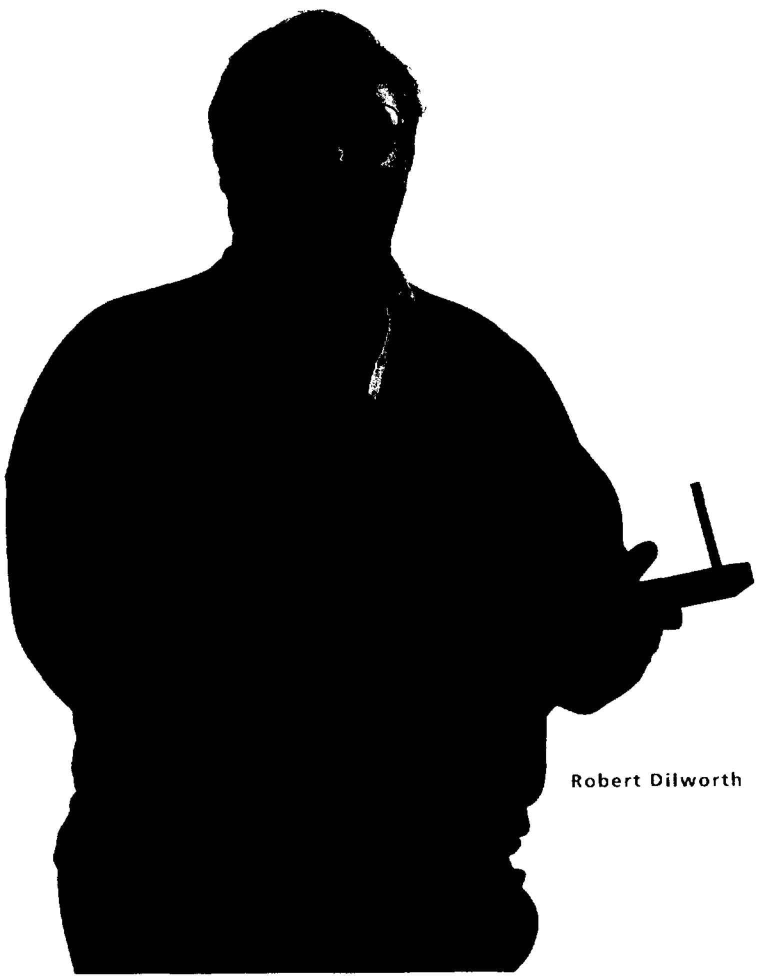
Brian Salisbury

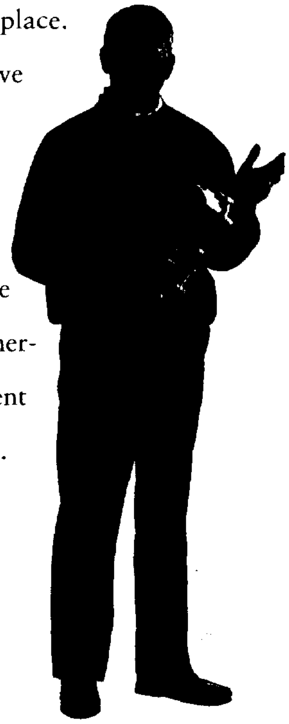
# The **wireless**



Robert Dilworth

If 1993 is any indication – and we believe it is – Metricom's technology, products, and services will play an increasingly important role in the now-emerging wireless world. To broaden our focus beyond selling private communications networks to utilities, we've made substantial investments over the past year in the development of a wireless data communications service that will support a broad spectrum of wireless applications.

of applications and to place this capability into the hands of a much broader audience. Our long-term strategy is to become the major player in the personal wireless data communications marketplace. We recognize that we have much work ahead of us. We're confident, however, that we now have the technology, and we're putting in place the partnerships, and the management to help us reach our goal.


LeRoy Nosbaum

# **generation** is *here.*

We made significant progress during the year with our Utilinet business establishing the widespread viability of wireless solutions for 15 electric utility companies across the U.S., and we're just as pleased that this innovative technology is now being used in the wastewater and natural gas industries. Even more promising is the progress we've made in the development of our MicroCellular Data Network called Ricochet.™ Metricom's goal is to use Ricochet to make wireless data communications possible for a broad range

**Financial Summary.**
Notable in 1993 was a $17.5-million equity investment from Vulcan Ventures, Inc., an affiliate of Paul Allen, a Seattle investor and co-founder of Microsoft Corporation. We plan to use the capital for the development and initial roll-out of Ricochet services in the largest metropolitan areas in the United States, beginning with the San Francisco Bay Area during 1994.

For the year ending December 31, 1993, Metricom reported revenue of

$10.1 million compared with $6.4 million in 1992, and a net loss of $6.1 million, or $0.74 per share, compared with a net loss of $4.5 million, or $0.61 per share, for the same period last year. This loss represents Metricom's investment in the development of the UtiliNet business and the development of Ricochet products.

In March 1994, we completed an additional common stock offering. Net proceeds from this offering will be used to finance the further development, deployment, and start-up costs of the Ricochet business.

**UtiliNet Business Gains Momentum.**

During 1993, Metricom's private wireless solutions for utility and industrial applications gained momentum. Current trial customers began expanding their networks – moving from pilot to large-scale projects – and we successfully forged into two new markets: wastewater and natural gas. Product revenue to date has been obtained primarily from the electric utility industry, an area of our business that we believe will continue to provide solid growth. We received initial orders from two new electric utility customers during the fourth quarter: Potomac Electric Power Co. and Scarborough Public Utility Commission in Canada. The year ended with a $7-million contract extension supporting first quarter 1994 shipments for Southern California Edison's two-year project to install a wireless data communications network across its service territory.

