finished products, components and subassemblies. We do not have long-term supply agreements with most of our manufacturers or suppliers. We have experienced problems in the timely delivery and quality of products and certain components and subassemblies from vendors. Some suppliers have relatively limited financial and other resources. Any inability to obtain timely deliveries of components and subassemblies of acceptable quality or any other circumstance would require we to seek alternative sources of supply, or to manufacture finished products or components and subassemblies internally. As manufacture of our products and certain of our components and subassemblies is an extremely complex process, finding and educating new vendors could delay our ability to ship our systems.

Management of Growth

To maintain a competitive market position, we are required to continue to invest resources for growth. Currently, we are devoting significant resources to the development of new products and technologies and is continuously conducting evaluations of these products. We will continue to invest additional resources in plant and equipment, inventory, personnel and other items, to begin production of these products and to provide any necessary marketing and administration to service and support bringing these products to

commercial production stage. Accordingly, in addition to the effect our recent performance has had on gross profit margin and inventory levels, our gross profit margin and inventory management may be further adversely impacted in the future by start-up costs associated with the initial production and installation

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of these new products. Start-up costs may include additional manufacturing overhead, additional allowance for doubtful accounts, inventory and warranty reserve requirements and the creation of service and support organizations. Additional inventory on hand for new product development and customer service requirements also increases the risk of further inventory write-downs if such products do not gain reasonable market acceptance at normal gross profit margin. Although we, through monitoring our operating expense levels relative to business plan revenue levels, try to maintain a given level of operating results, there are many market condition changes which have and may continue to challenge our ability to maintain given levels of operating expenses to revenue ratios.

Expansion of our operations and acquisitions in prior periods caused a significant strain on our management, financial, manufacturing and other resources and has from time to time disrupted its normal business operations. Our ability to manage any possible future growth may again depend upon significant expansion of our executive, manufacturing, accounting and other internal management systems and the implementation of a variety of systems, procedures and controls, including improvements or replacements to inventory and management systems designed to help control and monitor inventory levels and other operating decision criteria. In particular, we must successfully manage and control overhead expenses and inventories, the development, introduction, marketing and sales of new products, the management and training of our employee base, the integration and coordination of a geographically and ethnically diverse group of employees and the monitoring of third party manufacturers and suppliers. We cannot be certain that attempts to manage or again expand our marketing, sales, manufacturing and customer support efforts will be successful or result in future additional sales or profitability.

Any failure to coordinate and improve systems, procedures and controls, including improvements relating to inventory control and coordination with subsidiaries, at a pace consistent with our business, could cause inefficiencies, additional operational expenses and inherent risks, greater risk of billing delays, inventory write-downs and financial reporting difficulties.

A significant ramp-up of production of products and services could require us to make substantial capital investments in equipment and inventory, in recruitment and training additional personnel and possibly in investment in additional manufacturing facilities. If undertaken, we anticipate these expenditures would be made in advance of increased sales. In such event, gross margins would be adversely affected from time-to-time due to short-term inefficiencies associated with the addition of equipment and inventory, personnel or facilities, and such cost categories may periodically increase as a percentage of revenues.

Decline in Selling Prices

We believe that average selling prices and gross margins for its systems and services would decline in both the near and the long term relative from the point at which a product is initially marketed and priced. Reasons for such decline may include the maturation of such systems, the effect of volume price discounts in existing and future contracts and the intensification of competition.

If we cannot develop new products in a timely manner or fail to achieve increased sales of new products at a higher average selling price, then we

would be unable to offset declining average selling prices. If we are unable to offset declining average selling prices, our gross margins will decline.

Accounts Receivable

We are subject to credit risk in the form of trade accounts receivable. We could be unable to enforce a policy of receiving payment within a limited number of days of issuing bills, especially for customers in the early phases of business development. Our current credit policy typically allows payment terms between 30 and 120 days depending upon the customer and the economic norms of the region. We could have difficulties in receiving payment in accordance with our policies, particularly from customers awaiting financing to fund their expansion and from customers outside of the United States. In 2001, we recorded charges of \$11.8 million for accounts receivable write-offs and reserves additions. Similar write-offs may occur in the future, which could have a further material adverse effect on our business, financial condition and results of operations.

Market Acceptance

Our future operating results depend upon the continued growth and increased availability and acceptance of microcellular, PCN/PCS and wireless local loop access telecommunications services in the United States and internationally. The volume and variety of wireless telecommunications services or the markets for and acceptance of such services may not continue to grow as expected. The growth of such services may also fail to create anticipated demand for our systems. Because these markets are relatively new, predicting which segments of these markets will develop and at what rate these markets will grow is difficult. In addition to our other products, we have recently invested significant time and resources in the development of Point-to-Multipoint radio systems. If the licensed millimeter wave, spread spectrum microwave radio or Point-to-Multipoint microwave radio market and related services for our systems fails to grow, or grows more slowly than anticipated, our business, financial condition and results of operations could be materially adversely affected.

Certain sectors of the communications market will require the development and deployment of an extensive and expensive communications infrastructure. In particular, the establishment of PCN/PCS networks will require very large capital expenditure levels. Communications providers may not make the necessary investment in such infrastructure, and the creation of this infrastructure may not occur in a timely manner. Moreover, one potential application of our technology is the use of its systems in conjunction with the provision of alternative wireless access in competition with the existing wireline local exchange providers depends on the pricing of wireless telecommunications services at rates competitive with those charged by wireline telephone companies. Rates for wireless access must be competitive with rates charged by wireline companies for this approach to be successful. If wireless access rates are not competitive, consumer demand for wireless access will be materially adversely affected. If we allocate resources to any market segment that does not grow, we may be unable to reallocate resources to other market segments in a timely manner, ultimately curtailing or eliminating our ability to enter such other segments.

Certain current and prospective customers are delivering services and features that use competing transmission media such as fiber optic and copper cable, particularly in the local loop access market. To successfully compete with existing products and technologies, we must offer systems with superior price/performance characteristics and extensive customer service and support. Additionally, we must supply such systems on a timely and cost-effective basis, in sufficient volume to satisfy such prospective customers' requirements and otherwise overcome any reluctance on the part of such customers to transition to new technologies. Any delay in the adoption of our

systems may result in prospective customers using alternative technologies in their next generation of systems and networks.

Prospective customers may not design their systems or networks to include our systems. Existing customers may not continue to include our systems in their products, systems or networks in the future. Our technology may not replace existing technologies and achieve widespread acceptance in the wireless telecommunications market. Failure to achieve or sustain commercial acceptance of our currently available radio systems or to develop other commercially acceptable radio systems would materially adversely affect us.

Intensely Competitive Industry

The wireless communications market is intensely competitive. Our wireless-based radio systems compete with other wireless telecommunications products and alternative telecommunications transmission media, including copper and fiber optic cable. We are experiencing intense competition worldwide from a number of leading telecommunications companies. Such companies offer a variety of competitive products and services and include Alcatel Network Systems, Bosch Telekom, DMC Stratex Networks, Cerragon, Ericsson Limited, Harris Corporation-Farion Division, NEC, Nokia Telecommunications, SIAE, Siemens, and Western Multiplex Corporation.

Many of these companies have greater installed bases, financial resources and production, marketing, manufacturing, engineering and other capabilities than we do face actual and potential competition not only from these established companies, but also from start-up companies that are developing and marketing new commercial products and services.

Some of our current and prospective customers and partners have developed, are currently developing or could manufacture products competitive with our products.

The principal elements of competition in our market and the basis upon which customers may select our systems include price, performance, software functionality, perceived ability to continue to be able to meet delivery requirements, and customer service and support. Recently, certain competitors have announced the introduction of new competitive products, including related software tools and services, and the acquisition of other competitors and competitive technologies. We expect competitors to continue to improve the performance and lower the price of their current products and services and to introduce new products and services or new technologies that provide added functionality and other features. New product and service offerings and enhancements by our competitors could cause a decline in sales or loss of market acceptance of our systems. New offerings could also make our systems, services or technologies obsolete or non-competitive. In addition, we are experiencing significant price competition and expect such competition to intensify.

Uncertainty in International Operations

In doing business in international markets, we faces economic, political and foreign currency fluctuations that are more volatile than those commonly experienced in the United States. The majority of our sales to date have been made to customers located outside of the United States.

Historically, our international sales have been denominated in British pounds sterling or United States dollars. Certain of our international sales are denominated in other foreign currencies, including Euro. A decrease in the

value of foreign currencies relative to the United States dollar could result in decreased margins from those transactions if such decreases are not hedged. For international sales that are United States dollar-denominated, such a decrease could make its systems less price-competitive if competitors choose to price in other currencies and could have a material adverse effect upon its financial condition.

The Company funds its Italian subsidiary's operation expenses which are denominated in Euro. An increase in the value of Euro currency if not hedged relative to the United States dollar could result in more costly funding for our Italian operations, and as a result higher cost of production to the Company as a whole.

Additional risks are inherent in our international business activities. Such risks include:

- .. changes in regulatory requirements;
- .. costs and risks of localizing systems (homologation) in foreign countries;
- .. delays in receiving and processing components and materials;
- .. availability of suitable export financing;
- .. timing and availability of export licenses, tariffs and other trade barriers;
- .. difficulties in staffing and managing foreign operations, branches and subsidiaries;
- .. difficulties in managing distributors;
- .. potentially adverse tax consequences;
- .. foreign currency exchange fluctuations;
- .. the burden of complying with a wide variety of complex foreign laws and treaties;
- .. difficulty in accounts receivable collections, if applicable; and
- .. political and economic instability.

In addition, many of our customer purchase and other agreements are governed by foreign laws, which may differ significantly from U.S. laws. Therefore, we may be limited in our ability to enforce our rights under such agreements and to collect damages, if awarded.

In many cases, local regulatory authorities own or strictly regulate international telephone companies. Established relationships between government-owned or government-controlled telephone companies and their traditional indigenous suppliers of telecommunications often limit access to such markets. The successful expansion of our international operations in certain markets will depend on our ability to locate, form and maintain strong relationships with established companies providing communication services and equipment in targeted regions. The failure to establish regional or local relationships or to successfully market or sell our products in international markets could limit our ability to expand operations. Our inability to identify suitable parties for such relationships, or even if such parties are

identified to form and maintain strong relationships with them, could prevent us from generating sales of products and services in targeted markets or industries. Moreover, even if such relationships are established, we may be unable to increase sales of products and services through such relationships.

Some of our potential markets include developing countries that may deploy wireless communications networks as an alternative to the construction of a limited wired infrastructure. These countries may decline to construct wireless telecommunications systems or construction of such systems may be delayed for a variety of reasons. Also, in developing markets, economic, political and foreign currency fluctuations may be even more volatile than conditions in developed areas.

Countries in the Asia/Pacific, African, and Latin American regions have recently experienced weaknesses in their currency, banking and equity markets. These weaknesses have adversely affected and could continue to adversely affect demand for products.

Extensive Government Regulation

Radio communications are extensively regulated by the United States and foreign governments as well as by international treaties. Our systems must conform to a variety of domestic and international requirements established to, among other things, avoid interference among users of radio frequencies and to permit interconnection of equipment. Historically, in many developed countries, the limited availability of radio frequency spectrum has inhibited the growth of wireless telecommunications networks.

Each country's regulatory process differs. To operate in a jurisdiction, we must obtain regulatory approval for its systems and comply with differing regulations. Regulatory bodies worldwide continue to adopt new standards for wireless communications products. The delays inherent in this governmental approval process may cause the cancellation, postponement or rescheduling of the installation of communications systems by we and our customers. The failure to comply with current or future regulations or changes in the interpretation of existing regulations could result in the suspension or cessation of operations. Such regulations or such changes in interpretation could require we to modify our products and services and incur substantial costs to comply with such regulations and changes.

In addition, we are also affected by domestic and international authorities' regulation of the allocation and auction of the radio frequency spectrum. Equipment to support new systems and services can be marketed only if permitted by governmental regulations and if suitable frequency allocations are auctioned to service providers. Establishing new regulations and obtaining frequency allocation at auction is a complex and lengthy process. If PCS operators and others are delayed in deploying new systems and services, we could experience delays in orders. Similarly, failure by regulatory authorities to allocate suitable frequency spectrum could have a material adverse effect on our results. In addition, delays in the radio frequency spectrum auction process in the United States could delay our ability to develop and market equipment to support new services.

We operate in a regulatory environment subject to significant change. Regulatory changes, which are affected by political, economic and technical factors, could significantly impact our operations by restricting our development efforts and those of its customers, making current systems obsolete or increasing

competition. Any such regulatory changes, including changes in the allocation of available spectrum, could have a material adverse effect on our business, financial condition and results of operations. We may also find it necessary or advisable to modify our systems and services to

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operate in compliance with such regulations. Such modifications could be expensive and time-consuming.

Protection of Proprietary Rights

We rely on a combination of patents, trademarks, trade secrets, copyrights and other measures to protect our intellectual property rights. We generally enter into confidentiality and nondisclosure agreements with service providers, customers and others to limit access to and distribution of proprietary rights. We also enter into software license agreements with customers and others. However, such measures may not provide adequate protection for our trade secrets or other proprietary information for a number of reasons.

Any of our patents could be invalidated, circumvented or challenged, or the rights granted thereunder may not provide competitive advantages to us. Any of our pending or future patent applications might not be issued within the scope of the claims sought, if at all. Furthermore, others may develop similar products or software or duplicate our products or software. Similarly, others might design around the patents owned by us, or third parties may assert intellectual property infringement claims against us. In addition, foreign intellectual property laws may not adequately protect our intellectual property rights abroad. A failure or inability to protect proprietary rights could have a material adverse effect on our business, financial condition and results of operations.

Even if our intellectual property rights are adequately protected, litigation may be necessary to enforce patents, copyrights and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of proprietary rights of others or to defend against claims of infringement or invalidity. Litigation, even if wholly without merit, could result in substantial costs and diversion of resources, regardless of the outcome. If any claims or actions are asserted against us, we may choose to seek a license under a third party's intellectual property rights. However, such a license may not be available under reasonable terms or at all.

Dependence on Key Personnel

Our future operating results depend in significant part upon the continued contributions of key technical and senior management personnel, many of who would be difficult to replace. Future operating results also depend upon the ability to attract and retain qualified management and technical personnel. Competition for such personnel is intense, and we may not be successful in attracting or retaining such personnel. Only a limited number of persons with the requisite skills to serve in these positions may exist and it may be increasingly difficult for us to hire such personnel. Nonetheless business conditions forced us to reduce our workforce by 35% in 2001. It may be difficult to reassemble the collective and individual strength of our previous workforce.

We have experienced and may continue to experience employee turnover for example due to the 2001 layoffs. Such turnover could adversely impact our business.

Volatility of Stock Price

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In recent years, the stock market in general, and the market for shares of small capitalization, technology stocks in particular, have experienced extreme price fluctuations. Such fluctuations have often been unrelated to the operating performance of individual affected companies. Companies with liquidity problems also often experienced stock price volatility. We believe that factors such as announcements of developments related to our business (including any financings or any resolution of liabilities), announcements of

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technological innovations or new products or enhancements by us or our competitors, developments in the emerging countries' economies, sales by competitors, sales of our common stock into the public market, developments in our relationships with customers, partners, lenders, distributors and suppliers, shortfalls or changes in revenues, gross margins, earnings or losses or other financial results that differ from analysts' expectations, regulatory developments, fluctuations in results of operations and general conditions in our market, or the economy, could cause the price of our Common Stock to fluctuate. The market price of our Common Stock may continue to decline substantially, or otherwise continue to experience significant fluctuations in the future, including fluctuations that are unrelated to our performance.

