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WIRE ONE TECHNOLOGIES INC

Form 10-K/A

April 30, 2003

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934 (NO FEE REQUIRED)

For the year ended December 31, 2002

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 (NO FEE REQUIRED)

Commission file number: 0-25940

WIRE ONE TECHNOLOGIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

77-0312442  
(I.R.S. Employer  
Identification No.)

225 Long Avenue  
Hillside, NJ  
(Address of Principal Executive Offices)

07205  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (973) 282-2000  
Securities registered under Section 12(b) of the Exchange Act: None  
Securities registered under Section 12(g) of the Exchange Act:

| Title of Each Class             | Name of Each Exchange on<br>Which Registered |
|---------------------------------|--|
| Common Stock, \$.0001 Par Value | Nasdaq National Market                       |

Indicate by check mark whether the Registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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.

Indicated by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based upon the closing sales price of the Common Stock on the Nasdaq National Market of \$2.00 on June 30, 2002 was \$50,260,178.

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The number of shares of the Registrant's Common Stock outstanding as of April 28, 2003 was 29,140,721.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the period ended December 31, 2002 are incorporated by reference into Part III.

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## PART I

Item 1. Business

OVERVIEW

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Wire One Technologies, Inc., a Delaware corporation, was formed in May 2000 by the merger of All Communications Corporation ("ACC"), a reseller and integrator of video, voice and network communications design and service solutions into View Tech, Inc. ("VTI"), a provider of video, voice and data communications equipment and services.

Wire One is a leading single source provider of video communications solutions that encompass the entire video communications value chain. We are a leading integrator for major video communications equipment manufacturers, including the number one market share leader, Polycom, Inc., as well as Tandberg, RADVision, Cisco Systems, Sony and others. We integrate equipment from these manufacturers into comprehensive video and network solutions and resell them to end users and resellers. Our current customer base includes over 3,000 companies with approximately 21,000 videoconferencing endpoints. We also operate our Glowpoint network service, which provides our customers with two-way video communications with high quality of service. With Glowpoint, which we believe to be the first subscriber network to provide such communications by utilizing an Internet network and broadband access dedicated solely to transporting video using the H.323 Internet Protocol standard, we offer our customers a single point of contact for all their video communications requirements.

### Industry Overview

In today's fast-paced business environment, many companies seek more efficient and cost effective ways to communicate with an increasingly mobile and widely distributed network of employees, customers, suppliers and partners. Video communications technology enables two or more parties in different locations to use audio and video to communicate simultaneously in real time. Moreover, video provides an effective means of communication that offers the benefit of face-to-face interaction when participants are unable to meet in a common location.

Historically, video communications involved point-to-point communication from designated rooms equipped with large, expensive equipment. Users were forced to tolerate cumbersome set-up procedures, which often required the assistance of a trained technician. Moreover, bandwidth constraints and room availability often limited the functionality, usability and reliability of these systems.

### Video Communications Evolution

In recent years, video equipment manufacturers have been building smaller devices and units for use with personal computers and also adopted standards to help improve compatibility and user acceptance. Many of the older room systems have been replaced as most users migrated to video communications systems based upon Integrated Services Digital Network ("ISDN") standards. Although superior to earlier technologies, ISDN still has several shortcomings, including high transmission costs and poor quality of service ("QoS"), due primarily to the fact that ISDN is fundamentally a narrowband technology. We believe that the low quality and high cost of video communications using ISDN has impeded the growth of the video communications market. More recently, the development of IP has promised new standards for broadband communications, and the industry has accordingly adopted IP-standards-based technologies that provide guaranteed QoS and lower transmission costs than ISDN. We expect the ability to perform video communications over IP will increase user adoption and help make two-way video communications widespread in the enterprise and, ultimately, the consumer markets.

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### IP-based Video Communications

While many business users have private networks that could theoretically support IP video communications, most are reluctant to run a video communications application over the same networks that also support enterprise data and other applications. Among other concerns, the video communications application would be required to share bandwidth with data applications (for example, e-mail and file transfers) on the common network. Allocating enough bandwidth in a corporate local area network ("LAN") or intranet to handle real-time transmission of sounds and images in addition to such data applications is difficult and can create congestion that impedes overall network performance. In addition, most businesses already find it difficult to effectively maintain and manage existing applications due to the shortage of information technology and network personnel. As a result, businesses increasingly require a solution employing a network dedicated to video, which enables them to manage video communications isolated from their other applications and existing communications infrastructure.

An effective video network must also be easily scalable in much the same way that a company can simply add more phone lines as its employee base and operations grow. Moreover, widespread adoption by both enterprise and consumer users requires a video communications solution that provides the same reliability as public telephone service. We believe that there exists a significant opportunity to provide an IP-based video communications solution that is as scalable, dependable and, ultimately, as commonplace as voice telephony.

### PRODUCTS AND SERVICES

We are a single source provider of video products and services that assists customers located principally in the United States with systems design and engineering, procurement, installation, operation and maintenance of their video communications systems. We offer our customers video communications products from leading manufacturers such as Polycom (which distributes products under the Polycom, PictureTel and Accord brands, among others), Tandberg, RADVision, Cisco Systems and Sony and provide a comprehensive suite of video and data services including engineering, installation, customized training, on-site technical assistance and maintenance. We also operate our Glowpoint network subscriber service, which provides our customers with two-way video communications with high quality of service utilizing a dedicated Internet Protocol ("IP") backbone and broadband access. Lastly, we sell multi-point video and audio bridging services through our Multiview Network Services program. We employ state-of-the-art conferencing servers that provide seamless connectivity for all switched digital networks.

### Video Communications and Data Products

We market and sell a full range of video, audio and data products and systems from Polycom, Tandberg, VCON Telecommunications, Ltd., Sony Electronics, Inc., Gentner Communications, Inc. and Extron Electronics, Inc. principally in the United States. We also distribute data products from companies such as Adtran, Lucent, Initia and RADVision to provide our customers with remote access into LANs, permitting them to acquire bandwidth on demand and to digitally transmit data. We configure single- or multi-vendor video and data conferencing platforms for our clients and integrate systems and components into a complete solution designed to suit each customer's particular communications requirements.

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### Video Communications Services

After designing a customer's video communications solution, we deliver, install and test the communications equipment. When the system is functional, we provide training to all levels of our customer's organization, including executives, managers, management information systems and data-processing administrators and technical staff. Training includes instruction in system operation, as well as the planning and administration of meetings. By means of thorough training, we help to ensure that our customers understand the functionality of their systems and are able to apply the technology effectively.

Our OneCare service covers a customer's entire video communications system deployment for a fixed fee. OneCare encompasses installation and maintenance services that provide comprehensive customer support after the sale and help ensure that our customers experience reliable, effortless video communications. Our installation service places minimal demands on a customer's time and resources. Our maintenance service provides technical support representatives and engineers, a help desk offering 24x7 responsiveness, nationwide on-site diagnostic repair and replacement service, nationwide network trouble coordination and a video test facility.

We also provide advanced telecommunications consulting and engineering services through our ProServices department. Our engineers have in-depth experience with networks, microprocessors, software development and IT management, as well as the design, deployment and repair of video telecommunications products and technology. Our engineers use this experience to provide expert advice and assistance in evaluating and deploying the appropriate visual communications technology to meet a customer's project goals and objectives. These services include application consulting and network design, laboratory testing, product application and industry research, and technology trial assistance.

We also sell multi-point video and audio bridging services through our Multiview Network Services program. We employ state-of-the-art conferencing servers that provide seamless connectivity for all switched digital networks at an affordable rate. Because of the significant expense associated with procuring multi-point conferencing equipment, our customers typically elect instead to use our Multiview Network Services as and when bridging is required.

### Glowpoint

Our Glowpoint network provides customers with a high-quality platform for video communications over IP and related applications. The Glowpoint service offers subscribers substantially reduced transmission costs and superior video communications quality, remote management of all videoconferencing endpoints utilizing simple network management protocol ("SNMP"), gateway services to ISDN-based video communications equipment, video streaming and store-and-forward applications from our network operations center ("NOC").

To provide our Glowpoint service, we have contracted with MCI/WorldCom Communications and Cable & Wireless for access to their IP backbone networks and co-location facilities. We have contracted with WorldCom, Covad Communications, New Edge Networks, Allegiance Telecom and others, and plan to contract with additional broadband access providers, for dedicated broadband access to the Glowpoint network using either digital subscriber lines ("DSL"), or dedicated 1.5 Mbps ("T1") or 45 Mbps ("T3") lines. Products manufactured by a number of leading IP video communications and video networking equipment suppliers, including Polycom, Tandberg, RADVision, Cisco Systems and Sony are compatible with Glowpoint.

### SALES AND MARKETING

We market and sell our products and services to the commercial, government,

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medical and educational sectors through a direct sales force of account executives as well as through resellers. Sales to resellers are made on terms with respect to pricing, payment and returns that are consistent with those offered to end user customers. No price protection or similar arrangement is offered, nor are the obligations as to payment contingent on the resale of the equipment purchased by the reseller. There are no special rights to return equipment granted to resellers, nor are we obligated to repurchase reseller inventory. These efforts are supported by sales engineers, a marketing department and a professional services and engineering group. As of December 31, 2002, we had 61 account executives and 31 additional sales management, engineering, administrative and marketing personnel.

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Our marketing department concentrates on activities that will generate leads for our sales force and create brand awareness for Wire One and the Glowpoint network, including direct marketing campaigns, select advertising, public relations, participation in trade shows and the coordination of seminars throughout the country. We host these seminars to demonstrate video communications systems to prospective customers and to educate them on technological advancements in video and data communications. We also provide our sales force with ongoing training to ensure that it has the necessary expertise to effectively market and promote our business and solutions.

In conjunction with manufacturer-sponsored programs, we provide existing and prospective customers with sales, advertising and promotional materials. We maintain up-to-date systems for demonstration purposes in all of our sales offices and demonstration facilities.

Our technical and training personnel periodically attend installation and service training sessions offered by video communications manufacturers to enhance their knowledge and expertise in the installation and maintenance of the systems.

### CUSTOMERS

We have sold our products and services to over 3,000 customers, which collectively have approximately 21,000 videoconferencing endpoints. These customers operate in each of the following market sectors: commercial, medical, educational and governmental. No single customer accounts for more than 5% of our revenues. We maintained a backlog of firm sales orders with related revenue totaling \$1.1 million and \$1.8 million at December 31, 2002 and 2001, respectively. We expect that the sales orders in the backlog at December 31, 2002 will be fulfilled within the current fiscal year. The size of the backlog varies depending on the nature of the equipment underlying the sales orders and whether or not the orders are received with enough time available to procure and ship the equipment prior to the end of the fiscal period.

### TECHNOLOGY

#### The Glowpoint network

Glowpoint employs a proprietary network architecture consisting of state-of-the-art equipment co-located at WorldCom and Cable & Wireless data centers across the country, each one constituting a Glowpoint point of presence ("POP"), and dedicated capacity on WorldCom's and Cable & Wireless' high performance, redundant backbones. This backbone network connects all of Glowpoint's POPs, using multiple high-speed OC-3 and OC-12 lines, which virtually eliminate the risk of a single point of failure. Our POPs consist of the best available technology from multiple vendors combined in a proprietary

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architecture and co-located in a secure and monitored environment. This configuration of equipment at the POPs and their locations distributed across the country is expected to provide industry-leading throughput, scalability and mission-critical resiliency. All equipment on the network complies with current H.323 (IP) standards.

Currently, we have 13 POPs strategically located throughout the United States, as well as in the UK, Canada and Japan. We have contracted with WorldCom, Covad, Allegiance Telecom and others, and plan to contract with additional broadband access providers, for dedicated broadband access to the Glowpoint network using either DSL, T1 or T3.

### Network operations center

We maintain a state-of-the-art NOC at our headquarters from which we monitor the operations of Glowpoint on a 24x7 basis. The NOC's primary functions are to monitor the network, manage and support all backbone equipment, provide usage information for billing, provide utilization data for capacity planning and provide value-added customer services. Only usage information and authentication packets, rather than actual video communications traffic, passes through the NOC. Technology in the NOC includes gatekeepers, routers and switches, servers, firewalls and load-balancing devices. The NOC uses redundant circuits to connect directly to our backbone.

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### Research and Development

As of December 31, 2002, we employed a staff of 12 software and hardware engineers who evaluate, test and develop proprietary applications. The costs of this team of engineers in the year ended December 31, 2002 totaled approximately \$1 million. In the years ended December 31, 2001 and 2000, the costs related to this team of engineers totaled \$1 million and \$120,000, respectively. To augment these resources, we engage independent consultants from time-to-time. We expect that we will continue to commit resources to research and development in the future to further develop our proprietary network solution.

### Intellectual Property

While we have some trademarks, our intellectual property at this time predominately consists of certain trade secrets. As a result, although we are considering pursuing patents or copyrights for certain proprietary elements of our business, we presently rely on trademark and trade secret laws to protect our intellectual property rights. We do not know whether any patents will be issued from patent applications which we may pursue or whether the scope of any patents issued will be sufficiently broad to protect our technologies or processes. Competitors may successfully challenge the validity and or scope of any such patents and or our trademarks.

To distinguish genuine Wire One products from our competitors' products, we have obtained certain trademarks and trade names for our products, and we maintain certain advertising programs with industry organizations and standards committees to promote our brands and identify products containing genuine Wire One components. We also protect certain details about our processes, products, services and strategies as trade secrets, keeping confidential the information that we believe provides us with a competitive advantage. We have ongoing programs designed to maintain the confidentiality of such information. We expect to protect our products, services and processes by asserting our intellectual property rights where appropriate and prudent. We also will obtain patents,

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copyrights, and other intellectual property rights used in connection with our business when practicable and appropriate.

We do not believe our intellectual property rights provide significant protection from competition. We believe that patent, copyright, trademark and trade secret protection are less significant and that our growth and future success will be more dependent on factors such as the knowledge and experience of our personnel, new product and service introductions and continued emphasis on research and development. We believe that establishing and maintaining strong strategic relationships with valued customers and video communications equipment manufacturers are the most significant factors protecting us from new competitors.

### EMPLOYEES

As of December 31, 2002, we had 328 full-time employees. Of these employees, 241 are employed in our video solutions segment (comprised of 92 sales account executives, engineers, management, administrative and marketing personnel; 66 audio/visual integration employees; 58 employees involved in providing installation and maintenance services, technical services and customer support; and 25 employees in order processing and fulfillment); 48 are employed in our network solutions segment; and the remaining 39 are employed in corporate functions. None of our employees are represented by a labor union. We believe that our employee relations are good.

### COMPETITION

We compete primarily with manufacturers and resellers of video communications systems, some of which are larger, have longer operating histories and have greater financial resources and industry recognition than us. These competitors include FVC.com, Tandberg and VTEL Corporation.

We also compete with providers of video communications transport services, including AT&T Corporation, WorldCom, Sprint Corporation and some other of the regional Bell operating companies and carriers. In the future, competition may increase from new and existing resellers, from manufacturers that choose to sell direct to end users and from existing and new telecommunications services providers, which may include certain of our suppliers or network providers, many of which have greater financial resources than we do.

We compete primarily on the basis of our:

- o sole focus on the video communications industry;
- o breadth of video product and service offerings;
- o relationships with video equipment manufacturers;
- o nationwide presence;
- o technical expertise;
- o knowledgeable sales, service and training personnel; and
- o commitment to customer service and support.

We believe that our ability to compete successfully will depend on a number of factors both within and outside our control, including the adoption and evolution of technologies relating to our business, the pricing policies of our competitors and suppliers, our ability to hire and retain key technical and



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management personnel and industry and general economic conditions.

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### Item 2. Properties

Our headquarters are located at 225 Long Avenue, Hillside, New Jersey 07205. These premises consist of approximately 19,000 square feet of office space and warehouse facilities. The term of this lease expires on April 30, 2005. The base rental for the premises during the term of the lease is \$162,000 per annum. In addition, we are obligated to pay our share of the landlord's operating expenses (that is, those expenses incurred by the landlord in connection with the ownership, operation, management, maintenance and repair of the premises, including, among other things, the cost of common-area electricity, operational services and real estate taxes). The Hillside premises are utilized for executive functions and our Glowpoint operations.

We also lease premises of approximately 49,000 square feet for our distribution and audio-visual integration operations in Miamisburg, Ohio. The term of this lease expires on December 31, 2007. The base rental for the premises during the term of the lease is currently approximately \$172,000 per annum. In addition, we are obligated to pay our share of the landlord's operating expenses. We believe that this space will be adequate to meet our needs resulting from anticipated growth in our company.

In addition to our headquarters and our distribution/audio-visual facilities, we have an office in Windham, New Hampshire, that houses our finance and human resources group; a technical facility in Camarillo, California that houses our Multiview Network Services group, help desk and technical personnel; and sales and demonstration offices in Scottsdale, Arizona; Irvine, Rancho Cordova, San Ramon and San Francisco, California; Englewood, Colorado; Danbury and Norwalk, Connecticut; Atlanta, Georgia; Rolling Meadows, Illinois; Indianapolis, Indiana; Louisville, Kentucky; Boston, Massachusetts; Detroit, Michigan; Bloomington, Minnesota; Little Falls, New Jersey; New York, New York; Durham, North Carolina; Portland, Oregon; Dallas and Houston, Texas; Salt Lake City, Utah; Manassas, Virginia and Bellevue, Washington.

### Item 3. Legal Proceedings

We are defending several suits or claims in the ordinary course of business, none of which individually or in the aggregate is material to our business, financial condition or results of operations.

### 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

The following table presents historical trading information for Wire One's common stock for the two most recent fiscal years:

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| WIRE ONE<br>COMMON STOCK       |        |        |
|--------------------------------|--------|--------|
|                                | HIGH   | LOW    |
| YEAR ENDING DECEMBER 31, 2001: |        |        |
| First Quarter.....             | \$4.88 | \$2.00 |
| Second Quarter.....            | 6.50   | 1.66   |
| Third Quarter.....             | 6.30   | 3.90   |
| Fourth Quarter.....            | 9.95   | 5.17   |
| YEAR ENDING DECEMBER 31, 2002: |        |        |
| First Quarter.....             | 6.89   | 4.23   |
| Second Quarter.....            | 4.75   | 1.74   |
| Third Quarter.....             | 1.94   | 0.76   |
| Fourth Quarter.....            | 3.11   | 1.36   |

On April 28, 2003, the last reported sale price of Wire One common stock was \$2.50 per share as reported on the Nasdaq National Market, and 29,140,721 shares of Wire One common stock were held by approximately 194 holders of record. American Stock Transfer & Trust Company of Brooklyn, New York is the transfer agent and registrar of our common stock.

### Dividends

Our board of directors has never declared or paid any cash dividends on our common stock and does not expect to do so for the foreseeable future. We currently intend to retain any earnings to finance the growth and development of our business. Our board of directors will make any future determination of the payment of dividends based upon conditions then existing, including our earnings, financial condition and capital requirements, as well as such economic and other conditions as our board of directors may deem relevant. In addition, the payment of dividends may be limited by financing arrangements into which we may enter in the future.

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### Recent Sales of Unregistered Securities

We issued subordinated convertible notes bearing interest at the rate of eight percent per annum in the aggregate principal amount of \$4,888,000 and warrants to purchase an aggregate of 814,668 shares of common stock pursuant to a Note and Warrant Purchase Agreement dated as of December 17, 2002. We may pay the interest on the notes in cash or in common stock at our option. Upon the conversion of the notes at the initial conversion price of \$2.40 per share, 2,036,667 shares of common stock would be issuable. The warrants are exercisable for 814,668 shares of common stock at the initial exercise price of \$3.25 per share. We sold these securities to four institutional accredited investors pursuant to the exemption from registration provided by Section 4(2) of the Act. H.C. Wainwright & Co. acted as our placement agent and received an aggregate fee of \$293,280 and warrants to purchase 40,733 shares of our common stock. We have used or will use the proceeds from the offering for general corporate purposes, including funding of capital expenditures and working capital requirements.

In November 2001, we acquired certain assets and liabilities of the video conferencing division of Axxis, Inc. We did not acquire any equity interest in Axxis. In consideration for the acquired assets and assumed liabilities, we issued 320,973 shares of common stock with an assumed price per share of \$6.39, or an aggregate of \$2,051,017. We issued these securities to Axxis pursuant to

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the exemption from registration provided by Section 4(2) of the Act.

### Item 6. Selected Financial Data

The following selected consolidated financial information should be read in conjunction with "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and footnotes included elsewhere in this Form 10-K, with specific reference to Footnote 2 - Summary of Significant Accounting Policies, Footnote 4 - Discontinued Operations and Footnote 18 - Business Combinations.

|                                      | Year Ended December 31,               |           |           |           |
|--------------------------------------|---------------------------------------|-----------|-----------|-----------|
|                                      | 2002                                  | 2001      | 2000      | 1999      |
| Statement of Operations Information: | (in thousands, except per share data) |           |           |           |
| Net revenues                         |                                       |           |           |           |
| Video solutions                      |                                       |           |           |           |
| Equipment                            | \$ 61,398                             | \$ 55,638 | \$ 39,280 | \$ 11,601 |
| Service                              | 15,751                                | 15,294    | 7,679     | 797       |
| Network solutions                    | 5,599                                 | 3,480     | 1,475     | --        |
|                                      | 82,748                                | 74,412    | 48,434    | 12,398    |
| Cost of revenues                     |                                       |           |           |           |
| Video solutions                      |                                       |           |           |           |
| Equipment                            | 47,406                                | 38,332    | 26,283    | 8,029     |
| Service                              | 8,618                                 | 8,914     | 5,271     | 549       |
| Network solutions                    | 5,597                                 | 2,898     | 1,105     | --        |
|                                      | 61,621                                | 50,144    | 32,659    | 8,578     |
| Gross margin                         |                                       |           |           |           |
| Video solutions                      |                                       |           |           |           |
| Equipment                            | 13,992                                | 17,306    | 12,997    | 3,572     |
| Service                              | 7,133                                 | 6,380     | 2,408     | 248       |
| Network solutions                    | 2                                     | 582       | 370       | --        |
|                                      | 21,127                                | 24,268    | 15,775    | 3,820     |

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|                                      | Year Ended December 31,               |      |      |      |
|--------------------------------------|---------------------------------------|------|------|------|
|                                      | 2002                                  | 2001 | 2000 | 1999 |
| Statement of Operations Information: | (in thousands, except per share data) |      |      |      |

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|   |             |             |             |           |
|---|-------------|-------------|-------------|-----------|
| Operating expenses  |             |             |             |           |
| Selling   | 25,698      | 22,112      | 12,588      | 2,487     |
| General and administrative                                  | 8,159       | 12,245      | 4,121       | 1,765     |
| Restructuring   | 960         | 200         | --          | --        |
| Impairment losses on goodwill                               | 40,012      | --          | --          | --        |
| Impairment losses on other<br>long-lived assets             | 1,358       | --          | --          | --        |
| Amortization of goodwill                                    | --          | 2,684       | 1,501       | --        |
|   | -----       | -----       | -----       | -----     |
| Total operating expenses                                    | 76,187      | 37,241      | 18,210      | 4,252     |
|   | -----       | -----       | -----       | -----     |
| Loss from continuing operations                             | (55,060)    | (12,973)    | (2,435)     | (432)     |
|   | -----       | -----       | -----       | -----     |
| Other (income) expense                                      |             |             |             |           |
| Amortization of deferred financing costs                    | 123         | 100         | 344         | 43        |
| Interest income   | (72)        | (77)        | (315)       | (23)      |
| Interest expense  | 432         | 598         | 78          | 181       |
| Amortization of discount on<br>subordinated debentures      | 39          | --          | --          | --        |
|   | -----       | -----       | -----       | -----     |
| Total other expenses, net                                   | 522         | 621         | 107         | 201       |
|   | -----       | -----       | -----       | -----     |
| Loss before income taxes                                    | (55,582)    | (13,594)    | (2,542)     | (633)     |
|   | -----       | -----       | -----       | -----     |
| Income tax (benefit) provision                              | --          | 200         | 511         | (105)     |
|   | -----       | -----       | -----       | -----     |
| Net loss from continuing operations                         | (55,582)    | (13,794)    | (3,053)     | (528)     |
|   | -----       | -----       | -----       | -----     |
| Loss from discontinued AV operations                        | (2,696)     | (396)       | --          | --        |
| Income (loss) from discontinued Voice operations            | (287)       | (617)       | 521         | 1,592     |
| Gain on sale of discontinued Voice operation                | --          | 277         | --          | --        |
|   | -----       | -----       | -----       | -----     |
| Net income (loss)   | (58,565)    | (14,530)    | (2,532)     | 1,064     |
| Deemed dividends on series A convertible<br>preferred stock | --          | 4,434       | 13,723      | --        |
|   | -----       | -----       | -----       | -----     |
| Net income (loss) attributable to common<br>stockholders    | \$ (58,565) | \$ (18,964) | \$ (16,255) | \$ 1,064  |
|   | =====       | =====       | =====       | =====     |
| Net loss from continuing operations per share               |             |             |             |           |
| Basic   | \$ (1.93)   | \$ (0.66)   | \$ (0.24)   | \$ (0.11) |
|   | =====       | =====       | =====       | =====     |
| Diluted   | \$ (1.93)   | \$ (0.66)   | \$ (0.24)   | \$ (0.09) |
|   | =====       | =====       | =====       | =====     |
| Income (loss) from discontinued operations<br>per share     |             |             |             |           |
| Basic   | \$ (0.10)   | \$ (0.04)   | \$ 0.04     | \$ 0.32   |
|   | =====       | =====       | =====       | =====     |
| Diluted   | \$ (0.10)   | \$ (0.04)   | \$ 0.04     | \$ 0.26   |
|   | =====       | =====       | =====       | =====     |
| Deemed dividends per share                                  |             |             |             |           |
| Basic   | \$ --       | \$ (0.21)   | \$ (1.07)   | \$ --     |
|   | =====       | =====       | =====       | =====     |
| Diluted   | \$ --       | \$ (0.21)   | \$ (1.07)   | \$ --     |
|   | =====       | =====       | =====       | =====     |
| Net income (loss) per share:                                |             |             |             |           |
| Basic   | \$ (2.03)   | \$ (0.91)   | \$ (1.27)   | \$ .22    |
|   | =====       | =====       | =====       | =====     |

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| Diluted   | \$ (2.03) | \$ (0.91) | \$ (1.27) | \$ .17 |
|---|-----------|-----------|-----------|--------|
|   | =====     | =====     | =====     | =====  |
| Weighted average number of common shares and equivalents outstanding: |           |           |           |        |
| Basic   | 28,792    | 20,880    | 12,817    | 4,910  |
|   | =====     | =====     | =====     | =====  |
| Diluted   | 28,792    | 20,880    | 12,817    | 6,169  |
|   | =====     | =====     | =====     | =====  |
| Balance Sheet Information:  |           |           |           |        |
| Cash and cash equivalents   | \$ 2,762  | \$ 1,689  | \$ 1,871  | \$ 60  |
| Working capital   | 24,940    | 15,639    | 19,921    | 4,526  |
| Total assets  | 61,502    | 104,499   | 84,372    | 10,867 |
| Long-term debt (including current portion)                            | 5,871     | 83        | 3,128     | 2,186  |
| Series A mandatorily redeemable convertible preferred stock           | --        | --        | 10,371    | --     |
| Total stockholders' equity  | 36,586    | 68,909    | 49,658    | 5,194  |

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

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-K. All statements contained herein that are not historical facts, including, but not limited to, statements regarding anticipated future capital requirements, our future development plans, our ability to obtain debt, equity or other financing, and our ability to generate cash from operations, are based on current expectations. The discussion of results, causes and trends should not be construed to imply any conclusion that such results or trends will necessarily continue in the future.