We delivered our first UtiliNet communications pilot networks for the natural gas industry to Halliburton Energy Services and Tenneco Gas. In the wastewater industry, we won contracts from the Metropolitan Sewer District of Cincinnati and the Oakland County Department of Public Works in Michigan. In each application, the UtiliNet data network set new standards in cost-effective wireless solutions for sophisticated data communication networks. As we continue commercial deployment of our UtiliNet products, we are establishing a partners program that will encourage third-party equipment manufacturers to offer UtiliNet compatible products.

**Ricochet Plans Progress Rapidly.**

During 1993, we made significant progress in Ricochet product development. We also received considerable media and analyst attention regarding our plans for providing wide-area wireless data communications services to a variety of subscribers, including portable computer users remotely accessing corporate networks, electronic mail systems, the Internet, and on-line services. During the year, we completed our alpha test at Apple Computer and began beta testing of Ricochet at a number of locations – including Stanford University, Apple Computer, Compaq Computer Corporation, and Microsoft Corporation. Ricochet will provide service at higher data rates, lower costs, and be more easily used than other currently available wireless data communications services. In addition, it will provide us with a monthly recurring revenue stream, and be priced to the customer at a flat monthly rate based on speed and priority.

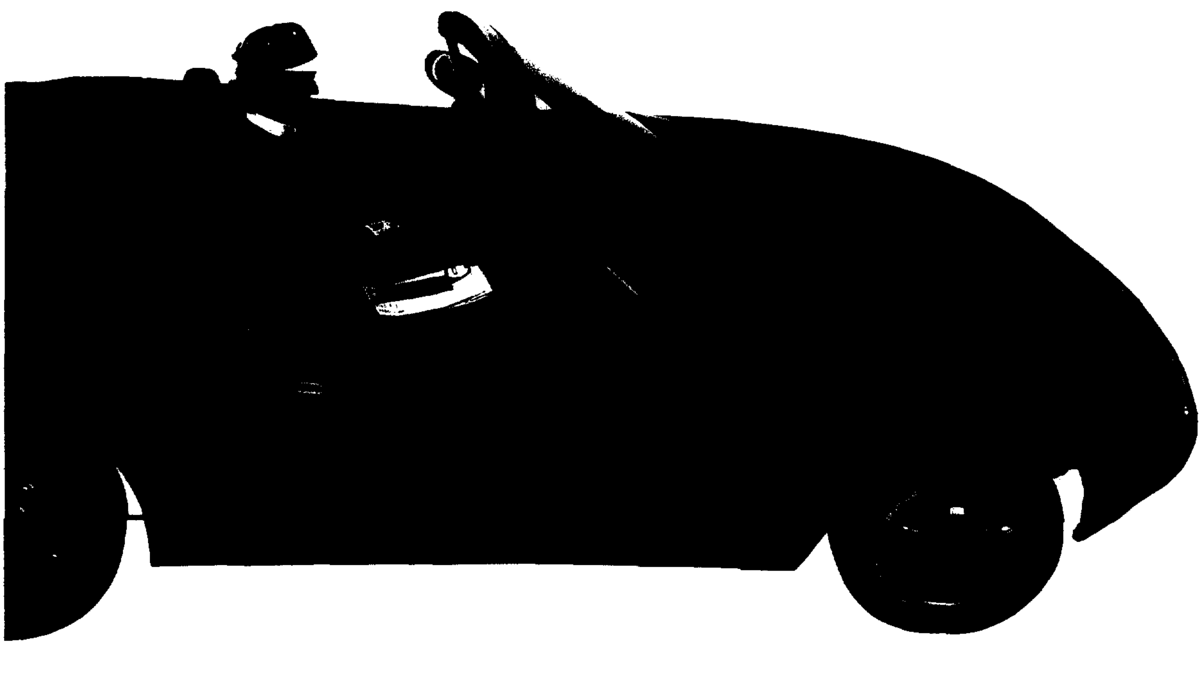
In late December, we announced that Brian Salisbury, formerly president of Bell Mobility ARDIS, would join Metricom in the new year as president of our newly created Wireless Services Division. During his tenure at Bell Mobility ARDIS – Canada's national wireless data network – Salisbury helped grow the business from a specialized regional operation to a nationwide public network. His experience will be instrumental in the commercialization of our Ricochet business.

As always, we will continue to invest heavily in development of our technology. We are positioning Metricom for long-term growth as a dominant provider of wide-area wireless data communications solutions. To further encourage the acceptance of Ricochet services and UtiliNet products, we will continue to pursue partnerships and alliances that will enable us to leverage our existing resources and to accelerate product development and deployment. Internationally, we're pursuing other joint ventures and strategic alliances as well.

It was a great year for Metricom – thanks to the efforts of an outstanding group of employees. We're confident that the efforts of this dedicated team will ensure our success in the wireless world. There can be little doubt that the wireless generation is here.