Dividends

We have never declared or paid cash dividends on our common stock, and we anticipate that any future earnings will be retained for investment in the business. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon, among other things, our earnings, financial condition, capital requirements, extent of indebtedness and contractual restrictions with respect to the payment of dividends.

Change of Control Inhibition

Our stockholder rights ("poison pill") plan, certificate of incorporation, equity incentive plans, bylaws and Delaware law may have a significant effect in delaying, deferring or preventing a change in control and may adversely affect the voting and other rights of other holders of common stock.

The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of any other preferred stock that may be issued in the future, including the Series A junior participating preferred stock that may be issued pursuant to the stockholder rights ("poison pill") plan, upon the occurrence of certain triggering events. In general, the stockholder rights plan provides a mechanism by which the share position of anyone that acquires 15% or more (20% or more in the case of the State of Wisconsin Investment Board and Firsthand Capital Management) of the Common Stock will be substantially diluted. Future issuance of stock or any additional preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

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Item 7a. Quantitative and Qualitative Disclosures about Market Risk

We have international sales and facilities and are, therefore, subject to foreign currency rate exposure. Historically, our international sales have been denominated in British pounds sterling, Euro and United States dollars. The functional currency of our wholly owned foreign subsidiaries are the local

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currencies. Assets and liabilities of these subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Accumulated net translation adjustments are recorded in stockholders' equity. Foreign exchange transaction gains and losses are included in the results of operations, and were not material for all periods presented. Based on our overall currency rate exposure at December 31, 2001, a near-term 10% appreciation or depreciation of the U.S. dollar would have an insignificant effect on our financial position, results of operations and cash flows over the next fiscal year. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

Our Notes bear interest at a fixed rate; therefore, our financial condition and results of operations would not be affected by interest rate changes in this regard. Interest earned on our cash balances is not material.

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Item 8. FINANCIAL STATEMENTS

P-Com, Inc.

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All other schedules have been omitted because they are not required, are not applicable, or the information is included in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT ACCOUNTANTS

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To the Board of Directors and Stockholders of P-Com, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of P-Com, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting associated with revenue recognition effective January 1, 2000.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Jose, California
March 29, 2002

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P-Com, Inc.

Consolidated Balance Sheets

(in thousands, except per share data)

December 31,
2001 2000
----- -----

Assets
Current assets:

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| | | |
|---|-----------|------------|
| Cash and cash equivalents | \$ 7,103 | \$ 27,541 |
| Restricted cash | 2,911 | -- |
| Accounts receivable, net of allowances of \$1,080 and \$3,810, respectively | 7,926 | 63,458 |
| Inventory | 31,946 | 62,838 |
| Prepaid expenses and notes receivable | 7,138 | 13,668 |
| | ----- | ----- |
| Total current assets | 57,024 | 167,505 |
| Property and equipment, net | 17,627 | 23,166 |
| Goodwill and other assets | 17,583 | 25,548 |
| | ----- | ----- |
| Total assets | \$ 92,234 | \$ 216,219 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,143 | \$ 36,093 |
| Other accrued liabilities | 29,767 | 43,678 |
| Convertible subordinated notes | 29,299 | -- |
| Notes payable | -- | 10,911 |
| | ----- | ----- |
| Total current liabilities | 67,209 | 90,682 |
| Other long-term liabilities | 769 | 991 |
| Convertible subordinated notes | -- | 29,299 |
| | ----- | ----- |
| Total liabilities | 67,978 | 120,972 |
| | ----- | ----- |
| Commitments and contingencies (notes 12 and 13) | | |
| Stockholders' equity: | | |
| Series A Preferred Stock | -- | -- |
| Common Stock, \$0.0001 par value; 145,000 shares authorized at December 31, 2001 and 2000, respectively; 84,824 and 80,631 shares issued and outstanding at December 31, 2001 and 2000, respectively | 8 | 8 |
| Additional paid-in capital | 319,994 | 316,515 |
| Accumulated deficit | (294,460) | (218,922) |
| Accumulated other comprehensive loss | (1,286) | (2,354) |
| | ----- | ----- |
| Total stockholders' equity | 24,256 | 95,247 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 92,234 | \$ 216,219 |
| | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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| | 2001 | 2000 | 1999 |
|--|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| Sales: | | | |
| Product | \$ 73,236 | \$ 183,606 | \$ 183,606 |
| Service | 30,838 | 50,795 | 50,795 |
| | ----- | ----- | ----- |
| Total sales | 104,074 | 234,401 | 234,401 |
| | ----- | ----- | ----- |
| Cost of sales: | | | |
| Product | 94,890 | 160,965 | 160,965 |
| Service | 23,624 | 38,170 | 38,170 |
| | ----- | ----- | ----- |
| Total cost of sales | 118,514 | 199,135 | 199,135 |
| | ----- | ----- | ----- |
| Gross profit (loss) | (14,440) | 35,266 | 35,266 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Research and development | 19,800 | 20,241 | 20,241 |
| Selling and marketing | 7,776 | 11,972 | 11,972 |
| General and administrative | 33,371 | 26,893 | 26,893 |
| Goodwill amortization | 8,034 | 19,598 | 19,598 |
| Restructuring charges | -- | -- | -- |
| | ----- | ----- | ----- |
| Total operating expenses | 68,981 | 78,704 | 78,704 |
| | ----- | ----- | ----- |
| Loss from continuing operations | (83,421) | (43,438) | (43,438) |
| Interest expense | (1,961) | (4,750) | (4,750) |
| Gain on sale of a subsidiary | 9,814 | -- | -- |
| Other expense, net | (545) | (6,977) | (6,977) |
| | ----- | ----- | ----- |
| Loss from continuing operations before income taxes, extraordinary items and cumulative effect of accounting change | (76,113) | (55,165) | (55,165) |
| Provision (benefit) for income taxes | (575) | 11,140 | 11,140 |
| | ----- | ----- | ----- |
| Loss from continuing operations before extraordinary items and cumulative effect of accounting change | (75,538) | (66,305) | (66,305) |
| Discontinued operations: | | | |
| Loss from operations | -- | (4,000) | (4,000) |
| Loss on disposal | -- | -- | -- |
| | ----- | ----- | ----- |
| Extraordinary gain on retirement of Notes | -- | (4,000) | (4,000) |
| Cumulative effect of accounting change | -- | 1,890 | 1,890 |
| | ----- | ----- | ----- |
| Net loss | \$ (75,538) | \$ (69,949) | \$ (69,949) |
| | ===== | ===== | ===== |
| Net loss applicable to Common Stockholders: | | | |
| Net loss | (75,538) | (69,949) | (69,949) |
| Loss on conversion of Preferred Stock to Common Stock | -- | -- | -- |
| | ----- | ----- | ----- |
| Net loss applicable to Common Stockholders | \$ (75,538) | \$ (69,949) | \$ (69,949) |
| | ===== | ===== | ===== |
| Basic and diluted loss per share: | | | |
| Loss from continuing operations | \$ (0.91) | \$ (0.85) | \$ (0.85) |
| Loss from discontinued operations | -- | (0.05) | (0.05) |

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| | | | |
|--|-----------|-----------|-------|
| Extraordinary gain on retirement of Notes | -- | 0.02 | |
| Cumulative effect of accounting change | -- | (0.02) | |
| Charges related to Preferred Stock discount and loss on conversion of Preferred Stock to Common Stock | -- | -- | |
| | ----- | ----- | ----- |
| Basic and diluted net loss per share applicable to Common Stockholders | \$ (0.91) | \$ (0.90) | \$ |
| | ===== | ===== | ===== |
| Shares used in per share computations: | | | |
| Basic and diluted | 82,755 | 78,000 | |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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P-Com, Inc.

Consolidated Statement of Stockholders' Equity and Comprehensive Loss
(in thousands)

| | Common Stock | | Additional | Retained | Accum |
|--|--------------|--------|------------|--------------|-------|
| | Shares | Amount | Paid-In | Earnings | Ot |
| | ----- | ----- | Capital | (Accumulated | Com |
| | ----- | ----- | ----- | Deficit) | hen |
| | ----- | ----- | ----- | ----- | In |
| | ----- | ----- | ----- | ----- | (L |
| Balance at December 31, 1998 | 45,870 | 5 | 145,246 | (45,924) | |
| Issuance of Common Stock, net of issuance costs | 10,068 | 1 | 38,274 | -- | |
| Issuance of Common Stock in exchange for convertible notes | 5,171 | -- | 36,095 | -- | |
| Charge to Common stockholders resulting from the conversion of redeemable Preferred Stock to redeemable Common Stock | -- | -- | (10,190) | -- | |
| Charge to Common stockholders resulting from repricing of warrants | -- | -- | (2,000) | -- | |
| Charge to Common stockholders resulting from penalties due to certain Common stockholders | -- | -- | (6,331) | -- | |
| Issuance of Common Stock and Common Stock warrants in satisfaction of penalties due to certain Common stockholders | 220 | -- | 4,886 | -- | |
| Reclassification of Mandatorily redeemable Common Stock and Common Stock warrants resulting from the cancellation of Redemption rights | 5,135 | 1 | 29,007 | -- | |

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| | | | | |
|---|--------|----|---------|-----------|
| Issuance of Common Stock upon exercise of stock options | 725 | -- | 3,016 | -- |
| Issuance of Common Stock under employee stock purchase plan | 211 | -- | 718 | -- |
| Cumulative translation adjustment | -- | -- | -- | -- |
| Net loss | -- | -- | -- | (103,049) |
| Comprehensive income (loss) | | | | |
| Balance at December 31, 1999 | 67,400 | 7 | 238,721 | (148,973) |

The accompanying notes are an integral part of these consolidated financial statements.

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P-Com, Inc.

Consolidated Statement of Stockholders' Equity and Comprehensive Loss
(in thousands)

| | Common Stock | | Additional | Retained | Accumul |
|---|--------------|--------|------------|--------------|---------|
| | Shares | Amount | Paid-In | Earnings | Othe |
| | ----- | ----- | Capital | (Accumulated | Compr |
| | ----- | ----- | ----- | Deficit) | hensi |
| | ----- | ----- | ----- | ----- | Inco |
| | ----- | ----- | ----- | ----- | (Los |
| Balance at December 31, 1999 | 67,400 | 7 | 238,721 | (148,973) | |
| Issuance of Common Stock for cash, net of issuance costs of \$125 | 10,531 | 1 | 61,206 | -- | |
| Issuance of warrants for Common Stock in conjunction with line of credit borrowings | -- | -- | 1,902 | -- | |
| Conversion of notes payable to Common Stock | 677 | -- | 4,382 | -- | |
| Issuance of Common Stock upon exercise of warrant | 158 | -- | 600 | -- | |
| Stock based compensation expense from acceleration of option vesting | -- | -- | 372 | -- | |
| Issuance of Common Stock upon exercise of stock options | 1,473 | -- | 8,098 | -- | |
| Issuance of Common Stock under employee stock purchase plan | 392 | -- | 1,234 | -- | |
| Cumulative translation adjustment | -- | -- | -- | -- | (1 |
| Net loss | -- | -- | -- | (69,949) | |
| Comprehensive income (loss) | | | | | |
| Balance at December 31, 2000 | 80,631 | 8 | 316,515 | (218,922) | (2 |
| Issuance of Common Stock for cash | 3,798 | -- | 3,000 | -- | |
| Stock-based compensation expense | -- | -- | 29 | -- | |
| Issuance of Common Stock under | | | | | |

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| | | | | | |
|-----------------------------------|--------|------|------------|--------------|--------|
| employee stock purchase plan | 395 | -- | 450 | -- | |
| Cumulative translation adjustment | -- | -- | -- | -- | 1 |
| Net loss | -- | -- | -- | (75,538) | |
| Comprehensive income (loss) | | | | | |
| Balance at December 31, 2001 | 84,824 | \$ 8 | \$ 319,994 | \$ (294,460) | \$ (1) |

The accompanying notes are an integral part of these consolidated financial statements.

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P-Com, Inc.

Consolidated Statements of Cash Flows

(in thousands)

| | 2001 | 2000 |
|---|-------------|-------------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (75,538) | \$ (69,949) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 9,155 | 10,948 |
| Amortization of goodwill and other intangible assets | 2,411 | 4,598 |
| Write-off of goodwill | 5,855 | 15,000 |
| Loss on disposal of property and equipment | 1,386 | 6,206 |
| Compensation expense related to stock options | 29 | 372 |
| Deferred income taxes | -- | 9,858 |
| Inventory and other charges | 30,000 | 21,679 |
| Retirement of Notes | -- | (1,890) |
| (Gain)Loss on sale of subsidiary | (9,814) | 855 |
| Loss related to discontinued operations | -- | 4,000 |
| Amortization of stock warrants | 159 | 1,745 |
| Cumulative effect of change in method of accounting | -- | 1,534 |
| Accounts receivable charge | 11,837 | -- |
| Writedown of long term investment | -- | 1,320 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 37,848 | (23,034) |
| Inventory | 5,964 | (36,940) |
| Prepaid expenses and notes receivable | 7,007 | 473 |
| Other assets | -- | 1,559 |
| Accounts payable | (28,454) | 6,409 |
| Other accrued liabilities | (15,296) | 8,282 |
| Income taxes payable | -- | -- |
| Net cash used in operating activities | (17,451) | (36,975) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (2,862) | (8,037) |

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| | | |
|---|----------|-----------|
| Cash paid on disposal of discontinued operations | -- | (2,000) |
| Proceeds from sale of property and equipment | -- | 700 |
| Proceeds from sale of subsidiary | 12,088 | 6,860 |
| Increase in restricted cash | (2,911) | -- |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 6,315 | (2,477) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Payment of notes payable | (11,070) | (12,487) |
| Proceeds from issuance of Common Stock, net of expenses | 3,000 | 61,206 |
| Proceeds from issuance of Common Stock under employee stock purchase plan | 450 | -- |
| Proceeds from exercise of stock options and warrants | -- | 9,932 |
| Repayments of long-term obligations and capital leases | (2,568) | (1,223) |
| Repayment from (issuance of) notes receivable | 864 | (250) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | (9,324) | 57,178 |
| | ----- | ----- |
| Effect of exchange rate changes on cash | 22 | (1,814) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | (20,438) | 15,912 |
| | ----- | ----- |
| Cash and cash equivalents at beginning of year | 27,541 | 11,629 |
| | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 7,103 | \$ 27,541 |
| | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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P-Com, Inc.

Notes to Consolidated Financial Statements

1. The Company and Summary of Significant Accounting Policies

The Company

P-Com, Inc. (the "Company") was incorporated in Delaware on August 23, 1991 to engage in the design, manufacture and marketing of millimeter wave radio systems for use in the worldwide wireless telecommunications market. The Company also provides network services including system and program planning and management, path design, and installation for the wireless communication market through its service sales segment.

Liquidity

Through December 31, 2001 the Company has incurred substantial losses and negative cash flows from operations and, as of December 31, 2001, had an accumulated deficit of \$294.5 million. For the year ended December 31, 2001 the Company recorded a net loss of \$75.5 million and used \$17.5 million cash in operating activities.