The statements contained herein, other than historical information, are or may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, and involve factors, risks and uncertainties that may cause our actual results in future periods to differ materially from such statements. These factors, risks and uncertainties, include our relatively short operating history; market acceptance and availability of new products and services; the terminable-at-will and nonexclusive nature of reseller agreements with manufacturers; rapid technological change affecting products and services sold by us; the impact of competitive products, services, and pricing, as well as competition from other resellers and service providers; possible delays in the shipment of new products; and the availability of sufficient financial resources to enable us to expand its operations.

#### Overview

Wire One is a single source provider of video products and services that assists customers located principally in the United States with systems design and engineering, procurement, installation, operation and maintenance of their video communications systems. We offer our customers video communications products from leading manufacturers such as Polycom (which distributes products under the Polycom, PictureTel and Accord brands, among others), Tandberg, RADVision, Cisco Systems and Sony and provide a comprehensive suite of video and data services including engineering, installation, customized training, on-site technical assistance and maintenance. We also operate our Glowpoint network subscriber

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service, which provides our customers with two-way video communications with high quality of service utilizing an Internet network and broadband access dedicated solely to transporting video using the H.323 IP standard. Lastly, we sell multi-point video and audio bridging services through our Multiview Network Services program. We employ state-of-the-art conferencing servers that provide seamless connectivity for all switched digital networks.

We market and sell products and services to the commercial, government, medical and educational sectors through a direct sales force of account executives as well as through resellers. Sales to resellers are made on terms with respect to pricing, payment and returns that are consistent with those offered to end user customers. No price protection or similar arrangement is offered, nor are the obligations as to payment contingent on the resale of the equipment purchased by the reseller. There are no special rights to return equipment granted to resellers, nor are we obligated to repurchase reseller inventory. These efforts are supported by sales engineers, a marketing department, and a professional services and engineering group. We have sold our products and services to over 3,000 customers who collectively have approximately 21,000 videoconferencing endpoints.

Product revenue consists of revenue from the sale of video communications equipment and is recognized at the time of shipment, provided that the price is fixed and determinable, no significant obligations remain, collectibility is probable and returns are estimable. Revenue is recognized at the time of shipment since the terms of shipment are FOB shipping point and legal title to the equipment passes to the customer at this time. Post shipment obligations such as installation and training are considered relatively insignificant given the underlying nature of the equipment and of its installation.

Service revenue is derived from services rendered in connection with the sale of new systems and the maintenance of previously installed systems. Services rendered in connection with the sale of new systems consist of engineering services related to system integration, installation, technical training and user training. Most of these services are rendered at or prior to installation and all revenue is recognized only after the services have been rendered. Revenue related to extended service contracts is deferred and recognized over the life of the extended service period. Revenue related to the Glowpoint network subscriber service and the multi-point video and audio bridging services we offer are recognized through a monthly billing process after services have been rendered.

Wire One was formed on May 18, 2000 by the merger of ACC and VTI. VTI was the surviving legal entity in the merger. However, for financial reporting purposes, the merger has been accounted for as a "reverse acquisition" using the purchase method of accounting. Under the purchase method of accounting, ACC's historical results have been carried forward and VTI's operations have been included in the financial statements commencing on the merger date. Accordingly, all 1999 results as well as 2000 results through the merger date are those of ACC only. Further, on the date of the merger, the assets and liabilities of VTI were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

In July 2000, we acquired the net assets of 2CONFER, LLC, a Chicago-based provider of videoconferencing, audio and data solutions. The total consideration was \$800,000, consisting of \$500,000 in cash and the remainder in our common stock valued at the time of acquisition at \$300,000. On the date of the acquisition, the assets and liabilities of 2CONFER were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

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In October 2000, we acquired the assets and certain liabilities of the Johns Brook Company ("JBC") videoconferencing division, a New Jersey-based provider of videoconferencing solutions. The total consideration was \$635,000, consisting of \$481,000 in cash and the remainder in our common stock valued at the time of acquisition at \$154,000. On the date of the acquisition, the assets and certain liabilities of the JBC videoconferencing division were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

In June 2001, we acquired the assets of GeoVideo Networks, Inc., a New York-based developer of video communications software. Chief among the assets, in addition to GeoVideo's cash on hand of \$2,500,000, was GeoVideo's browser, a software tool based upon proprietary Bell Labs technology that allows up to six simultaneous, real-time, bi-directional high-bandwidth IP video sessions to be conducted over a standard desktop PC. In exchange for the acquired assets, we issued 815,661 shares of our common stock, together with warrants to purchase 501,733 additional shares of our common stock at \$5.50 per share and 520,123 shares at \$7.50 per share. On the date of acquisition the assets of GeoVideo were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

In July 2001, we acquired the assets and certain liabilities of Advanced Acoustical Concepts, Inc. ("AAC"), an Ohio-based designer of audiovisual conferencing systems. The total consideration was \$794,000, which was paid in the form of our common stock valued at the time of acquisition. On the date of acquisition, the assets and certain liabilities were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

In October 2001, we completed the sale of our voice communications business unit to Fairfield, New Jersey-based Phonextra, Inc. for approximately \$2,017,000, half of which was paid in cash at the close of the transaction and the balance of which was paid in the form of a promissory note requiring equal periodic payments of principal and interest over its one year term. The sale of our voice communications unit was aimed at enabling us to sharpen our focus on video solutions and on Glowpoint, our subscriber-based IP network dedicated to video communications traffic. As a consequence, this unit has been classified as a discontinued operation in the accompanying financial statements, with its results from operations summarized in a single line item on our statement of operations.

In November 2001, we acquired certain assets and liabilities of the video conferencing division of Axxis, Inc., a Kentucky-based designer of audiovisual conferencing systems. The total consideration was \$2,051,000, which was paid in the form of our common stock valued at the time of acquisition. On the date of acquisition, the acquired assets and liabilities were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

In March 2003, we completed the sale of certain assets and liabilities of the Audio-Visual ("AV") component to Columbia, Maryland-based Signal Perfection Limited ("SPL") for approximately \$807,000, \$250,000 of which was paid in cash at the close of the transaction and the balance of which was paid in the form of a promissory note payable in five equal consecutive monthly payments commencing on April 15, 2003. The sale of our AV component was aimed at enabling us to focus more of our resources on the development and marketing of our Glowpoint network, and to our video solutions business. As a consequence, this unit has been classified as a discontinued operation in the accompanying financial statements, with its net assets summarized in a single line item on our consolidated balance sheets and its results from operations summarized in a single line item on our consolidated statements of operations. See footnote 4 to the consolidated financial statements for further information.

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Results of Operations

The following table sets forth, for the periods indicated, information derived from our consolidated financial statements expressed as a percentage of our revenues:

|   | Year Ended December 31, |        |       |
|---|-------------------------|--------|-------|
|   | 2002                    | 2001   | 2000  |
|   | -----                   | -----  | ----- |
| Net revenues  |                         |        |       |
| Video solutions                                     |                         |        |       |
| Equipment   | 74.2%                   | 74.8%  | 81.1% |
| Service   | 19.0                    | 20.5   | 15.9  |
| Network solutions                                   | 6.8                     | 4.7    | 3.0   |
|   | -----                   | -----  | ----- |
|   | 100.0                   | 100.0  | 100.0 |
|   | -----                   | -----  | ----- |
| Cost of revenues                                    |                         |        |       |
| Video solutions                                     |                         |        |       |
| Equipment   | 77.2                    | 68.9   | 66.9  |
| Service   | 54.7                    | 58.3   | 68.6  |
| Network solutions                                   | 100.0                   | 83.3   | 74.9  |
|   | -----                   | -----  | ----- |
|   | 74.5                    | 67.4   | 67.4  |
|   | -----                   | -----  | ----- |
| Gross margin  |                         |        |       |
| Video solutions                                     |                         |        |       |
| Equipment   | 22.8                    | 31.1   | 33.1  |
| Service   | 45.3                    | 41.7   | 31.4  |
| Network solutions                                   | --                      | 16.7   | 25.1  |
|   | -----                   | -----  | ----- |
|   | 25.5                    | 32.6   | 32.6  |
|   | -----                   | -----  | ----- |
| Operating expenses                                  |                         |        |       |
| Selling   | 31.0                    | 29.7   | 26.0  |
| General and administrative                          | 9.8                     | 16.7   | 8.5   |
| Restructuring                                       | 1.2                     | --     | --    |
| Impairment losses on goodwill                       | 48.0                    | --     | --    |
| Impairment losses on other long-lived assets        | 0.2                     | --     | --    |
| Amortization of goodwill                            | --                      | 3.6    | 3.1   |
|   | -----                   | -----  | ----- |
| Total operating expenses                            | 92.0                    | 50.0   | 37.6  |
|   | -----                   | -----  | ----- |
| Loss from continuing operations                     | (66.5)                  | (17.4) | (5.0) |
|   | -----                   | -----  | ----- |
| Other (income) expense                              |                         |        |       |
| Amortization of deferred financing costs            | 0.1                     | 0.1    | 0.7   |
| Interest income                                     | --                      | --     | (0.7) |
| Interest expense                                    | 0.5                     | 0.7    | 0.2   |
| Amortization of discount on subordinated debentures | --                      | --     | --    |
|   | -----                   | -----  | ----- |
| Total other expenses, net                           | 0.6                     | 0.8    | 0.2   |
|   | -----                   | -----  | ----- |
| Loss before income taxes                            | (67.1)                  | (18.2) | (5.2) |



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|  |         |         |         |
|--|---------|---------|---------|
| Income tax provision                                     | --      | .03     | 1.1     |
|  | -----   | -----   | -----   |
| Net loss from continuing operations                      | (67.1)  | (18.5)  | (6.3)   |
| Loss from discontinued AV operations                     | (3.3)   | (0.5)   | --      |
| Income (loss) from discontinued Voice operations         | (0.3)   | (0.8)   | 1.1     |
| Gain on sale of discontinued Voice operation             | --      | 0.3     | --      |
|  | -----   | -----   | -----   |
| Net loss   | (70.7)  | (19.5)  | (5.2)   |
| Deemed dividends on series A convertible preferred stock | --      | 6.0     | 28.3    |
|  | -----   | -----   | -----   |
| Net loss attributable to common stockholders             | (70.7)% | (25.5)% | (33.5)% |
|  | =====   | =====   | =====   |

Year Ended December 31, 2002 ("2002 period") Compared to Year Ended December 31, 2001 ("2001 period").

NET REVENUES. We reported total net revenues of \$82.7 million for the 2002 period, an increase of \$8.3 million, or 11%, over the \$74.4 million in revenues reported for the 2001 period. This revenue growth was achieved despite operating in what was a very challenging information technology and telecom spending environment. Sales of video communications products amounted to 74% of total net revenues in the 2002 period, revenues related to video services totaled 19% and video network revenues accounted for the remaining 7% of total net revenues.

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Video solutions -- Sales of video communications products were \$61.4 million in the 2002 period, an increase of \$5.8 million, or 10%, over the \$55.6 million in the 2001 period. We sold 4,821 videoconferencing endpoints in the 2002 period, an increase of 11% over the 4,345 endpoints sold in the 2001 period. In 2002, we were again named Polycom's Reseller of the Year. We added Sony's new videoconferencing product to our multi-vendor platform and expanded our relationship with Tandberg in an effort to diversify our product mix and offer more hardware manufacturers to customers. The growth that we experienced in the 2002 period resulted from sales to new customers, \$7.9 million, offset slightly by a decline in sales to existing customers of \$2.1 million. In the 2002 period, approximately 40% of sales of video communications products were to new customers. We experienced growth in the 2002 period in the following sectors: commercial enterprises, \$1.5 million, and governmental, \$6.1 million; offset by declines in sales to medical institutions, \$0.7 million and educational institutions, \$1.1 million. Revenues related to video services were \$15.8 million in the 2002 period, an increase of \$0.5 million, or 3%, over the \$15.3 million in the 2001 period. The revenue growth experienced in the 2002 period resulted from a \$0.3 million increase in on-site technical support revenue as a result of our providing more on-site technicians to assist our customers in managing their video enterprises and from increased installation revenue of \$0.2 million related to the increased product sales. Service contract revenues were flat year to year, but as a result of increased efforts to sign up existing customers for renewal contracts and positive momentum built in the second half of the 2002 period, we expect that service contract revenues should increase in the 2003 period.

Video network -- Sales of video network services were \$5.6 million in the 2002 period, an increase of \$2.1 million, or 61%, over the \$3.5 million in the 2001 period. \$2.8 million of the \$2.1 million net increase in revenues for the 2002 period over the 2001 period related to growth in Glowpoint network services with a \$0.7 million decline in revenues from the H.320 bridging service accounting for the remainder of the change in revenues. The growth in Glowpoint network services revenue was the result of having on average 312 more video

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endpoints on the network in the 2002 period versus the 2001 period and those endpoints producing \$660 per month in revenue (accounting for approximately \$2.5 million of the \$2.8 million increase) and in having 590 endpoints installed on the network in the 2002 period (accounting for \$0.3 million of the increase). The decline in H.320 bridging revenues is the result of: 1) several customers purchasing equipment to enable their own multi-point video calling capability, \$0.3 million of the decline; 2) year to year bridging service utilization declines on the part of a number of existing customers, \$0.3 million; and 3) several customers transferring from H.320 bridging to IP bridging made possible by the Glowpoint network, \$0.1 million. These customers became Glowpoint subscribers during the year and utilized the full range of Glowpoint services, including IP bridging.

**GROSS MARGINS.** Gross margins were \$21.1 million in the 2002 period, a decrease of \$3.2 million over the 2001 period. Gross margins decreased in the 2002 period to 25.5% of net revenues, as compared to 32.6% of net revenues in the 2001 period. The primary cause of the overall decline in gross margins was the decline in gross margins on sales of video communications products. Gross margins on sales of video communications products declined from 31.1% in the 2001 period to 22.8% in the 2002 period. This decrease is attributable to overall competitive pressures in the video solutions market resulting from the relatively weak economy, decreased spending for information technology and telecom and downward pricing pressure initiated by competitors. Most video communications products that we sell suffered year-over-year gross margin declines. Gross margins related to video service revenues increased from 41.7% in the 2001 period to 45.3% in the 2002 period. This increase is attributable to cost reduction measures implemented in late July of 2002. These cost reductions were the result of implementation of new management information systems that now allow help desk calls from customers to be handled more efficiently and enable us to better utilize our technicians. We expect the gross margins on sales of video communications products to continue to be under pressure in the first half of the 2003 period as a difficult economic environment persists, but anticipate improvement in the second half of the 2003 period as economic uncertainties are clarified, competitor video product inventory levels decline and new products from manufacturers are introduced to the market.

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Gross margins related to video network revenues declined from 16.7% in the 2001 period to 0.0% in the 2002 period. The decline is the result of increased fixed costs incurred in the 2002 period as the network has been built out to handle the video traffic of over 2,000 video endpoints. At the end of the 2002 period there were 765 video endpoints on the network. Gross margins related to video network revenues should improve over the course of the 2003 period as we anticipate that more video endpoints will be installed on the network and minimal further fixed costs related to the operation of the network are incurred.

**SELLING.** Selling expenses, which include sales salaries, commissions and overhead and marketing costs, increased \$3.6 million in the 2002 period to \$25.7 million from \$22.1 million for the 2001 period. Increases in selling expenses are attributable to increases in the number of sales personnel and their related costs such as commissions, facilities, travel and telecommunications which totaled \$2.0 million and the \$1.0 million of additional personnel, facilities, travel, marketing and telecommunications costs related to the Glowpoint division. We began the 2001 period with 98 sales and marketing employees and ended it with 100 personnel dedicated to these functions. The number of sales and marketing employees increased to 121 by the mid-point of the 2002 period and was subsequently reduced to 92 by the end of the 2002 period. Selling expenses

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as a percentage of net revenues for the 2002 period were 31.0%, an increase of 1.3%, from 29.7% in the 2001 period. Selling costs of the Glowpoint division as a percentage of revenues increased 1.6% from the 2001 period to the 2002 period and remaining selling expenses as a percentage of revenue declined 0.3% for the same period.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased \$4.0 million in the 2002 period to \$8.2 million as compared to \$12.2 million for the 2001 period. This category of expense was significantly impacted by non-recurring charges that were recognized in the fourth quarter of 2001. The most significant of these 2001 charges was the \$4.0 million non-cash charge related to a five-year extension of certain stock options granted to our Chief Executive Officer, the one-time non-cash charge of \$630,000 for accelerated amortization of Glowpoint-related capitalized costs and the \$375,000 charge related to the settlement of outstanding litigation. In the 2002 period a \$0.2 million non-cash charge related to the one-year extension of certain stock options granted to our Chief Operating Officer was incurred. If these one-time charges are subtracted from their respective periods, adjusted general and administrative expenses are \$7.2 million for the 2001 period and \$8.0 million for the 2002 period. The \$0.8 million increase in adjusted general administrative expenses is due to a \$0.3 million increase in bad debt expense, a \$0.2 million increase in depreciation on corporate-level assets and a \$0.3 million increase in personnel expense. We began the 2001 period with 30 finance and administrative employees and ended it with 38 personnel dedicated to these functions. The number of finance and administrative employees was up slightly to 39 by the end of the 2002 period. Adjusted general and administrative expenses as a percentage of net revenues for the 2002 period were 9.6%, a decrease of 0.1%, from 9.7% in the 2001 period.

RESTRUCTURING. We recorded a restructuring charge of \$960,000 in June of the 2002 period. \$500,000 of the charge was for employee termination costs that relate to the 84 employees that were terminated following the implementation of the cost savings plan. \$460,000 of the charge was for facility exit costs that relate to the closing or downsizing of 19 sales offices. The charge was taken as part of a plan that has resulted in annual cost savings of \$7 million.

Specific measures included the following: 1) reducing our overall workforce by 84 employees, or approximately 20% of our headcount at that time; 2) minimizing existing facility lease obligations by closing, re-locating or downsizing 19 of our U.S. regional sales offices; 3) implementing a salary reduction program, including executive salary reductions of 10% for our Chief Executive Officer and our Chief Operating Officer; 4) enhancing operating efficiencies by implementing new operating processes, management information systems and technology; and 5) negotiating more favorable terms from numerous service providers and other vendors supplying us with goods and services.

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The workforce reductions affected every area of our business including: 1) audio-visual integration operations, including technicians and engineering personnel; 2) video solutions operations, including field and help desk technicians; 3) order processing and fulfillment, including consolidation of all warehouse operations in Miamisburg, Ohio; 4) finance, accounting and information technology; and 5) sales and marketing, including call center and administrative personnel and account executives. The closing, re-locating and downsizing of regional sales offices has left us with a continued nationwide presence through our 24 sales offices and demonstration facilities. The new operating processes, management information systems and technology that have been implemented have enabled us to more efficiently originate, process and fulfill video communications product sales orders and to deliver the full range of video

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services that we have provided in the past. We have not changed our product and service offerings in any way as a result of this cost savings plan. All of the cost savings measures were implemented by September 30, 2002 with the most significant measures implemented by early August of 2002. We achieved full realization of these cost savings in our fiscal fourth quarter of 2002.

**IMPAIRMENT LOSSES ON GOODWILL AND OTHER LONG-LIVED ASSETS.** Impairment losses on goodwill and other long-lived assets were \$41.4 million in the 2002 period as we implemented the provisions of Financial Account Standards Board ("FASB") Statement No. 142, Goodwill and Other Intangible Assets ("FAS142") and Financial Account Standards Board Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS144"). Amortization of goodwill recorded in the 2001 period was \$2.7 million. An impairment loss of \$40.0 million related to the goodwill of the Video Solutions reporting unit was recorded in the 2002 period. This non-cash impairment charge was recognized for the amount that the carrying amount of goodwill exceeded its implied fair value. An impairment loss of \$1.4 million related to long-lived assets was also recorded in the 2002 period.

**OTHER (INCOME) EXPENSES.** One component of this category, amortization of deferred financing costs, increased to \$123,000 in the 2002 period as compared to \$100,000 in the 2001 period. In addition, interest income decreased in the 2002 period to \$72,000 as compared to \$77,000 in the 2001 period. Interest expense decreased in the 2002 period to \$432,000 as compared to \$598,000 in the 2001 period. The decline in interest expense resulted from having lower average outstanding loan balances in the 2002 period versus the 2001 period and from the lower level of interest rates that existed in the 2002 period versus the 2001 period.

**INCOME TAXES.** During the 2002 period, as we had done in the 2001 period, we established a valuation allowance to offset the benefits of significant temporary tax differences due to the uncertainty of their realization. These deferred tax assets consist primarily of net operating losses carried forward in the VTI merger, reserves and allowances, and stock-based compensation. Due to the nature of the deferred tax assets, the related tax benefits, upon realization, will be credited substantially to the goodwill asset or additional paid-in capital, rather than to income tax expense.

**DISCONTINUED OPERATIONS.** In the 2002 period, we treated our audio-visual integration component as a discontinued operation because: 1) the operations and cash flows of this component have been eliminated from our ongoing operations as a result of a disposal transaction; and 2) we do not have any significant continuing involvement in the operation of the component after the disposal transaction. We incurred a loss from discontinued operations relating to the audio-visual integration component in the 2002 period of \$2.7 million and a \$0.4 million loss in the 2001 period. In addition, as a result of several post-closing adjustments related to the sale of its voice communications business, we incurred a \$0.3 million loss from this discontinued operation in the 2002 period. We incurred a \$0.6 million loss from discontinued operations in the 2001 period which resulted from lower revenues to cover the fixed costs of the voice communications unit and higher costs of revenues as competitive pressures reduced gross margins.

**NET INCOME (LOSS).** We reported a net loss attributable to common stockholders for the 2002 period of \$(58.6) million, or \$(2.03) per diluted share, as compared to net loss attributable to common stockholders of \$(19.0) million, or \$(0.91) per diluted share for the 2001 period. The following table provides a reconciliation of net loss attributable to common stockholders to EBITDA from continuing operations.

Years Ended December 31,

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|  | 2002            | 2001            |
|--|-----------------|-----------------|
| Net loss attributable to common stockholders             | \$ (58,565,183) | \$ (18,964,294) |
| Impairment losses on goodwill                            | 40,012,114      | -               |
| Impairment losses on long-lived assets                   | 1,357,806       | -               |
| Depreciation and amortization                            | 5,146,515       | 7,100,094       |
| Non-cash compensation                                    | 675,057         | 4,442,316       |
| Loss on disposal of equipment                            | 28,305          | -               |
| Restructuring expenses                                   | 960,000         | 200,000         |
| Interest expense, net                                    | 183,944         | 521,219         |
| Amortization of discount on subordinated debentures      | 39,360          | -               |
| Income taxes   | -               | 200,000         |
| Deemed dividends on Series A convertible preferred stock | -               | 4,433,904       |
| Loss from discontinued AV operations                     | 2,696,223       | 395,697         |
| Loss from discontinued Voice operations                  | 286,880         | 617,389         |
| Gain on sale of discontinued Voice operation             | -               | (277,414)       |
| Other non-recurring, non-cash items                      | 300,000         | 1,165,000       |
| EBITDA from continuing operations                        | \$ (6,878,979)  | \$ (166,089)    |

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Year Ended December 31, 2001 ("2001 period") Compared to Year Ended December 31, 2000 ("2000 period").

NET REVENUES. We reported net revenues of \$74.4 million for the 2001 period, an increase of \$26.0 million over the \$48.4 million in revenues reported for the 2000 period. Although the operations of acquired companies have now been fully integrated, management estimates that revenues from the core businesses, meaning the Company's video solutions and network solutions businesses, in existence before contributions from acquired operations accounted for \$16.3 million of the \$26.0 million increase, or 62.7%, with acquisitions accounting for \$9.7 million of the increase, or 37.3%.

Video solutions -- Sales of video communications products and services were \$70.9 million in the 2001 period, an increase of \$24.0 million, or 51%, over the \$46.9 million in the 2000 period. Management estimates that approximately \$15.2 million of the \$24.0 million increase in revenues for the 2001 period over the 2000 period, or 63.3%, related to the core businesses in existence before contributions from acquired operations and \$8.8 million in revenues, or 36.7%, from acquired operations accounted for the remainder of the growth. The growth experienced in the 2001 period resulted from sales to both new and existing customers in the commercial, governmental, medical and educational markets throughout the United States.

Video network -- Sales of video network services were \$3.5 million in the 2001 period, an increase of \$2.0 million, or 136%, over the \$1.5 million in the 2000 period. This increase in revenues consisted of \$0.4 million in revenues resulting from the introduction of the Glowpoint network and \$1.6 million in revenues from the acquired H.320 bridging service of VTI.

GROSS MARGINS. Gross margins were \$24.3 million in the 2001 period, an increase of \$8.5 million from \$15.8 million for the 2000 period. Gross margins

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remained at 32.6% of net revenues for both the 2001 and 2000 periods. An increase in the gross margins on video service from 31.4% in the 2000 period to 41.7% in the 2001 period helped to mitigate the decline in gross margins on sales of video communications products from 33.1% in the 2000 period to 31.1% in the 2001 period. The margin decline on sales of products was primarily caused by the disproportionate amount of sales of high dollar, low-margin multipoint bridge equipment in 2001 revenues.

**SELLING.** Selling expenses, which include sales salaries, commissions, overhead, and marketing costs, increased \$9.5 million in the 2001 period to \$22.1 million from \$12.6 million for the 2000 period. Increases in selling expenses are attributable to increases in the number of sales personnel and their related costs, such as commissions, facilities, travel and telecommunications, which totaled \$4.8 million, the costs of additional sales offices resulting from acquisitions since May 2000 totaling \$0.9 million and the \$2.5 million of personnel, facilities, travel, marketing and telecommunications costs related to the Glowpoint division not yet covered by revenues. Selling expenses as a percentage of net revenues for the 2001 period were 29.7%, an increase from 26.0% in the 2000 period. This increase is primarily attributable to the \$2.5 million of expenses of the Glowpoint division, which amounted to 3.4% of net revenue.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses increased \$8.1 million in the 2001 period to \$12.2 million as compared to \$4.1 million for the 2000 period. This category of expense was significantly impacted by non-recurring charges that were recognized in the fourth quarter of 2001. The most significant of these charges were the \$4.0 million charge related to a five-year extension of certain stock options granted to our Chief Executive Officer in 1997, the one-time non-cash charge of \$630,000 for accelerated amortization of Glowpoint-related capitalized costs and the \$375,000 charge related to the settlement of outstanding litigation. If these one-time charges are subtracted from the 2001 period, adjusted general and administrative expenses are \$7.2 million in the 2001 period. The \$3.1 million increase in adjusted general and administrative expenses is due to a \$0.4 million increase in bad debt expense, a \$0.7 million increase in depreciation on corporate-level assets, a \$0.8 million increase in personnel expense and a \$0.5 million increase in professional and other corporate fees. Adjusted general and administrative expenses as a percentage of net revenues for the 2001 period were 9.7%, an increase of 1.2%, from 8.5% in the 2000 period.