**Robert Dilworth**
President and Chief Executive Officer

# The new **wireless generation** will have instant access

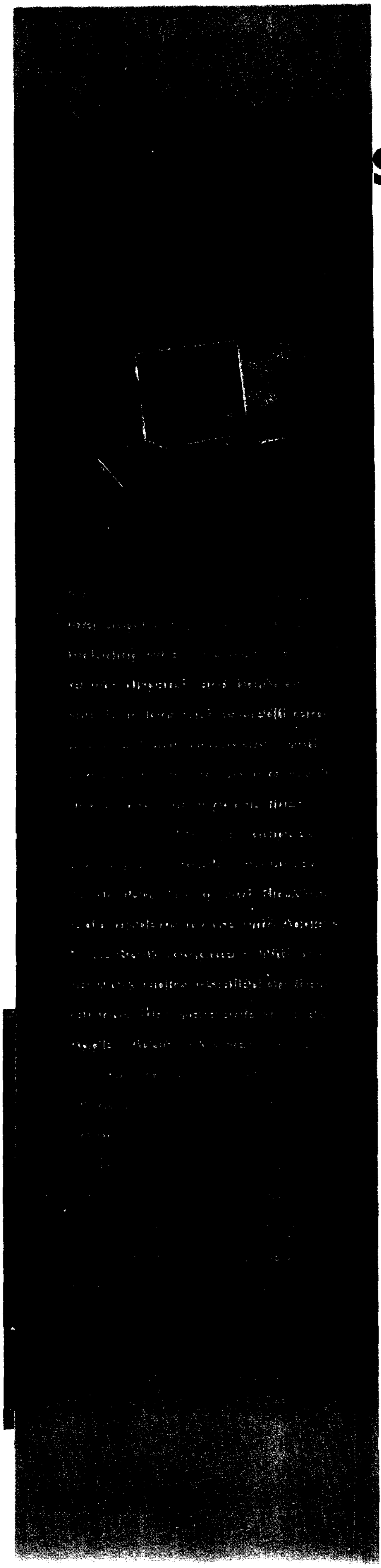


It's 8 a.m. You're already late for a client appointment and don't have a minute to spare. The one document you need is at the office, where you left it last night, but you're still at home. As you prepare to head out the door, you tap a button on your laptop computer and select the name of the document from a list that appears on your screen. By the time you've backed the car out of the driveway, the file has been transferred to you wirelessly, and you confidently head off to your meeting. A few hours later, you have some idle time at a customer site. Sitting in your car in the parking lot, you enter new leads into your laptop computer's customer "hot" list. It is here that inspiration strikes. You've got a great idea for marketing your latest product and you need an audience now. You quickly compose an e-mail note,

n

# to information – **anywhere, anytime.**

and wirelessly transmit it to the LAN at the home office. No plugs, no phone jacks, no modem lines are in sight. This is just part of the potential of wireless data communications from Metricom. And it will be here sooner than you think. We've devoted this year's annual report to talking about our core technology and our plans to bring wireless data communications solutions to individuals and businesses around the corner – and around the world.



# s Applications

## Forrester Research, Inc., Cambridge, Mass. asked: "Can Metricom start a revolution? Yes. Metricom has touched a nerve. This outrageously

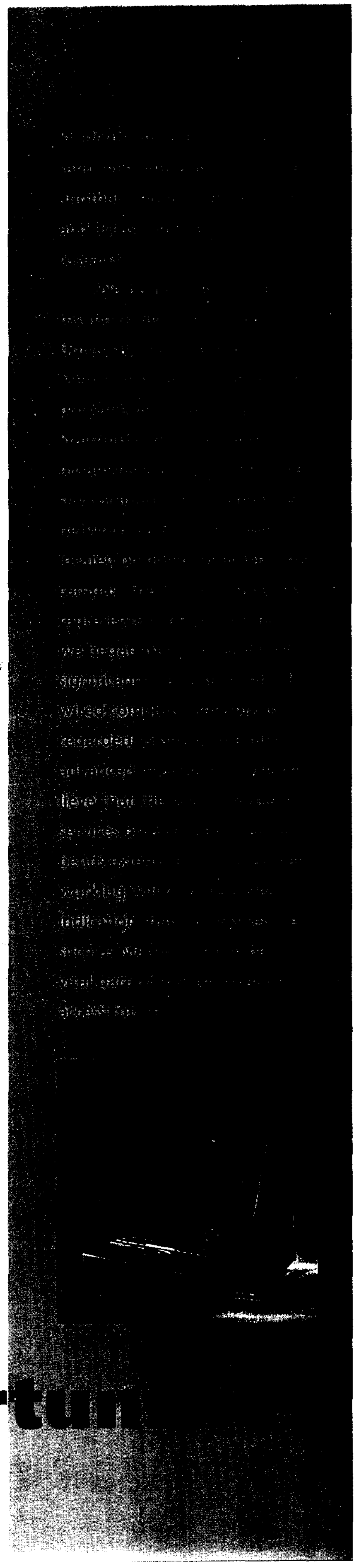
cheap approach will carve out a niche for small regional nets. By doing so, it will prove that some customers do not care what radio is under the covers, or how large the network is. Instead, it will show what customers want ... faster wireless, low-cost service, and an alternative to dial-up."

From the start, we took a different approach to wide-area wireless data communications. We used spread spectrum technology, so our networks could operate in a part of the radio spectrum set aside by the FCC for license-free use. We quickly realized that the very low-cost, mesh networking technology we had initially developed for the electric utility industry could be used to provide wide-area wireless data communications services for a variety of applications. We increased the data rate to 77 kilobits per second – several times faster than other existing or announced wireless data communications networks – and provided transparent interfaces (telephone modem, TCP/IP) that allow the use of off-the-shelf software packages such as Lotus cc:Mail Mobile, AppleLink Remote, America Online, and Internet access software such as Chameleon.

The result is our wireless networking service that is faster, easier to use, and far less expensive than any other wide-area wireless service.