The Company's \$29.3 million of 4.25% Convertible Subordinated Notes mature in November 2002. In order to conserve cash, the Company has implemented cost

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cutting measures and is currently in negotiation to extend repayment of (or exchange for equity) the Notes, and is actively seeking additional debt and equity financing. Additionally, the Company implemented restructuring programs in the second and third quarters of 2001. If the Convertible Subordinated Note holders elect to demand payment on their notes when due, the Company would have insufficient capital to fund its operations. Even if the Notes are renegotiated, if the Company fails to generate sufficient revenues from new and existing products sales, induce other creditors to forebear or convert to equity, raise additional capital or obtain new debt financing, the Company would have insufficient capital to fund its operations. Without sufficient capital to fund the Company's operations, the Company would no longer be able to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern.

Summary of Significant Accounting Policies

Management's use of estimates and assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could be material and affect the results of operations reported in future periods.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Foreign currency translation

The functional currencies of our foreign subsidiaries are the local currencies. Assets and liabilities of these subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period.

P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

Accumulated net translation adjustments are recorded as a component of comprehensive income (loss) in stockholders' equity. Foreign exchange transaction gains and losses are included in the results of operations in the periods incurred, and were not material in all periods presented.

Fair value of financial instruments

The Company measures its financial assets and liabilities in accordance with accounting principles generally accepted in the United States of America. The estimated fair value of our Convertible Subordinated Notes was approximately 30%

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of par or \$8.8 million at December 31, 2001 compared to 70% of par or \$20.4 million at December 31, 2000. The estimated fair value of cash, accounts receivable and payable, and accrued liabilities at December 31, 2001 and 2000 approximated cost due to the short maturity of these assets and liabilities.

Cash and cash equivalents

The Company considers all highly liquid debt instruments with a maturity when acquired of three months or less to be cash equivalents.

Restricted cash

As of December 31, 2001, the Company had \$2.9 million of restricted cash resulting from an attachment in the third quarter of 2001 related to a dispute with a vendor.

Revenue recognition

Revenue from product sales is recognized upon transfer of title and risk of loss, which is upon shipment of the product provided no significant obligations remain and collection is probable. Provisions for estimated warranty repairs, returns and other allowances are recorded at the time revenue is recognized. Revenue from service sales is recognized ratably over the contractual period or as the service is performed.

Inventory

Inventory is stated at the lower of cost or market, cost being determined on a first-in, first-out basis. Inventory is reduced, if necessary, to its net realizable value based on customer orders and demand forecasts using management's best estimate given the information currently available.

Property and equipment

Property and equipment are stated at cost and include tooling and test equipment, computer equipment, furniture, land and buildings, and construction-in-progress. Depreciation is computed using the straight-line method based upon the useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized using the straight-line method based upon the shorter of the estimated useful lives or the lease term of the respective assets.

Research and development and software development costs

Research and development costs are expensed as incurred. The Company's software products are integrated into its hardware products. Software development costs incurred prior to the establishment of technological feasibility are expensed as incurred. Software development costs incurred subsequent to the establishment of technological feasibility and before general release to customers are capitalized, if material. To date, all software development costs incurred after the establishment of technological feasibility have been immaterial.

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Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies accounted for as purchase business combinations. Goodwill is amortized on a straight-line basis over the period of expected benefit of 20 years.

Impairment of long-lived assets

In the event that facts and circumstances indicate that the long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required.

Comprehensive income (loss)

Under SFAS 130, "Reporting Comprehensive Income", the Company is required to display comprehensive income and its components as part of our full set of financial statements. The measurement and presentation of net income did not change. Comprehensive income comprises net income and other comprehensive income. Other comprehensive income includes certain changes in equity of the Company that are excluded from net income. Specifically, SFAS 130 requires unrealized gains and losses on the Company's foreign currency translation, which were reported separately in stockholders' equity, to be included in, accumulated other comprehensive income. Comprehensive income (loss) in 2001, 2000 and 1999 has been reflected in the Consolidated Statement of Stockholders' Equity and Comprehensive Loss.

Accounting for stock-based compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and Financial Accounting Standards Board Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44"). Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of our stock at the date of grant over the stock option exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and Emerging Issues Task Force Consensus No. 96-18, "Accounting for Equity Instruments that are offered to other than employees for acquiring or in conjunction with selling goods or services" ("EITF 96-18"). Under SFAS No. 123 and EITF 96-18, stock option awards issued to non-employees are accounted for at their fair value, determined using the Black-Scholes option pricing method. The fair value of each non-employee stock option or award is remeasured at each period end until a commitment date is reached, which is generally the vesting date.

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents and trade accounts receivable. The Company places its cash equivalents in a variety of financial instruments such as market rate accounts and U.S. Government agency debt securities. The Company, by policy, limits the amount of credit exposure to any one financial institution or commercial issuer.

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Notes to Consolidated Financial Statements - Continued

To date, the Company has sold most of its products in international markets. Sales to several customers have been denominated in British pounds and Euro and, at December 31, 2001 and 2000, amounts due from these customers represented 36.9% and 22%, respectively, of accounts receivable. Any gains and/or losses incurred on the settlement of these receivables are included in the financial statements as they occur.

The Company extends credit terms to international customers of up to 120 days, which is consistent with local business practices. The Company performs on-going credit evaluations of its customers' financial condition to determine the customer's credit worthiness. Sales are then generally made either on 30 to 120 day payment terms, COD or letters of credit.

At December 31, 2001 and 2000, approximately 61.9% and 66.0%, respectively, of trade accounts receivable represent amounts due from four and three customers, respectively. For the year ended December 31, 2001, 2000 and 1999, three, two and three customers accounted for 44.1%, 40.0% and 44.0% of total sales respectively.

Reclassifications

Certain amounts reported in prior years' consolidated financial statements have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (FAS 141 and FAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets." FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. FAS 141 and FAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of FAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under FAS 141 will be reclassified to goodwill. The Company will adopt FAS 142 on January 1, 2002. In connection with the adoption of FAS 142, the Company will be required to perform a transitional goodwill impairment assessment. The Company has not yet determined the effect the goodwill impairment assessment will have on its financial position and results of operations.

In June 2001, the FASB issued FASB Statement No. 143 (FAS 143), "Accounting for Asset Retirement Obligations". FAS 143 requires that the fair value of a liability for asset retirement obligation be realized in the period in which it is incurred if a reasonable estimate of fair market value can be made. Companies are required to adopt FAS 143 for fiscal years beginning after June 15, 2002, but early adoption is encouraged. The Company has not yet determined the impact this standard will have on its financial position and results of operations.

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In August 2001, the FASB issued FASB Statement No. 144 (FAS 144). "Accounting for the Impairment or Disposal of Long-lived Assets". FAS 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). This statement also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company adopted FAS 144 on January 1, 2002. The Company does not expect the adoption of this standard will have a material impact on its financial position and results of operations.

2. Change in Method of Accounting

Effective January 1, 2000, the Company revised its method of accounting associated with revenue recognition for sales of equipment as a result of the adoption of Staff Accounting Bulletin ("SAB") No. 101 "Revenue Recognition in Financial Statements." The Company previously recognized revenue upon shipment of product, provided no significant obligations remained and collection was probable. This policy was changed to recognition upon transfer of title and risk of loss, which is generally upon shipment of the product provided no significant obligations remain and collection is probable. In accordance with SAB No. 101, the Company has recorded a non-cash charge of approximately \$1.5 million (\$1.5 million, after tax) on January 1, 2000 to account for the cumulative effect of this change in method of accounting.

The cumulative effect of this change in method of accounting primarily resulted from one contract where revenue had historically been recognized upon shipment, however, under the terms of the underlying contract, title did not transfer until subsequent receipt of payment. Under the Company's revised revenue recognition method, revenue relating to such sales is deferred until title transfers. Primarily as a result of this, approximately \$12.0 million in revenue and \$10.5 million in related costs originally recognized in 1999 were deferred and re-recognized in the first quarter of 2000.

The following table provides selected financial data for 1999 as reported and on a Pro Forma basis assuming SAB No. 101 had been in effect for that year (in thousands, except per share data):

| | 1999 | |
|--|-------------|-------------|
| | As Reported | Pro Forma |
| Loss from Continuing Operations Before Extraordinary | | |
| Items and Cumulative Effect of Accounting Change | \$ (75,484) | \$ (75,638) |
| Net Loss | (103,049) | (103,203) |
| Net Loss Applicable to Common Stockholders | (121,570) | (121,724) |
| Basic and Diluted Net Loss Applicable to Common Stockholders | \$ (2.13) | \$ (2.14) |

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

3. Balance Sheet Components

Inventory consists of the following (in thousands of dollars):

| | December 31, | |
|-----------------------------|--------------|-----------|
| | 2001 | 2000 |
| Raw materials | \$ 37,829 | \$ 36,366 |
| Work-in-process | 11,912 | 20,757 |
| Finished goods | 19,767 | 25,155 |
| Inventory at customer sites | 1,035 | 6,550 |
| | 70,543 | 88,828 |
| Less: Inventory reserves | (38,597) | (25,990) |
| | \$ 31,946 | \$ 62,838 |

Property and equipment consists of the following (in thousands of dollars):

| | | December 31, | |
|---|--------------|--------------|-----------|
| | Useful Life | 2001 | 2000 |
| Tooling and test equipment | 3 to 5 years | \$ 34,953 | \$ 41,839 |
| Computer equipment | 3 years | 7,979 | 11,809 |
| Furniture and fixtures | 5 years | 3,140 | 3,822 |
| Land and buildings | 5 to 7 years | 2,337 | 2,923 |
| Construction-in-process | | 799 | -- |
| | | 49,208 | 60,393 |
| Less: Accumulated depreciation and amortization | | (31,581) | (37,227) |
| | | \$ 17,627 | \$ 23,166 |

The above amounts include items under capital leases and related accumulated amortization of \$7,158 and \$1,979 at December 31, 2001 and \$3,364 and \$974 at December 31, 2000, respectively.

Goodwill and other assets consist of the following (in thousands):

| | December 31, | |
|--------------------------------|--------------|-----------|
| | 2001 | 2000 |
| Goodwill: | | |
| CSM(P-Com Network Services) | \$ 22,295 | \$ 22,295 |
| Cylink | 34,261 | 34,261 |
| | 56,556 | 56,556 |
| Less: Accumulated amortization | (39,647) | (31,616) |
| | 16,909 | 24,940 |
| Net goodwill | 16,909 | 24,940 |
| Other assets | 674 | 608 |

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| | |
|-----------|-----------|
| ----- | ----- |
| \$ 17,583 | \$ 25,548 |
| ===== | ===== |

In 2001 and 2000, management reviewed the carrying value of the goodwill related to the business line acquired from Cylink. Based upon its assessment of future cash flows estimated to be provided by the business line acquired from Cylink, a \$5.8 million and \$15 million impairment charge was recorded in 2001 and 2000, respectively.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

Other accrued liabilities consist of the following (in thousands):

| | December 31, | |
|----------------------------------|--------------|-----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Purchase commitment | \$ 10,002 | \$ 6,687 |
| Deferred contract obligation (a) | 8,000 | 8,000 |
| Deferred revenue | 2,280 | 11,920 |
| Accrued employee benefits | 1,238 | 2,440 |
| Accrued warranty | 2,843 | 6,323 |
| Other | 2,820 | 5,106 |
| Income taxes payable | 281 | 1,566 |
| Lease obligations | 2,095 | 1,428 |
| Interest payable | 208 | 208 |
| | ----- | ----- |
| | \$ 29,767 | \$ 43,678 |
| | ===== | ===== |

(a) Under a joint license and development contract, the Company determined that a related Original Equipment Manufacturer ("OEM") agreement provided for subsequent payments of \$8 million specifically earmarked for marketing our products manufactured under this joint license and development contract. As of December 31, 2001 and 2000, payment obligations of \$8 million under this contract remained outstanding.

Other long-term liabilities consist of the following (in thousands):

| | December 31, | |
|---------------------------|--------------|--------|
| | 2001 | 2000 |
| | ----- | ----- |
| Capital lease obligations | \$ 680 | \$ 703 |
| Other | 89 | 288 |
| | ----- | ----- |
| | \$ 769 | \$ 991 |
| | ===== | ===== |

4. Borrowing Arrangements

On March 29, 2001, the Company and Foothill Capital Corporation entered into a Loan and Security Agreement with a borrowing capacity of up to \$25 million. The Loan and Security Agreement was to mature in March 2004. Borrowings under the Loan and Security Agreement were limited to 85% of eligible accounts receivable. At December 31, 2001, there were no outstanding borrowings under the Loan and Security Agreement. The Company was not in compliance with certain financial

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covenants in this Loan and Security Agreement as of December 31, 2001. The Agreement was terminated on February 6, 2002.

In January 2000 the Company entered into a secured line-of-credit agreement for \$12 million. The line matured and was repaid in full on January 31, 2001. Borrowings under the line bore interest at the greater of prime rate plus 2% (8% per annum at December 31, 2000). In connection with the loan agreement, the Company issued the lender warrants to purchase 200,000 shares of common stock at \$5.71 per share. The warrants are fully exercisable, are subject to anti-dilution clauses and expire on January 31, 2005. The Company recorded a discount to amounts recorded under the loan agreement of approximately \$2 million, which represented the estimated fair value of the warrants. Such discount was amortized to interest expense over the term of the loan resulting in \$159,000 and \$1,745,000 of interest expense in 2001 and 2000, respectively.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

The Company entered into a revolving line-of-credit agreement on May 15, 1998, that provided for borrowings of up to \$50.0 million. The maximum revolving commitment, as amended, had been reduced to \$30.0 million until maturity on January 15, 2000. At December 31, 1999, the Company had been advanced approximately \$23.6 million and had used the remaining \$3.4 million to secure letters of credit under such line. In January 2000, the balance was paid in full and the line-of-credit agreement was terminated. Borrowings under the line were secured by the assets of the Company and bore interest at either a base interest rate or a variable interest rate.

On November 5, 1997, the Company issued \$100 million in 4 1/4% Convertible Subordinated Notes (the "Notes") due November 1, 2002. The Notes are convertible at the option of the holder into shares of our Common Stock at an initial conversion price of \$27.46 per share and at \$24.73 per share subsequent to October 2000. Interest on the Notes is paid semi-annually on May 1 and November 1 of each year. In 2000 and 1999, the Company issued Common Stock in exchange for a portion of these Notes and recorded extraordinary gains as noted below.