**AMORTIZATION OF GOODWILL.** Amortization of goodwill increased \$1.2 million in the 2001 period to \$2.7 million as compared to \$1.5 million for the 2000 period. The increase was the result of a full year of amortization related to the VTI, 2CONFER, and JBC acquisitions (\$1.1 million of the increase) and goodwill amortization related to the acquisition of GeoVideo of \$0.1 million.

**OTHER (INCOME) EXPENSES.** The principal component of this category, amortization of deferred financing costs, decreased to \$100,000 in the 2001 period as compared to \$343,000 in the 2000 period. The decrease reflects the absence from the 2001 period of the amortization of \$305,000 related to the issuance of warrants to former VTI subordinated debt holders. In addition interest income decreased in the 2001 period to \$77,000 as compared to \$315,000 in the 2000 period. The decrease reflects decreased funds invested during the 2001 period as the capital raised in prior periods was deployed in operations. Interest expense increased in the 2001 period to \$598,000 as compared to \$78,000 in the 2000 period. During the 2001 period we expanded our use of our line of credit to fund our operations with the result being a significant increase in interest expense.

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INCOME TAXES. During the 2001 period, we established a valuation allowance to offset the benefits of significant temporary tax differences due to the uncertainty of their realization. These deferred tax assets consist primarily of net operating losses carried forward in the VTI merger, reserves and allowances, and stock-based compensation. Due to the nature of the deferred tax assets, the related tax benefits, upon realization, will be credited substantially to the goodwill asset or additional paid-in capital, rather than to income tax expense.

DISCONTINUED OPERATIONS. We incurred a loss from discontinued AV operations in the 2001 period of \$396,000. Since the AV division evolved as a result of 2001 acquisitions, there is no corresponding activity in this component for the 2000 period. We incurred a loss from discontinued Voice division operations in the 2001 period of \$617,000 as compared to income from discontinued Voice division operations in the 2000 period of \$521,000. The decline in income from discontinued Voice division operations resulted from lower revenues to cover the fixed costs of the voice communications unit and higher costs of revenues as competitive pressures reduced gross margins.

NET LOSS. We reported a net loss attributable to common stockholders for the 2001 period of \$(19.0) million, or \$(0.91) per diluted share, as compared to loss attributable to common stockholders of \$(16.3) million, or \$(1.27) per diluted share for the 2000 period. Before giving effect to the aggregate \$4.4 million in deemed dividends on Series A convertible preferred stock in the 2001 period and \$13.7 million in deemed dividends in the 2000 period, we reported a net loss of \$(14.5) million for the 2001 period and \$(2.5) million for the 2000 period.

### Liquidity and Capital Resources

At December 31, 2002, we had working capital of \$24.9 million compared to \$15.6 million at December 31, 2001, an increase of approximately 59%. At December 31, 2002, we had \$2.8 million in cash and cash equivalents compared to \$1.7 million at December 31, 2001 (of which \$900,000 was restricted as to its use -- see footnote 2 to the consolidated financial statements). The \$9.3 million increase in working capital resulted primarily from the January 2002 common stock offering of \$20.3 million, the December 2002 convertible debenture offering of \$4.5 million, the net pay down of \$4.8 million of bank loans and the funding of the \$11.3 million cash loss from operations in the 2002 period.

In January 2002, we raised net proceeds of \$20.3 million in a private placement of 3,426,650 shares of our common stock at \$6.25 per share. Investors in the private placement also received five-year warrants to purchase 864,375 shares of common stock at an exercise price of \$10.00 per share. The warrants are subject to certain anti-dilution protection. \$12 million of the proceeds from the offering were used to pay down the bank line of credit to zero. The remaining proceeds were used to fund the continuing development and marketing of our Glowpoint video communications network and for general corporate purposes.

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In May 2002, we entered into a \$25 million working capital credit facility with JPMorgan Chase Bank. Under terms of the three-year agreement for this facility, loan availability is based on (1) 80% of eligible accounts receivable and (2) the lesser of 50% against eligible finished goods inventory or 80% against the net eligible amount of the net orderly liquidation value by category of finished goods inventory as determined by an outside appraisal firm, subject to an inventory cap of \$2 million. Borrowings bear interest at the lender's base rate plus 1 1/2 % per annum. At December 31, 2002, the interest rate on the facility was 5.75%. The credit facility contains certain financial and operational covenants. For the period from October 1, 2002 period through

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December 31, 2002 ("2002 Fourth Quarter"), we were in violation of the covenant requiring us to meet a certain earnings before interest, taxes, depreciation and amortization ("EBITDA") target for the four quarters ended December 31, 2002. In March 2003, we concluded an amendment to the credit facility with JPMorgan Chase Bank to cure non-compliance with the EBITDA financial covenant arising from the fourth quarter results. Some additional highlights of the amendment include: 1) a reduction in the commitment amount of the line of credit from \$25 million to \$15 million; 2) revised EBITDA covenant levels for the remainder of the term of the credit agreement; and, 3) maintenance of the interest rate, loan fees and provisions of the borrowing formula at the same levels as previously negotiated. At December 31, 2002, \$5.8 million was outstanding under the facility and the loan has been classified as non-current in the accompanying consolidated balance sheet because the facility matures in more than one year.

In December 2002, we raised net proceeds of \$4.6 million in a private placement of \$4,888,000 principal amount of 8% convertible debentures. The debentures, which are convertible into 2,036,667 shares of common stock at \$2.40 per share, are subordinate to our credit facility with JPMorgan Chase Bank. The debentures mature in February 2004, or 90 days following the expiration (in May 2005) or earlier termination of the credit facility, whichever is later. We have the option of paying interest on the debentures in the form of either cash or Wire One common stock. The debentures will automatically convert into common stock if Wire One shares trade above \$4.80 for 10 consecutive trading days. If we elect to prepay the debentures prior to maturity, the holders may instead elect to convert the debentures into common stock, in which event the holders will receive, in addition to the shares issuable upon the conversion, the remaining interest payable under the debentures through maturity, payable in the form of common stock based upon the conversion price. Investors in the private placement also received five-year warrants to purchase 814,668 shares of common stock at an exercise price of \$3.25 per share. The warrants are subject to customary anti-dilution adjustments. We also issued to its placement agent warrants to purchase 40,733 shares of common stock at an exercise price of \$0.001 per share and an expiration date of January 31, 2003.

Future minimum rental commitments under all non-cancelable operating leases are as follows:

| Year Ending December 31  |             |
|--------------------------|-------------|
| 2003.....                | \$1,424,132 |
| 2004.....                | 947,764     |
| 2005.....                | 683,775     |
| 2006.....                | 580,320     |
| 2007 and thereafter..... | 337,733     |
|                          | -----       |
|                          | \$3,973,724 |
|                          | =====       |

Future minimum lease payments under capital lease obligations at December 31, 2002 are as follows:

|  |          |
|--|----------|
| 2003.....                              | \$27,957 |
|  | -----    |
| Total minimum payments.....            | 27,957   |
| Less amount representing interest..... | (2,083)  |
|  | -----    |
| Total principal.....                   | 25,874   |
| Less portion due within one year.....  | (25,874) |
|  | -----    |
| Long-term portion.....                 | \$ --    |
|  | =====    |

Net cash used in operating activities for the 2002 period was \$14.0 million



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as compared to net cash used by operations of \$15.5 million during the 2001 period. The primary source of operating cash in 2002 was the net decrease in accounts receivable of \$10.0 million, which resulted from improved collection efforts and lower fourth quarter sales in the current year versus the prior year. We used this cash and cash raised through financing activities to fund the \$11.3 million cash loss from operations, \$5.7 million in payments on outstanding accounts payable and other current liabilities, \$4.5 million in cash needed for audio-visual integration business and \$2.4 million in inventory purchases required for video solutions business.

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Investing activities for the 2002 period included purchases of \$1.3 million for computer and demonstration equipment and leasehold improvements for the core business and \$3.4 million for computer, network and office equipment related to the Glowpoint division. The Glowpoint network is currently built out to handle the anticipated level of subscriptions for 2003. Although we anticipate current expansion of the Glowpoint network and our core business, we have no significant commitments to make capital expenditures for Glowpoint or the core business in 2003.

Financing activities in the 2002 period included net pay downs under our revolving credit line totaling \$4.8 million, issuance of common stock in a private placement yielding net proceeds of \$20.3 million and issuance of subordinated debentures yielding net proceeds of \$4.5 million.

Management believes, based upon current circumstances, we have adequate capital resources to support current operating levels for at least the next twelve months.

### Critical accounting policies

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following paragraphs include a discussion of some critical areas where estimates are required. You should also review Note 2 to the financial statements for further discussion of significant accounting policies.

### Revenue recognition

We sell products and services to the commercial, government, medical and educational sectors through a direct sales force of account executives as well as through resellers. Sales to resellers are made on terms with respect to pricing, payment and returns that are consistent with those offered to end user customers. No price protection or similar arrangement is offered, nor are the obligations as to payment contingent on the resale of the equipment purchased by the reseller. There are no rights to return equipment granted to resellers, nor are we obligated to repurchase reseller inventory.

Product revenue consists of revenue from the sale of video communications equipment and is recognized at the time of shipment, provided that the price is fixed and determinable, no significant obligations remain, collectibility is probable and returns are estimable. Revenue is recognized at the time of

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shipment since the terms of shipment are FOB shipping point and legal title to the equipment passes to the customer at this time. Post shipment obligations such as installation and training are considered relatively insignificant given the underlying nature of the equipment and of its installation.

Service revenue is derived from services rendered in connection with the sale of new systems and the maintenance of previously installed systems. Services rendered in connection with the sale of new systems consist of engineering services related to system integration, installation, technical training and user training. Most of these services are rendered at or prior to installation and all revenue is recognized only after the services have been rendered. Revenue related to extended service contracts is deferred and recognized over the life of the extended service period. Revenue related to the Glowpoint network subscriber service and the multi-point video and audio bridging services offered by us are recognized through a monthly billing process after services have been rendered.

### Allowance for Doubtful Accounts

We record an allowance for doubtful accounts based on specifically identified amounts that we believe to be uncollectible. We also record additional allowances based on certain percentages of our aged receivables, which are determined based on historical experience and our assessment of the general financial conditions affecting our customer base. If our actual collections experience changes, revisions to our allowance may be required. After all attempts to collect a receivable have failed, we write off the receivable against the allowance.

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### Long-lived assets

We evaluate impairment losses on long-lived assets used in operations, primarily fixed assets when events and circumstances indicate that the carrying value of the assets and goodwill might not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the undiscounted cash flows estimated to be generated by those assets would be compared to the carrying amounts of those assets. If and when the carrying values of the assets exceed their fair values, the related assets will be written down to fair value.

### Goodwill and other intangible assets

In June 2001, the FASB finalized FASB Statements No. 141, "Business Combinations" (SFAS 141), and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also required that we recognize acquired intangible assets apart from goodwill if they meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. The FASB also requires, upon adoption of SFAS 142, that we classify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of

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intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized.

We adopted SFAS 142 on January 1, 2002. As of this date, we completed our Step 1 analysis and determined there was no impairment of existing goodwill. Subsequent to the completion of this initial transitional goodwill impairment test, certain events and changes in circumstances caused us to reevaluate the goodwill for possible impairment. We used a fair value approach as of September 30, 2002 to reevaluate the existing goodwill for impairment. We completed this valuation in the fourth quarter of 2002 and it resulted in an impairment of \$40,012,862 of goodwill in accordance with SFAS 142.

The Company's acquisitions to date have all been accounted for using the purchase method. All future business combinations will be accounted for under the purchase method, which may result in the recognition of goodwill and other intangibles assets, some of which may subsequently be charged to operations, either by amortization or impairment charges. For purchase business combinations completed prior to June 30, 2001, the net carrying amount of goodwill was \$2,547,862 as of December 31, 2002. Measurement of impairment of goodwill and other intangible assets in accordance with SFAS 142 are discussed elsewhere in this report.

Recent pronouncements of the Financial Accounting Standards Board

In July 2002, the FASB issued FASB Statement No. 146, Accounting for the Costs Associated with Exit or Disposal Activities. This statement requires companies to recognize costs associated with exit or disposal activities only when liabilities for those costs are incurred rather than at the date of a commitment to an exit or disposal plan. FASB No. 146 also requires companies to initially measure liabilities for exit and disposal activities at their fair values. FASB No. 146 replaces Emerging Issues Task Force (EITF) Issues No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and EITF No. 88-10, Costs Associated with Lease Modification or Termination. The provisions of FASB No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. We anticipate the adoption of this statement will not have a material effect on its consolidated financial position or results of operations.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("FAS 148"), which (i) amends FAS Statements No. 123, "Accounting for Stock-Based Compensation," to provided alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation (ii) amends the disclosure provisions of FAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and (iii) amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. Items (ii) and (iii) of the new requirements in FAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. We have adopted the increased disclosure requirements of FAS 148 for the fiscal year ended December 31, 2002. We will continue to use the intrinsic value method of accounting for stock-based employee compensation.

In November 2002, the Emerging Issues Task Force (EITF) reached consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Revenue

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arrangements with multiple deliverables include arrangements which provide for the delivery or performance of multiple products, services and/or rights to use assets where performance may occur at different points in time or over different periods of time. We generally enter into arrangements for multiple deliverables that occur at different points in time when we are contracted to provide installation services. EITF Issue No. 00-21 is effective for us beginning October 1, 2003. We have not completed our evaluation of the impact of this EITF.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN No. 45), Guarantors Accounting and Disclosure Requirements for Guarantees of Indebtedness to Others -- An Interpretation of FASB Statements No. 5, 57 and 107 and Recission of FASB Interpretation No. 34. The objective of Interpretation 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretive guidance incorporated without change from Interpretation 34 continues to be required for financial statements for fiscal years ending after June 15, 1981 -- the effective date of Interpretation 34. The adoption of this statement did not have a material effect on our consolidated financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN No. 46), Consolidation of Variable Interest Entities -- An Interpretation of ARB No. 51. The objective of Interpretation 46 is not to restrict the use of variable interest entities but to improve financial reporting by enterprises involved with variable interest entities. FASB believes that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity should be included in consolidated financial statements with those of the business enterprise. This Interpretation is intended to achieve more consistent application of consolidation policies to variable interest entities and, thus, to improve comparability between enterprises engaged in similar activities even if some of those activities are conducted through variable interest entities. This Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

### Inflation

Management does not believe inflation had a material adverse effect on the financial statements for the periods presented.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have exposure to interest rate risk related to our cash equivalents portfolio. The primary objective of our investment policy is to preserve principal while maximizing yields. Our cash equivalents portfolio is short-term in nature, therefore changes in interest rates will not materially impact our

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consolidated financial condition. However, such interest rate changes can cause fluctuations in our results of operations and cash flows.

We maintain borrowings under a \$15 million working capital credit facility with an asset based lender that are not subject to material market risk exposure except for such risks relating to fluctuations in market interest rates. The carrying value of these borrowings approximates fair value since they bear interest at a floating rate based on the "prime" rate. There are no other material qualitative or quantitative market risks particular to us.

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### Item 8. Financial Statements and Supplementary Data

#### WIRE ONE TECHNOLOGIES, INC. INDEX TO FINANCIAL STATEMENTS

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#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and the  
Stockholders of Wire One Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Wire One Technologies, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wire One Technologies, Inc. and Subsidiaries at December 31, 2002 and 2001, and the

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results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets.

BDO Seidman, LLP  
Boston, Massachusetts  
March 7, 2003

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### Wire One Technologies, Inc. Consolidated Balance Sheets

|   | December 31, |               |
|---|--------------|---------------|
|   | 2002         | 2001          |
| <b>ASSETS</b>                                       |              |               |
| Current assets:                                     |              |               |
| Cash and cash equivalents                           | \$ 2,762,215 | \$ 1,689,451  |
| Accounts receivable-net                             | 25,441,557   | 35,471,482    |
| Inventory-net                                       | 8,122,996    | 10,218,796    |
| Net assets of discontinued operations               | 807,067      | --            |
| Other current assets                                | 6,876,476    | 3,824,276     |
| Total current assets                                | 44,010,311   | 51,204,005    |
| Furniture, equipment and leasehold improvements-net | 14,196,679   | 10,857,547    |
| Goodwill-net  | 2,547,862    | 42,163,844    |
| Other assets  | 746,812      | 274,089       |
| Total assets  | \$61,501,664 | \$104,499,485 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>         |              |               |
| Current liabilities:                                |              |               |
| Bank loan payable                                   | \$ --        | \$ 10,628,082 |
| Accounts payable                                    | 9,049,961    | 12,297,914    |
| Accrued expenses                                    | 2,122,813    | 3,218,890     |
| Deferred revenue                                    | 7,871,268    | 7,898,277     |
| Other current liabilities                           | --           | 1,465,049     |
| Current portion of capital lease obligations        | 25,874       | 56,912        |
| Total current liabilities                           | 19,069,916   | 35,565,124    |
| Noncurrent liabilities:                             |              |               |
| Bank loan payable                                   | 5,845,516    | --            |
| Capital lease obligations, less current portion     | --           | 25,696        |
| Total noncurrent liabilities                        | 5,845,516    | 25,696        |
| Total liabilities                                   | 24,915,432   | 35,590,820    |

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Commitments and contingencies

|   |               |               |
|---|---------------|---------------|
| Subordinated debentures   | 4,888,000     | --            |
| Discount on subordinated debentures   | (4,888,000)   | --            |
|   | -----         | -----         |
| Subordinated debentures, net  | --            | --            |
|   | -----         | -----         |
| Stockholders' Equity:   |               |               |
| Preferred stock, \$.0001 par value;<br>5,000,000 shares authorized, none issued                                   | --            | --            |
| Common stock, \$.0001 par value; 100,000,000 authorized;<br>28,931,660 and 25,292,189 shares issued, respectively | 2,893         | 2,529         |
| Treasury Stock, 39,891 shares at cost   | (239,742)     | (239,742)     |
| Additional paid-in capital  | 131,132,374   | 104,889,988   |
| Accumulated deficit   | (94,309,293)  | (35,744,110)  |
|   | -----         | -----         |
| Total stockholders' equity  | 36,586,232    | 68,908,665    |
|   | -----         | -----         |
| Total liabilities and stockholders' equity  | \$ 61,501,664 | \$104,499,485 |
|   | =====         | =====         |

See accompanying notes to consolidated financial statements

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Wire One Technologies, Inc.  
Consolidated Statements of Operations

|                   | Year Ended December 31, |               |        |
|-------------------|-------------------------|---------------|--------|
|                   | 2002                    | 2001          |        |
|                   | -----                   | -----         | -----  |
| Net revenues      |                         |               |        |
| Video solutions   |                         |               |        |
| Equipment         | \$ 61,397,947           | \$ 55,637,782 | \$ 39, |
| Service           | 15,750,914              | 15,293,789    | 7,     |
| Network solutions | 5,599,216               | 3,479,907     | 1,     |
|                   | -----                   | -----         | -----  |
|                   | 82,748,077              | 74,411,478    | 48,    |
|                   | -----                   | -----         | -----  |
| Cost of revenues  |                         |               |        |
| Video solutions   |                         |               |        |
| Equipment         | 47,406,394              | 38,331,779    | 26,    |
| Service           | 8,618,078               | 8,914,044     | 5,     |
| Network solutions | 5,596,801               | 2,898,460     | 1,     |
|                   | -----                   | -----         | -----  |
|                   | 61,621,273              | 50,144,283    | 32,    |
|                   | -----                   | -----         | -----  |
| Gross margin      |                         |               |        |
| Video solutions   |                         |               |        |
| Equipment         | 13,991,553              | 17,306,003    | 12,    |
| Service           | 7,132,836               | 6,379,745     | 2,     |
| Network solutions | 2,415                   | 581,447       |        |
|                   | -----                   | -----         | -----  |

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|  |                 |                 |         |
|--|-----------------|-----------------|---------|
|  | 21,126,804      | 24,267,195      | 15,     |
|  | -----           | -----           | -----   |
| Operating expenses   |                 |                 |         |
| Selling  | 25,697,999      | 22,111,672      | 12,     |
| General and administrative   | 8,158,777       | 12,245,463      | 4,      |
| Restructuring  | 960,000         | 200,000         |         |
| Impairment losses on goodwill  | 40,012,114      | --              |         |
| Impairment losses on other long-lived assets                             | 1,357,806       | --              |         |
| Amortization of goodwill   | --              | 2,683,647       | 1,      |
|  | -----           | -----           | -----   |
| Total operating expenses   | 76,186,696      | 37,240,782      | 18,     |
|  | -----           | -----           | -----   |
| Loss from continuing operations  | (55,059,892)    | (12,973,587)    | (2,     |
|  | -----           | -----           | -----   |
| Other (income) expense   |                 |                 |         |
| Amortization of deferred financing costs                                 | 122,680         | 99,912          |         |
| Interest income  | (71,644)        | (76,928)        | (       |
| Interest expense   | 431,792         | 598,147         |         |
| Amortization of discount on subordinated debentures                      | 39,360          | --              |         |
|  | -----           | -----           | -----   |
| Total other expenses, net  | 522,188         | 621,131         |         |
|  | -----           | -----           | -----   |
| Loss before income taxes   | (55,582,080)    | (13,594,718)    | (2,     |
| Income tax provision   | --              | 200,000         |         |
|  | -----           | -----           | -----   |
| Net loss from continuing operations                                      | (55,582,080)    | (13,794,718)    | (3,     |
|  | -----           | -----           | -----   |
| Loss from discontinued AV operations                                     | (2,696,223)     | (395,697)       |         |
| Income (loss) from discontinued Voice operations                         | (286,880)       | (617,389)       |         |
| Gain on sale of discontinued Voice operation                             | --              | 277,414         |         |
|  | -----           | -----           | -----   |
| Net loss   | (58,565,183)    | (14,530,390)    | (2,     |
|  | -----           | -----           | -----   |
| Deemed dividends on series A convertible preferred stock                 | --              | 4,433,904       | 13,     |
|  | -----           | -----           | -----   |
| Net loss attributable to common stockholders                             | \$ (58,565,183) | \$ (18,964,294) | \$ (16, |
|  | =====           | =====           | =====   |
| Net loss from continuing operations per share                            |                 |                 |         |
| Basic and diluted  | \$ (1.93)       | \$ (0.66)       | \$      |
|  | =====           | =====           | =====   |
| Income (loss) from discontinued operations per share                     |                 |                 |         |
| Basic and diluted  | \$ (0.10)       | \$ (0.04)       | \$      |
|  | =====           | =====           | =====   |
| Deemed dividends per share   |                 |                 |         |
| Basic and diluted  | \$ --           | \$ (0.21)       | \$      |
|  | =====           | =====           | =====   |
| Net loss attributable to common stockholders per share                   |                 |                 |         |
| Basic and diluted  | \$ (2.03)       | \$ (0.91)       | \$      |
|  | =====           | =====           | =====   |
| Weighted average number of common shares<br>and equivalents outstanding: |                 |                 |         |
| Basic and diluted  | 28,792,217      | 20,880,125      | 12,     |
|  | =====           | =====           | =====   |

See accompanying notes to consolidated financial statements.



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Wire One Technologies, Inc.  
Consolidated Statements of Stockholders' Equity

|   | Common Stock<br>Shares | Amount       | Treasury<br>Stock | Addition<br>Paid in<br>Capital |
|---|------------------------|--------------|-------------------|--------------------------------|
|   | -----                  | -----        | -----             | -----                          |
| Balance at December 31, 1999  | 4,910,000              | \$5,229,740  | \$ --             | \$ 488,759                     |
| Issuance of stock options<br>for services                                       | --                     | --           | --                | 238,865                        |
| Exercise of Class A warrants<br>(net of related costs<br>of \$171,238)          | 1,933,647              | 8,218,000    | --                | (171,238)                      |
| Exercise of stock options   | 362,501                | 489,883      | --                | 184,215                        |
| Exercise of Underwriters'<br>options  | 28,000                 | 117,600      | --                | --                             |
| Tax benefit from exercise of stock<br>options                                   | --                     | --           | --                | 354,001                        |
| Securities issued - VTI merger  | 9,681,966              | --           | --                | 31,339,258                     |
| Issuance of warrants in connection<br>with preferred stock                      | --                     | --           | --                | 5,150,000                      |
| Adjustment for \$ .0001 par value   | --                     | (14,053,531) | --                | 14,053,531                     |
| Issuance of common stock in<br>business acquisitions                            | 48,611                 | 5            | --                | 453,995                        |
| Conversion of series A<br>preferred stock                                       | 335,000                | 33           | --                | 2,344,967                      |
| Deemed dividends on series A<br>preferred stock                                 | --                     | --           | --                | 12,000,000                     |
| Net loss for the year   | --                     | --           | --                | --                             |
|   | -----                  | -----        | -----             | -----                          |
| Balance at December 31, 2000  | 17,299,725             | 1,730        | --                | 66,436,353                     |
| Issuance of stock options<br>for services                                       | --                     | --           | --                | 457,566                        |
| Extension of expiration date of CEO<br>stock options                            | --                     | --           | --                | 3,984,750                      |
| Exercise of stock options   | 1,508,863              | 150          | --                | 1,589,212                      |
| Issuance of common stock in<br>business acquisitions                            | 1,282,063              | 128          | --                | 7,844,639                      |
| Issuance of common stock  | 2,220,000              | 222          | --                | 9,851,039                      |
| Common stock received in<br>satisfaction of debt                                | (39,891)               | (3)          | (239,742)         | --                             |
| Conversion of series A preferred<br>stock (net of related costs<br>of \$78,269) | 3,021,429              | 302          | --                | 14,726,429                     |
| Deemed dividends on series A<br>preferred stock                                 | --                     | --           | --                | --                             |
| Net loss for the year   | --                     | --           | --                | --                             |
|   | -----                  | -----        | -----             | -----                          |
| Balance at December 31, 2001  | 25,292,189             | 2,529        | (239,742)         | 104,889,988                    |
| Issuance of stock options<br>for services                                       | --                     | --           | --                | 427,530                        |
| Extension of expiration date of COO<br>stock options                            | --                     | --           | --                | 206,663                        |
| Exercise of stock options   | 158,482                | 16           | --                | 371,473                        |
| Exercise of warrants  | 54,339                 | 5            | --                | --                             |
| Issuance of warrants for services   | --                     | --           | --                | 407,181                        |

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|   |            |          |              |                |
|---|------------|----------|--------------|----------------|
| Issuance of shares in connection with private placement         | 3,426,650  | 343      | --           | 20,257,618     |
| Issuance of warrants in connection with subordinated debentures | --         | --       | --           | 4,571,921      |
| Net loss for the year   | --         | --       | --           | --             |
| Balance at December 31, 2002                                    | 28,931,660 | \$ 2,893 | \$ (239,742) | \$ 131,132,374 |

See accompanying notes to consolidated financial statements.