Ricochet will operate as a subscriber-based, wide-area wireless data communications service designed for users of portable computers – those who require access to corporate networks, electronic mail systems, and on-line services. Other applications will include point of sale, delivery service dispatch, and workgroup communications. Initially, we will install small, localized networks, utilizing network radios in the density required to meet actual subscriber demand. Next, we will merge these localized networks into metropolitan area networks, and expand the Metricom service to the largest metropolitan areas in the United States. Through the use of high-speed, third-party wired networks, we'll establish links between metropolitan areas and support subscribers who roam outside of their particular metropolitan area.

Individual subscribers will access the Metricom network via compact wireless radio modems about the size of a TV remote control. We're also working on smaller radio modems as well. Already, we have beta test sites at Stanford University, Apple Computer, Compaq Computer, Microsoft Corporation, with more planned in the future.



# Educational Oppor

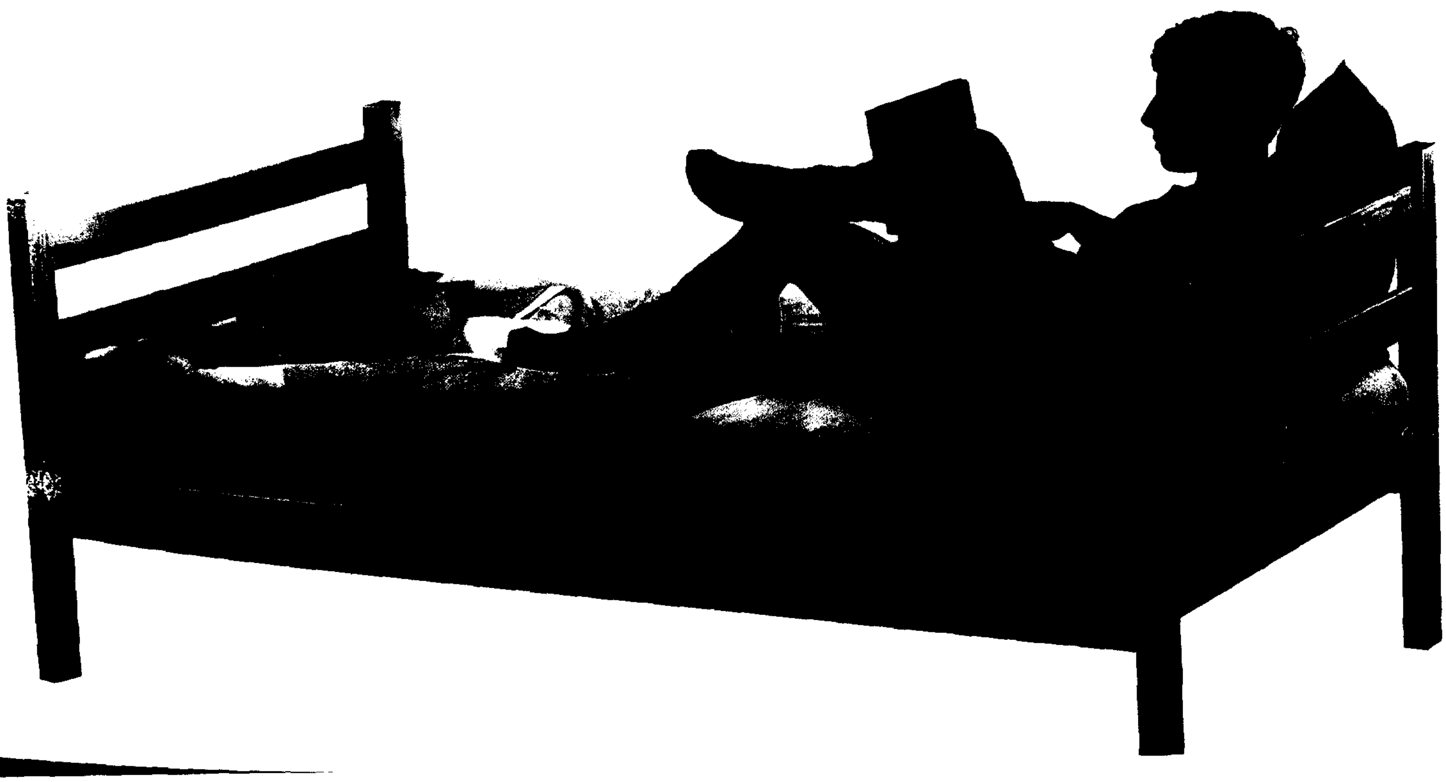
Rush hour descends. The day has been long, the hour is late. You're caught in bumper-to-bumper traffic. Rather than fume or fret, you consult your PDA for messages. Your son has sent you an urgent message via the Internet from his dormitory at college. Send money, he asks. And your mother-in-law has sent you a message too – she's coming to stay for just a few weeks. You send an urgent wireless reply home, telling your spouse about the son requesting funds, the mother-in-law already en-route, and, perhaps, the prospect of immediately leaving town. When you arrive home, you find your daughter accessing homework assignments and grades via the school server. Straight A's, she reported. Not bad, you think, but then she is your kid. While the late night news wraps up, you're on the couch with your laptop, checking for replies to the various e-mail messages that you sent during your day away from the office. You then check the price of your favorite stock. Good news. The stock you bought a month ago is up three points. As you doze off to sleep, you wonder, was that the stock I sold?

"**Everyone** we know who ha

the world of

as experienced
f *wireless communication*
has become **hooked!"**

— Andrew M. Seybold, Seybold's Outlook on Mobile Computing.



