WIRE ONE TECHNOLOGIES INC
Form 10-K/A
July 11, 2003

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

FORM 10-K/A

(Mark One)
[X] 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 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 [X] 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 [X]

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.

The number of shares of the Registrant's Common Stock outstanding as of June 18, 2003 was 29,399,117.

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

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 22,000 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.

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.

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, 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.

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 22,000 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 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.

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, 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:

- sole focus on the video communications industry;
- breadth of video product and service offerings;
- relationships with video equipment manufacturers;
- nationwide presence;
- technical expertise;

- knowledgeable sales, service and training personnel; and
- 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 management personnel and industry and general economic conditions.

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.

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:

	WIRE ONE 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
YEAR ENDING DECEMBER 31, 2003:		
First Quarter	2.74	1.69

On June 18, 2003, the last reported sale price of Wire One common stock was $2.54 per share as reported on the Nasdaq National Market, and 29,399,117 shares of Wire One common stock were held by approximately 191 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.

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

Equity Compensation Plan Information

The following table provides information regarding the aggregate number of securities to be issued under all of our stock options and equity-based plans upon exercise of outstanding options, warrants and other rights and their weighted-average exercise prices as of December 31, 2002. The securities issued under equity compensation plans not approved by security holders consist entirely of options issued with respect to individual compensation arrangements for officers, directors, consultants and one employee. Specifically, we issued most of these options to Richard Reiss, our chairman and chief executive officer, and Leo Flotron, our president and chief operating officer, in connection with their employment agreements. We issued the remainder of these options to two consultants, two directors and a former employee as compensation for services.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Numb remai future comp (exc reflec
Equity compensation plans approved by security holders.........	5,072,044	$3.24	
Equity compensation plans not approved by security holders........	1,937,377	$2.64	
Total..............................	7,009,421	$3.08	

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	

	Year Ended December 31,			
	2002	2001	2000	1999
Statement of Operations Information:	(in thousands, except per share data			
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 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 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 preferred stock	--	4,434	13,723	--
Net income (loss) attributable to common 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 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
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

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 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 22,000 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)
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 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 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.

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 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. This reconciliation is presented because EBITDA from continuing operations is the single covenant related to our financial performance contained in our credit agreement with JP Morgan Chase Bank. Although disclosure of the EBITDA calculation is not required by the credit agreement, we included this disclosure because it provides investors with the information required to evaluate covenant compliance. In addition, we believe that EBITDA from continuing operations is also meaningful to investors from a valuation perspective as the key measure that quantifies our cash-based income (loss) from continuing operations.

	Years Ended December 31,	
	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)

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 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.

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 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 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.

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 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.

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 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. In accordance with the provisions of FAS 142, we identified two reporting units, Video Solutions and Network Solutions, for the purpose of assessing impairment of goodwill. These reporting units had been identified as operating segments in accordance with FAS 131. These two units are components of the 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. As of January 1, 2002, we completed our Step 1 analysis and determined there was no impairment of the existing goodwill. Subsequent to the completion of this initial transitional goodwill impairment test, certain events and changes in circumstances during the second and third quarters of 2002 caused us to reevaluate the goodwill for possible impairment. These events and circumstances included: 1) a significant reversal in demand for videoconferencing equipment due to weakness in the economy (as evidenced by substantial reductions in capital spending by corporations and other entities on information technology or telecommunications related items); 2) an over-supply of video conferencing equipment in sales channels as a result of distribution practices by the leading manufacturers of videoconferencing equipment; and 3) extremely competitive market conditions for us stemming from the highly fragmented nature of the videoconferencing reseller market and the desperate financial condition of many of our competitors. These events and circumstances had a considerable negative impact on our actual and forecasted revenues and gross margins. We used a fair value approach as of September 30, 2002 to reevaluate the existing goodwill for impairment. We employed the traditional cash flow approach to present value that included using five year cash flow projections for our two defined reporting units, Video Solutions and Network Solutions, to make our assessments of goodwill impairment. Because only five years of cash flow projections were prepared, cash flows subsequent to year five were estimated by calculating a terminal value of 10 times year five net cash flow for each of the reporting units. We used discount rates of 14% and 22% to discount projected Video Solutions and Network Solutions unit cash flows, respectively. 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. In 2003 and future years, we will perform our annual tests of goodwill impairment with an as of date of September 30.

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.

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 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 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.

Item 8. Financial Statements and Supplementary Data

WIRE ONE TECHNOLOGIES, INC.
INDEX TO FINANCIAL STATEMENTS

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 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

Wire One Technologies, Inc.
Consolidated Balance Sheets

	December 31, 2002	December 31, 2001
ASSETS		
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

LIABILITIES AND STOCKHOLDERS' EQUITY		
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
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; 5,000,000 shares authorized, none issued	--	--
Common stock, $.0001 par value; 100,000,000 authorized; 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	
	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 and equivalents outstanding:			
Basic and diluted	28,792,217	20,880,125	12,

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Treasury Stock	Addition Paid in Capital
Balance at December 31, 1999	4,910,000	$5,229,740	$ --	$ 488,759
Issuance of stock options for services	--	--	--	238,865
Exercise of Class A warrants (net of related costs of $171,238)	1,933,647	8,218,000	--	(171,238
Exercise of stock options	362,501	489,883	--	184,215
Exercise of Underwriters' options	28,000	117,600	--	--
Tax benefit from exercise of stock options	--	--	--	354,001
Securities issued - VTI merger	9,681,966	--	--	31,339,258
Issuance of warrants in connection with preferred stock	--	--	--	5,150,000
Adjustment for $ .0001 par value	--	(14,053,531)	--	14,053,531
Issuance of common stock in business acquisitions	48,611	5	--	453,995
Conversion of series A preferred stock	335,000	33	--	2,344,967
Deemed dividends on series A 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 for services	--	--	--	457,566
Extension of expiration date of CEO stock options	--	--	--	3,984,750
Exercise of stock options	1,508,863	150	--	1,589,212

Issuance of common stock in business acquisitions	1,282,063	128	--	7,844,639
Issuance of common stock	2,220,000	222	--	9,851,039
Common stock received in satisfaction of debt	(39,891)	(3)	(239,742)	--
Conversion of series A preferred stock (net of related costs of $78,269)	3,021,429	302	--	14,726,429
Deemed dividends on series A				