Inventories Inventories are stated at the lower of cost (first-in, first-out) or market and include purchased parts, labor and manufacturing overhead. Inventories consisted of the following (in thousands):

December 31,	1993	1992
Raw materials and component parts	$ 1,853	$ 1,294
Work-in-process	732	268
Finished goods and consigned inventory	101	240
Total	$ 2,686	$ 1,802

Fixed Assets Fixed Assets are stated at cost and are depreciated using the straight-line method over the shorter of their estimated useful lives of three to five years or the lease term. Fixed assets consisted of the following (in thousands):

December 31,	1993	1992
Machinery and equipment	$ 1,317	$ 1,073
Furniture and fixtures	484	459
Leasehold improvements	189	170
	1,990	1,702
Less–Accumulated depreciation and amortization	(1,132)	(820)
Total	$ 858	$ 882

Other Accrued Liabilities Other accrued liabilities consisted of the following (in thousands):

December 31,	1993	1992
Employee Stock Purchase Plan	$ 151	$ 81
Royalties	183	142
Sales taxes	150	34
Other	256	141
Total	$ 740	$ 398

Research and Development Expenditures Research and development expenditures are charged to operations as incurred.

Income Taxes Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," on a prospective basis. Under SFAS No. 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted tax rate. The adoption of this standard did not have a material impact on the consolidated financial statements.

Related Party Transactions As of December 31, 1993 and 1992, the Company had notes receivable from officers of the Company in connection with relocation agreements for $104,000 and $145,000, respectively. The notes, which are included in other assets in the accompanying consolidated balance sheets, bear interest at annual rates between 3.61% and 4.02% and are either due or repayable in one to four years.

Net Loss Per Share Net loss per share data has been computed using the weighted average number of shares of common stock and common equivalent shares from convertible preferred stock (even when anti-dilutive using the if converted method) that converted to common stock upon the closing of the Company's initial public offering. Pursuant to the Securities and Exchange Commission's Staff Accounting Bulletins, common and common equivalent shares issued during the 12-month period prior to the Company's initial public offering in 1992 at prices below the offering price have been included in the calculations as if they were outstanding for all periods prior to the offering.

2. Development Contracts

In October 1992, the Company entered into a development and supply agreement with Southern California Edison ("SCE") which superseded a prior agreement in force since 1986. Under the terms of the new agreement, SCE will provide the Company with funding for certain development activities, and will receive certain product royalties and discounts. Although SCE will be entitled to utilize the technology for its own internal purposes, the Company will retain title to the developed technology.

The agreement with SCE specifically provides for:

- Terms and conditions for all reimbursed research and development work and product sales to SCE.
- Agreement by the Company to pay a royalty of 2% of its annual gross revenues on sales or leases to third parties of contractual products for utility and non-utility applications, as defined. The royalty payment is to be made annually, subject to certain limitations which can cause the payment to be accrued but unpaid. The royalty payments shall cease to accrue after 25 years from the date of the last reimbursement of development activities. As of December 31, 1993 royalties of approximately $169,000 were accrued in the accompanying consolidated balance sheet.
- Agreement by the Company to give specified discounts to SCE on future purchases of standard commercial equipment for 15 years.

The Company also entered into development contracts having similar license and royalty revenue provisions with two other utilities. No significant liabilities for royalties under these contracts existed as of December 31, 1993.

For the years ended December 31, 1993, 1992 and 1991, combined product and development contract revenues from SCE accounted for 79%, 52% and 66%, respectively, of total revenues. For the year ended December 31, 1992, combined product and development contract revenues from a different electric utility company accounted for 12% of total revenues. No other customer accounted for more than 10% of total revenues in 1993, 1992 or 1991.

3. Commitments

During 1991, the Company entered into a new facility lease agreement. The agreement provides for escalating rent payments over a 12-year term beginning February 1992. Rent expense is recognized ratably over the lease term. As of December 31, 1993, the Company had accrued $392,000 of deferred rental payments under this agreement which are included in long-term obligations on the accompanying consolidated balance sheet. The Company also leases various equipment under operating lease agreements. Approximate future minimum rental payments as of December 31, 1993 under operating lease agreements are as follows (in thousands):

1994	$ 576
1995	612
1996	678
1997	678
1998	675
Thereafter	3,632
Total	$ 6,851

Rent expense for the years ended December 31, 1993, 1992 and 1991 was approximately $644,000, $575,000 and $340,000, respectively.