# Utilities

## Customer-owned UtiliNet networks and Metricom-operated Ricochet installations share the same innovative network architecture. What

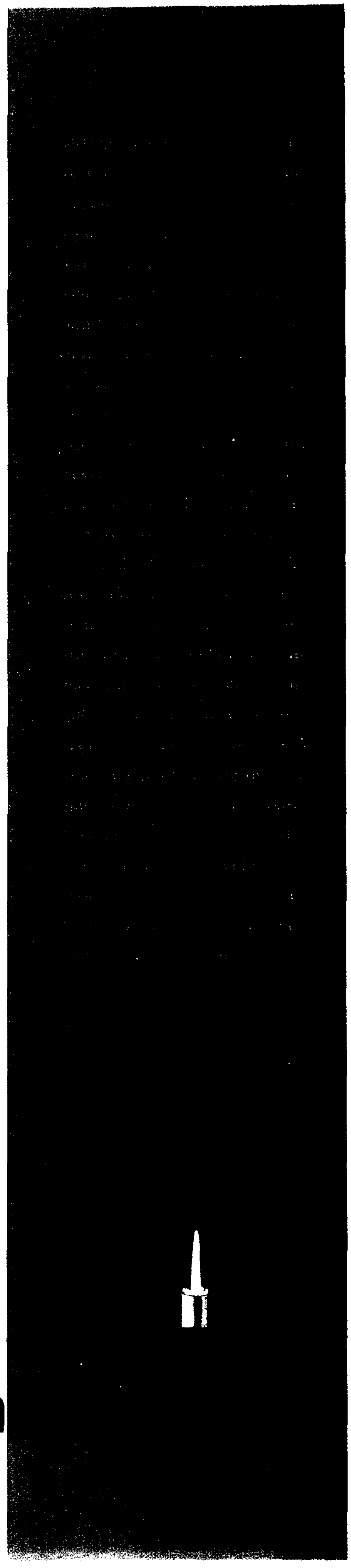
distinguishes Metricom's wireless networks from others is our innovative "mesh" networking topology. Low-cost packet radios, the fundamental network building blocks, are installed geographically in a mesh pattern. Unlike traditional wireless networks and telephone connections that rely on a single communications path, the radio mesh provides multiple alternative communications paths – routing data packets around busy or non-functioning radios. In addition, Metricom's networks can be reconfigured, expanded or scaled back simply by adding or subtracting radios.

Another important differentiation between our wireless approach and that of our competitors is that we are certified for license-free operation in the 902-928 MHz frequency band. This means our wireless networks can be installed and operated anywhere in the U.S. without FCC licensing – eliminating the costs and constraints associated with licensed networks.

UtiliNet and Ricochet are rugged, reliable, and easily expandable wireless data communications solutions. Both networks provide three key benefits: First, they represent a low-cost wireless solution. Our networks use inexpensive system components that are easy to install and maintain. And our use of the license-free spectrum further contributes to the network's low cost. Second, our networks offer capacity-rich, reliable, and secure data transmission features resulting in high performance capability for the particular application. And third, Metricom wireless networks are designed specifically to be easy to use with UtiliNet being compatible with many third-party devices and Ricochet permitting the use of applications that communicate over dial-up telephone lines.

At Metricom, we believe that the ability to access and communicate data efficiently – regardless of location – is becoming increasingly important to both organizations and individuals. We believe that the wireless generation is the future and that our products and services will play an important role.

# Other In



## SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto included herein. The consolidated statement of operations data for the years ended December 31, 1993, 1992 and 1991, and the consolidated balance sheet data as of December 31, 1993 and 1992, are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Report and should be read in conjunction with those financial statements and notes thereto. The consolidated statement of operations data for the years ended December 31, 1990 and 1989, and the consolidated balance sheet data as of December 31, 1991, 1990 and 1989 are derived from audited financial statements not included herein.

| Years Ended December 31, | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|
| **Statements of Operations Data:** | | | | | |
| Revenues: | | | | | |
| Product revenues | $ 8,173 | $ 3,423 | $ 4,074 | $ 2,774 | $ 1,937 |
| Development contract revenues | 1,884 | 2,982 | 6,623 | 6,377 | 5,594 |
| Total revenues | 10,057 | 6,405 | 10,697 | 9,151 | 7,531 |
| Cost and expenses: | | | | | |
| Cost of product revenues | 6,401 | 3,197 | 3,715 | 2,225 | 1,601 |
| Cost of development contract revenues | 1,932 | 2,894 | 5,458 | 5,098 | 4,649 |
| Company-funded research and development | 3,256 | 1,809 | 145 | 107 | 98 |
| Selling, general and administrative | 5,027 | 3,366 | 2,989 | 2,170 | 1,713 |
| Total costs and expenses | 16,616 | 11,266 | 12,307 | 9,600 | 8,061 |
| Loss from operations | (6,559) | (4,861) | (1,610) | (449) | (530) |
| Other income (expense) | 410 | 408 | 275 | (115) | 36 |
| Net loss | $ (6,149) | $ (4,453) | $ (1,335) | $ (564) | $ (494) |
| Net loss per share | $ (0.74) | $ (0.61) | $ (0.23) | $ (0.11) | $ (0.08) |
| Shares used in per share calculation | 8,353 | 7,286 | 5,904 | 5,245 | 5,951 |

| As of December 31, (In thousands) | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|
| **Balance Sheet Data:** | | | | | |
| Working capital | $28,545 | $14,626 | $9,664 | $2,891 | $5,157 |
| Total assets | 32,483 | 17,472 | 13,053 | 8,117 | 6,619 |
| Long-term debt | – | – | – | – | 3,000 |
| Stockholders' equity | 29,171 | 15,739 | 11,222 | 3,234 | 2,455 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