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Wire One Technologies, Inc.  
Consolidated Statements of Cash Flows

|   | Year Ended      |                 |
|---|-----------------|-----------------|
|   | 2002            | 2001            |
| Cash flows from Operating Activities:   |                 |                 |
| Net loss  | \$ (58,565,183) | \$ (14,053,305) |
| Adjustments to reconcile net loss to net cash used in operating activities:                                   |                 |                 |
| Impairment losses on goodwill   | 40,012,114      |                 |
| Impairment losses on long-lived assets  | 1,357,806       |                 |
| Depreciation and amortization   | 5,146,515       | 7,146,515       |
| Non cash compensation   | 675,057         | 4,000,000       |
| Deferred income taxes   | --              |                 |
| Discontinued voice operations   | --              |                 |
| Gain on sale of discontinued voice operations   | --              |                 |
| Loss on disposal of equipment   | 28,305          |                 |
| Increase (decrease) in cash attributable to changes in assets and liabilities, net of effects of acquisitions |                 |                 |
| Accounts receivable   | 10,029,925      | (10,029,925)    |
| Inventory   | (2,401,306)     |                 |
| Net assets of discontinued AV operations  | (807,067)       |                 |
| Other current assets  | (3,689,790)     | (1,000,000)     |
| Other assets  | (90,329)        |                 |
| Discontinued voice operation  | --              |                 |
| Accounts payable  | (3,247,953)     | (2,000,000)     |
| Accrued expenses  | (1,009,341)     |                 |
| Income taxes payable  | --              |                 |
| Deferred revenue  | (27,009)        |                 |
| Other current liabilities   | (1,465,049)     |                 |
| Net cash used in operating activities   | (14,053,305)    | (15,000,000)    |
| Cash flows from Investing Activities:   |                 |                 |
| Purchases of furniture, equipment and leasehold improvements  | (4,745,933)     | (7,000,000)     |
| Costs related to acquisition of business including cash acquired  | --              |                 |

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|   |              |       |
|---|--------------|-------|
| Proceeds from sale of furniture, equipment and leasehold improvements | 15,000       |       |
| Proceeds from sale of discontinued voice operation                    | --           | 1     |
| Note receivable from sale of discontinued voice operation             | --           |       |
|   | -----        | ----- |
| Net cash used in investing activities                                 | (4,730,933)  | (6)   |
|   | -----        | ----- |
| Cash flows from Financing Activities:                                 |              |       |
| Proceeds from issuance of subordinated debentures                     | 4,571,921    |       |
| Proceeds from common stock offering                                   | 20,257,961   | 9     |
| Proceeds from preferred stock offering                                | --           |       |
| Deferred financing costs  | (505,074)    |       |
| Issuance of common stock for cash assets of GeoVideo Networks, Inc.   | --           | 2     |
| Exercise of warrants and options, net                                 | 371,494      | 1     |
| Proceeds from bank loans  | 78,894,947   | 87    |
| Payments on bank loans  | (83,677,513) | (80)  |
| Repayment of bank loans of acquired companies                         | --           |       |
| Payments on capital lease obligations                                 | (56,734)     |       |
| Repayment of subordinated notes                                       | --           |       |
|   | -----        | ----- |
| Net cash provided by financing activities                             | 19,857,002   | 21    |
|   | -----        | ----- |
| Increase (decrease) in cash and cash equivalents                      | 1,072,764    |       |
| Cash and cash equivalents at beginning of period                      | 1,689,451    | 1     |
|   | -----        | ----- |
| Cash and cash equivalents at end of period                            | \$ 2,762,215 | \$ 1  |
|   | =====        | ===== |
| Supplemental disclosures of cash flow information:                    |              |       |
| Cash paid during the period for:                                      |              |       |
| Interest  | \$ 255,589   | \$    |
|   | -----        | ----- |
| Taxes   | \$ --        | \$    |
|   | -----        | ----- |

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### Non-cash financing and investing activities:

During the year ended December 31, 2002, the Company recorded non-cash amortization of discount on subordinated debentures of \$39,360.

During the years ended December 31, 2001 and 2000, the Company recorded non-cash deemed dividends on Series A mandatorily redeemable convertible preferred stock of \$4,433,904 and \$13,723,206, respectively.

On May 18, 2000, the Company acquired the net assets of View Tech, Inc. in a merger transaction accounted for as a purchase for non-cash consideration of \$31,339,258. In July 2000, the Company acquired the net assets of 2CONFER, LLC for \$800,000, consisting of \$500,000 in cash and \$300,000 in Company common stock valued at the time of acquisition. In October 2000, the Company acquired the assets and certain liabilities of the Johns Brook Company videoconferencing division for \$635,000, consisting of \$481,000 in cash and \$154,000 in Company common stock valued at the time of the acquisition. In June 2001, the Company acquired the non-cash assets of GeoVideo Networks, Inc. for non-cash consideration of \$2,500,000 in addition to issuing common stock in exchange for \$2,500,000 in cash assets. In July 2001, the Company acquired the assets and certain liabilities of Advanced Acoustical Concepts, Inc. for non-cash consideration of \$793,750.

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In November 2001, the Company acquired certain assets and liabilities of the Axxis, Inc. videoconferencing division for non-cash consideration of \$2,051,017.

During the year ended December 31, 2001, the Company issued 3,021,429 shares of \$0.0001 par common stock in exchange for 2,115 shares of Series A mandatorily redeemable convertible preferred stock. Based on the average conversion price of \$4.90 per share, the total value attributable to the common stock was \$14,805,000. During the year ended December 31, 2000, the Company issued 335,000 shares of \$0.0001 par common stock in exchange for 335 shares of Series A mandatorily redeemable convertible preferred stock. Based on the conversion price of \$7.00 per share, the total value attributable to the common stock was \$2,345,000.

During the year ended December 31, 2001, the Company received 39,891 shares of common stock valued at \$239,742 in satisfaction of outstanding debt owed to the Company by former VTI directors and related parties.

Equipment with costs totaling \$121,541 was acquired under capital lease arrangements during the year ended December 31, 2000.

See accompanying notes to consolidated financial statements.

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WIRE ONE TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2002, 2001 and 2000

Note 1 -- The Business and Merger with View Tech, Inc.

Wire One Technologies, Inc. ("Wire One" or the "Company") was formed by the merger of All Communications Corporation ("ACC") and View Tech, Inc. ("VTI") on May 18, 2000, with the former directors and senior management of ACC succeeding to the management of Wire One. In connection with the merger, each former shareholder of ACC received 1.65 shares of Wire One common stock for each share of ACC common stock held by them. The transaction has been accounted for as a "reverse acquisition" using the purchase method of accounting. The reverse acquisition method resulted in ACC being recognized as the acquirer of VTI for accounting and financial reporting purposes. As a result, ACC's historical results have been carried forward and VTI's operations have been included in the financial statements commencing on the merger date. Accordingly, all 2000 results through the merger date are those of ACC only. Further, on the date of the merger, the assets and liabilities of VTI were recorded at their fair values, with the excess purchase consideration allocated to goodwill.

Wire One is a single source provider of video products and services that assists customers located principally in the United States with systems design and engineering, procurement, installation, operation and maintenance of their video communications systems. The Company offers its customers video communications products from leading manufacturers such as Polycom (which distributes products under the Polycom, PictureTel and Accord brands, among others), Tandberg, RADVision, Cisco Systems and Sony and provide a comprehensive suite of video and data services including engineering, installation, customized training, on-site technical assistance and maintenance. The Company also operates its Glowpoint network subscriber service, which provides its customers with two-way video communications with high quality of service utilizing an Internet network and

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broadband access dedicated solely to transporting video using the H.323 Internet Protocol standard. Finally, the Company sells multi-point video and audio bridging services through its Multiview Network Services program. The Company employs state-of-the-art conferencing servers that provide seamless connectivity for all switched digital networks. No single customer accounts for more than 10% of the Company's revenues. Approximately 4% of revenues in 2002 were derived from customers and U.S. customer affiliates located outside of the United States. The Company, headquartered in Hillside, New Jersey, operates a distribution facility in Miamisburg, Ohio and maintains 24 sales offices and demonstration facilities across the United States. During 2000 and 2001, the Company did not segregate or manage its operations by business segments. In 2002, the Company managed its operations in two business segments, video solutions and network solutions.

### Note 2 -- Summary of Significant Accounting Policies

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, AllComm Products Corporation ("APC"), VTC Resources, Inc. ("VTC") and Wire One Travel Services, Inc. ("WOTS"). All material intercompany balances and transactions have been eliminated in consolidation.

#### Use of estimates

Preparation of the consolidated financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates made. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. It is reasonably possible that changes may occur in the near term that would affect management's estimates with respect to the allowance for doubtful accounts receivable and inventory reserves.

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#### Revenue recognition

The Company sells products and services to the commercial, government, medical and educational sectors through a direct sales force of account executives as well as through resellers. Sales to resellers are made on terms with respect to pricing, payment and returns that are consistent with those offered to end user customers. No price protection or similar arrangement is offered, nor are the obligations as to payment contingent on the resale of the equipment purchased by the reseller. There are no special rights to return equipment granted to resellers, nor are we obligated to repurchase reseller inventory.

Product revenue consists of revenue from the sale of video communications equipment and is recognized at the time of shipment, provided that the price is fixed and determinable, no significant obligations remain, collection is probable and returns are estimable. Revenue is recognized at the time of shipment because the terms of shipment are FOB shipping point and legal title to the equipment passes to the customer at this time. Post-shipment obligations, such as installation and training, are considered relatively insignificant given

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the underlying nature of the equipment and of its installation.

Service revenue is derived from services rendered in connection with the sale of new systems and the maintenance of previously installed systems. Services rendered in connection with the sale of new systems consist of engineering services related to system integration, installation, technical training and user training. Most of these services are rendered at or prior to installation and all revenue is recognized only after the services have been rendered. Revenue related to extended service contracts is deferred and recognized over the life of the extended service period. Revenue related to the Glowpoint network subscriber service and the multi-point video and audio bridging services offered by the Company are recognized through a monthly billing process after services have been rendered.

### Cash and cash equivalents

The Company considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. During 2001, \$900,000 of the cash and cash equivalents balance was restricted as to its use. After losing an approximately \$745,000 judgment in the Maxbase litigation (note 13), the Company was required to set aside these funds in an interest-bearing account as it filed its appeal of this judgment. The restrictions on \$275,000 were lifted when the Company settled the case and paid \$625,000 in early 2002. The \$625,000 had been expensed in previous periods.

### Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, and uncollateralized trade accounts receivable. The Company places its cash and cash equivalents primarily in commercial checking accounts and money market funds. Commercial bank balances may from time to time exceed federal insurance limits; money market funds are uninsured.

The Company performs ongoing credit evaluations of its customers. No single customer accounts for more than 5% of our revenues. The Company records an allowance for doubtful accounts based on specifically identified amounts that we believe to be uncollectible. The Company also records additional allowances based on certain percentages of its aged receivables, which are determined based on historical experience and our assessment of the general financial conditions affecting its customer base. If the Company's actual collections experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Most of the products sold by the Company are purchased under non-exclusive dealer agreements with various manufacturers, including Polycom for video communications equipment. The agreements typically specify, among other things, sales territories, payment terms and reseller prices. All of the agreements permit early termination on short notice with or without cause. The termination of any of the Company's dealer agreements, or their renewal on less favorable terms than currently in effect, could have a material adverse impact on the Company's business.

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### Inventory

Inventory, consisting of finished goods and spare parts, is valued at the lower of cost (determined on a first in, first out basis) or market. Reserves are provided to reflect estimated future requirements and to state these inventories

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at the lower of cost or market and are based upon a review of total inventory on hand.

### Furniture, equipment and leasehold improvements

Furniture, equipment and leasehold improvements are stated at cost. Furniture and equipment are depreciated over the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are amortized over the shorter of either the asset's useful life or the related lease term. Depreciation is computed on the straight-line method for financial reporting purposes and on the modified accelerated cost recovery system for income tax purposes.

### Long-lived assets

The Company evaluates impairment losses on long-lived assets used in operations, primarily fixed assets, when events and circumstances indicate that the carrying value of the assets, might not be recoverable in accordance with FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets". For purposes of evaluating the recoverability of long-lived assets, the undiscounted cash flows estimated to be generated by those assets would be compared to the carrying amounts of those assets. If and when the carrying values of the assets exceed their fair values, the related assets will be written down to fair value.

### Goodwill and other intangible assets

In June 2001, the FASB finalized FASB Statements No. 141, "Business Combinations" (SFAS 141), and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also required that we recognize acquired intangible assets apart from goodwill if they meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. The FASB also requires, upon adoption of SFAS 142, that we classify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized.

The Company adopted SFAS 142 on January 1, 2002. As of this date, the Company completed our Step 1 analysis and determined there was no impairment of its existing goodwill. Subsequent to the completion of this initial transitional goodwill impairment test, certain events and changes in circumstances caused the Company to reevaluate the goodwill for possible impairment. The Company used a fair value approach as of September 30, 2002 to reevaluate the existing goodwill for impairment. The Company completed this valuation in the fourth quarter of 2002 and it resulted in an impairment of \$40,012,862 of goodwill in accordance with SFAS 142.

The Company's acquisitions to date have all been accounted for using the

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purchase method. All future business combinations will be accounted for under the purchase method, which may result in the recognition of goodwill and other intangibles assets, some of which may subsequently be charged to operations, either by amortization or impairment charges. For purchase business combinations completed prior to June 30, 2001, the net carrying amount of goodwill was \$2,547,862 as of December 31, 2002. Measurement of impairment of goodwill and other intangible assets in accordance with SFAS 142 are discussed elsewhere in this report.

### Income taxes

The Company uses the liability method to determine its income tax expense or benefit. Deferred tax assets and liabilities are computed based on temporary differences between the financial reporting and tax basis of assets and liabilities (principally certain accrued expenses, compensation expenses, depreciation expense and allowance for doubtful accounts), and are measured using the enacted tax rates that are expected to be in effect when the differences are expected to reverse.

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### Earnings per share

Basic loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. In determining basic loss per share for the periods presented, the effects of deemed dividends related to the Company's series A mandatorily redeemable convertible preferred stock is added to the net loss.

Diluted loss per share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding, plus the weighted average number of net shares that would be issued upon exercise of stock options and warrants using the treasury stock method and the deemed conversion of preferred stock using the if-converted method. Diluted loss per share for 2002, 2001 and 2000 is the same as basic loss per share, since the effects of the calculation for those years were anti-dilutive.

|  | Years Ended December 31, |            |            |
|--|--------------------------|------------|------------|
|  | 2002                     | 2001       | 2000       |
| Weighted average shares outstanding  | 28,792,217               | 20,880,125 | 12,817,158 |
| Effect of dilutive options and warrants  | --                       | --         | --         |
| Weighted average shares outstanding including<br>dilutive effect of securities | 28,792,217               | 20,880,125 | 12,817,158 |

Weighted average options and warrants to purchase 11,143,590, 9,535,609 and 7,507,204 shares of common stock during the years ended December 31, 2002, 2001 and 2000, respectively, and preferred stock convertible into 2,115,000 common shares in 2000, were not included in the computation of diluted earnings per share because the Company reported a net loss attributable to common stockholders for these periods and their effect would have been anti-dilutive.

### Stock-Based Compensation



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The Company periodically grants stock options to employees in accordance with the provisions of its stock option plans, with the exercise price of the stock options being set at the closing market price of the common stock on the date of grant. We account for our stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and accordingly account for employee stock-based compensation utilizing the intrinsic value method. FAS No. 123, "Accounting for Stock-Based Compensation", establishes a fair value based method of accounting for stock-based compensation plans. We have adopted the disclosure only alternative under FAS No. 123, which requires disclosure of the pro forma effects on earnings and earnings per share as if FAS No. 123 had been adopted as well as certain other information.

The fair value of stock options or warrants issued in return for services rendered by any non-employees is estimated on the date of grant using the Black-Scholes pricing model and is charged to operations over the vesting period or the terms of the underlying service agreements. The Company adjusts these estimates for any increases in market price for each of its reporting periods.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("FAS 148"), which (i) amends FAS Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation (ii) amends the disclosure provisions of, FAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and (iii) amends APB opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. Items (ii) and (iii) of the new requirements in FAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. We have adopted FAS 148 for the fiscal year ended December 31, 2002 and continue to account for stock-based compensation utilizing the intrinsic value method. The additional disclosures required by FAS 148 are as follows (in thousands):

|   | Years End       |                 |
|---|-----------------|-----------------|
|   | -----           | -----           |
|   | 2002            | 2001            |
|   | -----           | -----           |
| Net loss attributable to common stockholders, as reported   | \$ (58,565,183) | \$ (64,398,117) |
| Add: stock based employee compensation<br>expense included in reported net loss, net of tax   | 292,191         |                 |
| Deduct: total stock based employee<br>compensation expense determined under the fair value based<br>method for all awards, net of tax | (6,125,125)     |                 |
| Pro forma net loss  | \$ (64,398,117) | \$ (64,398,117) |
| Loss per share:   |                 |                 |
| Basic and diluted - as reported   | \$ (2.03)       | \$ (2.03)       |
| Basic and diluted - pro forma   | \$ (2.24)       | \$ (2.24)       |

### Fair value of financial instruments

Financial instruments reported in the Company's consolidated balance sheet consist of cash, accounts receivable, accounts payable and bank loan payable,

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the carrying value of which approximated fair value at December 31, 2002 and 2001. The fair value of the financial instruments disclosed are not necessarily representative of the amount that could be realized or settled nor does the fair value amount consider the tax consequences of realization or settlement.

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### Recent pronouncements of the Financial Accounting Standards Board

In July 2002, the FASB issued FASB Statement No. 146, Accounting for the Costs Associated with Exit or Disposal Activities. This statement requires companies to recognize costs associated with exit or disposal activities only when liabilities for those costs are incurred rather than at the date of a commitment to an exit or disposal plan. FASB No. 146 also requires companies to initially measure liabilities for exit and disposal activities at their fair values. FASB No. 146 replaces Emerging Issues Task Force (EITF) Issues No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and EITF No. 88-10, Costs Associated with Lease Modification or Termination. The provisions of FASB No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company anticipates the adoption of this statement will not have a material effect on its consolidated financial position or results of operations.

In November 2002, the Emerging Issues Task Force (EITF) reached consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Revenue arrangements with multiple deliverables include arrangements which provide for the delivery or performance of multiple products, services and/or rights to use assets where performance may occur at different points in time or over different periods of time. The Company generally enters into arrangements for multiple deliverables that occur at different points in time when it is contracted to provide installation services. EITF Issue No. 00-21 is effective for the Company beginning October 1, 2003. The Company has not completed the evaluation of the impact of this EITF.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("FAS 148"), which (i) amends FAS Statements No. 123, "Accounting for Stock-Based Compensation," to provided alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation (ii) amends the disclosure provisions of FAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and (iii) amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. Items (ii) and (iii) of the new requirements in FAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. We have adopted the increased disclosure requirements of FAS 148 for the fiscal year ended December 31, 2002. We will continue to use the intrinsic value method of accounting for stock-based employee compensation.

### Note 3 -- Inventory

Inventory consists of the following:

|                | December 31, |              |
|----------------|--------------|--------------|
|                | 2002         | 2001         |
| Finished Goods | \$ 6,458,648 | \$ 7,708,595 |

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|             |              |              |
|-------------|--------------|--------------|
| Spare Parts | 3,743,441    | 3,443,710    |
|             | -----        | -----        |
|             | 10,202,089   | 11,152,305   |
| Reserves    | (2,079,093)  | (933,509)    |
|             | -----        | -----        |
| Total       | \$ 8,122,996 | \$10,218,796 |
|             | =====        | =====        |

The Company is a distributor of videoconferencing equipment manufactured by others. It does not manufacture any equipment; therefore, it does not have raw materials or work-in-progress inventories. Its inventory consists of finished goods purchased from video conferencing equipment manufacturers and spare parts held to satisfy its obligations under its OneCare service contracts. The cost of finished goods and spare parts is the purchase price paid to the manufacturers of the items. As a result, no labor, overhead or general and administrative costs are included in inventory.

Note 4 -- Discontinued Operations

In March 2003, the Company completed the sale of certain assets and liabilities of its Audio-Visual ("AV") component to Columbia, Maryland-based Signal Perfection Limited ("SPL") for approximately \$807,000, \$250,000 of which was paid in cash at the close of the transaction and the balance of which was paid in the form of a promissory note payable in five equal consecutive monthly payments commencing on April 15, 2003. The sale of the AV component was aimed at enabling the Company to focus more of its resources to the development and marketing of its subscriber-based IP network, Glowpoint, and to its video solutions business. As a consequence, this unit has been classified as a discontinued operation in the accompanying financial statements, with its net assets summarized in a single line item on the consolidated balance sheets and its results from operations summarized in a single line item on the consolidated statements of operations.

Net assets of discontinued AV operations consist of the following:

|                      | December 31, |       |
|----------------------|--------------|-------|
|                      | 2002         | 2001  |
|                      | -----        | ----- |
| Inventory            | \$ 300,000   | \$ -- |
| Other current assets | 507,067      | --    |
|                      | -----        | ----- |
| Total                | \$ 807,067   | \$ -- |
|                      | =====        | ===== |

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Revenues and pretax loss from discontinued AV operations are as follows:

|             | Year Ended December 31, |               |       |
|-------------|-------------------------|---------------|-------|
|             | 2002                    | 2001          | 2000  |
|             | -----                   | -----         | ----- |
| Revenues    | \$ 17,260,642           | \$ 14,504,757 | \$ -- |
| Pretax loss | \$ (2,696,223)          | \$ (395,697)  | \$ -- |

On October 24, 2001, the Company completed the sale of its voice communications business unit to Fairfield, New Jersey-based Phonextra, Inc. for approximately \$2,017,000, half of which was paid in cash at the close of the transaction and the balance of which was paid in the form of a promissory note which was paid

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in 2002. The Company's sale of its voice communications unit was aimed at enabling it to sharpen its focus on video solutions and on Glowpoint, its subscriber-based IP network dedicated to video communications traffic. As a consequence, this unit has been classified as a discontinued operation in the accompanying financial statements, with its results from operations summarized in a single line item on our consolidated statements of operations.

Revenues and pretax income (loss) from Voice division discontinued operations are as follows:

|                      | Year Ended December 31, |              |              |
|----------------------|-------------------------|--------------|--------------|
|                      | 2002                    | 2001         | 2000         |
| Revenues             | \$ --                   | \$ 5,383,145 | \$ 7,599,131 |
| Pretax income (loss) | \$ (286,880)            | \$ (617,389) | \$ 520,747   |

The pretax loss recorded in 2002 was the result of several post-closing adjustments related to the settlement of liabilities with vendors and customers for amounts in excess of those previously accrued.

### Note 5 -- Other Current Assets

Other current assets consist of the following:

|  | December 31, |             |
|--|--------------|-------------|
|  | 2002         | 2001        |
| Costs and earnings in excess of billings | \$4,028,518  | \$1,279,823 |
| Prepaid maintenance contracts            | 902,897      | 494,593     |
| Prepaid professional fees                | 259,330      | --          |
| Other prepaid expenses                   | 876,494      | 375,532     |
| Receivables from suppliers               | 600,227      | 321,286     |
| Note receivable - Phonextra              | --           | 845,084     |
| Other receivables                        | 209,010      | 507,958     |
|  | =====        | =====       |
|  | \$6,876,476  | \$3,824,276 |

### Note 6 -- Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist of the following:

|                                 | December 31, |              | Estimated<br>Useful Life |
|---------------------------------|--------------|--------------|--------------------------|
|                                 | 2002         | 2001         |                          |
| Leasehold improvements          | \$ 708,057   | \$ 535,000   | 5 Years                  |
| Office furniture and equipment  | 784,600      | 1,348,722    | 5 Years                  |
| Computer equipment and software | 3,711,920    | 3,288,819    | 3 Years                  |
| Demonstration equipment         | 3,772,997    | 4,001,072    | 3 Years                  |
| Bridging equipment              | 1,244,063    | 790,309      | 5 Years                  |
| Network equipment               | 11,249,867   | 6,725,596    | 5 Years                  |
| Vehicles                        | 268,736      | 271,732      | 5 Years                  |
|                                 | -----        | -----        |                          |
|                                 | 21,740,240   | 16,961,250   |                          |
| Less: Accumulated depreciation  | (7,543,561)  | (6,103,703)  |                          |
|                                 | -----        | -----        |                          |
|                                 | \$14,196,679 | \$10,857,547 |                          |
|                                 | =====        | =====        |                          |

Depreciation expense was \$4,096,596, \$4,073,599 and \$1,426,385 for the years ended December 31, 2002, 2001 and 2000, respectively, which includes depreciation expense of \$57,937 for 2002, \$64,224 for 2001 and \$56,216 for 2000 on fixed assets subject to capital leases.

Note 7 -- Goodwill and Other Intangible Assets

In June 2001, the FASB finalized FASB Statements No. 141, "Business Combinations" (SFAS 141), and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interest method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also required that we recognize acquired intangible assets apart from goodwill if they meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. The FASB also requires, upon adoption of SFAS 142, that we classify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized.

The Company adopted SFAS 142 on January 1, 2002. As of this date, the Company completed our Step 1 analysis and determined there was no impairment of its existing goodwill. Subsequent to the completion of this initial transitional goodwill impairment test, certain events and changes in circumstances caused the Company to reevaluate the goodwill for possible impairment. The Company used a fair value approach as of September 30, 2002 to reevaluate the existing goodwill for impairment. The Company completed this valuation in the fourth quarter of 2002 and it resulted in an impairment of \$40,012,862 of goodwill in accordance with SFAS 142.

The Company's acquisitions to date have all been accounted for using the purchase method. All future business combinations will be accounted for under the purchase method, which may result in the recognition of goodwill and other intangibles assets, some of which may subsequently be charged to operations, either by amortization or impairment charges. For purchase business combinations completed prior to June 30, 2001, the net carrying amount of goodwill was \$2,547,862 as of December 31, 2002. Measurement of impairment of goodwill and other intangible assets in accordance with SFAS 142 are discussed elsewhere in this report.

Note 8 -- Accrued Expenses

Accrued expenses consist of the following:

|  | December 31, |       |
|--|--------------|-------|
|  | 2002         | 2001  |
|  | -----        | ----- |
|  | 2002         | 2001  |
|  | -----        | ----- |

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|                       |              |             |
|-----------------------|--------------|-------------|
| Accrued compensation  | \$1,393,955  | \$1,776,253 |
| Accrued restructuring | 279,621      | 200,000     |
| Accrued interest      | 40,028       | --          |
| Accrued litigation    | --           | 675,000     |
| Sales tax payable     | 200,171      | 513,482     |
| Customer deposits     | 128,016      | --          |
| Other                 | 81,022       | 54,155      |
|                       | -----        | -----       |
|                       | \$ 2,122,813 | \$3,218,890 |
|                       | =====        | =====       |

Note 9 -- Bank Loan Payable and Long-Term Debt

### Bank loan payable

In June 2000, the Company entered into a \$15 million working capital credit facility with an asset-based lender. Under terms of the two-year agreement for this facility loan availability was based on up to 75% of eligible accounts receivable and 50% of inventory, subject to an inventory cap of \$5 million. Borrowings bear interest at the lender's base rate plus 1/2% per annum. In May 2002, the outstanding loan balance was paid off with borrowings under a new working capital credit facility.