A summary of Convertible Subordinated Note activity is as follows:

| | Amount | Shares Issued | Gain on Conversion |
|--|------------|------------------|-----------------------|
| | (millions) | (thousands) | (millions) |
| Issuance of \$100 million in Convertible | | | |
| Subordinated Notes in November 1997 | 100 | -- | \$ -- |
| Balance at December 31, 1997 | 100 | -- | -- |
| Conversion of Notes in December 1998 | (14) | 2,467 | 5 |
| Balance at December 31, 1998 | 86 | 2,467 | 5 |
| Conversion of Notes in January and February 1999 | (26) | 2,812 | 7 |
| Conversion of Notes in December 1999 | (24) | 2,359 | 6 |

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| | | | |
|---------------------------------------|-------|-------|-------|
| Balance at December 31, 1999 | 36 | 7,638 | 18 |
| Conversion of Notes in January 2000 | (7) | 677 | 2 |
| | ----- | ----- | ----- |
| Balance at December 31, 2000 and 2001 | \$ 29 | 8,315 | \$ 20 |
| | ===== | ===== | ===== |

5. Capital Stock

The authorized capital stock of the Company consists of 145 million shares of Common Stock, \$0.0001 par value (the "Common Stock"), and 2 million shares of preferred stock, \$0.0001 par value (the "Preferred Stock"), including 500,000 shares of which have been designated Series A Junior Participating Preferred Stock (the "Series A") pursuant to the Stockholder Rights Agreement (see discussion below). On March 15, 2002 the Company filed a proxy statement with the Securities and Exchange Commission in connection with a solicitation of shareholder consent for an amendment of the Company's certificate of incorporation to increase the authorized shares of Common Stock to 345 million.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

Preferred Stock

The Board of Directors has the authority to issue shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the holders of Common Stock.

Mandatorily Redeemable Convertible Preferred Stock and warrants

In December 1998, the Company completed a private placement of 15,000 shares of the Series B Convertible Participating Preferred Stock (the "Series B") for \$1,000 per share and issued mandatorily redeemable warrants to purchase up to 1,242,000 shares of Common Stock at \$3.47 per share. A portion of the proceeds was allocated to the warrants based on their fair value and accounted for as a discount to the Series B. The remainder of the proceeds was allocated to the Series B. Because the Series B was immediately convertible into shares of Common Stock, the discount was amortized as a reduction of income available to holders of Common Stock in the amount of \$1.8 million upon the issuance of the Series B. The Company did not record a beneficial conversion feature related to Series B because the conversion price, using the conversion terms that are most beneficial to the holder, was greater than the market price of the Common Stock on the date of issuance.

Pursuant to the registration rights agreement the Company entered into in connection with the issuance of the Series B, as amended by the exchange agreements, the Company was required to register the Series B for resale on or before July 19, 1999. See additional discussion below regarding premiums and penalties related to this requirement.

The mandatorily redeemable warrants issued in connection with Series B were valued at \$1,839,000 using the Black-Scholes option-pricing model with the following assumptions used: expected volatility of 65%; a weighted-average risk-free interest rate of 4.5% and a weighted-average expected life of 5 years.

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The initial exercise price for the Common Stock underlying the warrants was \$3.47.

In June 1999, in connection with the conversion of the Series B to Common Stock, the mandatorily redeemable warrants were exchanged for 1,242,000 non-mandatorily redeemable warrants having an exercise price of \$3.00. As a result of the exchange and repricing of warrants, the Company recorded a \$2.0 million charge to loss attributable to Common Stockholders representing the difference in fair value of the warrants before and after the exchange and repricing. The warrants are immediately exercisable until the earlier of: (1) December 22, 2002, or (2) the date of the closing of a consolidation, merger or other business combination with or into another entity pursuant to which the Company does not survive. In the event the Company merges or consolidates with any other company, the warrant holders are entitled to similar choices as to the consideration they will receive in such merger or consolidation as are provided to the holders of the Series B. In addition, the number of shares issuable upon exercise of the warrants is subject to an anti-dilution adjustment if the Company sells Common Stock or securities convertible into or exercisable for Common Stock (excluding certain issuances such as Common Stock issued under employee, director or consultant benefit plans) at a price per share less than \$3.47 (subject to adjustment). These warrants were subsequently exchanged for Common Warrants as discussed below.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

Common Stock

In July 2001 the Company issued approximately 3,798,000 shares of unregistered Common Stock at a per share price of \$0.79, for aggregate proceeds of \$ 3 million.

In January 2000, the Company sold approximately 7,531,000 shares of Common Stock at a per share price of \$5.71, for an aggregate purchase price of \$43.0 million. The shares were subsequently registered for resale in October 2000. As a result of the late registration of these shares, the Company was required to issue the holders warrants to purchase 1,358,000 shares of Common Stock at an exercise price of \$3.80 per share.

In August 2000, the Company sold 3,000,000 shares of unregistered Common Stock at a per share price of \$6.11, for an aggregate purchase price of \$18.2 million. The shares have subsequently been registered for resale.

In June 1999, the Company received net proceeds of \$38.3 million from the sale 10,068,000 shares of unregistered Common Stock. The shares have subsequently been registered for resale.

In June 1999, the Company exchanged 5,135,000 shares of mandatorily redeemable Common Stock for all 15,000 shares of the Series B. As a result of this exchange, the Company recorded a \$10.2 million charge to loss attributable to Common Stockholders representing the difference between the book value of the Series B and the market value of the mandatorily redeemable common stock net of incurred premiums and penalties relating to the non-registration of the Series B. Upon the occurrence of certain events outside our control, each share of Common Stock was redeemable at the holder's option at the greater of \$4.00 per share or the highest closing price during the period beginning on the date of the holder's notice to redeem to the date on which the Company redeems the

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stock. In connection with the exchange agreements, each holder of the Series B agreed to waive all premiums which had been accrued and penalties which had been incurred in connection with the Series B as of the date of exchange. As discussed above, the Company also reacquired outstanding mandatorily redeemable warrants to purchase 1,243,000 shares of Common Stock, which were held by the holders of the Series B in exchange for new warrants to purchase 1,243,000 shares of Common Stock with an exercise price of \$3.00 per share rather than \$3.47 per share.

In November 1999, the Company entered into agreements with the holders of the mandatorily redeemable Common Stock to eliminate their redemption rights and their past and future late registration premiums and penalties in exchange for 212,000 shares of Common Stock issued on November 16, 1999 at \$4.72 per share, warrants to purchase 443,000 shares of Common Stock issued on January 20, 2000 at an exercise price of \$8.50 per share, and a \$400,000 promissory note convertible (with interest) into Common Stock at a conversion price of \$4.72 per share. As a result of this transaction, the Company recorded a \$6.3 million charge to loss attributable to Common Stockholders representing the difference between the value of the redemption rights and the market value of the Common Stock issued, the fair value of the warrants issued, and the convertible promissory note net of accrued interest eliminated as part of the transaction. This note was converted into approximately 95,000 shares of common stock in the fourth quarter of 2000.

At December 31, 2001, the Company had 10,504,000 shares of Common Stock reserved for issuance of warrants and options.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

Common Stock Warrants

As a result of the issuance of the Common Stock on July 31, 2001, the warrant exercise price and number of shares issuable mentioned below were adjusted in accordance with the formula contained in the anti-dilution clauses of the warrants.

A summary of issued and outstanding warrants to purchase Common Stock is as follows:

| | Number (in thousands) | Anti- dilution adjustment | Total | Old Exercise Price | New Exerci Pric |
|------------------------------|--------------------------|---------------------------------|-------|--------------------------|-----------------------|
| | | | | | |
| June 1999 - issuance | 1,242 | 43 | 1,285 | 3.00 | 2.9 |
| August 1999 -issuance | 180 | 7 | 187 | 5.00 | 4.8 |
| November 1999 issuance | 443 | -- | 443 | 8.50 | 8.5 |
| January 2000 - issuance | 200 | 7 | 207 | 5.71 | 5.5 |
| October 2000 - issuance | 1,358 | -- | 1,358 | 3.80 | 3.8 |
| October 2000 - exercise | (158) | -- | (158) | 3.80 | 3.8 |
| | | | | | |
| Balance at December 31, 2001 | 3,265 | 57 | 3,322 | | |
| | | | | | |

Stockholder Rights Agreement

On September 26, 1997, the Board of Directors of the Company adopted a Stockholder Rights Agreement (the "Agreement"). Pursuant to the Agreement, Rights (the "Rights") were distributed as a dividend on each outstanding share of its Common Stock held by stockholders of record as of the close of business on November 3, 1997. Each right will entitle stockholders to buy Series A Preferred at an exercise price of \$125.00 upon certain events. The Rights will expire ten years from the date of the Agreement.

In general, the Rights will be exercisable only if a person or group acquires 15% or more of the Company's Common Stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 15% or more of the Company's Common Stock. In the case of the State of Wisconsin Investment Board and Firsthand Capital Management, the threshold figure is 20% rather than 15%. If, after the Rights become exercisable, the Company is acquired in a merger or other business combination transaction, or sells 50% or more of its assets or earning power, each unexercised Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of the acquiring Company's common shares having a market value at the time of twice the Right's exercise price. At any time within ten days after the public announcement that a person or group has acquired beneficial ownership of 15% or more of the Company's Common Stock, the Board, in its sole discretion, may redeem the Rights for \$0.0001 per Right.

6. Employee Benefit Plans

Stock Option Plans. On January 11, 1995, our Board of Directors adopted the 1995 Stock Option/Stock Issuance Plan (the "1995 Plan") as a successor to its 1992 Stock Option Plan (the "1992 Plan").

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

The 1995 Plan authorizes the issuance of up to 14,934,459 shares of Common Stock as of December 31, 2001.

The 1995 Plan contains three equity incentive programs: a Discretionary Option Grant Program, and a Stock Issuance Program for officers and employees of the Company and independent consultants and advisors to the Company and an Automatic Option Grant Program for non-employee members of our Board of Directors.

Options under the Discretionary Option Grant Program may be granted at not less than 100% of the fair market value per share of common stock on the grant date with exercise periods not to exceed ten years. The plan administrator is authorized to issue tandem stock appreciation rights and limited stock appreciation rights in connection with the option grants.

The Stock Issuance Program provides for the sale of common stock at a price not less than 100% of fair market value. Shares may also be issued solely for services. The administrator has discretion as to vesting provisions, including accelerations, and may institute a loan program to assist participants with financing stock purchases. The program also provides certain alternatives to satisfy tax liabilities incurred by participants in connection with the program.

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Under the Automatic Option Grant Program, as amended, participants will automatically receive an option to purchase 40,000 shares of common stock upon initially joining the Board of Directors and will receive an additional automatic grant each year at each annual stockholders' meeting for 4,000 shares. Each option will have an exercise price per share equal to 100% of the fair market value of the common stock on the grant date. The shares subject to the initial share option vest, and for options granted before November 2000 the shares subject to the annual 4,000 share option will vest, in eight successive equal quarterly installments upon the optionee's completion of each successive 3-month period of Board service over the 24-month period measured from the grant date. Effective November 2000, the annual 4,000 share options will vest fully on the grant date.

The following table summarizes stock option activity under the Company's 1995 Plan (in thousands, except per share amounts):

| | 2001 | | 2000 | | 1999 |
|--|---------|---------|---------|---------|---------|
| | Shares | Price | Shares | Price | Shares |
| Outstanding at beginning of year | 7,616 | \$ 6.62 | 6,635 | \$ 6.36 | 7,862 |
| Granted | 1,680 | 2.31 | 4,439 | 6.71 | 1,453 |
| Exercised | -- | -- | (1,473) | 5.50 | (725) |
| Canceled | (2,114) | 5.76 | (1,985) | 6.80 | (1,955) |
| | 7,182 | 5.84 | 7,616 | 6.62 | 6,635 |
| Options exercisable at year-end | 3,672 | 7.22 | 2,611 | 7.49 | 3,909 |
| Weighted-average fair value of options granted during the year | | \$ 2.03 | | \$ 5.32 | |

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001 (in thousands, except per share amounts):

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|--|---------------------------------|---------------------|---------------------------------|
| | Shares | Weighted-Average Remaining Life (in Years) | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| \$ 0.10- 2.88 | 1,060 | 8.54 | \$ 1.29 | 245 | \$ 1.40 |
| 3.00- 4.75 | 2,345 | 7.88 | 3.43 | 1,032 | 3.51 |
| 5.00- 5.81 | 1,229 | 7.86 | 5.67 | 638 | 5.71 |

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| | | | | | |
|-------------|-------|------|---------|-------|---------|
| 6.31- 7.25 | 1,220 | 7.62 | 6.83 | 659 | 6.86 |
| 8.25- 9.94 | 573 | 5.15 | 9.38 | 525 | 9.41 |
| 13.25-13.75 | 387 | 7.79 | 13.32 | 207 | 13.37 |
| 17.25-21.09 | 368 | 5.66 | 18.21 | 366 | 18.22 |
| | ----- | | | ----- | |
| | 7,182 | 7.59 | \$ 5.84 | 3,672 | \$ 7.22 |
| | ===== | | | ===== | |

Employee Stock Purchase Plan. On January 11, 1995, our Board of Directors adopted the Employee Stock Purchase Plan (the "Purchase Plan"), which was approved by stockholders in February 1995. The Purchase Plan permits eligible employees to purchase Common Stock at a discount through payroll deductions during successive offering periods with a maximum duration of 24 months. Each offering period shall be divided into consecutive semi-annual purchase periods. The price at which the Common Stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the Common Stock on the first day of the offering period or the last day of the purchase period, whichever is lower. A total of 1,500,000 shares of Common Stock have been reserved for issuance under the Purchase Plan. Awards and terms are established by our Board of Directors. The Purchase Plan may be canceled at any time at the discretion of our Board of Directors prior to its expiration in January 2005. Under the Plan, the Company sold approximately 395,000, 392,000, and 211,000 shares in 2001, 2000, and 1999, respectively. The Board of Directors suspended the plan in January 2002 pending allocation of additional shares.

Because the Company has adopted the disclosure-only provision of SFAS No. 123, no compensation expense has been recognized for its stock option plan or for its stock purchase plan. Had compensation costs for our two stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS 123, our net loss and net loss per share would have been reduced to the pro forma amounts indicated as follows:

| | 2001 | 2000 | 1999 |
|--|-------------|-------------|--------------|
| | ----- | ----- | ----- |
| | | | (restated) |
| Net loss applicable to common stockholders | | | |
| As reported | \$ (75,538) | \$ (69,949) | \$ (121,570) |
| Pro forma | \$ (81,676) | \$ (78,219) | \$ (127,685) |
| Net loss per share | | | |
| As reported - Basic and Diluted | \$ (0.91) | \$ (0.90) | \$ (2.13) |
| Pro forma - Basic and Diluted | \$ (0.99) | \$ (1.00) | \$ (2.24) |

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2001, 2000, and 1999, respectively: expected volatility of 125%, 95%, and 96%; weighted-average risk-free interest rates of 4.1% 6.2%, and 5.4%, weighted-average expected lives of 3.51, 3.71 and 3.28, respectively, and a zero

dividend yield.

The fair value of the employees' stock purchase rights was estimated using the Black-Scholes model with the following assumptions for 2001, 2000, and 1999, respectively: expected volatility of 157%, 95%, and 96% weighted-average risk-free interest rates of 3.5%, 6.2%, and 4.6%, weighted-average expected lives of 0.5, 0.5, and 0.5 years and a dividend yield of zero. The weighted-average fair value of those purchase rights granted in 2001, 2000, and 1999 was \$5.47, \$6.03, and \$5.74, respectively.

401(k) Plan

The Company sponsors a 401(k) Plan (the "401(k) Plan") which provides tax-deferred salary deductions for eligible employees. Employees may contribute up to 15% of their annual compensation to the 401(k) Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The 401(k) Plan permits, but does not require, the Company to make matching contributions. To date, no matching contributions have been made.