From its inception in December 1985 through December 1992, Metricom was a development stage company primarily engaged in research and development. Through 1992, the Company received approximately 70% of its total revenues from development contracts with electric utility companies and approximately 30% of its total revenues from early product shipments relating to UtiliNet. The Company received substantially all of its development contract revenues from its primary electric utility customer, Southern California Edison (SCE). The Company's development contract revenues offset significant portions of its research and development costs. Development contract revenues are recognized when the related development costs are incurred. See Note 2 of Notes to Consolidated Financial Statements. Development contracts are subject to periodic renewal and to termination at the option of the electric utility companies, typically upon 30-days prior notice. The Company does not expect development contract revenues to achieve historical levels. During 1993, the Company began shipments of UtiliNet products in commercial quantities and emerged from the development stage. Although the Company has received limited commercial orders for UtiliNet, product revenues represented 81% of total revenues in 1993.

During 1993, the Company made initial test installations of MCDN*, a subscriber-based, wide area wireless data communications service. The Company believes that significant expenditures will be required to commercialize MCDN. See "Liquidity and Capital Resources." MCDN revenues are expected to be derived principally from subscription fees. To date, the Company has not received any revenues from MCDN. The ability of the Company to achieve profitability will depend in part upon the successful and timely deployment of MCDN and the successful marketing of its MCDN service, as to which there can be no assurance.

Since its inception, the Company has incurred significant operating losses. The Company expects that net losses will increase during the commercialization of MCDN, primarily as a result of the continued development of MCDN, its commercial deployment and efforts to attract MCDN subscribers. There can be no assurance that MCDN will develop to a level that would permit the Company to operate profitably.

### Results of Operations

The following table sets forth, for the periods indicated, certain operational data as a percentage of total revenues:

| Years Ended December 31, | 1993 | 1992 | 1991 |
|---|---|---|---|
| Revenues: | | | |
| Product revenues | 81% | 53% | 38% |
| Development contract revenues | 19 | 47 | 62 |
| Total revenues | 100 | 100 | 100 |
| Cost and expenses: | | | |
| Cost of product revenues | 64 | 50 | 35 |
| Cost of development contract revenues | 19 | 45 | 51 |
| Company-funded research and development | 32 | 28 | 1 |
| Selling, general and administrative | 50 | 53 | 28 |
| Total costs and expenses | 165 | 176 | 115 |
| Loss from operations | (65) | (76) | (15) |
| Other income | 4 | 6 | 3 |
| Net loss | (61)% | (70)% | (12)% |

*MCDN : *Metricom's MicroCellular Data Network, referred to as "MCDN" throughout the financial section of this report, will be marketed under the name Ricochet.*

**Revenues.** Total revenues increased to $10.1 million in 1993 from $6.4 million in 1992, which was a decrease from $10.7 million in 1991. The increase in total revenues in 1993 from the prior year was due to an increase in product revenues from UtiliNet, partially offset by decreases in development contract revenues, while the decrease in total revenues in 1992 from the prior year was primarily due to a decrease in development contract revenues. Product revenues increased to $8.2 million in 1993 from $3.4 million in 1992, which was a decrease from $4.1 million in 1991. The Company attributed the increase in product revenues in 1993 primarily to shipments of UtiliNet products to SCE for deployment in a distribution automation program. The decrease in product revenues in 1992 was due primarily to general business conditions in the United States, particularly those affecting the electric utility industry. Development contract revenues decreased to $1.9 million in 1993 from $3.0 million in 1992 and from $6.6 million in 1991. The decrease in development contract revenues in 1993 resulted from SCE continuing to reduce funding support for the Company's development activities. The decrease in revenues in 1992 was primarily due to a delay in contract renegotiations with SCE and a reduction of SCE-funded development activities. The Company expects the overall levels of development funding from its electric utility customers to continue to decline.

**Cost of Revenues.** Cost of product revenues as a percentage of product revenues decreased to 78% in 1993 from 93% in 1992, which was an increase from 91% in 1991. These high percentages are primarily due to a high level of fixed manufacturing costs relative to the volume of product shipments. The percentage decreased in 1993 primarily due to a higher volume of product shipments and also from a more favorable product mix. Although the Company plans to improve its product gross margin through a combination of engineering improvements and production economies resulting from increased sales, there can be no assurance that the Company will achieve its cost objectives. The cost of development contract revenues as a percentage of development contract revenues increased to 103% in 1993 from 97% in 1992 and from 82% in 1991. These increases were primarily due to the new development contract with SCE, which does not fully reimburse overhead costs, and the completion of development contracts with other utility customers which contained higher margins.

**Company-Funded Research and Development.** Company-funded research and development increased to $3.3 million in 1993 from $1.8 million in 1992 and from $145,000 in 1991. These increases were primarily the result of the Company initiating development of MCDN and lower levels of research and development funding by SCE and other electric utilities, which had funded substantially all of the Company's research and development efforts prior to 1992. The Company plans to continue to increase significantly its Company-funded research and development in future periods.

**Selling, General and Administrative.** Selling, general and administrative expenses increased to $5.0 million in 1993 from $3.4 million in 1992 and from $3.0 million in 1991, primarily as a result of marketing and promotional activity. In addition, administrative expenses increased, primarily as a result of professional fees associated with developing strategic relationships, addressing regulatory matters and obtaining patents, and as a result of increases in personnel.