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In May 2002, the Company entered into a \$25 million working capital credit facility with JPMorgan Chase Bank and incurred \$505,074 in deferred financing costs. Under terms of the three-year agreement for this facility, loan availability is based on (1) 80% of eligible accounts receivable and (2) the lesser of 50% against eligible finished goods inventory or 80% against the net eligible amount of the net orderly liquidation value by category of finished goods inventory as determined by an outside appraisal firm, subject to an inventory cap of \$2 million. Borrowings bear interest at the lender's base rate plus 1 1/2 % per annum. At December 31, 2002, the interest rate on the facility was 5.75%. The credit facility contains certain financial and operational covenants. For the period from July 1, 2002 through September 30, 2002 (the "2002 Third Quarter"), the Company was in violation of the covenant requiring the Company to meet a certain earnings before interest, taxes, depreciation and amortization ("EBITDA") target for the three quarters ended September 30, 2002. In November, 2002, the Company concluded an amendment to the credit facility to cure noncompliance with the EBITDA covenant. As compensation for this amendment, the Company granted 100,000 warrants with an exercise price of \$1.99 to JPMorgan Chase. The fair value of these warrants was determined to be \$176,203 using the Black-Scholes valuation method and this amount was charged to interest expense in 2002. For the period from October 1, 2002 through December 31, 2002 ("2002 Fourth Quarter"), the Company was in violation of the covenant requiring the Company to meet a certain EBITDA target for the four quarters ended December 31, 2002. In March 2003, the Company concluded an amendment to the credit facility with JPMorgan Chase Bank to cure non-compliance with the EBITDA financial covenant arising from the fourth quarter results. Some additional highlights of the amendment include: 1) a reduction in the commitment amount of the line of credit from \$25 million to \$15 million; 2) revised EBITDA covenant levels for the remainder of the term of the credit agreement; and, 3) maintenance of the interest rate, loan fees and provisions of the borrowing formula at the same levels as previously negotiated. At December 31, 2002, \$5,845,516 was outstanding under the facility, and the loan has been classified as non-current in the accompanying consolidated balance sheet because the facility matures on May 31, 2005.

### Long-term debt

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Long-term debt consists of the following:

|                           | December 31, |           |
|---------------------------|--------------|-----------|
|                           | 2002         | 2001      |
| Bank loan payable         | \$5,845,516  | \$ --     |
| Capital lease obligations | 25,874       | 82,608    |
|                           | -----        | -----     |
|                           | 5,871,390    | 82,608    |
| Less: current maturities  | 25,874       | 56,912    |
|                           | -----        | -----     |
|                           | \$5,845,516  | \$ 25,696 |
|                           | =====        | =====     |

### Note 10 -- Subordinated Debentures

In December 2002, the Company raised net proceeds of \$4.6 million in a private placement of \$4,888,000 principal amount of 8% convertible debentures. The debentures, which are convertible into 2,036,677 shares of common stock at \$2.40 per share, are subordinate to the Company's credit facility with JPMorgan Chase Bank. The debentures mature in February 2004, or 90 days following the expiration (in May 2005) or earlier termination of the credit facility, whichever is later. The Company has the option of paying interest quarterly on the debentures in the form of either cash or Wire One common stock. The debentures will automatically convert into common stock if Wire One shares trade above \$4.80 for 10 consecutive trading days. If the Company elects to prepay the debentures prior to maturity, the holders may instead elect to convert the debentures into common stock, in which event the holders will receive, in addition to the shares issuable upon the conversion, the remaining interest payable under the debentures through maturity, payable in the form of common stock based upon the conversion price. Investors in the private placement also received five-year warrants to purchase 814,668 shares of common stock at an exercise price of \$3.25 per share. The warrants are subject to customary anti-dilution adjustments. The Company also issued to its placement agent warrants to purchase 40,733 shares of common stock at an exercise price of \$0.001 per share with an expiration date of January 31, 2003.

Costs of the offering, including the fair value of the warrants, totaled \$2,519,000. This amount was recorded as a discount on subordinated debentures and is being amortized over the period from the date of issuance to the August 2005 redemption date. In addition, in accordance with EITF No. 00-27, the Company recorded additional discount on subordinated debentures of \$2,369,000 to reflect the beneficial conversion feature of the warrants. Accordingly, all of the proceeds from this financing have been credited to stockholders' equity.

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### Note 11 -- Stockholders' Equity

#### Initial Public Offering

In May 1997, the Company completed a public offering of 805,000 Units for \$7.00 per Unit. Each Unit consisted of two shares of Common Stock and two Redeemable Class A Warrants. The Warrants are exercisable for four years commencing one year from the effective date of the offering, at a price of \$4.25 per share. The Company may redeem the Warrants at a price of \$.10 per warrant, commencing eighteen months from the effective date of the offering and continuing for a

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four-year period, provided the price of the Company's Common Stock is \$10.63 for at least 20 consecutive trading days prior to issuing a notice of redemption. The Company received proceeds from the offering of approximately \$4,540,000, net of related costs of registration.

In May 1997, the Company also issued to the underwriter of the public offering, for nominal consideration, an option to purchase up to 70,000 Units. This option is exercisable for a four-year period commencing one year from the effective date of the offering, at a per Unit exercise price of \$8.40 per Unit. The Units are similar to those offered to the public. In March 2000, the Company received \$117,600 from the exercise of 28,000 Units.

On February 10, 2000, the Company announced its intention to redeem all outstanding Class A warrants. From February through April 2000, the Company raised net proceeds of approximately \$8,047,000 from the exercise of 1,933,647 Class A warrants. All unexercised Class A warrants were redeemed in April 2000, except for 112,000 Class A warrants underlying the options granted to the underwriters.

### Common Stock

In August 2001, the Company raised net proceeds of \$9.9 million in a private placement of 2,220,000 shares of its common stock at a price of \$5.00 per share. Investors in the private placement also received five-year warrants to purchase 814,000 shares of common stock at an exercise price of \$6.25 per share. The warrants are subject to certain anti-dilution protection. The Company also issued to its placement agent five-year warrants to purchase 220,000 shares of common stock at an exercise price of \$5.00 per share.

In January 2002, the Company raised net proceeds of \$20.3 million in a private placement of 3,426,650 shares of its common stock at \$6.25 per share. Investors in the private placement also received five-year warrants to purchase 864,375 shares of common stock at an exercise price of \$10.00 per share. The warrants are subject to certain anti-dilution protection.

### Preferred Stock

In December 1996, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation to authorize the issuance of up to 1,000,000 shares of Preferred Stock. The authorized number of shares of Preferred Stock to be issued was raised to 5,000,000 shares effective with the merger with VTI. Except for the 2,450 shares of Series A preferred stock issued in June 2000, the rights and privileges of the Preferred Stock have not yet been designated.

In June 2000, the Company raised gross proceeds of \$17.15 million in a private placement of 2,450 shares of Series A mandatorily redeemable convertible preferred stock. The preferred shares were convertible into up to 2,450,000 shares of common stock at a price of \$7.00 per share, subject to adjustment. Beginning on June 14, 2001, the preferred stockholders were able to choose an alternative conversion price which equaled the higher of (i) 70% of the fixed conversion price then in effect or (ii) the market price on any conversion date, which was equal to the average of the closing sale prices of the Company's common stock during the 20 consecutive trading days immediately preceding any conversion date. Preferred stockholders were able, at their sole option, to have their shares redeemed on the earlier of three years from the issuance date, or the occurrence of a triggering event, as defined.



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The redemption price was 110% of the stated value of \$7,000 per share. None of the triggering events has occurred to date. Investors in the private placement also received five-year warrants to purchase a total of 857,500 shares of common stock for \$10.50 per share. The warrants are subject to certain anti-dilution privileges. The Company has valued the warrants at \$3,740,000 using the Black-Scholes pricing model. The Company also issued to its placement agent warrants to purchase 193,748 shares of common stock for \$7.00 per share, and warrants to purchase 67,876 shares of common stock for \$10.50 per share. The warrants expire on June 14, 2005. The Company has valued the warrants at \$1,410,000 using the Black-Scholes pricing model. At the issuance date, the Company recorded a deemed dividend and an offsetting increase in additional paid-in capital of approximately \$8.1 million to reflect the beneficial conversion feature of the preferred stock. During the fourth quarter of 2000, in accordance with EITF No. 00-27, the Company recorded an additional deemed dividend of \$3.9 million to reflect the beneficial conversion feature of the warrants.

Costs of the offering, including the fair value of the warrants, totaled \$6,150,000. This amount was recorded as a preferred stock discount and was being amortized as a deemed dividend over the three-year period from the date of issuance to the June 2003 redemption date. In addition, the 10% redemption premium of \$1,715,000 was being accreted as a deemed dividend into the carrying value of the Series A mandatorily redeemable convertible preferred stock over the same period.

The stockholders of Wire One Technologies, Inc. were asked, in accordance with the requirements of Rule 4350(i)(1)(D) of the Nasdaq Stock Market (the "Rule"), and approved, at the 2001 Annual Meeting of Stockholders, the issuance by the Company of more than 20% of its common stock upon the conversion of the Company's series A preferred and exercise of the related warrants. The Rule restricted the Company from issuing more 20% of its outstanding shares of common stock at less than market value in any transaction unless the Company obtained prior stockholder approval (the "Exchange Cap"). As a consequence of receiving this approval, the Company was able to issue 3,021,429 shares of its common stock upon conversion of the remaining 2,115 shares of Series A preferred stock outstanding when, beginning on June 14, 2001, each remaining holder of Series A preferred substituted an "alternative conversion price" for the \$7.00 fixed conversion price. The alternative conversion price was equal to 70% of the fixed conversion price then in effect. Upon conversion of the remaining 2,115 shares of Series A preferred stock outstanding, the remaining \$4,039,940 of un-accreted discount was recognized in the Consolidated Statement of Operations as deemed dividends on Series A convertible preferred stock.

### Note 12 -- Stock Options

#### Wire One 2000 Stock Incentive Plan

In September 2000, the Company adopted and approved the Wire One 2000 Stock Incentive Plan (the "2000 Plan") and reserved up to 3,000,000 shares of Common Stock for issuance thereunder. In May 2002, the Company's shareholders approved an amendment to the 1996 Plan increasing the amount of shares available under the plan to 4,400,000. The 2000 Plan permits the grant of incentive stock options ("ISOs") to employees or employees of its subsidiaries. Non-qualified stock options ("NQSOs") may be granted to employees, directors and consultants. The Company issued 1,640,505 options during 2002 with exercise prices ranging from \$1.00 to \$5.48 and vesting periods ranging from one to four years. It had issued options totaling 2,227,450 and 587,124 in 2001 and 2000, respectively. As of December 31, 2002, options to purchase a total of 3,743,479 shares were outstanding and 652,021 shares remained available for future issuance under the 2000 Plan.

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The 2000 Plan provides for the grant of options, including ISOs, NQSOs, stock appreciation rights, dividend equivalent rights, restricted stock, performance units, performance shares or any combination thereof (collectively, "Awards"). The exercise price of the Awards is established by the administrator of the plan and, in the case of ISO's the per share exercise price must be equal to at least 100% of fair market value of a share of the common stock on the date of grant. The administrator of the plan determines the terms and provisions of each award granted under the 2000 Plan, including the vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment, payment contingencies and satisfaction of any performance criteria. Under the 2000 Plan, no individual will be granted ISO's corresponding to shares with an aggregate exercise price in excess of \$100,000 in any calendar year less the aggregate exercise price of shares under other Company stock options granted to that individual that vests in such calendar year. The 2000 Plan will terminate in 2010.

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### Non-qualified options

The Company issued a total of 0, 167,500 and 70,125 options, outside the context of a stock option plan, during 2002, 2001 and 2000 respectively, to various employees, directors, and advisors, with exercise prices ranging from \$1.00 to \$5.48 per share and immediate vesting. At December 31, 2002, the total outstanding non-qualified options of this nature were 2,054,377. The number of options has been adjusted to reflect the 1.65 to 1 conversion rate resulting from the May 18, 2000 merger with VTI.

### 1996 Stock Option Plan

In December 1996, the Board of Directors adopted the Company's Stock Option Plan (the "1996 Plan") and reserved up to 500,000 shares of Common Stock for issuance thereunder. In June 1998, the Company's shareholders approved an amendment to the 1996 Plan increasing the amount of shares available under the plan to 2,475,000. The 1996 Plan provides for the granting of options to officers, directors, employees and advisors of the Company. The exercise price of incentive stock options ("ISOs") issued to employees who are less than 10% stockholders shall not be less than the fair market value of the underlying shares on the date of grant or not less than 110% of the fair market value of the shares in the case of an employee who is a 10% stockholder. The exercise price of restricted stock options shall not be less than the par value of the shares to which the option relates. Options are not exercisable for a period of one year from the date of grant. Under the 1996 Plan, no individual will be granted ISO's corresponding to shares with an aggregate exercise price in excess of \$100,000 in any calendar year less the aggregate exercise price of shares under other Company stock options granted to that individual that vest in such calendar year. The 1996 Plan will terminate in 2006. Options granted under the 1996 Plan in 2002, 2001 and 2000 were 0, 0 and 334,848 respectively. As of December 31, 2002, options to purchase a total of 887,963 shares were outstanding and no shares remained available for future issuance under the 1996 Plan. The number of options has been adjusted to reflect the 1.65 to 1 conversion rate resulting from the merger with VTI.

### VTI Stock Option Plans

As part of the merger with VTI, the Company assumed the outstanding options of the four stock option plans maintained by VTI. These plans generally require the exercise price of options to be not less than the estimated fair market value of the stock at the date of grant. Options vest over a maximum period of four years and may be exercised in varying amounts over their respective terms. In

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accordance with the provisions of such plans, all outstanding options become immediately exercisable upon a change of control, as defined, of VTI. VTI had authorized an aggregate of 1,161,000 shares of common stock to be available under all the current option plans. The plans will terminate in 2009. Options assumed as part of the merger with VTI totaled 361,605. Options granted under these Plans in 2002, 2001 and 2000 (since the merger date) were 0, 0 and 189,503, respectively. As of December 31, 2002, options to purchase a total of 323,602 shares were outstanding and no shares remained available for future issuance. The options have been adjusted to reflect the 2 for 1 reverse stock split approved by the VTI Board of Directors concurrent with the merger with ACC.

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A summary of options issued under Company plans and other options outstanding as of December 31, 2002, and changes during fiscal 2000, 2001 and 2002 are presented below:

|   | Fixed<br>Options | Range of<br>Price | Weighted<br>Average<br>Exercise<br>Price |
|---|------------------|-------------------|--|
|   | -----            | -----             | -----                                    |
| Options outstanding, December 31, 1999.....                                   | 4,791,600        | \$ .30 - 4.81     | \$ 1.63                                  |
| Assumed as part of VTI merger.....  | 361,605          | \$ .50 - 15.00    | 4.31                                     |
| Granted.....  | 1,181,600        | \$4.06 - 8.18     | 5.26                                     |
| Exercised.....  | (486,831)        | \$ .57 - 3.85     | 1.23                                     |
|   | -----            |                   |  |
| Options outstanding, December 31, 2000.....                                   | 5,847,974        | \$ .30 - 15.00    | \$ 2.50                                  |
| Granted.....  | 2,394,950        | \$1.94 - 9.85     | 4.20                                     |
| Exercised.....  | (1,508,863)      | \$ .53 - 6.00     | 1.07                                     |
| Cancelled.....  | (451,119)        | \$ .57 - 15.00    | 3.90                                     |
|   | -----            |                   |  |
| Options outstanding, December 31, 2001.....                                   | 6,282,942        | \$ .30 - 12.75    | \$ 3.44                                  |
| Granted.....  | 1,640,505        | \$1.00 - 5.48     | 2.10                                     |
| Exercised.....  | (158,482)        | \$ .76 - 4.40     | 2.36                                     |
| Cancelled.....  | (755,544)        | \$ .53 - 9.85     | 4.14                                     |
|   | -----            |                   |  |
| Options outstanding, December 31, 2002.....                                   | 7,009,421        | \$ .30 - 12.75    | \$ 3.08                                  |
|   | =====            |                   |  |
| Shares of common stock available for<br>future grant under Company plans..... | 652,021          |                   |  |
|   | =====            |                   |  |

Additional information as of December 31, 2002 with respect to all outstanding options is as follows:

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| Range Of Price | Number Outstanding | Weighted Average Remaining Contractual Life (In Years) | Weighted Average Exercise Price | Number Exercisable |     |
|----------------|--------------------|--|---------------------------------|--------------------|-----|
| \$ .30 - .57   | 795,249            | 0.97   | \$ 0.53                         | 795,249            | \$  |
| .64 - 2.20     | 1,486,398          | 7.65   | \$ 1.50                         | 471,393            | \$  |
| 2.33 - 3.00    | 312,500            | 5.71   | \$ 2.72                         | 191,008            | \$  |
| 3.03 - 4.00    | 2,718,550          | 6.32   | \$ 3.48                         | 1,831,197          | \$  |
| 4.06 - 5.50    | 1,569,705          | 8.01   | \$ 4.90                         | 808,268            | \$  |
| 5.73 -12.75    | 127,019            | 2.93   | \$ 7.06                         | 127,019            | \$  |
|                | -----              | ----   | -----                           | -----              | --- |
| \$ .30 -12.75  | 7,009,421          | 6.29   | \$ 3.08                         | 4,224,134          | \$  |
|                | =====              | ====   | =====                           | =====              | ==  |

The Company has elected to use the intrinsic value-based method of APB Opinion No. 25 to account for all of its employee stock-based compensation plans. Accordingly, no compensation cost has been recognized in the accompanying financial statements for stock options issued to employees because the exercise price of each option equals or exceeds the fair value of the underlying common stock as of the grant date for each stock option. The weighted-average grant date fair value of options granted during 2002, 2001 and 2000 under the Black-Scholes option pricing model was \$1.90, \$2.70 and \$2.03 per option, respectively.

The fair value of each option granted in 2002, 2001 and 2000 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                               | 2002       | 2001       | 2000       |
|-------------------------------|------------|------------|------------|
| Risk free interest rates..... | 3.89%      | 4.40%      | 5.39%      |
| Expected option lives.....    | 5.00 years | 3.81 years | 2.23 years |
| Expected volatility.....      | 145.41%    | 115.9%     | 126.2%     |
| Expected dividend yields..... | None       | None       | None       |

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Non-cash compensation expense recognized in the Company's Statement of Operations totaled \$675,057, \$4,442,316 and \$238,865 in 2002, 2001 and 2000, respectively. During the year ended December 31, 2002, the Company recorded a one-time, non-cash charge of \$206,663 related to a one-year extension of certain stock options originally granted to the Company's COO in 1997 and that were scheduled to expire in December 2002. The amount of the charge was calculated in accordance with FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" which specifies that extending the maximum contractual life of an award results in a new measurement of compensation cost at the date of modification and that any intrinsic value at the modification date in excess of the amount measured at the original measurement date must be recognized as compensation cost immediately if the award is vested. The expiration date of the 123,750 fully-vested options with an exercise price of \$0.53 per share was extended for one year on December 9, 2002. The market price of the Company's common stock on that day was \$2.20 per share. In addition to this charge, the Company recorded a \$176,203 non-cash charge to interest expense for the Black-Scholes value of 100,000 warrants issued to JP Morgan Chase Bank as compensation for amending its credit agreement. The remaining \$292,191 of

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non-cash compensation related to amortization of deferred employee stock option compensation which originated in the fourth quarter of 2000.

Also, during 2002, the Company entered into a severance and consulting arrangement with the former president of the Company. Under the terms of the severance arrangement, the Company granted the former president options to purchase 84,000 shares of the Company's common stock at an exercise price of \$1.13 per share, which vests 50% upon the date of grant and 50% on July 31, 2003. The Company valued these shares using the Black-Scholes pricing model and recorded an \$86,736 non-cash charge to restructuring for the vested portion of these shares. Under the terms of the consulting arrangement, the Company granted an additional 50,000 options to purchase shares of the Company's common stock at an exercise price of \$3.00 per share, which vests 5,000 shares per month until July 31, 2003. The Company also valued these shares using the Black-Scholes pricing model and recorded a \$48,603 non-cash charge to prepaid professional fees for the vested portion of these shares.

During the year ended December 31, 2001, the Company recorded a one-time, non-cash charge of \$3,984,750 related to a five-year extension of certain stock options originally granted to the Company's CEO in 1997 and that were scheduled to expire in March 2002. The expiration date of the 1,237,500 fully-vested options with an exercise price of \$3.03 per share was extended for five years on December 26, 2001. The market price of the Company's common stock on that day was \$6.25 per share. In addition to this charge, the Company recorded a charge of \$457,566 of non-cash compensation relating to the amortization of deferred employee stock option compensation which originated in the fourth quarter of 2000.

During the year ended December 31, 2000, the Company recorded \$108,863 of non-cash employee stock option compensation relating to 337,134 stock options with a three year vesting period granted to employees at an exercise price of \$5.50 per share on September 15, 2000. The market price of the Company's common stock was \$9.38 per share on that day. In addition, \$130,002 of compensation expense was recognized for options granted to non-employees for services rendered to the Company.

During the years ended December 31, 2002, 2001 and 2000, the Company received \$371,489, \$1,589,362 and \$674,098, respectively from the exercise of stock options.

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### Note 13 -- Commitments and Contingencies

#### Employment Agreements

The Company's board of directors has approved employment agreements for a number of its executive officers as follows:

Chairman and Chief Executive Officer -- The Company entered into an agreement with Richard Reiss to serve as President and Chief Executive Officer having a three-year term commencing January 1, 2001. Under the agreement, Mr. Reiss is entitled, in year 1, 2, and 3, respectively, to annual base compensation of \$345,000, \$410,000 and \$480,000, and to a formula bonus (payable in quarterly installments, subject to satisfaction of the condition that the Company's gross revenues from continuing operations during a given quarter increase over such revenues from the corresponding quarter of the preceding year) of \$135,000, \$165,000 and \$195,000 annually. The agreement provides for a grant of an option to purchase 300,000 shares of Company stock under the 2000 Plan, vesting in

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three equal annual installments. Mr. Reiss has the right to terminate the agreement, with a full payout of all base and potential formula bonus compensation for the balance of the term (but in no event less than 1 year) and acceleration of his unvested stock options, upon a Corporate Transaction or a Change of Control (as those terms are defined under the 2000 Plan) or a termination by the Corporation without cause. Under the agreement, the Company must secure and pay the premium on a \$2,500,000 life insurance policy payable to Mr. Reiss's designated beneficiary. The Company charges the cost of the premium to expense as incurred and has not recorded the cash surrender value of the policy as an asset on its consolidated balance sheet. On April 24, 2002, Mr. Reiss was named Chairman and Chief Executive Officer and his agreement was amended to subject the formula bonus to satisfaction of the condition that the Company has \$500,000 in "EBITDA" from continuing operations during a given quarter in addition to the gross revenue condition. On July 30, 2002, the agreement was amended to reduce annual base compensation to \$369,000 for the remainder of year 2 and to \$432,000 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$330,000 and the formula bonus was replaced with a discretionary bonus for the remaining term.

President and Chief Operating Officer -- The Company entered into an agreement with Leo Flotron to serve as Chief Operating Officer having a three-year term commencing January 1, 2001. Under the agreement, Mr. Flotron is entitled, in years 1, 2, and 3 respectively, to annual base compensation of \$325,000, \$375,000 and \$425,000 and to a discretionary bonus. The agreement provides for a grant of an option to purchase 240,000 shares of Company stock under the 2000 Plan, vesting in three equal annual installments. Mr. Flotron has the right to terminate the agreement, with a full payout of all base compensation for the balance of the term (but in no event less than 1 year) and acceleration of his unvested stock options, upon a Corporate Transaction or a Change of Control (as defined under the 2000 Plan) or a termination by the Corporation without cause. On July 30, 2002, Mr. Flotron was named President and Chief Operating Officer and his agreement was amended to reduce annual base compensation to \$337,500 for the remainder of year 2 and to \$382,500 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$300,000 for the remaining term.

Vice Chairman and President -- The Company entered into an agreement with Lewis Jaffe to serve as Vice Chairman and President having a two-year term commencing April 24, 2002. Under the agreement, Mr. Jaffe is entitled to annual base compensation of \$250,000 and to a formula bonus of \$20,000 (payable quarterly, subject to satisfaction of the condition that the Company's gross revenue from continuing operations during a given quarter increase over such revenues from the corresponding quarter of the preceding year and that the Company has at least \$500,000 in "EBITDA" resulting from such operations for that quarter). The agreement provides for a grant of an option to purchase 250,000 shares of Company stock under the 2000 Plan, vesting in two equal annual installments. On July 22, 2002, this agreement was terminated simultaneously with the commencement of a consulting agreement providing for Mr. Jaffe's continued assistance in the areas of corporate development and investor relations through July 31, 2003, for the right to retain 50,000 of the stock options granted under his employment agreement. See Note 12 for further discussion of the Company's treatment of these options in accordance with FIN 44 and APB 25.

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Executive Vice President Business Affairs and General Counsel -- The Company entered into an agreement with Jonathan Birkhahn to serve as Executive Vice President Business Affairs and Legal Council., having a three-year term

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commencing on November 30, 2000. Under the agreement, Mr. Birkhahn is entitled to annual base compensation of \$235,000, \$260,000 and \$285,000 in years 1, 2 and 3, respectively, as well as to a discretionary bonus. The agreement provides for a grant of an option to purchase 250,000 shares under the 2000 Plan, vesting in four equal installments as follows: after six months, after one year, after two years and after three years. The agreement was amended on July 30, 2002, to reduce the annual base compensation to \$247,000 for the remainder of year 2 and to \$270,050 in year 3. Effective January 31, 2003, the agreement was terminated simultaneously with the commencement of a consulting agreement providing for Mr. Birkhahn's continued assistance in the administration of the Company's legal and business affairs for a fee of \$11,500 per month through November 30, 2003. The stock options granted under the employment agreement will continue to vest provided that Mr. Birkhahn continues to serve the Company as a consultant or as a member of the Company's Board of Directors. Mr. Birkhahn terminated the consulting agreement effective March 18, 2003; however, he will continue to serve as a member of the Board of Directors.

Executive Vice President and Chief Financial Officer -- The Company entered into an agreement with Christopher Zigmont to serve as Executive Vice President - Finance and Chief Financial Officer having a three-year term commencing January 1, 2001. Under the agreement, Mr. Zigmont is entitled, in years 1, 2, and 3 respectively, to annual base compensation of \$175,000, \$200,000 and \$225,000 and to a discretionary bonus. The agreement provides for a grant of an option to purchase 150,000 shares of Company stock under the 2000 Plan, vesting in three equal annual installments. On July 30, 2002, the agreement was amended to reduce the annual base compensation to \$190,000 for the remainder of year 2 and to \$213,750 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$190,000 for the remaining term.