7. Restructuring and Other Charges

In the first quarter of 2001, the Company recorded a \$10 million inventory related charge to product cost of sales, and incurred a \$11.6 million receivable valuation charge included in general and administrative expenses, as a result of the bankruptcy of a major customer. In the third quarter of 2001, the Company determined that there was a need to reevaluate its inventory carrying value in the light of the significant slowdown in the global telecommunications market and the phasing out of and replacement of current product designs. The evaluation included an assessment of future demand for certain of its lower speed and lower frequency Tel-Link Point-to-Point products, and resulted in total charges to product cost of sales of approximately \$18 million in the quarter. A further \$2 million was charged to product cost of sales in the fourth quarter of 2001.

In the second quarter of 2000, the Company determined that there was a need to reevaluate its inventory levels and related accrued liabilities in light of recent changes in product and customer mix. The evaluation was prompted by a change in customer mix away from the UK and other European markets and toward the U.S. market, and the resulting anticipated decrease in demand for certain of its lower speed and lower frequency Tel-Link Point-to-Point products, and resulted in total charges of approximately \$21.7 million during the second quarter of 2000. These charges consisted of increases to inventory reserve of approximately \$17.4 million and accrued liabilities of approximately \$4.3 million, both relating to our product segment. In addition, the Company performed a review of the carrying value and remaining life of long-lived assets associated with our product segment and recorded write-downs of approximately \$15.0 million of goodwill and an approximately \$9.9 million write-off of deferred tax assets in 2000.

The increase in inventory reserves and related purchases liabilities was charged to product cost of sales in the second quarter of 2000. Of the \$17 million charge for additional reserves, \$15.4 million related to the aforementioned Tel-Link Point-to-Point product line. An additional reserve of approximately \$1.0 million was added in the second quarter of 2000 to adjust carrying value of

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certain modules of the Point-to-Multipoint radio line.

During 1999, the Company's management approved restructuring plans, which included initiatives to integrate the operations of acquired companies, consolidate duplicate facilities, and reduce overhead. Total accrued restructuring and other charges of approximately \$36.5 million were recorded in 1999 relating to these initiatives, all relating to the Company's product segment.

8. Segment Reporting

For purposes of segment reporting, the Company aggregates operating segments that have similar economic characteristics and meet the aggregation criteria specified in SFAS No. 131. The Company has determined that there are two reportable segments: Product Sales and Service Sales. The Product Sales segment consists of organizations located primarily in the United States, the United Kingdom, and Italy, which develop, manufacture, and/or market network access systems for use in the worldwide wireless telecommunications market. The Service Sales segment consists of organizations primarily located in the United States, which provide comprehensive network services including system and program planning, and management, path design, and installation for the wireless communications market.

In August 1999, the Company announced its intent to divest its broadcast equipment business, Technosystem, and concluded that a measurement date had occurred. Accordingly, beginning in the third quarter of 1999, this business was reported as a discontinued operation and the amounts presented for prior periods have been reclassified for appropriate comparability. Technosystem was divested in the first quarter of 2000. As such, the segment information shown below does not include Technosystem's financial information. On February 9, 2001, the Company sold its RT Masts unit which was primarily engaged in providing site preparation, installation, and which maintenance of wireless broadband radio systems for cell phone services providers in the UK. RT Masts provided approximately \$20 million in revenues to P-Com's consolidated operations in 2000 and approximately \$18 million in revenue in 1999 and has historically been included as a component of our Service sales segment. Capital expenditures for long-lived assets are not reported to management by segment and are excluded as presenting such information is not practical. The following tables show the operating results and identifiable assets of our operating segments (in thousands):

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

For the Year Ended

| December 31, 2001 | Product ----- | Service ----- | Total ----- |
|-----------------------|------------------|------------------|----------------|
| Sales | \$ 73,236 | \$ 30,838 | \$ 104,074 |
| Loss from operations | (83,210) | (211) | (83,421) |
| Depreciation | 8,845 | 310 | 9,155 |
| Identifiable assets | 82,459 | 9,775 | 92,234 |
| Interest expense, net | 1,946 | 15 | 1,961 |

For the Year Ended

| December 31, 2000 | Product | Service | Total |
|-------------------|---------|---------|-------|
|-------------------|---------|---------|-------|

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| | ----- | ----- | ----- |
|-------------------------------|------------|-----------|------------|
| Sales | \$ 183,606 | \$ 50,795 | \$ 234,401 |
| Income (loss) from operations | (46,701) | 3,263 | (43,438) |
| Depreciation | 10,375 | 573 | 10,948 |
| Identifiable assets | 194,351 | 21,868 | 216,219 |
| Interest expense, net | 4,629 | 121 | 4,750 |

For the Year Ended

| December 31, 1999 | Product | Service | Total |
|-------------------------------|------------|-----------|----------|
| | ----- | ----- | ----- |
| Sales | \$ 116,409 | \$ 40,470 | 156,879 |
| Income (loss) from operations | (67,856) | 4,491 | (63,365) |
| Depreciation | 11,010 | 773 | 11,783 |
| Identifiable assets | 196,712 | 22,034 | 218,746 |
| Interest expense, net | 8,086 | 89 | 8,175 |

The allocation of sales by geographic customer destination and property, plant and equipment, net are as follows (in thousands):

| | % of | | | |
|--------------------------|----------|-----------|-----------|-----------|
| | total | | | |
| | for 2001 | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- | ----- |
| Sales: | | | | |
| United States | 45.2% | \$ 46,989 | \$130,942 | \$ 48,248 |
| United Kingdom | 31.1% | 32,361 | 57,061 | 54,172 |
| Continental Europe | 2.2% | 2,289 | 18,135 | 28,183 |
| Asia | 15.8% | 16,495 | 8,637 | 9,489 |
| Other geographic regions | 5.7% | 5,940 | 19,626 | 16,787 |
| | ----- | ----- | ----- | ----- |
| Total | 100.0% | \$104,074 | \$234,401 | \$156,879 |
| | ===== | ===== | ===== | ===== |

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

| | 2001 | 2000 |
|-------------------------------------|-----------|-----------|
| | ----- | ----- |
| Property, plant, and equipment, net | | |
| United States | \$ 15,879 | \$ 20,462 |
| United Kingdom | 345 | 1,234 |
| Italy | 1,388 | 1,349 |
| Other geographic regions | 15 | 121 |
| | ----- | ----- |
| Total | \$ 17,627 | \$ 23,166 |
| | ===== | ===== |

9. Net Loss Per Share

For purpose of computing diluted net loss per share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of our Common Stock for the period because

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the effect would be antidilutive. Also, because losses were incurred in the years 2001, 2000, and 1999, all options, warrants, and convertible notes are excluded from the computations of diluted net loss per share because they are antidilutive.

10. Income Taxes

Loss before extraordinary items, income taxes and cumulative effect of accounting change consists of the following (in thousands):

| | Year Ended December 31, | | |
|----------|-------------------------|-------------|-------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Domestic | \$ (77,087) | \$ (55,511) | \$ (67,120) |
| Foreign | 974 | 346 | (6,957) |
| | ----- | ----- | ----- |
| | \$ (76,113) | \$ (55,165) | \$ (74,077) |
| | ===== | ===== | ===== |

The provision (benefit) for income taxes consists of the following (in thousands):

| | Year Ended December 31, | | |
|-----------|-------------------------|-----------|----------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Current: | | | |
| Federal | \$ (1,131) | \$ -- | \$ -- |
| State | 13 | -- | 55 |
| Foreign | 543 | 1,282 | 1,532 |
| | ----- | ----- | ----- |
| | (575) | 1,282 | 1,587 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal | -- | 8,792 | (135) |
| State | -- | 1,066 | (45) |
| | ----- | ----- | ----- |
| | -- | 9,858 | (180) |
| | ----- | ----- | ----- |
| Total | \$ (575) | \$ 11,140 | \$ 1,407 |
| | ===== | ===== | ===== |

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

Deferred tax assets consist of the following (in thousands):

| | December 31, | |
|-----------------------------------|--------------|-----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Net operating loss carryforwards | \$ 70,810 | \$ 54,663 |
| Credit carryforwards | 10,267 | 4,302 |
| Net operating loss carry forwards | 13,235 | 12,177 |
| Credit carryforwards | 22,353 | 18,412 |
| | ----- | ----- |
| Intangible assets | 116,665 | 89,554 |

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| | | |
|------------------------|-----------|----------|
| Valuation allowance | (116,665) | (89,554) |
| | ----- | ----- |
| Net deferred tax asset | \$ -- | \$ -- |
| | ===== | ===== |

The Company's net operating loss carry forwards included as a deferred tax asset above are approximately \$191 million and \$115 million for 2001 and 2000, respectively. These operating loss carry forwards will expire between 2005 and 2020 if not utilized beforehand.

For federal and state tax purposes, a portion of the Company's net operating loss carry forwards may be subject to certain limitations on utilization in case of change in ownership as defined by federal and state tax law.

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their bases for financial reporting purposes. In addition, future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of such benefits is more likely than not. The Company has assessed its ability to realize future tax benefits, and concluded that as a result of the recent history of losses, it was more likely than not, that such benefits would not be realized. Accordingly, the Company has recorded a full valuation allowance against future tax benefits.

Reconciliation of the statutory federal income tax rate to our effective tax rate is as follows:

| | Year Ended December 31, | | |
|--|-------------------------|---------|--------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 0.0 | 0.0 | 0.0 |
| Change in valuation allowance | 0.0 | (17.9) | 0.0 |
| Foreign income taxes at different rate | (0.7) | (2.3) | (1.5) |
| Net operating loss | (35.0) | (35.0) | (35.0) |
| Other, net | 0.0 | 0.0 | 0.1 |
| | ----- | ----- | ----- |
| | (0.7)% | (20.2)% | (1.4)% |
| | ===== | ===== | ===== |

P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

11. Acquisitions and Divestitures

On March 28, 1998, the Company acquired substantially all of the assets, and on April 1, 1998, the accounts receivable of the Wireless Communications Group of Cylink Corporation ("Cylink Wireless Group"), a Sunnyvale, California-based company, for \$46.0 million in cash and \$14.5 million in a short-term note, non-interest bearing unsecured subordinated promissory note due July 6, 1998. The Cylink Wireless Group designs, manufactures and markets spread spectrum radio products for voice and data applications in both domestic and international markets. The Company accounted for this acquisition as a purchase business combination. The results of the Cylink Wireless Group were included from the date of acquisition.

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During 1998, the Company acquired the remaining interest in Geritel and the assets of Cemetel S.r.l., a service company located in Carsoli, Italy. These acquisitions were not material to the consolidated financial statements or the results of operations of the Company.

On February 24, 1997, the Company acquired 100% of the outstanding stock of Technosystem, for aggregate payments of \$3.3 million and the assumption of long-term debt of approximately \$12.7 million in addition to other liabilities. The Company initially paid \$2.6 million in cash, and an additional payment of \$0.7 million was made on March 31, 1998. Technosystem designs, manufactures and markets equipment for transmitters and transponders for television and radio broadcasting. In 1999 the Company announced its intention to dispose of Technosystem and completed its disposition in 2000.

On March 7, 1997, the Company acquired substantially all of the assets of Columbia Spectrum Management, L.P. ("CSM"), a Vienna, Virginia-based company, for \$7.8 million in cash and 797,000 shares of Common Stock valued at approximately \$14.5 million. CSM provides turnkey relocation services for microwave paths over spectrum allocated by the Federal Communications Commission for Personal Communications Services and other emerging technologies.

The Company accounted for its acquisitions of Technosystem and CSM based on the purchase method of accounting. The results of these acquired entities are included from the date of acquisition. Goodwill and other intangible assets recorded as a result of the purchase of CSM and Technosystem are being amortized over twenty and ten years, respectively, using the straight-line method.

On May 29, 1997, the Company acquired all of the outstanding shares of capital stock of Control Resources Corporation, a provider of integrated network access devices to network service providers, in exchange for 1,503,000 shares of the Company's Common Stock.

On November 27, 1997, the Company acquired all of the outstanding shares of capital stock of RT Masts Limited and Telematics in exchange for 766,000 and 248,000 shares of our Common Stock, respectively. RT Masts, located in Wellingborough, Northhamptonshire, U.K. and Telematics, located in Herndon, Virginia, supply, install and maintain telecommunications systems and structure including antennas covering high frequency, medium frequency and microwave systems.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

The Company accounted for its acquisitions of Control Resources Corporation, RT Masts and Telematics as poolings-of-interests.

In February 2000, the Company completed the divestiture of two Italian subsidiaries, Technosystem, S.p.A. and Cemetel S.r.L., resulting in additional losses for the first quarter of 2000 of approximately \$4.0 million and \$3.5 million, respectively.

In April 2000, the Company sold Control Resources Corporation resulting in a gain of approximately \$2.6 million.

On February 7, 2001 the Company sold RT Masts Limited, to SpectraSite Transco, for approximately \$12 million in cash, an additional \$750,000 in a 6-month escrow account, and a \$750,000 note receivable due in 2008 with interest due

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annually at LIBOR, realizing a gain of \$9.8 million on the transaction.

Discontinued Operation

In August 1999, our Board of Directors decided to divest its broadcast equipment business, Technosystem. Accordingly, beginning in the third quarter of 1999, this business is reported as a discontinued operation and the financial statement information related to this business has been presented on one line in the 1999 Consolidated Balance Sheet, "net assets of discontinued operations," and in the "discontinued operations" line of the Consolidated Statements of Operations for 2000 and 1999. The "net assets of discontinued operations" represents the assets intended to be sold offset by the liabilities anticipated to be assumed by the buyers of the business. The Statements of Operations amounts related to Technosystem in prior periods have been reclassified to discontinued operations.

Summarized results of Technosystem are as follows (in thousands):

| | Year Ended December 31, 1999 ---- |
|----------------------------|--|
| Sales | \$ 6,483 ===== |
| Loss before income taxes | (13,903) |
| Provision for income taxes | -- ----- |
| Net loss | \$(13,903) ===== |

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

12. Commitments

Obligations Under Capital and Operating Leases

In August 1998, the Company entered into a capital lease for equipment in the amount of \$1,600 with interest accruing at the rate of 6.3% per annum. The lease is accounted for as a sale-leaseback transaction, which expires in January 2003. In 2000, the Company entered into several capital leases for equipment in the amount of \$1,869 with interest accruing at 11%. These leases expire in 2002. In 2001, the Company entered into several capital leases for equipment in the amount of \$ 3,212 with interest accruing of 11%. Future minimum lease payments required under these leases are as follows (in thousands):

| Year Ending December 31, ----- | |
|-----------------------------------|--------------|
| 2002 | \$ 2,282 |
| 2003 | 700 ----- |
| Total minimum lease payments | 2,982 |

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| | |
|---|----------|
| Less: Amount representing interest | (207) |
| | ----- |
| Present value of net minimum lease payments | \$ 2,775 |
| | ===== |

The present value of net minimum lease payments are reflected in the December 31, 2001 and 2000 balance sheets as a component of other accrued liabilities and other long-term liabilities of \$2,775 and \$2,131, respectively.