**Liquidity and Capital Resources.** From its inception through December 31, 1993, Metricom has financed operations with development contract revenues totalling approximately $31.0 million, private placements of Preferred Stock with net proceeds to the Company of approximately $18.9 million, of which $3.0 million was repurchased and the balance converted to Common Stock at the time of the initial public offering in 1992, an initial public offering of Common Stock with net proceeds to the Company of approximately $8.8 million, and private placements of Common Stock with net proceeds to the Company of approximately $18.6 million in 1993. As a result of both the private and public offerings, the Company's working capital increased to $28.5 million as of December 31, 1993 from $14.6 million as of December 31, 1992 and from $9.7 million as of December 31, 1991. The Company had cash and equivalents and short-term investments of $24.8 million as of December 31, 1993. In January 1994, Vulcan Ventures exercised a warrant for 408,333 shares of Common Stock with net proceeds to the Company of approximately $8.2 million.

The Company's accounts receivable increased to $3.3 million as of December 31, 1993 from $2.2 million as of December 31, 1992, due primarily to increased revenues in the fourth quarter of 1993 as compared to the fourth quarter of 1992. Inventories increased to $2.7 million as of December 31, 1993 from $1.8 million as of December 31, 1992, primarily due to expected increases in UtiliNet product shipments in the first quarter of 1994 as compared to the first quarter of 1993. The Company believes that both accounts receivable and inventories will increase in the future in order to support the continued commercial sale and deployment of the Company's networks.

The Company expects to make significant capital expenditures in connection with the deployment of MCDN. The timing and amount of such expenditures may vary significantly depending on numerous factors including demonstration of technical feasibility, market acceptance, availability of radios and portable radio modems and availability of sufficient management, technical and marketing resources. The Company also intends to make additional expenditures to support the growth of its UtiliNet business. The Company anticipates that its existing available cash, together with estimated net proceeds of a public offering of common stock in March 1994, and certain other equity transactions occurring concurrent therewith, will be adequate to satisfy its working capital and capital expenditure requirements at least through 1994. The Company believes that additional capital will be required in the future to fund further deployment of MCDN, and may also be required to support further growth of the UtiliNet business. There can be no assurance that such additional funds will be available on commercially reasonable terms or at all.

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

| December 31, | 1993 | 1992 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,784 | $ 11,488 |
| Restricted cash and cash equivalents | 260 | 400 |
| Short-term investments | 14,976 | – |
| Accounts receivable | 3,327 | 2,234 |
| Inventories | 2,686 | 1,802 |
| Prepaid expenses and other | 432 | 216 |
| Total current assets | 31,465 | 16,140 |
| Fixed assets, net | 858 | 882 |
| Other assets | 160 | 450 |
| Total assets | $ 32,483 | $ 17,472 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,500 | $ 607 |
| Accrued payroll and related | 286 | 217 |
| Other accrued liabilities | 740 | 398 |
| Customer deposits | 394 | 292 |
| Total current liabilities | 2,920 | 1,514 |
| Long-term obligations | 392 | 219 |
| Commitments (Note 3) | | |
| Stockholders' equity: | | |
| Preferred Stock $.001 par value Authorized – 2,000,000 shares; Issued and outstanding – none | – | – |
| Common Stock, $.001 par value Authorized – 20,000,000 shares; Issued and outstanding – 9,389,486 shares in 1993 and 7,974,237 shares in 1992 | 9 | 8 |
| Additional paid-in capital | 44,517 | 25,027 |
| Notes receivable from sale of common stock | – | (90) |
| Accumulated deficit | (15,355) | (9,206) |
| Total stockholders' equity | 29,171 | 15,739 |
| Total liabilities and stockholders' equity | $ 32,483 | $ 17,472 |

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

| Years Ended December 31, | 1993 | 1992 | 1991 |
|---|---|---|---|
| Revenues: | | | |
| Product revenues | $ 8,173 | $ 3,423 | $ 4,074 |
| Development contract revenues | 1,884 | 2,982 | 6,623 |
| Total revenues | 10,057 | 6,405 | 10,697 |
| Costs and expenses: | | | |
| Cost of product revenues | 6,401 | 3,197 | 3,715 |
| Cost of development contract revenues | 1,932 | 2,894 | 5,458 |
| Company-funded research and development | 3,256 | 1,809 | 145 |
| Selling, general and administrative | 5,027 | 3,366 | 2,989 |
| Total costs and expenses | 16,616 | 11,266 | 12,307 |
| Loss from operations | (6,559) | (4,861) | (1,610) |
| Other income (expense): | | | |
| Interest income | 421 | 396 | 378 |
| Other, net | (11) | 12 | (103) |
| Total other income (expense) | 410 | 408 | 275 |
| Net loss | $ (6,149) | $ (4,453) | $ (1,335) |
| Net loss per common share | $ (.74) | $ (.61) | $ (.23) |
| Weighted average common and common equivalent shares outstanding | 8,353 | 7,286 | 5,904 |