4. Common stock

In October 1993, the Company completed two private placements for the sale of 1,166,667 and 75,000 shares of common stock at $15.00 and $15.25 per share, respectively, for aggregate net proceeds of approximately $18,597,000.

In May 1992, the Company completed its initial public offering. The Company sold 1,725,000 shares of common stock at $6.00 per share for net proceeds of approximately $8,817,000. Previously outstanding shares of Series A and Series C preferred stock were converted into shares of common stock at a rate of one-for-one and one for 1.07441, respectively.

Common Stock Warrants In connection with an October 1993 private placement, the Company issued an investor a warrant to purchase 408,333 shares of common stock at $20.00 per share. This warrant was exercised in January 1994.

In February and March 1993, the Company issued warrants to purchase a total of 450,000 shares of common stock at $5.75 per share in exchange for certain investment banking services. These warrants are exercisable in cash, expire five years from the date of issuance and provide for certain registration rights.

Upon closing of the Company's initial public offering, warrants to purchase 368,000 shares of Series C preferred stock at $7.81 per share were converted to warrants to purchase 395,541 shares of common stock at $7.27 per share. These warrants are exercisable immediately and expire in May 1996. During 1993, warrants to purchase 57,648 shares of common stock were exercised.

Stock Options In March 1988, the Company adopted, and the stockholders approved, the 1988 Stock Option Plan. Under the plan, the Company is authorized to grant up to 2,869,500 incentive or nonqualified stock options to purchase shares of common stock. Incentive stock options may be granted to employees at prices not lower than the market value at the date of grant. Nonqualified stock options may be granted to employees, officers, directors and consultants at prices not lower than 85% of the market value at the date of the grant. Options granted under the plan are exercisable at any time, as determined by the Board of Directors, and will expire no later than ten years from the date of grant. Options generally vest 25% after the first year and ratably over the following three years. The Company has the right to repurchase any or all of the unvested shares in the event of termination of employment.

In February 1993, the Company adopted, and the stockholders approved, the 1993 Non-Employee Directors' Stock Option Plan. Under the plan, the Company is authorized to grant up to 200,000 incentive or nonqualified stock options to purchase shares of common stock at the market value at the date of grant. Options granted under the plan are exercisable in three equal annual installments commencing one year from the date of grant.

The Company issued options to purchase 15,625 shares of common stock that had previously been repurchased by the Company. The options were exercised at a price of $1.00 per share during 1992.

Stock option activity under the 1993 Non-Employee Directors' Stock Option Plan and the 1988 Stock Option Plan for the fiscal years ended December 31, 1993, 1992 and 1991 was as follows:

	Shares Available for Future Grant	Options Outstanding	Exercise Price
Balance, December 31, 1990	361,292	279,836	$ .20 – $ 3.00
Authorized	400,000	–	–
Grants	(604,500)	604,500	$3.00 – $ 5.00
Exercises	–	(6,870)	$1.00 – $ 3.00
Cancellations	52,630	(52,630)	$1.00 – $ 3.00
Balance, December 31, 1991	209,422	824,836	$ .20 – $ 5.00
Authorized	–	–	–
Grants	(22,500)	22,500	$4.88 – $ 6.00
Exercises	–	(74,132)	$ .20 – $ 3.00
Cancellations	102,449	(102,449)	$1.00 – $ 5.00
Balance, December 31, 1992	289,371	670,755	$ .20 – $ 6.00
Authorized	1,590,000	–	–
Grants	(916,500)	916,500	$6.19 – $24.25
Exercises	–	(71,693)	$ .20 – $ 6.19
Cancellations	11,563	(11,563)	$3.00 – $ 4.88
Balance, December 31, 1993	974,434	1,503,999	$ .20 – $24.25

As of December 31, 1993, options to purchase 360,269 shares of common stock were vested.

During 1993, the Company issued members of the Advisory Board options to purchase 75,000 shares of common stock at per share prices ranging from $10.69–$19.75, which represented the market value at the date of grant. These options vest 25% after the first year and ratably over the following three years and will terminate no later than ten years from the date of grant.