The Company leases its facilities under non-cancelable operating leases which expire at various times through 2008. The leases require the Company to pay taxes, maintenance and repair costs. Future minimum lease payments under our non-cancelable operating leases at December 31, 2001 are as follows (in thousands):

| Year Ending December 31, | |
|--------------------------|-----------|
| ----- | |
| 2002 | \$ 3,654 |
| 2003 | 3,290 |
| 2004 | 3,422 |
| 2005 | 3,236 |
| 2006 | 656 |
| Thereafter | 465 |
| | ----- |
| | \$ 14,723 |
| | ===== |

During 2001, 2000, and 1999, the amount of rent expense incurred by the Company under non-cancelable operating leases was \$4,196, \$3,180, and \$3,258, respectively.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

13. Contingencies

In September and October 1998, several class action complaints were filed in the Superior Court of California, County of Santa Clara, on behalf of P-Com stockholders who purchased or otherwise acquired its Common Stock between April 1997 and September 11, 1998. The plaintiffs alleged various state securities laws violations by P-Com and certain of its officers and directors. The complaints sought compensatory, punitive and other damages, attorneys' fees and injunctive and/or equitable relief.

On December 3, 1998, the Superior Court of California, County of Santa Clara, entered an order consolidating all of the above complaints. The Company reached an agreement in principle on October 25, 2001 to settle the consolidated securities class action suit. On February 8, 2002, pursuant to that agreement in principle, the court entered final judgment approving the settlement. Under the terms of the settlement, all claims against the Company and all other defendants will be dismissed without admission of liability or wrong doing by any party. The settlement was funded entirely by our directors and officers liability insurance.

14. Supplemental Cash Flow Information

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The following provides additional information concerning supplemental disclosure of cash flow activities.

| | Year Ended December 31, | | |
|-------------------------------------|-------------------------|----------|----------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| Supplemental cash flow information: | | | |
| Cash paid for income taxes | \$ 353 | \$ 435 | \$ 3,900 |
| | ===== | ===== | ===== |
| Cash paid for interest | \$ 1,605 | \$ 2,725 | \$ 8,717 |
| | ===== | ===== | ===== |

Non-cash transactions

During 2001 and 2000, \$3,212 and \$1,869 of fixed assets were acquired through the assumption of capital lease liabilities respectively.

During 2000 and 1999 the Company issued shares of Common Stock in exchange for Convertible Subordinated Notes. In conjunction with these transactions, the Company recorded extraordinary gains of \$1.9 million and \$13.2 million for the years ended December 31, 2000 and 1999, respectively. See Note 5 for additional information.

As described more fully in Note 5, the Company exchanged Mandatorily Redeemable Series B Convertible Preferred Stock for shares of Common Stock and repriced certain warrants held by the holders of the Series B Convertible Preferred Stock during June 1999. During November 1999, the Company issued shares of Common Stock, warrants to purchase additional shares of Common Stock, and a promissory note convertible into Common Stock in exchange for the elimination of certain redemption rights and late registration premiums and penalties. In connection with these transactions, the Company recorded charges of \$18.5 million for the year ended December 31, 1999, respectively, as adjustments to arrive at the net loss applicable to Common Stockholders. See Note 5 for additional information.

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P-Com, Inc.

Notes to Consolidated Financial Statements - Continued

During 1999, the Company issued shares of Common Stock and a promissory note in conjunction with various acquisitions.

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P-Com, Inc.

Selected Quarterly Financial Data - Unaudited

The following is in thousands, except per share data:

Three Months Ended

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| | March 31, ----- | June 30, ----- | September 30, ----- | December ----- |
|----------------------------|--------------------|-------------------|------------------------|-------------------|
| 2001 | | | | |
| Sales | \$ 59,173 | \$ 27,245 | \$ 10,251 | \$ 7, |
| Gross profit (loss) | \$ 6,920 | \$ 3,725 | \$ (19,529) | \$ (5, |
| Net loss | \$ (10,187) | \$ (10,154) | \$ (37,271) | \$ (17, |
| Net loss per common share: | | | | |
| Basic and diluted | \$ (0.13) | \$ (0.13) | \$ (0.44) | \$ (0 |

The data for the first three quarters of 2000 is presented both as originally reported by the Company and as restated to reflect the retroactive application by the Company of new revenue recognition accounting policies in accordance with SAB 101.

| | Three Months Ended | | | |
|-------------------------------------|--------------------|-------------------|------------------------|-------------------|
| | March 31, ----- | June 30, ----- | September 30, ----- | December ----- |
| 2000 - As Reported | | | | |
| Sales (1) | \$ 51,055 | \$ 48,833 | \$ 59,535 | \$ 74, |
| Gross profit (loss) (1) | \$ 12,714 | \$ (9,343) | \$ 15,391 | \$ 16, |
| Net income (loss) | \$ (15,901) | \$ (52,202) | \$ (2,071) | \$ |
| Net income (loss) per common share: | | | | |
| Basic and diluted | \$ (0.21) | \$ (0.68) | \$ (0.03) | \$ 0 |
| 2000 - As Restated | | | | |
| Sales (1) | \$ 60,459 | \$ 49,930 | \$ 61,031 | |
| Gross profit (loss) (1) | \$ 13,105 | \$ (9,382) | \$ 16,573 | |
| Net loss | \$ (17,044) | \$ (52,241) | \$ (889) | |
| Net loss per common share: | | | | |
| Basic and diluted | \$ (0.22) | \$ (0.68) | \$ (0.01) | |

(1) Quarterly sales and gross profit amounts for the first quarter of 2000 reflect a reduction for sales and gross profit attributable to Technosystem.

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Schedule II

Valuation and Qualifying Accounts
Years ended December 31, 1999, 2000, and 2001
(in thousands)

Additions

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| | Balance at Beginning Of Year | Charged to Statement of Operations | Deductions from Reserves | Balance at End of Year |
|----------------------------------|------------------------------------|--|--------------------------------|---------------------------|
| | ----- | ----- | ----- | ----- |
| Allowance for doubtful accounts: | | | | |
| Year ended December 31, 1999 | \$ 9,591 | \$ 11,284 | \$ (5,976) | \$ 14,899 |
| Year ended December 31, 2000 | 14,899 | 696 | (11,785) | 3,810 |
| Year ended December 31, 2001 | 3,810 | 11,837 | (14,567) | 1,080 |
| Inventory related reserves: | | | | |
| Year ended December 31, 1999 | \$ 16,922 | \$ 15,400 | \$ (16,142) | \$ 16,180 |
| Year ended December 31, 2000 | 16,180 | 17,361 | (7,551) | 25,990 |
| Year ended December 31, 2001 | 25,990 | 30,000 | (17,393) | 38,597 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

Not applicable

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P-Com, Inc.

PART III

Item 10. Directors and Officers of the Registrant

The executive officers and directors of the Company, their ages as of March 31, 2002 and their positions and their backgrounds are as follows:

| Name | Age | Position |
|------------------------|-----|---|
| ---- | --- | ----- |
| George P. Roberts | 69 | Chairman of the Board and Chief Executive Officer |
| Leighton J. Stephenson | 53 | Chief Financial Officer, Vice President |
| Alan T. Wright | 53 | Chief Operating Officer |
| Ben L. Jarvis | 64 | Executive Vice President and General Manager, P-Com Network Services |
| Caroline Baldwin Kahl | 44 | Vice President and General Counsel |
| John R. Wood | 46 | Senior Vice President and Chief Technical Officer |
| Brian T. Josling | 59 | Director |
| John A. Hawkins | 41 | Director |
| Frederick Frommm | 52 | Director |
| Brig. General (Ret) | | |
| Harold Johnson | 78 | Director |

Background

The principal occupations of each executive officer and director of the Company for at least the last five years are as follows:

Mr. Roberts is a founder of the Company and has served as Chief Executive Officer and Director since October 1991 to May 2001, and as interim Chief Executive Officer since January 2002. Since September 1993, he has also served as Chairman of the Board of Directors.

Mr. Stephenson has served as Vice President and Chief Financial Officer since September 2000. From 1993 to 2000 he served as Chief Financial Officer,

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Treasurer, and Secretary of Vallen Corporation, a Texas company engaged in manufacturing and distribution of industrial safety products and services.

Mr. Wright has served as Chief Operating Officer since December 2001 and as Executive Vice President of Operations from March 2000 to December 2001, and in the same position from 1997 to 1998. From 1998 to 1999 he served as Senior Operations Advisor and was a private investor from 1996 to 1997 and 1999 to 2000.

Mr. Jarvis has served as Executive Vice President and General Manager of P-Com Network Services since May of 2000. From September of 1998 to November of 1999 he served as Senior Vice President of Operations for Alaska Communications Systems. From 1996 to August of 1998, he served as Chief Operating Officer of Amaritel S.A. DE C.V. and Vice President of Operations, CT Global, Inc.

Ms. Kahl has served as Vice President and General Counsel of the Company since February 2000. From March 1997 to February 2000 she served as General Counsel to P-Com Network Services, and from August 1994 to March 1997 as General Counsel for Columbia Spectrum Management L.P., the predecessor of PCNS.

Mr. Wood was appointed Senior Vice President of Technology Strategies of the Company in January 1997. From April 1993 to January 1997, Mr. Wood served as

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Vice President, Engineering for the Company. Mr Wood was appointed Chief Technical Officer in January 2002.

Mr. Josling has served as Director of the Company since September 1999. Since December 2000 he has served as the President of Fuel Cells, Canada. From 1997 to 1999, Mr. Josling was a former division President for Rogers ATT, Canada's national cellular telephone carrier, and was a senior executive with CSB and Capitol EMI in the music entertainment industry.

Mr. Hawkins has served as a Director of the Company since September 1991. Since August 1995, Mr. Hawkins has been a General Partner of Generation Capital Partners, L.P., a private equity firm. He also currently serves on the Board of Directors for Hotjobs, Inc.

Mr. Fromm has served as a Director of the Company since June 2001. In July 2000, Mr. Fromm became president of Oplink Communications, Inc. From 1997 to 2000, Mr. Fromm served as president and Chief Executive Officer at Siemens Telecom Networks, Inc., a telecommunications equipment company. During this time Mr. Fromm also oversaw the spin-off of Optisphere Networks, Inc. a wholly owned subsidiary of Siemens ICN, leading that company as its first CEO.

General Johnson has served as a Director of the Company since June 2001. From 1997 to 1999, General Johnson served as Senior Vice President, Business Development of The Fairchild Corporation. General Johnson is also a partner in Aragon Ventures, LLC in Palo Alto, California, a company providing investment capital to High Technology enterprises. He currently serves on the Board of Directors for Accelerated Networks, Inc., Data Planet International S.A., and KLT Telecom, Inc.

Board Committees and Meetings

The Board of Directors held 10 meetings and acted by unanimous written consent 7 times during the fiscal year ended December 31, 2001. The Board of Directors has an Audit Committee and a Compensation Committee. Each director attended or

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participated in 75% or more of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board on which such director served during 2001.

The Audit Committee currently consists of three directors, Mr. Josling, Mr. Fromm and Mr. Johnson, and is primarily responsible for approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The Audit Committee held 4 meetings during 2001.

The Compensation Committee currently consists of two directors, Mr. Hawkins and Mr. Fromm, and is primarily responsible for reviewing and approving our general compensation policies and setting compensation levels for our executive officers. The Compensation Committee also has the authority to administer our Employee Stock Purchase Plan and our 1995 Stock Option/Stock Issuance Plan and to make option grants thereunder. The Compensation Committee did not hold any meetings and acted by unanimous written consent 13 times during 2001.

Director Compensation

Non-employee board members do not receive cash compensation for their services as directors.

Under the Automatic Option Grant Program as now contained in our 1995 Stock Option/Stock Issuance Plan (the "1995 Plan"), each individual who first joins the Board as a non-employee will receive, at the time of such initial election

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or appointment, an automatic option grant to purchase 40,000 shares of Common Stock, provided such person has not previously been in our employ. In addition, on the date of each annual stockholders meeting, each individual who continues to serve as a non-employee Board member, whether or not such individual is standing for re-election at that particular Annual Meeting, will be granted an option to purchase 4,000 shares of Common Stock, provided such individual has not received an option grant under the Automatic Option Grant Program within the preceding six months. Each grant under the Automatic Option Grant Program will have an exercise price per share equal to 100% of the fair market value per share of our Common Stock on the grant date, and will have a maximum term of ten (10) years, subject to earlier termination should the optionee cease to serve as a Board of Directors member.

Item 11. Executive Compensation and Related Information

The following table provides certain information summarizing the compensation earned for services rendered in all capacities to company and its subsidiaries for each of the last three fiscal years by (i) our Chief Executive Officer, and (ii) each of our four other most highly compensated executive officers, who were executive officers on December 31, 2001 and whose salary and bonus for the fiscal year ended December 31, 2001 (the "2001 Fiscal Year") was in excess of \$100,000 (collectively, the "Named Executive Officers").

2001 SUMMARY COMPENSATION TABLE

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| Name and Principal Position ----- | Year ---- | Annual Compensation ----- | |
|--|--------------|------------------------------|------------------------|
| | | Salary (\$)(1) ----- | Bonus (\$) ----- |
| George P. Roberts Chief Executive Officer and Chairman of the Board of Directors | 2001 | 355,175 | -- |
| | 2000 | 376,000 | -- |
| | 1999 | 376,000 | -- |
| James J. Sobczak Former President & Chief Exec. Officer | 2001 | 309,069 | -- |
| | 2000 | 300,000 | -- |
| | 1999 | 101,538 | 11,538 |
| Alan T. Wright Chief Operating Officer | 2001 | 253,232 | 96,000 |
| | 2000 | 164,307 | 25,000 |
| | 1999 | 30,000 | -- |
| Ben L. Jarvis Executive Vice President & General Manager, P-Com Network Services | 2001 | 242,019 | -- |
| | 2000 | 151,538 | -- |
| | 1999 | -- | -- |
| Caroline Baldwin Kahl Vice President & General Counsel | 2001 | 171,259 | -- |
| | 2000 | 145,961 | -- |
| | 1999 | 115,615 | 46,000 |
| Leighton J. Stephenson VP Finance & Admin and Chief Financial Officer | 2001 | 197,484 | -- |
| | 2000 | 66,153 | -- |
| | 1999 | -- | -- |

(1) Includes amounts deferred under our 401(k) Plan.

The following table contains information concerning the stock option grants made to each of the named Executive Officers for the 2001 Fiscal Year. No

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stock appreciation rights were granted to these individuals during such fiscal year.

OPTION GRANTS IN LAST FISCAL YEAR

| | Number of Securities Underlying Options Granted (#) ----- | % of Total Options Granted to Employees in Fiscal Year ----- | Individual Grant ----- | | ----- 5 |
|-------------------|--|--|------------------------------------|-----------------------------|------------|
| | | | Exercise Price (\$/Sh) ----- | Expiration Date ----- | |
| George P. Roberts | -- | -- | \$ -- | -- | \$ |
| James J. Sobczak | 56,000 | 3.53 | 3.28 | 02/09/11 | 1 |

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| | | | | | |
|------------------------|---------|------|------|----------|---|
| | 100,000 | 6.30 | .93 | 06/06/11 | |
| Alan T. Wright | 60,000 | 3.78 | 3.28 | 02/09/11 | 1 |
| | 70,000 | 4.72 | .63 | 06/27/11 | |
| Ben L. Jarvis | 70,000 | 4.41 | 3.28 | 02/09/11 | 1 |
| Caroline Baldwin Kahl | 60,000 | 3.78 | 3.28 | 02/09/11 | 1 |
| Leighton J. Stephenson | 50,000 | 3.15 | 3.28 | 02/09/11 | 1 |

- (1) There can be no assurance provided to any executive officer or any other holder of our securities that the actual stock price appreciation over the ten-year option term will be at the assumed 5% and 10% levels or at any other defined level. Unless the market price of the Common Stock appreciates over the option term, no value will be realized from the option grants made to the executive officers.
- (2) Each option is immediately exercisable for all the option shares, but any shares purchased under the option will be subject to repurchase by the Company, at the option exercise price paid per share, should the individual cease service with the Company prior to vesting in those shares. Twenty-five percent (25%) of the option shares will vest upon the optionee's continuation in service through one year following the grant date and the balance of the shares will vest in thirty-six (36) successive equal monthly installments upon the optionee's completion of each of the next thirty-six (36) months of service thereafter. The shares subject to the option will immediately vest in full should (i) the Company be acquired by merger or asset sale in which the option is not assumed or replaced by the acquiring entity or (ii) the optionee's employment be involuntarily terminated within eighteen (18) months after certain changes in control or ownership of the Company.