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

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

| For the Years Ended December 31, 1993, 1992 and 1991 | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Notes Receivable From Sale of Common Stock | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| **Balance, December 31, 1990** | 2,435,005 | $3 | 2,365,760 | $2 | $ 6,734 | $(87) | $(3,418) | $3,234 |
| Sale of Series C preferred stock | 1,224,692 | 1 | – | – | 9,338 | – | – | 9,339 |
| Exercise of common stock options | – | – | 6,870 | – | 10 | – | – | 10 |
| Repurchase of common stock | – | – | (938) | – | – | – | – | – |
| Interest converted to principal on shareholder notes | – | – | – | – | – | (26) | – | (26) |
| Net loss | – | – | – | – | – | – | (1,335) | (1,335) |
| **Balance, December 31, 1991** | 3,659,697 | 4 | 2,371,692 | 2 | 16,082 | (113) | (4,753) | 11,222 |
| Proceeds from initial public offering | – | – | 1,725,000 | 2 | 8,815 | – | – | 8,817 |
| Conversion of preferred to common | (3,659,697) | (4) | 3,798,063 | 4 | – | – | – | – |
| Repurchase of common stock | – | – | (10,275) | – | (2) | – | – | (2) |
| Exercise of common stock options | – | – | 89,757 | – | 132 | – | – | 132 |
| Repayment of notes receivable | – | – | – | – | – | 23 | – | 23 |
| Net loss | – | – | – | – | – | – | (4,453) | (4,453) |
| **Balance, December 31, 1992** | – | – | 7,974,237 | 8 | 25,027 | (90) | (9,206) | 15,739 |
| Sale of common stock | – | – | 1,241,667 | 1 | 18,596 | – | – | 18,597 |
| Common stock issued to employees | – | – | 44,241 | – | 248 | – | – | 248 |
| Exercise of common stock warrants | – | – | 57,648 | – | 419 | – | – | 419 |
| Exercise of common stock options | – | – | 71,693 | – | 227 | – | – | 227 |
| Repayment of notes receivable | – | – | – | – | – | 90 | – | 90 |
| Net loss | – | – | – | – | – | – | (6,149) | (6,149) |
| **Balance, December 31, 1993** | – | $ – | 9,389,486 | $9 | $44,517 | $ – | $(15,355) | $29,171 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

| Years Ended December 31, | 1993 | 1992 | 1991 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net loss | $ (6,149) | $ (4,453) | $ (1,335) |
| Adjustments to reconcile net loss to net cash used in operating activities | | | |
| Depreciation and amortization | 419 | 356 | 201 |
| Rent expenses in excess of rent payments | 173 | 219 | – |
| (Increase) decrease in accounts receivable, prepaid expenses and other current assets | (1,309) | 295 | (262) |
| (Increase) decrease in inventories | (884) | 527 | (797) |
| (Increase) decrease in other assets | 290 | 521 | (903) |
| Increase (decrease) in accounts payable, accrued liabilities and customer deposits | 1,406 | (317) | (52) |
| Net cash used in operating activities | (6,054) | (2,852) | (3,148) |
| **Cash flows from investing activities:** | | | |
| Purchase of fixed assets | (395) | (651) | (512) |
| Decrease (increase) in short-term investments and restricted cash and cash equivalents | (14,836) | (400) | 250 |
| Net cash used in investing activities | (15,231) | (1,051) | (262) |
| **Cash flows from financing activities:** | | | |
| Repayment of note payable | – | – | (3,000) |
| Proceeds from issuance of preferred stock | – | – | 9,339 |
| Proceeds from issuance of common stock, net of notes receivable and repurchases | 19,581 | 8,970 | 11 |
| Net cash provided by financing activities | 19,581 | 8,970 | 6,350 |
| Net increase (decrease) in cash and cash equivalents | (1,704) | 5,067 | 2,940 |
| Cash and cash equivalents, beginning of period | 11,488 | 6,421 | 3,481 |
| Cash and cash equivalents, end of period | $ 9,784 | $ 11,488 | $ 6,421 |

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

Total
53,234
9,339
10
–
(26)
1,335)
1,222
3,817
–
(2)
132
23
,453)
,739
,597
248
419
227
90
149)
171

## 1. Organization and significant accounting policies:

**Organization** Metricom, Inc. (the "Company") is a leader in wide area wireless data communications technology. The Company's basic technology provides the foundation for low-cost, high performance, easy-to-use, wide area wireless data communications networks. The Company was originally incorporated as a California corporation and was reincorporated in the State of Delaware in April 1992. During 1993, the Company began shipments of UtiliNet product in commercial quantities and emerged from the development stage. Although no longer in the development stage, the Company is subject to the risks associated with such companies, particularly with respect to its MicroCellular Data Network, a subscriber-based, wide area wireless data communications service, which is currently in beta test. These risks include dependence on key individuals, the need for continued additional financing and the successful development and marketing of its products.

**Consolidation** The consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of significant intercompany accounts and transactions.

**Revenue Recognition and Accounts Receivable** Product revenues are generally recognized upon shipment. Cash received from customers in advance of product shipment is deferred as customer deposits in the accompanying consolidated balance sheets. Development contract revenues are recognized when the related development costs are incurred (see Note 2). Accounts receivable are primarily for product and development contract revenues due from a small number of electric utilities. Provision for doubtful accounts is made at the time such accounts are determined to be uncollectible. To date, the Company has not incurred any significant losses due to uncollectible accounts receivable. An allowance for estimated future warranty costs is provided at the time product sales are recognized.

**Cash and Cash Equivalents** For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of bank deposits, money market accounts and commercial paper investments with an original maturity of ninety days or less. As of December 31, 1993, the Company had a $250,000 certificate of deposit included in restricted cash relating to leasehold improvements funded by the lessor of its principal facility. The certificate of deposit secures a standby letter of credit which expires in January 1994.

**Short-term Investments** Short-term investments consist of commercial paper, government obligations and certificates of deposit and are stated at cost, which approximates market value.

**Supplemental Cash Flow Information** Cash paid during fiscal 1993, 1992 and 1991 for interest and income taxes is as follows (in thousands):

| Years Ended December 31, | 1993 | 1992 | 1991 |
|---|---|---|---|
| Interest | $ – | $2 | $172 |
| Income taxes | – | – | – |

**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 |