Executive Vice President and Chief Technology Officer -- The Company entered into an agreement with Michael Brandofino to serve as Vice President and Chief Technology Officer having a three-year term commencing January 1, 2001. Under the agreement, Mr. Brandofino is entitled, in years 1, 2, and 3 respectively, to annual base compensation of \$165,000, \$195,000 and \$225,000 and to a discretionary bonus. The agreement provides for a grant of an option to purchase 100,000 shares of Company stock under the 2000 Plan, vesting in three equal annual installments. On April 24, 2002, Mr. Brandofino was named Executive Vice President and Chief Technology Officer and his agreement was amended to extend the term of the agreement by one year with annual base compensation of \$235,000 in year 4. In addition, Mr. Brandofino was granted an additional option to purchase 15,000 shares of Company stock under the 2000 Plan, vesting in three equal installments. On July 30, 2002, the agreement was amended to reduce the annual base compensation to \$185,250 for the remainder of year 2 and to \$213,750 and \$223,250 in years 3 and 4, respectively. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$185,250 through December 31, 2003.

Vice President - Marketing -- The Company entered into an agreement with Kelly Harman to serve as Vice President - Marketing having a three-year term commencing on January 1, 2001. Under the agreement, Ms. Harman is entitled, in years 1, 2, and 3 respectively, to annual base compensation of \$150,000, \$175,000 and \$200,000 and to a discretionary bonus. The agreement provides for a grant of an option to purchase 50,000 shares under the 2000 Plan, vesting in three equal installments. On July 30, 2002, the agreement was amended to reduce annual base compensation to \$166,250 for the remainder of year 2 and to \$190,000 in year 3. Effective January 31, 2003, the agreement was terminated simultaneously with the commencement of a consulting agreement providing for Ms. Harman's continued assistance in the development, marketing and sales of the Company's products and services for a fee of \$8,000 per month through December 31, 2003. The stock options granted under the employment agreement will continue to vest provided that Ms. Harman continues to serve the Company as a consultant.

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### Operating Leases

The Company leases various facilities under operating leases expiring through 2007. Certain leases require the Company to pay increases in real estate taxes, operating costs and repairs over certain base year amounts. Lease payments for the years ended December 31, 2002, 2001 and 2000 were approximately \$1,837,000, \$1,853,000 and \$1,315,000, respectively.

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Future minimum rental commitments under all non-cancelable leases are as follows:

| Year Ending December 31 |             |
|-------------------------|-------------|
| 2003.....               | \$1,424,132 |
| 2004.....               | 947,764     |
| 2005.....               | 683,775     |
| 2006.....               | 580,320     |
| 2007 .....              | 337,733     |
|                         | -----       |
|                         | \$3,973,724 |
|                         | =====       |

### Capital Lease Obligations

The Company leases certain vehicles and equipment under non-cancelable lease agreements. These leases are accounted for as capital leases. The equipment under the capital leases as of December 31, 2002 had a cost, accumulated depreciation and net book value of \$0.

Future minimum lease payments under capital lease obligations at December 31, 2002 are as follows:

|  |          |
|--|----------|
| 2003.....                              | \$27,957 |
|  | -----    |
| Total minimum payments.....            | 27,957   |
| Less amount representing interest..... | (2,083)  |
|  | -----    |
| Total principal.....                   | 25,874   |
| Less portion due within one year.....  | (25,874) |
|  | -----    |
| Long-term portion.....                 | \$ --    |
|  | =====    |

### Legal Matters

In September 1997, the Company entered into an exclusive distribution agreement with Maxbase, Inc. ("Maxbase"), the manufacturer of "MAXShare2", a patented bandwidth-on-demand line-sharing device. The Company identified performance problems with the MaxShare 2 product in certain applications, and believed that MaxBase had a contractual obligation to correct any technical defects in the product.

In July, 1998, MaxBase filed a complaint against the Company alleging that the Company had failed to meet its required minimum purchase obligations thereunder. Maxbase claimed damages of approximately \$1,350,000 in lost profits, as well as unspecified punitive and treble damages. The Company filed a number of counterclaims, which were dismissed by the court.



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In February 2001, the court granted Maxbase's motion for summary judgment on liability for breach of contract, and the plaintiff subsequently dropped all of its other claims. The court, following a trial to determine damages, entered an approximately \$745,000 judgment in favor of Maxbase. After filing an appeal of that judgment, the Company determined in December 2001 that it would be able to settle the case for \$625,000, accrued an additional \$375,000 in litigation reserves in 2001 and formally settled the case in early 2002. The additional litigation reserves were recorded in general and administrative expenses in the statement of operations.

The Company is defending several other suits or claims in the ordinary course of business, none of which individually or in the aggregate is material to the Company's business, financial condition or results of operations.

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### Note 14 -- Restructuring Charge

During the year ended December 31, 2002, in accordance with Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," the Company recorded a restructuring charge of \$960,000. The Company recognized this charge in the period in which (a) management having the appropriate level of authority to involuntarily terminate employees approved and committed the Company to a plan of termination and established the benefits that current employees will receive upon termination, (b) the benefit arrangement was communicated to employees and the communication of the benefit arrangement included sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are terminated, (c) the plan of termination specifically identified the number of employees to be terminated, their job classifications or functions, and their locations and (d) the plan of termination indicated that significant changes to the plan of termination are not likely. The significant components of the restructuring charge are as follows:

|                            |           |
|----------------------------|-----------|
| Employee termination costs | \$500,000 |
| Facility exit costs        | 460,000   |
|                            | -----     |
|                            | \$960,000 |
|                            | =====     |

The employee termination costs relate to 84 employees and officers of the Company terminated following the implementation of a cost savings plan. The facility exit costs relate to the closing or downsizing of 19 sales offices.

The following table summarizes the activity against the restructuring charge:

|                                      |            |
|--------------------------------------|------------|
| Restructuring charge                 | \$ 960,000 |
| Cash paid                            | (555,379)  |
| Non-cash expenses                    | (125,000)  |
|                                      | -----      |
| Accrual Balance at December 31, 2002 | \$ 279,621 |
|                                      | =====      |

During the year ended December 31, 2001, the Company recorded a restructuring charge of \$200,000. The significant components of the restructuring charge are

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as follows:

|                            |                     |
|----------------------------|---------------------|
| Employee termination costs | \$ 200,000<br>===== |
|----------------------------|---------------------|

The employee termination costs relate to 23 employees of the Company terminated following the implementation of a cost savings plan.

The following table summarizes the activity against the restructuring charge:

|                                      |                    |
|--------------------------------------|--------------------|
| Restructuring charge                 | \$ 200,000         |
| Cash paid                            | (200,000)<br>----- |
| Accrual Balance at December 31, 2002 | \$ --<br>=====     |

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Note 15 -- Income Taxes

The income tax provision consists of the following:

|                      | Year Ended December 31, |             |            |
|----------------------|-------------------------|-------------|------------|
|                      | 2002                    | 2001        | 2000       |
|                      | -----                   | -----       | -----      |
| <b>Current:</b>      |                         |             |            |
| Federal              | \$ --                   | \$ --       | \$ 196,712 |
| State                | --                      | --          | 38,045     |
| Total Current        | --                      | --          | 234,757    |
|                      | -----                   | -----       | -----      |
| <b>Deferred:</b>     |                         |             |            |
| Federal              | (8,750,051)             | (2,567,680) | (318,432)  |
| State                | (1,544,127)             | (453,120)   | (20,769)   |
| Valuation Allowance  | 10,294,178              | 3,220,800   | 615,683    |
| Total Deferred       | --                      | 200,000     | 276,482    |
| Income tax provision | \$ --                   | \$ 200,000  | \$ 511,239 |
|                      | =====                   | =====       | =====      |

The Company's effective tax rate differs from the statutory federal tax rate as shown in the following table:

|   | Year Ended December 31, |               |              |
|---|-------------------------|---------------|--------------|
|   | 2002                    | 2001          | 2000         |
|   | -----                   | -----         | -----        |
| U.S. federal income taxes at the statutory rate | \$(19,898,840)          | \$(4,940,200) | \$ (687,035) |
| State taxes, net of federal effects             | (3,511,560)             | (871,800)     | (80,828)     |
| Goodwill amortization/write-off                 | 12,946,542              | 957,200       | 578,800      |
| Valuation allowance                             | 10,294,178              | 3,220,800     | 615,683      |
| Stock-based compensation                        | 82,680                  | 1,776,800     | --           |
| Other   | 87,000                  | 57,200        | 84,619       |

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|       |            |            |
|-------|------------|------------|
| ----- | -----      | -----      |
| \$ -- | \$ 200,000 | \$ 511,239 |
| ===== | =====      | =====      |

The tax effects of the temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2002 and 2001 are presented below:

|  | December 31, |              |
|--|--------------|--------------|
|  | 2002         | 2001         |
|  | -----        | -----        |
| Deferred tax assets:                       |              |              |
| Tax benefit of operating loss carryforward | \$18,212,485 | \$ 9,688,420 |
| Reserves and allowances                    | 1,092,800    | 1,233,600    |
| Goodwill                                   | 2,689,600    | --           |
| Fixed asset impairment charge              | 364,800      | --           |
| Stock option compensation                  | 276,552      | 83,701       |
| Depreciation                               | 13,600       | 72,400       |
| Other                                      | 117,880      | 112,382      |
|  | -----        | -----        |
| Total deferred tax assets                  | 22,767,717   | 11,190,503   |
|  | -----        | -----        |
| Deferred tax liabilities:                  |              |              |
| Depreciation                               | 1,329,836    | --           |
| Goodwill                                   | --           | 46,800       |
|  | -----        | -----        |
| Total deferred tax liabilities             | 1,329,836    | 46,800       |
|  | -----        | -----        |
| Sub-total                                  | 21,437,881   | 11,143,703   |
| Valuation allowance                        | (21,437,881) | (11,143,703) |
|  | -----        | -----        |
| Net deferred tax assets                    | \$ --        | \$ --        |
|  | =====        | =====        |

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During the 2001 period, management established a valuation allowance to offset the benefits of significant temporary tax differences due to the uncertainty of their realization. These deferred tax assets consist primarily of net operating losses carried forward in the VTI merger, reserves and allowances, and stock based compensation. If the tax benefits currently offset by valuation allowances are subsequently realized, approximately \$7.2 million will be credited to goodwill because these tax benefits relate to VTI operations prior to the merger. In addition, approximately \$2.8 million will be credited to additional paid-in capital because these tax benefits relate to the exercise of non-qualified stock options and disqualifying dispositions of incentive stock options.

The Company and its subsidiaries file federal returns on a consolidated basis and separate state tax returns. At December 31, 2002, the Company has net operating loss (NOL) carry-forwards of approximately \$47 million and \$39 million for federal and state income tax purposes, respectively. The federal NOL has a carryover period of 20 years and is available to offset future taxable income, if any, through 2021. The utilization of the \$47 million in tax loss carryforwards is limited to approximately \$2.4 million each year as a result of

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an "ownership change" (as defined by Section 382 of the Internal Revenue Code of 1986, as amended), which occurred in 2000.

### Note 16 -- Valuation Accounts and Reserves

The following table summarizes the activity in the allowance for doubtful accounts and inventory reserve accounts:

|   | Year Ended December 31, |             |            |
|---|-------------------------|-------------|------------|
|   | 2002                    | 2001        | 2000       |
| <b>Allowance for Doubtful Accounts:</b> |                         |             |            |
| Beginning Balance                       | \$ 605,000              | \$ 470,000  | \$ 115,000 |
| Charged to cost and expenses            | 1,502,914               | 1,171,888   | 568,107    |
| Deductions (1)                          | (1,822,914)             | (1,036,888) | (213,107)  |
| Ending Balance                          | \$ 285,000              | \$ 605,000  | \$ 470,000 |
| <b>Inventory Reserves:</b>              |                         |             |            |
| Beginning Balance                       | \$ 933,509              | \$ 988,916  | --         |
| Charged to cost and expenses            | 1,145,584               | 580,002     | 988,916    |
| Deductions (2)                          | --                      | (635,409)   | --         |
| Ending Balance                          | \$ 2,079,093            | \$ 933,509  | \$ 988,916 |

(1) Represents the amount of accounts written off

(2) Represents inventory written off and disposed of

### Note 17 -- Pension Plan

On March 1, 1998 the Company adopted a 401(k) Retirement Plan (the "401(k) Plan") under Section 401(k) of the Internal Revenue Code. The 401(k) Plan covered substantially all employees who met minimum age and service requirements. The 401(k) Plan was non-contributory on the part of the Company. Effective with the merger with VTI, the Company assumed the 401(k) Plan of VTI, combined its assets with those of the existing plan and began making contributions to the plan. Employer contributions to the 401(k) Plan for the years ended December 31, 2002, 2001 and 2000 were approximately \$115,000, \$83,000 and \$56,000, respectively.

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### Note 18 -- Business Combinations

#### Merger With View Tech, Inc.

On May 18, 2000 the merger of ACC and VTI was consummated in a transaction that has been accounted for as a "reverse acquisition" using the purchase method. The reverse acquisition method resulted in ACC being recognized as the acquirer of VTI for accounting and financial reporting purposes.

The value of VTI shares exchanged was computed using a five-day average share price with a midpoint of December 28, 1999, the date of the merger announcement. The number of shares used in the computation is based on the VTI shares outstanding as of May 18, 2000.

Following are schedules of the purchase price and purchase price allocation:

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|  |               |
|--|---------------|
| Purchase Price:                        |               |
| Value of VTI shares exchanged.....     | \$ 28,466,308 |
| Value of VTI options and warrants..... | 2,872,950     |
| Direct mergers costs.....              | 1,008,059     |
|  | -----         |
| Total purchase price.....              | \$ 32,347,317 |
|  | =====         |
| Purchase Price Allocation:             |               |
| VTI assets acquired.....               | \$ 11,583,008 |
| VTI liabilities assumed.....           | (13,923,289)  |
| Goodwill.....                          | 34,687,598    |
|  | -----         |
| Total.....                             | \$ 32,347,317 |
|  | =====         |

The VTI assets acquired and liabilities assumed were recorded at their fair values on May 18, 2000. Amortization expense for the years ended December 31, 2002, 2001 and 2000 totaled \$0, \$2,444,907 and \$1,447,877, respectively.

The following summarized unaudited pro forma information for the year ended December 31, 2000 assumes the merger of the ACC and VTI occurred on January 1, 2000. This information is not reflective of the impact of discontinuance of AV operations in 2002 as discussed in Note 4.

|  |                                  |
|--|----------------------------------|
|  | Year End<br>December 31,<br>2000 |
|  | -----                            |
| Net revenues.....                                | \$ 68,273,027                    |
| Operating loss.....                              | (4,098,157)                      |
| Net loss attributable to common stockholders.... | (7,990,307)                      |
| Loss per share:                                  |                                  |
| Basic.....                                       | \$ (.46)                         |
| Diluted.....                                     | \$ (.46)                         |

The unaudited pro forma operating results reflect pro forma adjustments for the amortization of intangibles of \$811,143 for the year ended December 31, 2000 arising from the merger and other adjustments. These pro forma operating results also reflect the effects of the series A preferred stock issued in June of 2000 as if the financing occurred on January 1, 2000. Pro forma results of operations are not necessarily indicative of the results of operations that would have occurred had the merger been consummated at the beginning of 2000, or of the future results of the combined entity.

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The Company recognized net revenues of \$1,047,000 from transactions with VTI during the year ended December 31, 2000. Such amounts have been eliminated in preparing the pro forma information.

### Acquisition of 2CONFER, LLC

In July 2000, the Company acquired the net assets of 2CONFER, LLC, a Chicago-based provider of videoconferencing, audio and data solutions. The total consideration was \$800,000, consisting of \$500,000 in cash and the remainder in Company common stock valued at the time of acquisition. Assets consisted primarily of accounts receivable, fixed assets and goodwill.

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Purchase Price Allocation:

|                                  |              |
|----------------------------------|--------------|
| 2CONFER assets acquired.....     | \$ 1,024,730 |
| 2CONFER liabilities assumed..... | (1,424,730)  |
| Goodwill.....                    | 1,200,000    |
|                                  | -----        |
| Total.....                       | \$ 800,000   |
|                                  | =====        |

The 2CONFER assets acquired and liabilities assumed were recorded at their fair values as of July 1, 2000. Amortization expense for the years ended December 31, 2002, 2001 and 2000 totaled \$0, \$87,912 and \$43,150, respectively.

Acquisition of Johns Brook Co.

In October 2000, the Company acquired the assets and certain liabilities of Johns Brook Co., Inc.'s videoconferencing division, a New Jersey-based provider of videoconferencing solutions. The total consideration was \$635,000, consisting of \$481,000 in cash and \$154,000 in the Company's common stock valued at the time of acquisition. Assets consisted primarily of accounts receivable, fixed assets, and goodwill.

Purchase Price Allocation:

|                              |              |
|------------------------------|--------------|
| JBC assets acquired.....     | \$ 1,281,194 |
| JBC liabilities assumed..... | (1,194,065)  |
| Goodwill.....                | 547,871      |
|                              | -----        |
| Total.....                   | \$ 635,000   |
|                              | =====        |

The JBC assets acquired and liabilities assumed were recorded at their fair values as of October 1, 2000. Amortization expense for the years ended December 31, 2002, 2001 and 2000 totaled \$0, \$48,488 and \$9,830, respectively.

Acquisition of GeoVideo

In June 2001, the Company acquired the assets of GeoVideo Networks, Inc. ("GeoVideo"), a New York-based developer of video communications software. Chief among the assets, in addition to GeoVideo's cash on hand of \$2,500,000, was GeoVideo's browser, a software tool based upon proprietary Bell Labs technology that allows up to six simultaneous, real-time, bi-directional high-bandwidth IP video sessions to be conducted over a standard desktop PC. In exchange for the acquired assets, Wire One issued 815,661 shares of common stock, together with warrants to purchase 501,733 additional shares of common stock at \$5.50 per share and 520,123 shares at \$7.50 per share.

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Purchase Price Allocation:

|                          |             |
|--------------------------|-------------|
| GeoVideo assets acquired | \$2,500,000 |
| Goodwill                 | 2,500,000   |
|                          | -----       |
| Total                    | \$5,000,000 |
|                          | =====       |

The following summarized unaudited pro forma information for the years ended December 31, 2000 and 2001 assumes that the acquisition of GeoVideo by the Company occurred on January 1, 2000. This information is not reflective of the impact of discontinuance of AV operations in 2002 as discussed in Note 4.

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|  | Year Ended December 31, |               |
|--|-------------------------|---------------|
|  | 2000                    | 2001          |
| Net revenues                                 | \$ 48,434,108           | \$ 88,916,234 |
| Operating loss                               | (7,834,575)             | (15,169,284)  |
| Net loss attributable to common stockholders | (21,655,135)            | (20,764,294)  |
| Loss per share:                              |                         |               |
| Basic  | \$ (1.69)               | \$ (0.99)     |
| Diluted                                      | \$ (1.69)               | \$ (0.99)     |

Pro forma results of operations are not necessarily indicative of the results of operations that would have occurred had the acquisition been consummated at the beginning of 2000, or of the future results of the combined entity.

Amortization expense for the years ended December 31, 2002 and 2001 totaled \$0 and \$102,340, respectively.

Acquisition of Advance Acoustical Concepts, Inc.

In July 2001, the Company acquired the assets and certain liabilities of Advanced Acoustical Concepts, Inc. ("AAC"), a privately held company founded in 1986 and based in Dayton, Ohio. The Company did not acquire any equity interest in AAC. The acquired assets of AAC consisted of those related to complete solution design and integration of video and audiovisual products into cost-effective, ergonomic conferencing systems. These solutions were marketed by AAC to the commercial, medical, distance learning, legal and financial industries. In exchange for the acquired assets and assumed liabilities, Wire One issued 145,429 shares of its common stock with an assumed value of \$5.46 per share based on the then current market price. On the date of the acquisition, the assets and liabilities were recorded at their fair values, with the excess purchase consideration allocated to goodwill. None of this goodwill is expected to be deductible for tax purposes due to the nature of this asset-based acquisition.

The acquisition of assets from AAC was consummated to further expand the Company's expertise in the field of audio-visual integration and to acquire a customer base that had a demonstrated history of producing \$10 or more million in annual revenues for AAC. The results of the acquired operations are included in the Consolidated Statements of Operations from July 17, 2001.

Purchase Price Allocation:

|                          |             |
|--------------------------|-------------|
| Cash                     | \$ 364,117  |
| Accounts receivable      | 466,030     |
| Inventory                | 654,297     |
| Other assets             | 248,951     |
| Accounts payable         | (2,350,395) |
| Notes and leases payable | (253,640)   |
| Accrued liabilities      | (206,710)   |
| Deferred revenue         | (1,120,779) |
| Goodwill                 | 2,991,879   |
|                          | -----       |
| Total                    | \$ 793,750  |
|                          | =====       |

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The following summarized unaudited pro forma information for the years ended December 31, 2000 and 2001 assumes that the acquisition of assets of AAC

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occurred on January 1, 2000. This information is not reflective of the impact of discontinuance of AV operations in 2002 as discussed in Note 4.

|  | Year Ended December 31, |               |
|--|-------------------------|---------------|
|  | 2000                    | 2001          |
| Net revenues                                 | \$ 58,633,207           | \$ 93,203,562 |
| Operating loss                               | (3,185,247)             | (13,723,105)  |
| Net loss attributable to common stockholders | (17,383,047)            | (19,605,602)  |
| Loss per share:                              |                         |               |
| Basic  | \$ (1.34)               | \$ (.93)      |
| Diluted                                      | \$ (1.34)               | \$ (.93)      |

Pro forma results of operations are not necessarily indicative of the results of operations that would have occurred had the acquisition been consummated at the beginning of 2000, or of the future results of the combined entity.

### Acquisition of Axxis, Inc.

In November 2001, the Company acquired certain assets and liabilities of the video conferencing division of Axxis, Inc., a Kentucky-based designer of audiovisual conferencing systems. The Company did not acquire any equity interest in Axxis. In exchange for the acquired assets and assumed liabilities, Wire One issued 320,973 shares of common stock with an assumed price per share of \$6.39 per share based on the then current market price. On the date of acquisition, the acquired assets and liabilities were recorded at their fair values, with the excess purchase consideration allocated to goodwill. None of this goodwill is expected to be deductible for tax purposes due to the nature of this asset-based acquisition.

The acquisition of Axxis assets was consummated to further expand the Company's expertise in the field of audio-visual integration and to acquire a customer base that had a demonstrated history of producing \$10 million or more in annual revenues for Axxis. The results of the acquired operations are included in the Consolidated Statements of Operations from October 1, 2001.

### Purchase Price Allocation:

|                                |              |
|--------------------------------|--------------|
| Earnings in excess of billings | \$ 630,617   |
| Inventory                      | 119,511      |
| Accounts payable               | (700,432)    |
| Accrued vacation               | (49,696)     |
| Goodwill                       | 2,051,017    |
| Total                          | \$ 2,051,017 |

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The following summarized unaudited pro forma information for the years ended December 31, 2000 and 2001 assumes that the acquisition of assets of Axxis occurred on January 1, 2000. This information is not reflective of the impact of discontinuance of AV operations in 2002 as discussed in Note 4.

| Year Ended December 31, |      |
|-------------------------|------|
| 2000                    | 2001 |



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|  |               |               |
|--|---------------|---------------|
|  | -----         | -----         |
| Net revenues                                 | \$ 60,960,382 | \$ 97,068,528 |
| Operating loss                               | (2,131,227)   | (14,072,956)  |
| Net loss attributable to common stockholders | (16,226,248)  | (19,629,376)  |
| Loss per share:                              |               |               |
| Basic  | \$ (1.24)     | \$ (.93)      |
| Diluted                                      | \$ (1.24)     | \$ (.93)      |

Pro forma results of operations are not necessarily indicative of the results of operations that would have occurred had the acquisition been consummated at the beginning of 2000, or of the future results of the combined entity.

In the fourth quarter of 2002 the Company completed the process of quantifying a goodwill impairment loss and a \$40.0 million charge was recorded. The effect on reported net loss attributable to common stockholders and diluted net loss per share of excluding goodwill amortization in accordance with SFAS 142 for the years ended December 31, 2001 and 2000 is as follows:

|   | 2001            | 2000            |
|---|-----------------|-----------------|
|   | -----           | -----           |
| Reported net loss attributable to common stockholders ..... | \$ (18,964,294) | \$ (16,255,135) |
| Goodwill amortization .....                                 | 2,683,647       | 1,500,857       |
|   | -----           | -----           |
| Adjusted net loss attributable to common stockholders ..... | \$ (16,280,647) | \$ (14,754,278) |
|   | =====           | =====           |
| Reported diluted net loss per share .....                   | \$ (0.91)       | \$ (1.27)       |
| Goodwill amortization .....                                 | 0.13            | 0.12            |
|   | -----           | -----           |
| Adjusted diluted net loss per share .....                   | \$ (0.78)       | \$ (1.15)       |
|   | =====           | =====           |

### Note 19 -- Related Parties

The landlord for the Company's Hillside, New Jersey office is Vitamin Realty Associates, L.L.C. of which Eric Friedman, a member of the Company's Board of Directors until June 2001, is a member. The lease, which was due to expire in May 2002, was extended by amendment in April 2002. The current term is for three years and expires on April 30, 2005. The current base rental for the premises during the term of the lease is approximately \$162,000 per year. In addition, the Company must pay its share of the landlord's operating expenses (i.e., those costs or expenses incurred by the landlord in connection with the ownership, operation, management, maintenance, repair and replacement of the premises, including, among other things, the cost of common area electricity, operational services and real estate taxes). For the years ended December 31, 2002, 2001 and 2000, rent expense associated with this lease was \$252,000, \$295,000 and \$225,000, respectively.

The Company receives financial and tax services from an accounting firm in which one of the Company's directors, Dean Hiltzik, is a partner. For the years ended December 31, 2002, 2001 and 2000, the Company has incurred fees for these services of approximately \$33,000, \$105,000 and \$99,000, respectively. The Company also entered into a Consulting Agreement with Mr. Hiltzik, dated January 2, 2001, for the provision of tax and financial services for one year. Mr. Hiltzik received an immediately vested option to purchase 30,000 shares of common stock at an exercise price of \$3.94 per share pursuant to that agreement.

The Company receives management consulting services from Lewis Jaffe, former Vice Chairman and President and current member of the Board of Directors. Under

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the terms of a consulting agreement commencing July 22, 2002, through July 31, 2003, Mr. Jaffe provides Company management with assistance in the areas of corporate development and investor relations. For his services, Mr. Jaffe was granted an option to purchase 50,000 shares of Wire One common stock at an average exercise price of \$3.00 per share vesting in ten installments of 5,000 shares per month commencing September 30, 2002. On September 21, 2001, the Company had entered into a one-year Consulting Agreement with Mr. Jaffe, pursuant to which Mr. Jaffe served as a management consultant to the Company in the areas of corporate development and investor relations. Mr. Jaffe received an immediately vested option to purchase 30,000 shares of common stock at an exercise price of \$5.16 per share pursuant to that agreement.