The table below sets forth certain information with respect to the named Executive Officers concerning the exercise of options during 2001 and unexercised options held by such individuals as of the end of such fiscal year. No SARs were exercised during 2001 nor were any SARs outstanding at the end of such fiscal year.

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Aggregated Option Exercises in Last Fiscal Year

Fiscal Year-End Option Values

| Name | Shares Acquired On Exercise (#) | Value Realized (\$) (2) | Number of Securities Underlying Unexercised Options at FY-End (#) | | Exe |
|-------------------|--|----------------------------------|---|---------------|-----|
| | | | Exercisable (3) | Unexercisable | |
| George P. Roberts | -- | \$ -- | 1,422,707 | 365,625 | \$ |
| James J. Sobczak | -- | -- | 258,580 | 341,420 | |
| Alan T. Wright | -- | -- | 79,375 | 245,625 | |

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| | | | | |
|------------------------|----|----|--------|---------|
| Ben L. Jarvis | -- | -- | 59,060 | 128,336 |
| Caroline Baldwin Kahl | -- | -- | 61,243 | 75,834 |
| Leighton J. Stephenson | -- | -- | 70,312 | 204,688 |

- (1) Based on the fair market value of the option shares at the 2001 Fiscal Year-end (\$0.33 per share based on the closing selling price on the NASDAQ National Market as of December 31, 2001) less the exercise price.

- (2) Based on the fair market value of the shares on the exercise date less the exercise price paid for those shares.

- (3) The options are immediately exercisable for all the options shares. However, any shares purchased under the options are subject to repurchase by the Company, at the original exercise price paid per share, upon the optionee's cessation of service prior to vesting in such shares. As of December 31, 2001, the following number of shares were invested: Mr. Roberts- 365,625 shares; Mr. Stephenson- 341,420 shares; Mr. Wright- 245,625 shares; Mr. Jarvis- 128,336 shares; and Ms. Kahl- 75,834 shares; and Mr. Stephenson- 204,688 shares. The table shows these as "unexercisable."

Employment Contracts, Termination of Employment Arrangements and Change of Control Agreements

The Compensation Committee of the Board of Directors, as Plan Administrator of the 1995 Stock Option/Stock Issuance Plan, has the authority to provide for accelerated vesting of the shares of Common Stock subject to any outstanding options held by the Chief Executive Officer and any other executive officer or any unvested share issuances actually held by such individual, in connection with certain changes in control of the Company or the subsequent termination of the officer's employment following the change in control event.

The Company has entered into severance agreements (the "Agreements") with George Roberts, Chairman of the Board of Directors and Acting Chief Executive Officer, and Leighton J. Stephenson, Chief Financial Officer and Vice President, Finance and Administration (individually, the "Officer" and collectively the "Officers"), dated May 31, 2001 and December 7, 2000, respectively. Each of these Agreements provides for the following benefits should the Officer's employment terminate, either voluntarily or involuntarily, for any reason within twenty-four (24) months following a

Change in Control: (a) a severance payment in an amount equal to two (2) times his annual rate of base salary; (b) a bonus for Mr. Stephenson in an amount equal to the greater of either (i) two (2) times the full amount of the Officer's target bonus for the fiscal year in which the termination occurs or (ii) two (2) times the full amount of his target bonus for the fiscal year in which a Change in Control occurs, and a bonus for Mr. Roberts in an amount equal to the target bonus specified for the fiscal year in which involuntary termination occurs; (c) the shares subject to each outstanding option held by the Officer (to the extent not then otherwise fully vested) will automatically vest so that each such option will become immediately exercisable for all the option shares as fully-vested shares (notwithstanding anything in this Form 10-K to the contrary); and (d) the Company will, at its own expense, provide Mr. Stephenson and his dependants with continued health care coverage from the earlier of 24 months from termination or the first date that they are covered under another employer's benefit program, and for Mr. Roberts and his dependants continued health care coverage for their lives. A Change in Control will be

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deemed to occur under the Agreements upon: (a) a merger or consolidation in which securities possessing fifty percent (50%) or more of the total combined voting power of our outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, (b) the sale, transfer or other disposition of all or substantially all of the assets of the Company in complete liquidation or dissolution of the Company; (c) a hostile take-over of the Company, whether effected through a tender offer for more than twenty-five percent (25%) of our outstanding voting securities or a change in the majority of the Board by one or more contested elections for Board membership; or (d) the acquisition, directly or indirectly by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934) of securities possessing more than thirty percent (30%) of the total combined voting power of our outstanding securities pursuant to a tender or exchange offer made directly to our stockholders. In addition, each Officer will be entitled to a full tax gross-up to the extent one or more of the severance benefits provided under his Agreement are deemed to constitute excess parachute payments under the federal income tax laws.

The Company has entered into an Employment and Continuity of Benefits Agreement with George P. Roberts, dated May 31, 2001, outlining his continued employment with the Company as Chairman of the Board following his resignation as Chief Executive Officer on May 30, 2001.

The agreement provides for (a) an employment period commencing May 31, 2001 through May 30, 2002. Should this agreement remain in effect through May 30, 2002 then Mr. Roberts' employment under this agreement shall automatically renew for another one-year term commencing May 31, 2002 and continuing through May 30, 2003, unless written notice of non-renewal is received from Mr. Roberts on or before May 1, 2002; (b) termination of employment may be effected by (1) resignation by Mr. Roberts with at least 60 days prior written notice, (2) termination for cause by majority vote of the Board, or (3) failure of our stockholders to re-elect Mr. Roberts to the Board; (c) cash compensation will be paid to Mr. Roberts' in a base salary in accordance with the Company's payroll practices for salaried employees; (d) a target bonus equal to a percentage of Mr. Roberts base salary may be earned in accordance with our management incentive program, and shall be determined by the Board; (e) throughout the employment period, Mr. Roberts shall be eligible to participate in all benefit plans that are made available to our executives and for which Mr. Roberts qualifies.

The Company does not have any existing agreements with any named Executive Officer that establish a specific term of employment for them, and their

employment may accordingly be terminated at any time at the discretion of the Board of Directors, subject to the agreements described above.

In addition to the indemnification provisions contained in our Restated Certificate of Incorporation and Bylaws, the Company has entered into separate indemnification agreements with each of its directors and officers. These agreements require the Company, among other things, to indemnify such director or officer against expenses (including attorneys' fees), judgments, fines and settlements (collectively, "Liabilities") paid by such individual in connection with any action, suit or proceeding arising out of such individual's status or service as a director or officer of the Company) other than Liabilities arising from the willful misconduct or conduct that is knowingly fraudulent or

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deliberately dishonest) and to advance expenses incurred by such individual in connection with any proceeding against such individual with respect to which such individual may be entitled to indemnification by the Company.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of our Board of Directors currently consists of Mr. Fromm and Mr. Hawkins. Neither of these individuals was an officer or employee of the Company at any time during the 2001 Fiscal Year or at any other time, and neither had a business relationship with the Company.

No executive officer of the Company has ever served as a member of the board of directors or compensation committee of any other entity that has or has had one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

Report of the Compensation Committee of the Board of Directors on Executive Compensation

"The Compensation Committee of the Board of Directors is responsible for establishing the base salary and incentive cash bonus programs for our executive officers. The Committee also has the exclusive responsibility for the administration of our 1995 Stock Option/Stock Issuance Plan, under which grants may be made to executive officers and other key employees of the Company.

Compensation Philosophy

Since the initial public offering of our Common Stock in March 1995, it has been the Committee's policy and objective to provide our executive officers and other key employees with competitive compensation opportunities based upon their contribution to the financial success of the Company, the enhancement of corporate and stockholder values, the market levels of compensation in effect at companies with which the Company competes for executive talent and the personal performance of such individuals. The primary factors that the Committee considered in establishing the compensation levels of the executive officers for the 2001 fiscal year are summarized below. The Committee may, however, in its discretion, apply different factors in setting executive compensation for future fiscal years.

It is the Committee's current objective to have a significant portion of each officer's compensation contingent upon our performance as well as upon the officer's own level of performance. Accordingly, the compensation package for each executive officer and key employee is comprised of three elements: (i) base salary that reflects individual performance and is designed primarily to be competitive with salary levels in effect at a select group of companies with which the Company competes for executive talent, (ii) annual performance awards payable in cash and based upon our financial performance and the market performance of our common stock and (iii) long-term equity incentive awards with overlapping vesting schedules that strengthen the mutuality of interests

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between the executive officers and our stockholders while fostering retention of existing personnel.

The Committee recognizes that the highly-specialized industry sector in which the Company operates is both extremely competitive and globally-challenging, with the result that there is substantial demand for high-caliber, seasoned executives with a high level of industry-specific knowledge and industry contacts, especially overseas contacts. It is crucial that the Company reward

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and be assured of retaining the executive personnel essential to the attainment of our performance goals. For these reasons, the Committee believes our executive compensation arrangements must remain competitive with those offered by other companies of similar magnitude, complexity and performance records (the "peer group") in order to provide adequate incentive to our executive officers to continue to provide services to the Company.

Cash Compensation

A key objective of our current executive compensation program is to position its key executives to earn annual cash compensation (base salary plus bonus) equaling or exceeding that which the executive would earn at other peer group companies. During 2001, the Committee reviewed and relied on technology industry compensation surveys in its assessment of appropriate compensation levels.

The fiscal year 2001 base salaries for the named executive officers are based upon a number of factors, including, without limitation, each executive's performance and contribution to overall The Company performance and the levels of base salary in effect for comparable positions with the peer group companies. Base salary decisions are made as part of a formal review process. Generally, the base salaries of our executive officers for the 2001 fiscal year ranged from the 10th percentile to the 75th percentile of the salaries surveyed for comparable positions at the peer group companies. In defining "peer group companies," the Company considered companies with revenues between \$100 million and \$200 million.

The annual incentive compensation provided to our executive officers is in the form of cash bonuses based on the Committee's assessment of our financial performance for the year and the individual officer's contribution to that performance. For the 2000 fiscal year, the Committee recommended a bonus payment of \$95,000 to Alan Wright, Chief Operating Officer which was paid in 2001. No cash bonus was awarded to any other executive officers. Along with all employees, each executive officer's salary was reduced by 8% in April 2001.

Stock Options

Equity incentives are provided primarily through stock option grants under the 1995 Plan. The grants are designed to align the interests of each executive officer with those of the stockholders and provide each individual with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the business. Each grant allows the individual to acquire shares of our Common Stock at a fixed price per share (the market price on the grant date) over a specified period of time (up to 10 years). The shares subject to each option generally vest in installments over a two-to-four-year period, contingent upon the executive officer's continued employment with the Company. Accordingly, the option will provide a return to the executive officer only if the executive officer remains employed by the Company during the applicable vesting period, and then only if the market price of the underlying shares appreciates over the option term.

The number of shares subject to each option grant is set at a level intended to create a meaningful opportunity for stock ownership based on the officer's

current position with the Company, the base salary associated with that position, the size of comparable awards made to individuals in similar positions within the industry, the individual's potential for increased responsibility and promotion over the option term, and the individual's personal performance in recent periods. The Committee will also take into account the executive

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officer's existing holdings of our Common Stock and the number of vested and unvested options held by that individual in order to maintain an appropriate level of equity incentive. However, the Committee does not intend to adhere to any specific guidelines as to the relative option holdings of our executive officers.

Chief Executive Officer Performance and Compensation

In setting the base salary for Mr. Roberts for the 2001 fiscal year, the Committee sought to achieve two objectives: (i) make his base salary competitive with the base salaries paid to the chief executive officers of the same peer group of companies which the Committee surveyed for comparative compensation purposes for all other executive officers of the Company and (ii) make a significant percentage of his total compensation package contingent upon The Company performance. For the 2001 fiscal year, the base salary of Mr. Roberts was set at the 75th percentile of the base salary levels in effect for those other chief executive officers. As indicated above, the Committee decided not to award any cash bonus to Mr. Roberts or for the 2001 fiscal year.

It is the Committee's view that the total compensation package provided to Mr. Roberts for the 2001 fiscal year is competitive with the typical compensation packages awarded to chief executive officers in the Company's peer group.

Mr. James J. Sobczak was elected Chief Executive Officer effective June 1, 2001. Until then he had been our Chief Operating Officer, and his annual salary of \$303,600 remained the same as it had been as Chief Operating Officer. No cash bonus was designated for Mr. Sobczak at the date he was elected to the position.

Mr. Sobczak was granted 56,000 stock options (14,000 ISO; 42,000 NQ) with exercise price of \$3.28 and 100,000 stock options (25,000 ISO; 75,000 NQ) with exercise price of \$0.93 during the fiscal year.

In the committee's view the total compensation package provided Mr. Sobczak for the 2001 fiscal year is competitive with the peer group in the markets served, in light of the Company's performance.

Mr. Sobczak resigned his position in January, 2002. He was granted base salary continuation for the balance of 2002 under the terms of his resignation.

Compliance with Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to publicly held companies for compensation exceeding \$1 million paid to certain of the corporation's executive officers. The limitation applies only to compensation that is not considered to be performance-based. The non-performance based compensation to be paid to our executive officers for the 2001 fiscal year did not exceed the \$1 million limit per officer, nor is it expected that the non-performance based compensation to be paid to our executive officers for fiscal 2002 will exceed that limit. Options granted under our 1995 Plan are structured so that any compensation deemed paid to an executive officer in connection with the

exercise of those options will qualify as performance-based compensation that will not be subject to the \$1 million limitation. Because it is very unlikely that the cash compensation payable to any of our executive officers in the foreseeable future will approach the \$1 million limit, the Compensation Committee has decided at this time not to take any other action to limit or restructure the elements of cash compensation payable to our executive officers.

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The Compensation Committee will reconsider this decision should the individual compensation of any executive officer ever approach the \$1 million level.

It is the opinion of the Compensation Committee that the executive compensation policies and programs in effect for our executive officers provide an appropriate level of total remuneration which properly aligns our performance and the interests of our stockholders with competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long-term."

M. Frederick Fromm
Member, Compensation Committee

John A. Hawkins
Member, Compensation Committee

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Stock Performance Graph for 1997 - 2001

The graph depicted below shows a comparison of cumulative total stockholder returns for the Company, the Standard & Poor's 500 Index and the Standard & Poor's Communications Equipment Manufacturers Index.