Stock Purchase Plan In 1991, the Board of Directors adopted the 1991 Employee Stock Purchase Plan (the "Purchase Plan"). An aggregate of 150,000 shares of common stock have been reserved for issuance under the Purchase Plan. Employees may designate up to 15% of their earnings, as defined, to purchase shares at 85% of the lesser of the fair market value of the common stock at the beginning of the offering period or on any purchase date during the offering period, as defined. During 1993, 29,241 shares were issued under this plan.

Common Stock Reserved for Future Issuance As of December 31, 1993, the Company has reserved the following shares of common stock for future issuance:

Exercise of stock options	2,553,433
Exercise of common stock warrants	1,196,226
Stock purchase plan	120,759
Total	3,870,418

5. 401(K) plan

In November 1987, the Company adopted a tax-qualified savings and retirement plan (the "401(k) Plan"). Pursuant to the terms of the 401(k) Plan, employees may elect to contribute up to 15% of their gross compensation. The Company matches employee contributions at the rate of 50% for the first $2,000 contributed. Contributions by the Company to date have not been material.

6. Income taxes

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets at December 31, 1993 are as follows:

Tax Effect (in thousands)

Deferred tax assets:	
Reserves and other	$ 645
Capitalized research and development	221
Total	866
NOL and other carryforwards	4,811
Valuation allowance	(5,677)
Total	$ 0

At December 31, 1993, a valuation allowance was provided for the net deferred tax assets as a result of uncertainties regarding their realization. During 1993, the valuation allowance increased by approximately $2,800,000 primarily as a result of additional losses during the year. Approximately $665,000 of the valuation allowance will be credited directly to stockholders' equity and will not be available to reduce the provision for income taxes in future years.

At December 31, 1993, the Company had net operating loss carryforwards for Federal and California income tax purposes of approximately $13,000,000 and $4,500,000, respectively. These carryforwards expire at various times through 2008. The Internal Revenue Code contains provisions which may limit the net operating loss carryforward available to be used in any given year based upon the occurrence of certain events, including significant changes in ownership interests.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Metricom, Inc.:

We have audited the accompanying consolidated balance sheets of Metricom, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1993 and 1992 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. 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 generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of Metricom, Inc. and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

Arthur Andersen + Co.

San Jose, California
January 21, 1994

Corporate Directory

Board of Directors

Cornelius C. Bond, Jr.
Chairman of the Board
General Partner
New Enterprise Associates
A Venture Capital Firm

Paul Baran
Founder
Metricom, Inc.

Robert S. Cline
Chairman and
Chief Executive Officer
Airborne Express

Robert P. Dilworth
President
Chief Executive Officer
Metricom, Inc.

Frank W. Griffith
Retired Chairman and
Chief Executive Officer
Midwest Energy

George W. Levert
Vice President
Managing Director
Arete Ventures, Inc.
A Venture Capital Firm

Donald Rumsfeld
Former Congressman
and Secretary of Defense

Michael B. Slade
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and Chief Executive Officer
Starwave Corporation

Robert M. Smelick
Co-Founder
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Department of Computer
and Information Science
University of Pennsylvania

Newton N. Minow
Attorney at Law
Sidley and Austin

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Wireless Services Division

William D. Swain
Chief Financial Officer
Secretary

Gary M. Green
Executive Vice President
Chief Operating Officer

LeRoy D. Nosbaum
Executive Vice President
Marketing

Stephanie F. Hilliard
Vice President
Corporate Development

General Counsel

Cooley Godward Castro
Huddleson & Tatum
Palo Alto, California

Independent Public Accountants

Arthur Andersen & Co.
San Jose, California

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Facsimile: (408) 354-1024

U.S. Sales Offices

Eastern Regional Sales Office
Lewisville, Texas
(214) 436-8309

Eastern Field Operations
Jefferson, Georgia
(706) 367-2228

Transfer Agent and Registrar

The First National Bank of Boston
Boston, Massachusetts

Form 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission, is available on request.

Corporate and Investor Information

Please direct inquiries to:
Investor Relations Department
Metricom, Inc.
980 University Avenue
Los Gatos, CA 95030-2375

Annual Meeting

The annual meeting of stockholders of Metricom, Inc. will be held at 11:00 a.m. on May 10, 1994 at Metricom's corporate headquarters. All stockholders are encouraged to attend.

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Metricom, Inc.

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