In August, 2001, the Company made a loan to Christopher Zigmont, Executive Vice President and Chief Financial Officer, in the amount of \$210,000 with an 8.25% rate of interest. The loan was extended to Mr. Zigmont, in connection with his relocation to the East Coast at the Company's request, to facilitate the purchase of his East Coast home pending the sale of his West Coast home. Mr. Zigmont was required to repay the loan from proceeds of the sale of his West Coast home or of any sale of shares acquired by him in connection with his exercise of any Company stock option, but in no event later than one year after the loan was made. Mr. Zigmont repaid the loan in full in October 2001.

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In March, 2002, the Company made a recourse loan to Leo Flotron, a member of the Company's Board of Directors and the Company's President and Chief Operating Officer, in the amount of \$69,960 with a 5.25% rate of interest. The Company extended the loan to Mr. Flotron to enable him to exercise stock options (scheduled to expire imminently) to purchase 33,000 shares of common stock. Mr. Flotron is required to repay the loan from the proceeds of any sale of shares acquired by him in connection with his exercise of any Company stock option, but in no event later than one year after the loan was made. Mr. Flotron repaid the loan in full in March 2003.

### Note 20 -- Business Segments

The Company follows SFAS No. 131 Disclosures about Segments of a Business Enterprise and Related Information, which establishes standards for reporting information about operating segments. Operating segments are defined as components of a company about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and to assess financial performance.

Prior to 2002, the Company was engaged in one business, providing customers with a single source for video products and services. During fiscal 2002, the Company's direct investment in the Glowpoint Network has increased and the financial results of the Network Solutions segment became more material to the Company so that the Company determined that it was in two reportable segments for fiscal 2002 and, accordingly reported two operating segments, Video Solutions and Network Solutions.

### Video Solutions Segment

The Video Solutions segment sells and markets a full range of video, audio and data products and systems from Polycom, Tandberg, VCON Telecommunications, Ltd. ("VCON"), Sony Electronics, Inc., Gentner Communications, Inc. and Extron Electronics, Inc. principally in the United States. The Company also distributes data products from companies such as Adtran, Lucent, Initia and RADVision to provide its customers with remote access into LANs, permitting them to acquire

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bandwidth on demand and to digitally transmit data. The Company configures single- or multi-vendor video and data conferencing platforms for its clients and integrates systems and components into a complete solution designed to suit each customer's particular communications requirements. After designing a customer's video communications solution, it delivers, installs and tests the communications equipment. When the system is functional, the Company provides training to all levels of its customers' organizations, including executives, managers, management information systems and data-processing administrators and technical staff. Training includes instruction in system operation, as well as the planning and administration of meetings. By means of thorough training, the Company helps to ensure that its customers understand the functionality of their systems and are able to apply the technology effectively. The Company's OneCare service covers a customer's entire video communications system deployment for a fixed fee. OneCare encompasses installation and maintenance services that provide comprehensive customer support after the sale and help ensure that customers experience reliable, effortless video communications. The Company's installation service places minimal demands on a customer's time and resources. The Company's maintenance service provides technical support representatives and engineers, a help desk offering 24x7 responsiveness, nationwide on-site diagnostic repair and replacement service, nationwide network trouble coordination and a video test facility.

### Network Solutions Segment

The Network Solutions Segment is composed of the following two components: 1) Glowpoint network services and 2) Multiview Network Services. The Glowpoint network provides customers with a high-quality platform for video communications over IP and related applications. The Glowpoint service offers subscribers substantially reduced transmission costs and superior video communications quality, remote management of all videoconferencing endpoints utilizing simple network management protocol ("SNMP"), gateway services to ISDN-based video communications equipment, video streaming and store-and-forward applications from our network operations center ("NOC"). The Company also sells multi-point video and audio bridging services through its Multiview Network Services program. The Company employs state-of-the-art conferencing servers that provide seamless connectivity for all switched digital networks at an affordable rate.

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The following table provides 2002 financial information by segment which is used by the chief operating decision maker in assessing segment performance. The Company allocated direct costs to each business segment based on management's analysis of each segment's resource needs.

|   | VSB<br>----- | VNB<br>----- | Total<br>----- |
|---|--------------|--------------|----------------|
| Revenues  | \$77,148,861 | \$ 5,599,216 | \$82,748,077   |
| Segment loss  | \$48,008,252 | \$ 7,534,468 | \$55,542,720   |
| Impairment losses on goodwill and other long-lived assets | \$41,369,920 | \$ --        | \$41,369,920   |
| Depreciation and amortization                             | \$ 3,616,456 | \$ 1,530,059 | \$ 5,146,515   |
| Interest expense, net                                     | \$ 64,106    | \$ 296,042   | \$ 360,148     |
| Total assets  | \$49,567,296 | \$11,934,368 | \$61,501,664   |

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Expenditures for long-lived assets           \$   919,636       \$ 3,826,297       \$ 4,745,933

The following table provides 2001 financial information that was available by segment:

|                 | VSB<br>----- | VNB<br>----- | Total<br>----- |
|-----------------|--------------|--------------|----------------|
| Revenues        | \$70,931,571 | \$ 3,479,907 | \$74,411,478   |
| Cost of revenue | \$47,245,823 | \$ 2,898,460 | \$50,144,283   |
| Gross margin    | \$23,685,748 | \$   581,447 | \$24,267,195   |

Note 21 -- Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations for 2002 and 2001.

Quarterly Financial Data

|             |  | 2002<br>-----   | 2001<br>-----   |
|-------------|--|-----------------|-----------------|
| 1st Quarter | Net revenues                                 | \$ 19,192,185   | \$ 16,315,370   |
|             | Gross margin                                 | 6,132,100       | 5,582,538       |
|             | Loss from continuing operations              | (2,118,091)     | (1,651,106)     |
|             | Net loss                                     | (2,558,508)     | (2,027,909)     |
|             | Net loss attributable to common stockholders | (2,558,508)     | (2,421,873)     |
|             | Net loss per share                           | \$       (0.09) | \$       (0.14) |
| 2nd Quarter | Net revenues                                 | \$ 24,125,466   | \$ 18,525,234   |
|             | Gross margin                                 | 6,569,651       | 6,227,057       |
|             | Loss from continuing operations              | (3,405,189)     | (1,688,867)     |
|             | Net loss                                     | (4,317,217)     | (1,782,732)     |
|             | Net loss attributable to common stockholders | (4,317,217)     | (5,822,672)     |
|             | Net loss per share                           | \$       (0.15) | \$       (0.32) |
| 3rd Quarter | Net revenues                                 | \$ 19,425,938   | \$ 18,100,445   |
|             | Gross margin                                 | 4,765,535       | 5,530,425       |
|             | Loss from continuing operations              | (3,412,707)     | (1,978,279)     |
|             | Net loss                                     | (4,385,905)     | (2,648,523)     |
|             | Net loss attributable to common stockholders | (4,385,905)     | (2,648,523)     |
|             | Net loss per share                           | \$       (0.15) | \$       (0.11) |
| 4th Quarter | Net revenues                                 | \$ 20,004,488   | \$ 21,470,429   |
|             | Gross margin                                 | 3,659,518       | 6,927,175       |
|             | Loss from continuing operations              | (46,123,905)    | (7,655,335)     |
|             | Net loss                                     | (47,303,553)    | (8,071,226)     |
|             | Net loss attributable to common stockholders | (47,303,553)    | (8,071,226)     |
|             | Net loss per share                           | \$       (1.63) | \$       (0.33) |

In the fourth quarter of 2002, the Company recorded \$41.4 million of impairment losses on goodwill and other long-lived assets.

Net loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share figures in 2002 and 2001 does not equal the total computed for these years.

Note 22 -- Subsequent Events

In March 2003, the Company concluded an amendment to its existing credit facility with JPMorgan Chase Bank to cure non-compliance with certain financial covenants arising from the fourth quarter results. Some additional highlights of the amendment include: 1) a reduction in the commitment amount of the line of credit from \$25 million to \$15 million to bring the commitment amount in line with Wire One's forecasted need for credit over the balance of the term of the agreement; 2) revised EBITDA covenant levels for the remainder of the term of the credit agreement; and, 3) maintenance of the interest rate, loan fees and provisions of the borrowing formula at the same levels as previously negotiated.

In March 2003, the Company completed the sale of certain assets and liabilities of the Audio-Visual ("AV") component to Columbia, Maryland-based Signal Perfection Limited ("SPL") for approximately \$807,000, \$250,000 of which was paid in cash at the close of the transaction and the balance of which was paid in the form of a promissory note payable in five equal consecutive monthly payments commencing on April 15, 2003. The sale of its AV component was aimed at enabling the Company to focus more of its resources on the development and marketing of its subscriber-based IP network, Glowpoint, and to its video solutions business. As a consequence, this unit has been classified as a discontinued operation in the accompanying financial statements, with its net assets summarized in a single line item on the consolidated balance sheets and its results from operations summarized in a single line item on the consolidated statements of operations.

Item 9. Change In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of The Registrant

MANAGEMENT

The following table sets forth information with respect to our current directors and executive officers.

| Name                | Age | Position with Company                              |
|---------------------|-----|--|
| ----                | --- | -----  |
| Richard Reiss       | 46  | Chairman and Chief Executive Officer               |
| Leo Flotron         | 43  | President, Chief Operating Officer<br>and Director |
| Christopher Zigmont | 41  | Chief Financial Officer, Executive                 |

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|                               |    |   |
|-------------------------------|----|---|
| Michael Brandofino            | 38 | Vice President, Finance and Secretary<br>Chief Technology Officer and Executive<br>Vice President |
| Jonathan Birkhahn             | 49 | Director  |
| Dean Hiltzik                  | 49 | Director  |
| Lewis Jaffe                   | 46 | Director  |
| James Kuster (1) (2)          | 44 | Director  |
| Michael Sternberg (1) (2) (3) | 58 | Director  |
| Michael Toporek (1) (2) (3)   | 38 | Director  |

- 
- (1) Member of the Audit Committee.
  - (2) Member of the Compensation Committee.
  - (3) Member of the Stock Option Committee.

Richard Reiss, Chairman of the Board of Directors and Chief Executive Officer. Mr. Reiss has been our Chairman of the Board of Directors and Chief Executive Officer since May 2000, and was President from May 2000 to April 2002. Mr. Reiss served as Chairman of the Board of Directors, President and Chief Executive Officer of All Communications Corporation ("ACC") from ACC's formation in 1991 until the formation of Wire One pursuant to the merger of ACC and View Tech, Inc. ("VTI") in May 2000.

Leo Flotron, President and Chief Operating Officer and Director. Mr. Flotron is our President and Chief Operating Officer and has served on our Board of Directors since March 2001. Mr. Flotron has served as our President since August 2002. From May 2000 until November 2000, Mr. Flotron served as our Executive Vice President, Sales and Marketing of Videoconferencing Products. From October 1995 until May 2000, Mr. Flotron served as ACC's Vice President, Sales and Marketing of Videoconferencing Products, in charge of sales and marketing for videoconferencing and network products. Mr. Flotron holds a B.S. degree in Business from the University of Massachusetts in Amherst and an M.S. degree in Finance from Louisiana State University.

Christopher Zigmont, Chief Financial Officer, Executive Vice President, Finance and Secretary. Mr. Zigmont has been our Secretary since March 2003 and our Chief Financial Officer since May 2000 and is also our Executive Vice President, Finance. From June 1999 until May 2000, Mr. Zigmont served as VTI's Chief Financial Officer. From March 1990 to May 1999, Mr. Zigmont held various positions at BankBoston Corporation, most recently as Director of Finance. Prior to joining BankBoston Corporation, Mr. Zigmont was a Senior Audit Manager with the accounting and auditing firm of KPMG Peat Marwick. He received a B.S. degree in Business Administration with a double major in Accounting/Finance from Boston University.

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Michael Brandofino, Executive Vice President and Chief Technology Officer. Mr. Brandofino has served as our Executive Vice President and Chief Technology Officer since October 2000. From 1988 to September 2000, Mr. Brandofino held several positions at Johns Brook Co., Inc., a technology consulting company, most recently in the position of President. Mr. Brandofino holds a B.S. degree in Management Information Systems from Pace University.

Jonathan Birkhahn, Director. Mr. Birkhahn has served on our Board of Directors since March 2001. From 1988 through October 2000 and from March 2003 to present, Mr. Birkhahn served and serves as Senior Vice President Business Affairs (or

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predecessor positions) of King World Productions, Inc., a leading distributor of television programming. From January 2003 through March 2003, Mr. Birkhahn served Wire One as a consultant. He served Wire One as Executive Vice President, Business Affairs, General Counsel and Secretary from November 2000 through January 2003. He holds an A.B. degree from Columbia College and a J.D. degree from Harvard Law School.

Dean Hiltzik, Director. Mr. Hiltzik has served on our Board of Directors since May 2000. From September 1999 until May 2000, Mr. Hiltzik was a member of ACC's Board of Directors. Mr. Hiltzik, a certified public accountant, is a partner and director of the securities practice at Schneider & Associates LLP, which he joined in 1979. Schneider provides tax and consulting services to Wire One. Mr. Hiltzik received a B.A. from Columbia University and an M.B.A. in Accounting from Hofstra University.

Lewis Jaffe, Director. Mr. Jaffe has served on our Board of Directors since September 2001 and served as our President from April 2002 until August 2002. Since August 2002, Mr. Jaffe has been an independent consultant. From June 2000 to March 2002, Mr. Jaffe served as President and Chief Operating Officer of PictureTel Corporation. From September 1998 to June 2000, Mr. Jaffe was a managing director in the Boston office of Arthur Andersen LLP in the global finance practice. From January 1997 to March 1998, Mr. Jaffe was the President of C Systems, LLC, a designer and manufacturer of mobile military shelters, housing, communication, radar and missile launch systems. Mr. Jaffe completed an executive MBA program at Stanford University and holds a B.S. degree from LaSalle University.

James Kuster, Director. Mr. Kuster has been a member of our Board of Directors since June 2001, when he joined in connection with our acquisition of the assets of GeoVideo Networks, Inc. Mr. Kuster has been Managing Director for the private equity firm Crest Communications Holdings, LLC since 1999. Prior to joining Crest, Mr. Kuster served as Vice President for Corporate Development of Reciprocal, Inc. From 1986 through 1998, Mr. Kuster worked in the media and telecommunications group of Chase Securities. Mr. Kuster received his M.B.A. degree from the Fuqua School of Business of Duke University. He also represents Crest on the Boards of Directors of video technology companies TenTV, Inc. and Teranex, Inc.

Michael Sternberg, Director. Mr. Sternberg has been a member of the Board of Directors since September 2002. Mr. Sternberg has been the Chief Executive Officer of SPEEDCOM Wireless Corporation since June 2002. From 1998 to 2001, Mr. Sternberg was the Chief Executive Officer of KMC. From 1991 through 1995, Mr. Sternberg was the Chief Operating Officer of Ramsay.

Michael Toporek, Director. Mr. Toporek has been a member of our Board of Directors since July 2002. He is presently the Managing General Partner of Brookstone Partners, a private equity firm. From August 2000 to May 2002, Mr. Toporek was a Director at SG Cowen Corporation, providing investment banking and mergers and acquisitions advice to technology companies. From September 1996 to August 2000, Mr. Toporek was a Director at UBS Warburg Dillon Read & Co., Inc., providing investment banking and mergers and acquisitions advice to technology companies.

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## EXECUTIVE COMPENSATION AND OTHER MATTERS

### Executive Compensation

The table below summarizes information concerning the compensation we paid during 2002 to our Chief Executive Officer and our four other most highly paid executive officers during that year (collectively, the "Named Executive Officers"), each of whom, other than Jonathan Birkhahn, is currently a Named Executive Officer of Wire One:

| Name and principal position<br>-----  | Year<br>---- | Annual Compensation |                | Long-term<br>Compensation<br>Awards<br>----- |
|---|--------------|---------------------|----------------|--|
|   |              | Salary (\$)         | Bonus (\$)     | Securities<br>Underlying<br>Options<br>----- |
| Richard Reiss,<br>Chief Executive Officer and<br>Chairman of the Board.....   | 2002         | \$ 379,250          | \$ 75,000 (1)  |  |
|   | 2001         | \$ 345,000          | \$ 135,000     | 1,537,500 (2)                                |
|   | 2000         | \$ 275,000          | \$ 135,000     | --   |
| Leo Flotron, President, Chief<br>Operating Officer and Director...  | 2002         | \$ 346,875          | --             | 192,500 (4)                                  |
|   | 2001         | \$ 325,000          | \$ 193,935 (5) | 240,000                                      |
|   | 2000         | \$ 157,917          | \$ 157,237 (6) | --   |
| Jonathan Birkhahn, Executive Vice<br>President Business Affairs,<br>General Counsel, Secretary and<br>Director..... | 2002         | \$ 246,164          | \$ --          | 51,500                                       |
|   | 2001         | \$ 238,125          | \$ --          | --   |
|   | 2000         | \$ 20,236           | \$ --          | 250,000                                      |
| Christopher Zigmont, Chief Financial<br>Officer and Executive Vice<br>President, Finance.....                       | 2002         | \$ 188,654          | --             | 50,500                                       |
|   | 2001         | \$ 175,000          | \$ --          | 190,000                                      |
|   | 2000         | \$ 80,000           | \$ 35,000      | 100,000                                      |
| Michael Brandofino, Chief Technology<br>Officer and Executive Vice<br>President.....                                | 2002         | \$ 183,938          | --             | 64,875                                       |
|   | 2001         | \$ 165,000          | \$ 25,000 (7)  | 100,000                                      |
|   | 2000         | \$ 37,692           | \$ 6,250       | --   |

- (1) Formula bonus as set forth in Mr. Reiss's employment agreement (see "Employment Agreements" and "Compensation Committee Report on Executive Compensation").
- (2) Includes the extension of the term of a previously granted option to purchase 1,237,500 shares of common stock (see "Compensation Committee Report on Executive Compensation").
- (3) Amount reflects premiums paid for a life insurance policy.
- (4) Includes the extension of the term of a previously granted option to



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- purchase 123,750 shares of common stock.
- (5) Amount is in respect of services rendered in 2000.
  - (6) Amount consists of \$73,424 and \$83,813 in respect of services rendered in 1999 and 2000, respectively.
  - (7) One-time cash bonus in connection with the anniversary of commencement of Mr. Brandofino's employment.

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Option Grants in 2002

The following table sets forth information regarding stock options granted pursuant to our stock option plan during 2002 to each of the Named Executive Officers.

| Name                | Number of underlying options granted | Percent of total options granted to employees in fiscal year 2002 | Exercise or base price (per share) | Expiration Date   | Potential Real Assumed Annual Ra Appreciation f |          |
|---------------------|--------------------------------------|---|------------------------------------|-------------------|---|----------|
|                     |                                      |   |                                    |                   | 0%  | 5%       |
| Richard Reiss       | --                                   | --  | --                                 | --                | \$ --   | \$ --    |
|                     | --                                   | --  | --                                 | --                | \$ --   | \$ --    |
| Leo Flotron         | 50,000                               | 4.1%  | \$4.40                             | February 25, 2012 | \$ --   | \$358,35 |
|                     | 18,750                               | 1.6%  | \$1.13                             | July 22, 2012     | \$ --   | \$ 34,51 |
| Jonathan Birkhahn   | 20,000                               | 1.7%  | \$4.40                             | February 25, 2012 | \$ --   | \$143,34 |
|                     | 6,500                                | 0.5%  | \$1.13                             | July 22, 2012     | \$ --   | \$ 11,96 |
|                     | 25,000                               | 2.1%  | \$1.80                             | October 9, 2012   | \$ --   | \$ 73,30 |
| Christopher Zigmont | 25,500                               | 2.1%  | \$1.13                             | July 22, 2012     | \$ --   | \$ 46,93 |
|                     | 25,000                               | 2.1%  | \$1.80                             | October 9, 2012   | \$ --   | \$ 73,30 |
| Michael Brandofino  | 20,000                               | 1.7%  | \$4.40                             | February 25, 2012 | \$ --   | \$143,34 |
|                     | 15,000                               | 1.2%  | \$3.04                             | April 24, 2012    | \$ --   | \$ 74,27 |
|                     | 29,875                               | 2.5%  | \$1.13                             | July 22, 2012     | \$ --   | \$ 54,98 |

Aggregated Option Exercises In Fiscal 2002 And Fiscal Year-End Option Values

The following table sets forth information concerning the value of unexercised in-the-money options held by the Named Executive Officers as of December 31, 2002.

Shares

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| Name                | Acquired | Value     | Number of Securities |                 | \$ Value of    |
|---------------------|----------|-----------|----------------------|-----------------|----------------|
|                     | on       | Realized  | Underlying           | Unexercised     | In-The-Mon     |
|                     | Exercise |           | Options at           | Fiscal Year-End | Fiscal         |
|                     |          |           | Exercisable          | Unexercisable   | Exercisable    |
| Richard Reiss       | 32,857   | \$209,299 | 1,565,233            | 226,410         | \$ 292,791.69  |
| Leo Flotron         | 33,000   | \$156,750 | 725,142              | 235,358         | \$1,434,243.50 |
| Jonathan Birkhahn   | -        | -         | 187,500              | 114,000         | \$ -           |
| Christopher Zigmont | -        | -         | 156,870              | 208,630         | \$ -           |
| Michael Brandofino  | -        | -         | -                    | 164,875         | \$ -           |

Director Compensation

Directors who are not executive officers or employees of Wire One receive a director's fee of options to purchase 1,000 shares of Common Stock for each board meeting attended and 500 shares of Common Stock for each Audit, Compensation or Stock Option Committee meeting attended, whether in person or by telephone, and options to purchase 4,000 shares of Common Stock for attendance in person at the annual meeting of stockholders.

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Employment Agreements

We entered into employment agreements with certain of our executive officers, pursuant to which Mr. Reiss serves as Chief Executive Officer, Mr. Flotron serves as President and Chief Operating Officer, Mr. Zigmont serves as Chief Financial Officer and Executive Vice President, Finance and Mr. Brandofino serves as Executive Vice President and Chief Technology Officer. The following is a summary of the material terms and conditions of such agreements and is subject to the detailed provisions of the respective agreements attached as exhibits to our filings with the Securities and Exchange Commission.

Employment Agreement with Richard Reiss

We entered into an employment agreement with Mr. Reiss having a three-year term commencing January 1, 2001. Under the agreement, Mr. Reiss is entitled, in years 1, 2, and 3, respectively, to base compensation of \$345,000, \$410,000 and \$480,000, and to a formula bonus (payable in quarterly installments, subject to satisfaction of the condition that our gross revenues from continuing operations during a given quarter increase over such revenues from the corresponding quarter of the preceding year) of \$135,000, \$165,000 and \$195,000. The agreement provides for the grant of an option to purchase 300,000 shares of Common Stock under our 2000 Stock Incentive Plan (the "Plan"), vesting in three equal annual installments. Mr. Reiss has the right to terminate the agreement, with a full payout of all base and potential formula bonus compensation for the balance of the term (but in no event less than 1 year) and acceleration of his unvested stock options, upon a Corporate Transaction or a Change of Control (as those terms are defined under the Plan) or a termination by Wire One without cause. Under the agreement, we are required to obtain and pay the premiums on a \$2,500,000 life insurance policy payable to Mr. Reiss's designated beneficiary or his estate.

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On April 24, 2002, Mr. Reiss was named Chairman and Chief Executive Officer and his agreement was amended to subject the formula bonus to satisfaction of the condition that we have \$500,000 in "EBITDA" from continuing operations during a given quarter in addition to the gross revenue condition. On July 30, 2002, the agreement was amended to reduce annual base compensation to \$369,000 for the remainder of year 2 and to \$432,000 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$330,000 and the formula bonus was replaced with a discretionary bonus for the remaining term.

### Employment Agreement with Leo Flotron

We entered into an employment agreement with Mr. Flotron having a three-year term commencing January 1, 2001. Under the agreement, Mr. Flotron is entitled, in years 1, 2, and 3, respectively, to base compensation, of \$325,000, \$375,000 and \$425,000, and to a discretionary bonus. The agreement provides for the grant of an option to purchase 240,000 shares of Common Stock under the Plan, vesting in three equal annual installments. Mr. Flotron has the right to terminate the agreement, with a full payout of all base compensation for the balance of the term (but in no event less than 1 year) and acceleration of his unvested stock options, upon a Corporate Transaction or a Change of Control (as defined under the Plan) or a termination by Wire One without cause.

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On July 30, 2002, Mr. Flotron was named President and Chief Operating Officer and his agreement was amended to reduce annual base compensation to \$337,500 for the remainder of year 2 and to \$382,500 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$300,000 for the remaining term.

### Employment Agreement with Christopher Zigmont

The agreement with Mr. Zigmont, our Executive Vice President, Finance and Chief Financial Officer, has a three-year term that commenced on January 1, 2001. Mr. Zigmont is entitled to base compensation of \$175,000, \$200,000 and \$225,000 in years 1, 2 and 3, respectively, as well as to a discretionary bonus. The agreement provides for the grant of an option to purchase 150,000 shares under the Plan, vesting in three equal annual installments.

On July 30, 2002, the agreement was amended to reduce the annual base compensation to \$190,000 for the remainder of year 2 and to \$213,750 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$190,000 for the remaining term.

### Employment Agreement with Michael Brandofino

The agreement with Mr. Brandofino, our Executive Vice President and Chief Technology Officer, has a three-year term that commenced on January 1, 2001. Mr. Brandofino is entitled to base compensation of \$165,000, \$195,000 and \$225,000 in years 1, 2 and 3, respectively, as well as to a discretionary bonus. The agreement provides for the grant of an option to purchase 100,000 shares under the Plan, vesting in three equal annual installments.

On July 30, 2002, the agreement was amended to reduce the annual base

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compensation to \$185,250 for the remainder of year 2 and to \$213,750 and \$223,250 in years 3 and 4, respectively. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$185,250 through December 31, 2003.

### Consulting Agreement with Jonathan Birkhahn

We entered into an employment agreement with Jonathan Birkhahn to serve as Executive Vice President Business Affairs and General Counsel having a three-year term commencing on November 30, 2000. Effective January 31, 2003, the agreement was terminated simultaneously with the commencement of a consulting agreement providing for Mr. Birkhahn's continued assistance in the administration of our legal and business affairs for a fee of \$11,500 per month through November 30, 2003. The stock options granted under the employment agreement will continue to vest provided that Mr. Birkhahn continues to serve as a consultant or as a member of the Board of Directors. Mr. Birkhahn terminated the consulting agreement in accordance with his right to do so thereunder effective March 14, 2003; however, he will continue to serve as a member of the Board of Directors until the 2003 Annual Meeting.

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### Consulting Agreement with Kelly Harman

We entered into an agreement with Kelly Harman to serve as Vice President - Marketing having a three-year term commencing on January 1, 2001. Effective January 31, 2003, the agreement was terminated simultaneously with the commencement of a consulting agreement providing for Ms. Harman's continued assistance in the development, marketing and sales of our products and services for a fee of \$8,000 per month through December 31, 2003. The stock options granted under the employment agreement will continue to vest provided that Ms. Harman continues to serve as a consultant.

## REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

### Scope of the Committee's Work

The Compensation Committee of the Board of Directors has the authority and responsibility to establish the overall compensation strategy for Wire One, including salary and bonus levels, and to review and make recommendations to the Board with respect to the compensation of our executive officers. The Compensation Committee was established in 1999; prior thereto, compensation decisions and grants of stock options were made only by the full Board.

### Executive Compensation Philosophy and Policies

Wire One's overall compensation philosophy is to provide a total compensation package that is competitive and enables us to attract, motivate, reward and retain key executives and other employees who have the skills and experience necessary to promote the short- and long-term financial performance and growth of Wire One.

The Compensation Committee recognizes the critical role of its executive officers in the significant growth and success of Wire One to date and our future prospects. Accordingly, our executive compensation policies are designed

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to (1) align the interests of executive officers with those of stockholders by encouraging stock ownership by executive officers and by making a significant portion of executive compensation dependent on our financial performance, (2) provide compensation that will attract and retain talented professionals, (3) reward individual results through base salary, annual cash bonuses, long-term incentive compensation in the form of stock options and various other benefits and (4) manage compensation based on skill, knowledge, effort and responsibility needed to perform a particular job successfully.

In establishing salary, bonuses and long-term incentive compensation for its executive officers, the Compensation Committee takes into account both the position and the expertise of a particular executive, as well as the Committee's understanding of competitive compensation for similarly situated executives in our sector of the technology industry.

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### Executive Compensation

**Base Salary.** Salaries for executive officers for 2002 were generally determined by the Compensation Committee on an individual basis in connection with the determination of the terms of such executive's applicable employment agreement, based on the following criteria: such executive's scope of responsibility, performance, prior experience and salary history, as well as the salaries for similar positions at comparable companies.

**Bonus.** The amount of bonuses paid to executives for 2002 was based on the financial results of Wire One (as well as, in the case of Mr. Reiss, the satisfaction of the conditions in the formula set forth in his employment agreement). Mr. Reiss received a cash bonus of \$75,000 for 2002 as a result of satisfaction of those conditions. Messrs. Flotron, Birkhahn, and Brandofino, as well as Ms. Harman, were also paid bonuses in respect of their services during 2002 in the form of stock option grants to purchase 50,000, 20,000, 20,000 and 10,000 shares of our common stock, respectively.

**Long-Term Incentive Awards.** The Compensation Committee believes that equity-based compensation in the form of stock options links the interests of executives with the long-term interests of Wire One's stockholders and encourages executives to remain in Wire One's employ. We grant stock options in accordance with our various stock option plans. Grants are awarded based on a number of factors, including the individual's level of responsibility, the amount and term of options already held by the individual, the individual's contributions to the achievement of our financial and strategic objectives, and industry practices and norms.

### Compensation of the Chief Executive Officer

Mr. Reiss, who served as ACC's Chairman of the Board of Directors, President and Chief Executive Officer from its formation in 1991 until May 2000, and has served as Wire One's Chairman and Chief Executive Officer since its formation in May 2000 and as Wire One's President from May 2000 until April 2002, was paid a base salary of \$379,250 in 2002. As noted above, he was also paid a cash bonus of \$75,000 for his services in 2002.

Effective January 1, 2001, we entered into an Employment Agreement with Mr. Reiss (see "Employment Agreements") pursuant to which he serves as President and Chief Executive Officer. Mr. Reiss's salary and other compensation and the terms

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of his employment agreement have been established by reference to the salaries and equity participations of chief executive officers of other companies in our industry and related industries, and in recognition of Mr. Reiss's unique skills and importance to Wire One.

On April 24, 2002, Mr. Reiss was named Chairman and Chief Executive Officer and his agreement was amended to subject the formula bonus to satisfaction of the condition that we have \$500,000 in "EBITDA" from continuing operations during a given quarter in addition to the gross revenue condition. On July 30, 2002, the agreement was amended to reduce annual base compensation to \$369,000 for the remainder of year 2 and to \$432,000 in year 3. Effective January 1, 2003, the agreement was further amended to reduce annual base compensation to \$330,000 and the formula bonus was replaced with a discretionary bonus for the remaining term.

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### Internal Revenue Code Section 162(m) Limitation

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 per year paid to certain executive officers. The limitation applies only to compensation that is not considered to be performance-based. The non-performance based compensation paid to Wire One's executive officers in 2002 did not, in the case of any such officer, exceed the \$1 million per year limit. The Compensation Committee generally intends to limit the dollar amount of all non-performance based compensation payable to our executive officers to no more than \$1 million per year.

Respectfully submitted,

Peter Maluso (member until April 1, 2003)  
James Kuster  
Michael Sternberg  
Michael Toporek

### Compensation Committee Interlocks and Insider Participation

Peter Maluso, James Kuster, Michael Sternberg and Michael Toporek served as members of the Compensation Committee of the Board of Directors during 2002. No member of the Compensation Committee was at any time during 2002 or at any other time an officer or employee of Wire One. No member of the Compensation Committee served on the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Board or our Compensation Committee.

### STOCK PERFORMANCE GRAPH

The graph below compares the cumulative total stockholder return on our Common Stock with the cumulative total return on the Nasdaq National Market Index and a peer group selected by Wire One on an industry and line-of-business basis. The period shown commences on December 31, 1997 and ends on December 31, 2002, the end of our last fiscal year. The graph assumes an investment of \$100 on December 31, 1997, and the reinvestment of any dividends.

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The comparisons in the graph below are based on historical data and are not indicative of, nor intended to forecast, future performance of our Common Stock.

[STOCK PERFORMANCE GRAPH]

| INDEXED STOCK QUOTES             | 12/31/1997 | 12/31/1998 | 12/31/1999 | 12/31/2000 | 12/31/2001 |
|----------------------------------|------------|------------|------------|------------|------------|
| Wire One Technologies, Inc.      | 100.000    | 48.101     | 51.265     | 46.208     | 62.987     |
| The Nasdaq National Market Index | 100.000    | 139.631    | 259.134    | 157.323    | 124.202    |
| Nasdaq Telecommunications Index  | 100.000    | 163.376    | 331.181    | 151.155    | 77.179     |

| STOCK QUOTES                     | 12/31/1997 | 12/31/1998 | 12/31/1999 | 12/31/2000 | 12/31/2001 |
|----------------------------------|------------|------------|------------|------------|------------|
| Wire One Technologies, Inc.      | 9.875      | 4.750      | 5.062      | 4.563      | 6.220      |
| The Nasdaq National Market Index | 1,570.350  | 2,192.690  | 4,069.310  | 2,470.520  | 1,950.400  |
| Nasdaq Telecommunications Index  | 306.600    | 500.910    | 1,015.400  | 463.440    | 236.630    |

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### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

#### STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of Common Stock as of April 15, 2003 by each of the following:

- o each person (or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) known by us to own beneficially 5% or more of the Common Stock;
- o Wire One's directors and Named Executive Officers; and
- o all directors and executive officers of Wire One as a group.

As used in this table, "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. A person is considered the beneficial owner of securities that can be acquired within 60 days of April 15, 2003 through the exercise of any option, warrant or right. Shares of Common Stock subject to options, warrants or rights which are currently exercisable or exercisable within 60 days of April 15, 2003 are considered outstanding for computing the ownership percentage of the person holding such options, warrants or rights, but are not considered outstanding for computing the ownership percentage of any other person. The amounts and percentages are based on 29,140,721 shares of Common Stock outstanding as of April 28, 2003.

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| Name and address of beneficial owners (1)<br>-----  | Number of Shares<br>Owned (2)<br>----- | Percentage of<br>Outstanding Shares<br>----- |
|---|--|--|
| Executive Officers and Directors:   |  |  |
| Richard Reiss.....  | 5,065,850 (3)                          | 16.4%  |
| Leo Flotron.....  | 1,194,192 (4)                          | 4.0%   |
| Dean Hiltzik.....   | 158,450 (5)                            | *  |
| James Kuster.....   | 517,544 (6)                            | 1.8%   |
| Lewis Jaffe.....  | 174,500 (7)                            | *  |
| Jonathan Birkhahn.....  | 197,417 (8)                            | *  |
| Michael Sternberg.....  | 4,000 (9)                              | *  |
| Michael Toporek.....  | 6,000 (10)                             | *  |
| Christopher A. Zigmont.....   | 244,625 (11)                           | *  |
| Michael Brandofino.....   | 96,306 (12)                            | *  |
| All directors and executive officers as a group (10 people).                                | 7,658,884 (13)                         | 23.6%  |
| 5% Owners:  |  |  |
| Coghill Capital Management, L.L.C.....<br>One North Wacker, Suite 4725<br>Chicago, IL 60606 | 1,631,396 (14)                         | 5.6%   |

-----  
\* Less than 1%

- (1) Unless otherwise noted, the address of each of the persons listed is c/o Wire One Technologies, Inc., 225 Long Avenue, Hillside, NJ 07205.
- (2) Unless otherwise indicated by footnote, the named persons have sole voting and investment power with respect to the shares of Common Stock beneficially owned.
- (3) Includes 1,665,243 shares subject to presently exercisable stock options and 82,500 shares held by a trust for the benefit of Mr. Reiss's children, of which he is the trustee.

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- (4) Includes 831,192 shares subject to presently exercisable stock options.
- (5) Includes 67,700 shares subject to presently exercisable stock options.
- (6) Includes 14,500 shares subject to presently exercisable stock options. Mr. Kuster's shares also include 498,044 shares held by Crest Communications Partners, LP and Crest Entrepreneurs Fund LP. Mr. Kuster is a managing director of Crest Communications Holdings, LLC and disclaims beneficial ownership of Wire One shares held by Crest Communications Partners, LP and Crest Entrepreneurs Fund LP.
- (7) Includes 174,500 shares subject to presently exercisable stock options.
- (8) Includes 197,417 shares subject to presently exercisable stock options.
- (9) Includes 4,000 shares subject to presently exercisable stock options.
- (10) Includes 6,000 shares subject to presently exercisable stock options.
- (11) Includes 244,625 shares subject to presently exercisable stock options.
- (12) Includes 93,271 shares subject to presently exercisable stock options.
- (13) Includes 3,298,448 shares subject to presently exercisable stock options.
- (14) Ownership information is based on the Schedule 13G filed by Coghill Capital Management, L.L.C. on February 10, 2003.



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### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires executive officers and directors and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than 10% stockholders are required by regulations of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of reports we received, or written representations that no such reports were required for those persons, we believe that, for 2002, all statements of beneficial ownership required to be filed with the Securities and Exchange Commission were filed on a timely basis except as follows: one late report on Form 4 was filed for each of James Kuster and Peter Maluso in connection with their receipt of options in consideration for their attendance at meetings of the Board of Directors; one late Form 5 was filed for Laura Kenny, a former director, reporting one transaction for options she received in consideration for her attendance at Audit and Compensation Committee meetings.

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### Item 13. Certain Relationships and Related Transactions

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The landlord for our Hillside, New Jersey office is Vitamin Realty Associates, L.L.C., of which Eric Friedman, a member of our Board until June 2001, is a member. The lease term is for five years and expires on April 30, 2005. The base rental for the premises during the term of the lease is approximately \$162,000 per year. In addition, we must pay our share of the landlord's operating expenses (i.e., those costs or expenses incurred by the landlord in connection with the ownership, operation, management, maintenance, repair and replacement of the premises, including, among other things, the cost of common area electricity, operational services and real estate taxes). For the years ended December 31, 2002, 2001 and 2000, rent expense associated with this lease was \$252,000, \$295,000 and \$225,000, respectively. We believe that the lease reflects a fair rental value for the property and is on terms no less favorable than we could obtain in an arm's length transaction with an independent third party.

We receive financial and tax services from Schneider & Associates LLP, an accounting firm in which Dean Hiltzik, one of our directors, is a partner. Since Mr. Hiltzik became a director of ACC on September 15, 1999, we have incurred fees of approximately \$250,000 for services received from this firm, \$33,000 of which were incurred in 2002. We also entered into a Consulting Agreement with Mr. Hiltzik, dated January 2, 2001, for the provision of tax and financial services for one year. Mr. Hiltzik received an option to purchase 30,000 shares of Common Stock at an exercise price of \$3.94 per share pursuant to that agreement.

We entered into a one-year Consulting Agreement, commencing July 22, 2002, with Lewis Jaffe, one of our directors, pursuant to which Mr. Jaffe serves as a management consultant to Wire One in the areas of corporate development and investor relations. In consideration for these services, we granted Mr. Jaffe an

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option to purchase 50,000 shares of our Common Stock at an average exercise price of \$3.00 per share vesting in ten installments of 5,000 shares per month commencing September 30, 2002. We entered into a one-year Consulting Agreement, dated September 21, 2001, with Mr. Jaffe pursuant to which Mr. Jaffe served as a management consultant to Wire One in the areas of corporate development and investor relations. In consideration for these services, we granted Mr. Jaffe an option to purchase 30,000 shares of our Common Stock at an exercise price of \$5.16 per share.

In March 2002, Wire One made a recourse loan to Leo Flotron, a member of our Board of Directors, in the amount of \$69,960 with a 5.25% rate of interest. We extended the loan to Mr. Flotron to enable him to exercise options (scheduled to expire imminently) to purchase 33,000 shares of Common Stock. Mr. Flotron repaid the loan in full in March 2003.

We entered into a consulting agreement dated as of March 7, 2003 with Innovative Strategies & Management, of which Michael Sternberg, one of our directors, is the managing partner. Pursuant to this agreement, Innovative Strategies & Management will provide consulting services related to our Glowpoint business in consideration for \$24,000.

### Item 14. Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14 of the Rules promulgated under the Securities Exchange Act of 1934, as amended) as of a date within 90 days of the filing date of this report, our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures and have concluded that these disclosure controls and procedures are effective. This conclusion is based on their evaluation as of the evaluation date. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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## PART IV

### Item 15. Exhibits, Financial Statement Schedules and Reports On Form 8-K

#### A. List of documents filed as part of this Report:

##### 1. Financial Statements included in Item 8:

- Report of Independent Certified Public Accountants
- Consolidated Balance Sheets as of December 31, 2002 and 2001
- Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000.
- Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000

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### -Notes to Consolidated Financial Statements

No schedules are included because the required information is inapplicable or is presented in the consolidated financial statements or related notes thereto.

#### 2. Exhibits

The exhibits listed on the accompanying Index of Exhibits are filed as part of this Annual Report.

#### B. Reports on Form 8-K.

None.

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### EXHIBIT INDEX

| Exhibit<br>Number<br>----- | Description<br>-----  |
|----------------------------|---|
| 3.1                        | Amended and Restated Certificate of Incorporation. (1)  |
| 3.2                        | Certificate of Amendment of View Tech, Inc. changing its name to Wire One Technologies, Inc. (2)  |
| 3.3                        | Amended and Restated Bylaws. (1)  |
| 4.1                        | Specimen Common Stock Certificate. (2)  |
| 10.1                       | Wire One Technologies, Inc. 2000 Stock Incentive Plan. (3)  |
| 10.2                       | Asset Purchase Agreement, dated July 21, 2000, among Wire One Technologies, Inc., 2Confer L.L.C. and its members. (2)   |
| 10.3                       | Asset Purchase Agreement, dated October 6, 2000, among Wire One Technologies, Inc., Johns Brook Co., Inc. and its stockholders, as amended. (6)   |
| 10.4                       | Asset Purchase Agreement, dated May 30, 2001, among Wire One Technologies, Inc., GeoVideo Networks, Inc., Thomas Weisel Capital Partners LLC, Crest Communications Partners LP, East River Ventures II LP and Lucent Technologies, Inc. (4) |
| 10.5                       | Form of Class A Warrant to Purchase Common Stock of Wire One Technologies, Inc. (4)   |
| 10.6                       | Form of Class B Warrant to Purchase Common Stock of Wire One Technologies, Inc. (4)   |
| 10.7                       | Asset Purchase Agreement, dated as of July 17, 2001, among Wire One Technologies, Inc., Advanced Acoustical Concepts, Inc., Lawrence F. Miller, William Othick and Wayne Lippy. (5)   |
| 10.8                       | Form of Subscription Agreement, dated August 8, 2001. (6)   |
| 10.9                       | Form of Warrant to Purchase Common Stock, dated August 8, 2001.   |

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- (6)
- 10.10 Form of Warrant to Purchase Common Stock, dated August 8, 2001.  
(6)
- 10.11 Form of Registration Rights Agreement dated as of August 8, 2001  
between Wire One Technologies, Inc. and the investors listed on  
the signature pages thereto. (6)
- 10.12 Asset Purchase Agreement, dated as of November 26, 2001, among  
Wire One Technologies, Inc., Axxis, Inc. and the shareholders of  
Axxis, Inc. listed on the signature page thereto. (7)
- 10.13 Placement Agreement, dated January 2, 2002, between Wire One  
Technologies, Inc. and H.C. Wainwright & Co., Inc. (8)
- 10.14 Form of Purchase Agreement for the purchase and sale of Common  
Stock and warrants to purchase Common Stock, dated January 10,  
2002, between Wire One Technologies, Inc. and the purchasers party  
thereto. (8)
- 10.15 Form of Warrant to purchase Common Stock, dated January 10, 2002.  
(9)
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- 10.16 Lease Agreement for premises located at 225 Long Avenue, Hillside,  
New Jersey, dated March 20, 1997, between All Communications  
Corporation and Vitamin Realty Associates, L.L.C. (10)
- 10.17 First Amendment to Lease Agreement, dated as of December 1997,  
between All Communications Corporation and Vitamin Realty  
Associates, L.L.C. (1)
- 10.18 Second Amendment to Lease Agreement, dated as of December 20,  
1999, between All Communications Corporation and Vitamin Realty  
Associates, L.L.C. (1)
- 10.19 Fourth Amendment to Lease Agreement, dated as of August 29, 2000,  
between All Communications Corporation and Vitamin Realty  
Associates, L.L.C. (3)
- 10.20 Amended and Restated Loan and Security Agreement, dated as of June  
1, 2000, among Wire One Technologies, Inc., AllComm Products Corp.  
and Summit Commercial/Gibraltar Corp. (2)
- 10.21 Form of Warrant to purchase Common Stock, dated June 14, 2000.  
(11)
- 10.22 Employment Agreement with Richard Reiss. (12)
- 10.23 Employment Agreement with Leo Flotron. (12)
- 10.24 Employment Agreement with Jonathan Birkhahn. (12)
- 10.25 Employment Agreement with Christopher Zigmont. (12)
- 10.26 Employment Agreement with Michael Brandofino. (12)

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- 10.27 Employment Agreement with Kelly Harman. (12)
- 10.28 Amendment to Employment Agreement with Richard Reiss, dated as of April 24, 2002. (13)
- 10.29 Lease Agreement for premises located at 4600 Lyons Road, Miamisburg, Ohio, dated December, 21, 2002, between Wire One Technologies, Inc. and Key Property Development Corporation. (13)
- 10.30 First Amendment to Lease Agreement, dated as of February 11, 2003, between Wire One Technologies, Inc., Key Property Development Corporation and Maue-Lyons Associates, Ltd. (13)
- 10.31 Employment Agreement with Lewis Jaffe, dated as April 24, 2003. (13)
- 10.32 Amendment to Employment Agreement with Michael Brandofino, dated as of April 24, 2002. (13)
- 10.33 Credit Agreement dated as of May 31, 2002, among Wire One Technologies, Inc., as Borrower, The Lenders Party hereto, and JPMorgan Chase Bank, as Administrative and Collateral Agent and Arranger. (14)
- 10.34 Amendment Agreement No. 1 to the Credit Agreement with JPMorgan Chase Bank. (15)
- 10.35 Amendment to Employment Agreement with Richard Reiss, dated as of July 30, 2002. (15)
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- 10.36 Amendment to Employment Agreement with Leo Flotron, dated as of July 30, 2002. (15)
- 10.37 Amendment to Employment Agreement with Jonathan Birkhahn, dated as of July 30, 2002. (15)
- 10.38 Amendment to Employment Agreement with Christopher Zigmont, dated as of July 30, 2002. (15)
- 10.39 Amendment to Employment Agreement with Michael Brandofino, dated as of July 30, 2002. (15)
- 10.40 Amendment to Employment Agreement with Kelly Harman, dated as of July 30, 2002. (15)
- 10.41 Consulting Agreement, dated July 22, 2002, between Wire One Technologies, Inc. and Lewis Jaffe. (15)
- 10.42 Waiver and Amendment Agreement No. 2 to the Credit Agreement with JPMorgan Chase Bank. (16)
- 10.43 Warrant to Purchase Common Stock of Wire One Technologies, Inc. issued to JPMorgan Chase Bank on November 13, 2002. (16)
- 10.44 Amendment Agreement No. 3 to the Credit Agreement with JPMorgan Chase Bank. (16)

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- 10.45 Form of Subordinated Convertible Promissory Note. (17)
  - 10.46 Form of Warrant to Purchase Shares of Common Stock of Wire One Technologies, Inc. (17)
  - 10.47 Registration Rights Agreement dated as of December 17, 2002, between Wire One Technologies, Inc. and the Purchasers set forth therein. (17)
  - 10.48 Note and Warrant Purchase Agreement dated as of December 17, 2002, between Wire One Technologies, Inc. and the Purchasers set forth therein. (17)
  - 10.49 Amendment to Employment Agreement with Richard Reiss, dated as of January 1, 2003. (18)
  - 10.50 Amendment to Employment Agreement with Leo Flotron, dated as of January 1, 2003. (18)
  - 10.51 Amendment to Employment Agreement with Christopher Zigmont, dated as of January 1, 2003. (18)
  - 10.52 Amendment to Employment Agreement with Michael Brandofino, dated as of January 1, 2003. (18)
  - 10.53 Consulting Agreement with Jonathan Birkhahn, dated January 21, 2003. (18)
  - 10.54 Consulting Agreement with Kelly Harman, dated January 21, 2003. (18)
  - 10.55 Third Amendment to Lease Agreement, dated as of June 1, 2000, between All Communications Corporation and Vitamin Realty Associates, L.L.C. (19)
  - 10.56 Fifth Amendment to Lease Agreement, dated as of May 1, 2001, between Wire One Technologies, Inc. and Vitamin Realty Associates, L.L.C. (19)
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- 10.57 Sixth Amendment to Lease Agreement, dated as of May 1, 2002, between Wire One Technologies, Inc. and Vitamin Realty Associates, L.L.C. (19)
  - 10.58 Amendment No. 4 to the Credit Agreement with JPMorgan Chase Bank. (19)
  - 10.59 Asset Purchase Agreement, dated March 7, 2003, between Wire One Technologies, Inc. and Signal Perfection Limited. (19)
  - 10.60 Warrant to Purchase Common Stock issued to JPMorgan Chase on March 6, 2003 (20)
  - 21.1 Subsidiaries of Wire One Technologies, Inc. (2)
  - 23.1 Consent of BDO Seidman, LLP. (20)
  - 99.1 CEO Certification (20)

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99.2 CFO Certification (20)

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- (1) Filed as an appendix to View Tech Inc.'s Registration Statement on Form S-4 (File No. 333-95145) and incorporated herein by reference.
  - (2) Filed as an exhibit to Wire One Technologies, Inc.'s Registration Statement on Form S-1 (Registration No. 333-42518), and incorporated herein by reference.
  - (3) Filed as an exhibit to Wire One Technologies, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2000, and incorporated herein by reference.
  - (4) Filed as an exhibit to Wire One Technologies, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001, and incorporated herein by reference.
  - (5) Filed as an exhibit to Wire One Technologies, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 1, 2001, and incorporated herein by reference.
  - (6) Filed as an exhibit to Wire One Technologies, Inc.'s Registration Statement on Form S-3 (Registration No. 333-69432), and incorporated herein by reference.
  - (7) Filed as an exhibit to Wire One Technologies, Inc.'s Registration Statement on Form S-3 (Registration No. 333-74484), and incorporated herein by reference.
  - (8) Filed as an exhibit to Wire One Technologies, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2002, and incorporated herein by reference.
  - (9) Filed as an exhibit to Wire One Technologies, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 15, 2002, and incorporated herein by reference.
  - (10) Filed as an exhibit to All Communications Corporation's Registration Statement on Form SB-2 (Registration No. 333-21069), and incorporated herein by reference.
  - (11) Filed as an exhibit to Wire One Technologies, Inc.'s Current Report on Form 8-K, dated June 10, 2000, and incorporated herein by reference.
  - (12) Filed as an exhibit to Wire One Technologies, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and incorporated herein by reference.
  - (13) Filed as an exhibit to Wire One Technologies, Inc.'s Quarterly Report on Form 10-Q for the fiscal year quarter ended March 31, 2002, and incorporated herein by reference.

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- (14) Filed as an exhibit to Wire One Technologies, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 11, 2003, and incorporated herein by reference.
- (15) Filed as an exhibit to Wire One Technologies, Inc.'s Quarterly Report on Form 10-Q for the fiscal year quarter ended June 30, 2002, and incorporated

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herein by reference.

- (16) Filed as an exhibit to Wire One Technologies, Inc.'s Quarterly Report on Form 10-Q for the fiscal year quarter ended September 30, 2002, and incorporated herein by reference.
- (17) Filed as an exhibit to Wire One Technologies, Inc.'s Current Report on Form 8-K, dated December 23, 2003, and incorporated herein by reference.
- (18) Filed as an exhibit to Wire One Technologies, Inc.'s Registration Statement on Form S-3 (Registration No. 333-103227), and incorporated herein by reference.
- (19) Previously filed.
- (20) Filed herewith.

SIGNATURES

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

WIRE ONE TECHNOLOGIES, INC.

Date: April 30, 2003

By: /s/ Richard Reiss

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Richard Reiss  
Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard Reiss and Christopher Zigmont jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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 as of this 30th day of April 2003 in the capacities indicated.

Signature

Title

/s/ Richard Reiss  
-----  
Richard Reiss

Chairman and Chief Executive Officer (Principal Executive Officer)



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|  |  |  |
|--|--|--|
| /s/ Christopher Zigmont*<br>-----<br>Christopher Zigmont             | Chief Financial Officer (Principal Financial and Accounting Officer) |  |
| /s/ Leo Flotron*<br>-----<br>Leo Flotron                             | President, Chief Operating Officer and Director                      |  |
| /s/ Jonathan Birkhahn*<br>-----<br>Jonathan Birkhahn                 | Director   | /s/ Dean Hiltzik*<br>-----<br>Dean Hiltzik           |
| /s/ Lewis Jaffe*<br>-----<br>Lewis Jaffe                             | Director   | /s/ James Kuster*<br>-----<br>James Kuster           |
| /s/ Michael Toporek*<br>-----<br>Michael Toporek                     | Director   | /s/ Michael Sternberg*<br>-----<br>Michael Sternberg |
| *By: /s/ Richard Reiss<br>-----<br>Richard Reiss<br>attorney-in-fact |  |  |

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CERTIFICATIONS

I, Richard Reiss, certify that:

1. I have reviewed this annual report on Form 10-K of Wire One Technologies, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us

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by others within those entities, particularly during the period in which this annual report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Richard Reiss  
-----  
Chief Executive Officer

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I, Christopher A. Zigmont, certify that:

- 1. I have reviewed this annual report on Form 10-K of Wire One Technologies, Inc.;
- 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

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3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Christopher A. Zigmont

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Executive Vice President and  
Chief Financial Officer