[PERFORMANCE GRAPH APPEARS HERE]

| | S&P 500 | S&P Comm | P-Com |
|--------|---------|----------|--------|
| Dec-96 | 100 | 100 | 100 |
| Mar-97 | 102.68 | 87.76 | 105.25 |
| Jun-97 | 120.61 | 111.39 | 137.5 |
| Sep-97 | 129.64 | 161.6 | 144.33 |
| Dec-97 | 133.36 | 116.46 | 130.29 |
| Mar-98 | 151.97 | 135.02 | 176.46 |
| Jun-98 | 156.98 | 61.81 | 195.5 |
| Sep-98 | 141.37 | 26.37 | 147.7 |
| Dec-98 | 171.47 | 26.9 | 229.5 |
| Mar-99 | 180.02 | 51.48 | 245.6 |
| Jun-99 | 192.71 | 35.34 | 319.02 |
| Sep-99 | 180.68 | 47.26 | 319.05 |
| Dec-99 | 207.56 | 59.71 | 503.98 |
| Mar-00 | 212.13 | 124.89 | 490.26 |
| Jun-00 | 206.68 | 38.4 | 444 |
| Sep-00 | 204.68 | 44.73 | 355.54 |
| Dec-00 | 188.66 | 20.68 | 220.37 |
| Mar-01 | 166.29 | 8.65 | 124.19 |
| Jun-01 | 176.03 | 3.72 | 101.25 |
| Sep-01 | 150.19 | 1.82 | 71.84 |
| Dec-01 | 166.24 | 2.23 | 80.98 |

- (1) The graph assumes that \$100 was invested on Jan. 1, 1997, in our Common Stock and in each index, and that all dividends were reinvested. No cash dividends have been declared on our Common Stock.
- (2) Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings made by

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the Company under those statutes, neither the preceding Stock Performance Graph nor the Compensation Committee Report is to be incorporated by reference into any such prior filings, nor shall such graph or report be incorporated by reference into any future filings made by the Company under those statutes.

12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to the Company with respect to the beneficial ownership of our Common Stock as of February 28, 2002, by (i) all persons who are beneficial owners of five percent (5%) or more of our Common Stock, (ii) each director, (iii) the named Executive Officers, and (iv) all current directors and executive officers as a group. Unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned, subject to community property laws, where applicable, and has the same address as the Company.

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| Beneficial Owner ----- | Shares Beneficially Owned (#) ----- | Percentage of Shares Beneficially Owned(1) ----- |
|---|--|--|
| State of Wisconsin Investment Board (2) P.O. Box 7842 Madison, WI 53707 | 15,700,000 | 18.5 |
| Firsthand Capital Management, Inc (3) 101 Park Center Plaza, Ste. 1300 San Jose, CA 95113 | 11,602,370 | 13.7 |
| Gruber & McBaine Capital Management, LLC (4) 50 Osgood Place, Penthouse San Francisco, CA 94133 | 6,028,122 | 7.1 |
| John A. Hawkins (5) | 42,000 | |
| Brian T. Josling (6) | 52,000 | * |
| Frederick R. Fromm (7) | 15,000 | * |
| Gen. Harold R. Johnson (Ret.) (8) | 15,000 | |
| George P. Roberts (9) | 1,789,333 | 2.1 |
| James J. Sobczak (10) | 277,984 | * |
| Alan T. Wright (11) | 135,860 | * |
| Ben L. Jarvis (12) | 89,269 | * |
| Leighton J. Stephenson (13) | 112,123 | |
| Caroline Baldwin Kahl (14) | 89,035 | * |
| All current directors and executive officers as a group (10 persons) (15) | 2,523,827 | 3.0 |

* Less than one percent of the outstanding Common Stock.

(1) Percentage of ownership is based on 84,958,307 shares of Common Stock outstanding on February 28, 2002. Shares of Common Stock subject to stock options that are currently exercisable or will become exercisable within 60 days after February 28, 2002 are deemed outstanding for computing the percentage of the person or group holding such options, but are not deemed outstanding for computing the percentage of any other person or group.

(2) Pursuant to Section 13G/A, filed with the Securities and Exchange Commission on February 13, 2002, the State of Wisconsin Investment Board reported that as of December 31, 2001 it had sole voting power over all 15,700,000 shares and sole dispositive power over all

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shares.

- (3) Pursuant to Section 13G, filed with the Securities and Exchange Commission on January 28, 2002, Firsthand Capital Management reported that as of December 31, 2001 it had sole voting power over all 11,602,370 shares and sole dispositive power over all shares.

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- (4) Pursuant to Section 13G dated August 8, 2001, filed with the Securities and Exchange Commission, Gruber & McBaine Capital Management, LLC, Jon D. Gruber, J. Patterson McBaine, Thomas O. Lloyd-Butler and Eric Swergold constitute a "group" within the meaning of Section 13(d)(3) of the Exchange Act. Pursuant to a Schedule 13G filed with the SEC on or about August 1, 2001, as of July 31, 2001, (i) Gruber & McBaine Capital Management, LLC reported that it had shared voting and dispositive power over 5,907,572 shares, (ii) Jon D. Gruber reported that he had shared voting and dispositive power over 5,907,572 shares, and sole voting and dispositive power over 85,200 shares, (iii) J. Patterson McBaine reported that he had shared voting and dispositive power over 5,907,572 shares, and sole voting and dispositive power over 33,350 shares, (iv) Thomas O. Lloyd-Butler reported that he had shared voting and dispositive power over 5,907,572 shares, and sole voting and dispositive power over 2,000 shares, and (v) Eric B. Swergold reported that he had shared voting and dispositive power over 5,907,572 shares. 157,902 of the 6,028,122 shares are subject to a currently exercisable warrant.
- (5) Includes 42,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (6) Includes 52,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (7) Includes 15,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (8) Includes 15,000 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (9) Includes 1,491,455 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (10) Includes 274,664 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (11) Includes 130,624 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (12) Includes 89,269 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.

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- (13) Includes 104,686 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.
- (14) Includes 83,326 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.

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- (15) Includes 2,161,223 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days after February 28, 2002.

13. Certain Relationships and Related Transactions

All future transactions between the Company and its officers, directors, principal stockholders and affiliates will be approved by a majority of the independent and disinterested members of the Board of Directors, and will be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

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PART IV

14. Exhibits, Financial Statements Schedules, and Reports on Form 8-K

- (a) The following documents are filed as part of this Annual Report on form 10-K:

- 1. Financial Statements. The following Consolidated Financial Statements of P-Com, Inc. and its subsidiaries are included in Item 8 of this Annual Report on 10-K:

| | Page |
|--|------|
| Financial Statements: | |
| Report of Independent Accountants | 46 |
| Consolidated Balance Sheets at December 31, 2001 and 2000 | 47 |
| Consolidated Statements of Operations for the years ended December 31, 2001, 2000, and 1999 | 48 |
| Consolidated Statements of Stockholders' Equity and Comprehensive Loss for the years ended December 31, 2001, 2000, and 1999 | 49 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000, and 1999 | 51 |
| Notes to Consolidated Financial Statements | 52 |
| Financial Statement Schedule: | |
| Schedule II - Valuation and Qualifying Accounts | 76 |

All other schedules have been omitted because they are not required, are not applicable, or the information is included in the consolidated financial statements or notes thereto.

- (b) No reports on Form 8-K were filed during the fourth quarter of 2001.
- (c) Exhibits - See Exhibit list below.

INDEX TO EXHIBITS

| Number | Description |
|-------------|--|
| 3.2 (1) | Restated Certificate of Incorporation filed with the Delaware Secretary of State on March 9, 1995. |
| 3.2A | Certificate of Amendment of Restated Certificate of Incorporation filed with the Delaware Secretary of State in 2000. |
| 3.2B (2) | Certificate of Designation for the Series A Junior Participating Preferred Stock, as filed with the Delaware Secretary of State on October 8, 1997. |
| 3.2C (3) | Amended and Restated Certificate of Designation of the Series A Junior Participating Preferred Stock, as filed with the Delaware Secretary of State on December 21, 1998. |
| 3.2D (3) | Certificate of Designation for the Series B Convertible Participating Preferred Stock, as filed with the Delaware Secretary of State on December 21, 1998. |
| 3.2E (3) | Certificate of Correction of Certificate of Designations for the Series B Convertible Participating Preferred Stock, as filed with the Delaware Secretary of State on December 23, 1998. |
| 3.2F (4) | Certificate of Elimination of Series B Convertible Participating Preferred Stock as filed with the Delaware Secretary of State on June 15, 1999 |
| 3.3 (5) | Bylaws of the Company. |
| 4.1 (5) | Form of Common Stock Certificate. |
| 4.2 (6) | Indenture, dated as of November 1, 1997, between the Registrant and State Street Bank and Trust Company of California, N.A., as Trustee. |
| 4.10 (7) | Amended and Restated Rights Agreement, dated as of January 24, 2001 between the Company and BankBoston, N.A. |
| 10.16*(8) | 1995 Stock Option/Stock Issuance Plan, as amended. 1995 Stock Option/Stock Issuance Plan, including forms of Notices of Grant of Automatic Stock Option for initial grant and annual grants and Automatic Stock Option Agreements, as amended. |
| 10.17*(9) | Employee Stock Purchase Plan, as amended. |
| | |
| Number | Description |
| 10.18 (5) | Form of Indemnification Agreement by and between the Company and each of its officers and directors and a list of signatories. |
| 10.35**(17) | Joint Development and License Agreement between Siemens Aktiengesellschaft and P-COM, Inc. dated June 30, 1998, |

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- 10.60(12) Common Stock PIPES Purchase Agreement, dated January 6, 2000, by and among P-Com and several investors.
- 10.61(12) Loan and Security Agreement, dated January 14, 2000, by and between P-Com and Greyrock Capital.
- 10.62(12) Warrant to Purchase Stock, dated January 14, 2000, to Greyrock Capital.
- 10.63(12) Registration Rights Agreement, dated January 14, 2000, by and between P-Com and Greyrock Capital.
- 10.64(12) Antidilution Agreement, dated January 14, 2000, by and between P-Com and Greyrock Capital.
- 10.65(12) Warrant to Purchase Stock, dated January 14, 2000 to Silicon Valley Bank.
- 10.66(12) Registration Rights Agreements, dated January 14, 2000, by and between P-Com and Silicon Valley Bank.
- 10.67(12) Antidilution Agreement, dated January 14, 2000, by and between P-Com and Silicon Valley Bank.
- 10.74(13) Stock Purchase Warrant between P-Com, Inc. and Marshall Capital Management, Inc., dated January 20, 2000.
- 10.76(13) Asset Purchase Agreement between Paradyne Networks, Inc., P-Com, Inc. and Control Resources Corporation, dated April 5, 2000.
- 10.77*(13) Promissory note between James Sobczak and P-Com, Inc., dated May 3, 2000.
- 10.79(14) Letter of Cooperation between China PTIC and P-Com, Inc., dated July 12, 2000.
- 10.80(15) Common Stock PIPES Purchase Agreement dated August 11, 2000, by and between the Company and State of Wisconsin Investment Board.
- 10.84(15) General Release and Settlement Agreement, dated as of August 28, 2000, by and between the Company and Robert E. Collins.
- 10.85*(16) Letter of Offer, dated August 31, 2000, by and between the Company and Leighton J. Stephenson.

| Number | Description |
|------------|---|
| 10.86*(10) | Severance Agreement dated December 7, 2000 by and between the Company and Leighton J. Stephenson |
| 10.87(4) | Loan and Security Agreement by and between P-Com, Inc., P-Com Network Services, Inc., and Foothill Capital Corporation, dated March 29, 2001. |
| 10.90*(4) | Employment and Continuity of Benefits Agreement by and between George Roberts and P-Com, Inc., dated May 31, 2001.** |
| 10.91(11) | Common Stock PIPES Agreement, dated July 25, 2001, by and among P-Com, Inc., Gruber McBaine International, and Lagunitas Partners, |

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L.P.

- 21.1 List of subsidiaries of the Registrant.
- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Accountants.

* Compensatory benefit arrangement.

** Confidential treatment granted as to certain portions of these exhibits

- (1) Incorporated by reference to the identically numbered exhibit included in the Company's Registration Statement on Form S-1 (File No. 33-95392) declared effective with the Securities and Exchange Commission on August 17, 1995.
- (2) Incorporated by reference to exhibit 3 of the Company's Form 8-K filed with the Securities and Exchange Commission on October 14, 1997.
- (3) Incorporated by reference to the identically numbered exhibit to the Company's Report on Form 8-K as filed with the Securities and Exchange on December 24, 1998.
- (4) Incorporated by reference to the identically numbered exhibit to the Company's Report on Form 10-K as filed with the Securities and Exchange on April 2, 2001.
- (5) Incorporated by reference to the identically numbered exhibit included in the Company's Registration Statement on Form S-1 (File No. 33-88492) declared effective with the Securities and Exchange Commission on March 2, 1995.
- (6) Incorporated by reference to the identically numbered exhibit included in the Company's Registration Statement on Form S-3 (File No. 333-45463) as filed with the Securities and Exchange Commission on February 2, 1998.
- (7) Incorporated by reference to identical numbered exhibit to the Company's Form 8-A/A as filed with the Securities Exchange Commission on May 7, 2001.
- (8) Incorporated by reference to exhibit 99.1 included in the Company's Registration Statement on Form S-8 (File No. 333-55604) as filed with the Securities and Exchange Commission on February 14, 2001.
- (9) Incorporated by reference to exhibit 99.1 included in the Company's Registration Statement on Form S-8 (File No. 333-63762) as filed with the Securities and Exchange Commission June 25, 2001.
- (10) Incorporated by reference to the identically numbered exhibit of the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2001.
- (11) Incorporated by reference to the identically numbered exhibit of the Company's Form 8-K as filed with the Securities and Exchange Commission on August 9, 2001.
- (12) Incorporated by reference to the identically numbered exhibit of the Company's Form 8-K as filed with the Securities and Exchange Commission on January 25, 2000.

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- (13) Incorporated by reference to the identically numbered exhibit included in the Company's Registration Statement on Form S-3/A (File No. 333-70937) as filed with the Securities and Exchange Commission on May 4, 2000.
- (14) Incorporated by reference to the identically numbered exhibit included in the Company's Registration Statement on Form S-3/A (File No. 333-70937) as filed with the Securities and Exchange Commission on August 24, 2000.
- (15) Incorporated by reference to the identically numbered exhibit of the Company's Form 8-K as filed with the Securities and Exchange Commission on August 11, 2000.
- (16) Incorporated by reference to the identically numbered exhibit of the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 2000.
- (17) Incorporated by reference to the identically numbered exhibit of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998.

Signatures

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

Date: March 29, 2002

By: /s/ George P. Roberts
George P. Roberts
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|----------------|
| | Chairman of the Board and Chief Executive Officer | |
| /s/ George P. Roberts ----- George P. Roberts | (Principal Executive Officer) | March 29, 2002 |
| | Vice President and Chief Financial Officer | |
| /s/ Leighton J. Stephenson ----- Leighton J. Stephenson | (Principal Financial Officer and Principal Accounting Officer) | March 29, 2002 |
| /s/ Brian T. Josling ----- Brian T. Josling | Director of the Company | March 29, 2002 |
| /s/ John A. Hawkins ----- John A. Hawkins | Director of the Company | March 29, 2002 |

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/s/ Frederick R. Fromm Director of the Company March 29, 2002

Frederick R. Fromm

/s/ BG (Ret) Harold R. Johnson Director of the Company March 29, 2002

Brig. Gen. Harold R. Johnson