BURST COM INC
Form 10QSB
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2002

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

For the transition period from _______, 19___ to ______, 19___.

Commission File Number: 33-35580-D

BURST.COM, INC.

(Exact Name of Small Business Issuer
as Specified in its Charter)

DELAWARE	84-1141967
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identi- fication Number)

613 FOURTH STREET, SUITE 201
SANTA ROSA, CALIFORNIA 95404
Address of Principal Executive Offices, Including Zip Code

(707) 541-3870
(Issuer's Telephone Number, Including Area Code)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] YES [ ] NO

There were 20,144,236

shares of the Issuer's $.00001 par value common stock outstanding as of September 30, 2002.

Transitional Small Business Disclosure Format: [ ] YES [X] NO

BURST.COM, INC.

FORM 10-Q SB

June 30, 2002

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BURST.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2002 (Unaudited)	December 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,058	$ 6,112
Accounts receivable, net	279	17,500
Prepaid expenses and other current assets	3,777	12,258
Total Current Assets	11,114	35,870
Property and Equipment, net	68,422	102,984
Other assets	2,700	2,700
TOTAL ASSETS	$ 82,236	$ 141,554

LIABILITIES AND STOCKHOLDERS' DEFICIT

	September 30, 2002 (Unaudited)	December 31, 2001
CURRENT LIABILITIES:		
Accounts payable	$ 418,408	$ 692,423
Loan payable, related party	100,000	-
Accrued expenses	360,594	504,573
Accrued interest	212,168	93,079
Deferred revenue	201,500	322,400
Notes and obligations payable, current portion	--	1,053,239
Total Current Liabilities	1,292,670	2,665,714
LONG TERM LIABILITIES	1,795,407	274,970
STOCKHOLDERS' DEFICIT:		
Common stock	201	187
Additional paid-in-capital	58,244,983	57,823,883
Accumulated Deficit	(61,251,025)	(60,623,200)
Total Stockholders' Deficit	(3,005,841)	(2,799,130)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIIT	$ 82,236	$ 141,554

The accompanying notes are an integral part of these financial statements

BURST.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(Unaudited)

	2002	2001
REVENUE	$ 40,300	$ 23,076
COSTS AND EXPENSES:		
Research and development	-	48,516
Sales and marketing	6,791	(94,522)
Restructuring costs	-	(910,790)
General and administrative	158,474	236,254
Total Costs and Expenses	165,265	(720,542)
INCOME (LOSS) FROM OPERATIONS	(124,965)	743,618
OTHER INCOME (EXPENSES)		
Gain on debt extinguishment	112,932	-
Interest income	-	5,517
Interest expense	(105,597)	(256,739)
Other, net - including income on marketable securities	-	85,821
Total Other Income (Expenses)	7,335	(165,401)
NET INCOME (LOSS)	$ (117,630)	$ 578,217
NET INCOME (LOSS) PER SHARE, BASIC AND DILUTED	$ (0.00)	$ 0.03

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	20,138,958	21,648,125

The accompanying notes are an integral part of these financial statements

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BURST.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(Unaudited)

	2002	2001
REVENUE	$ 150,650	$ 80,836
COSTS AND EXPENSES:		
Research and development	13,540	207,418
Sales and marketing	6,791	194,686
Restructuring costs	-	2,053,972
General and administrative	533,441	2,027,464
Total Costs and Expenses	553,772	4,483,540
LOSS FROM OPERATIONS	(403,122)	(4,402,704)
OTHER INCOME (EXPENSES)		
Interest income	-	15,995
Gain on debt extinguishment	112,932	-
Interest expense	(349,776)	(386,769)
Other, net - including loss on marketable securities	12,141	(401,112)
Total Other Income (Expenses)	(224,703)	(771,886)
NET LOSS	$ (627,825)	$ (5,174,590)

NET LOSS PER SHARE, BASIC AND DILUTED	$ (0.03)	$ (0.24)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED	19,704,517	21,398,125

The accompanying notes are an integral part of these financial statements

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BURST.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(Unaudited)

	2002	2001
Cash flows from operating activities:		
Net loss	$ (627,825)	$ (5,174,590)
Adjustments to reconcile net loss		
to net cash used by operating activities:		
Gain on debt extinguishment	(112,932)	-
Depreciation and amortization	34,562	71,236
Non-cash interest expense	229,276	318,800
Negotiated settlements	-	666,929
Writedowns and losses on disposal of fixed assets	-	358,047
Reserve against loan to officer	-	157,190
Realized and unrealized losses on sale of marketable securities	-	388,986
Rental deposit applied to rent expense	-	280,000
Stock-based compensation	4,114	339,600
Changes in operating assets and liabilities:		
Accounts receivable	17,221	(19,430)
Prepaid and other current assets	9,968	36,568
Loans to officers	-	(17,557)
Other assets	-	34,637
Accounts payable	(155,814)	(508,423)
Accrued expenses	73,547	1,146,192

Accrued interest	119,089	58,834
Deferred revenue	(120,900)	-
Net Cash Used by Operating Activities	(529,694)	(1,862,981)
Cash flows from investing activities:		
Sales of property and equipment	-	64,176
Proceeds from sale of marketable securities	-	777,164
Net Cash Provided by Investing Activities	-	841,340
Cash flows from financing activities:		
Exercise of warrants	25,000	-
Proceeds from notes payable	350,000	855,000
Proceeds from loan from related party	100,000	
Proceeds from sale of common stock	70,000	-
Payments on notes payable	(14,360)	(100,000)
Net Cash Provided by Financing Activities	530,640	755,000
Net Increase (Decrease) in cash and cash equivalents	946	(266,641)
Cash and cash equivalents, beginning	6,112	296,584
	-	
Cash and cash equivalents, ending	$ 7,058	$ 29,943

The accompanying notes are an integral part of these financial statements

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BURST.COM, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(Unaudited)

	2002	2001
Supplemental disclosure of cash flow information:		
Cash paid for state franchise tax	$ -	$ 504
Cash paid for interest	$ 1,411	$ -

Supplemental schedule of non-cash investing and financing activities:

Shares issued against liability for stock to be issued	$ 27,956	$ -
Notes issued in debt settlements - offset by accrued expenses	$ 179,570	$ -
Offset of deferred revenue against accounts receivable	$ -	$ 287,225
Exchange of common stock for licensing agreement - credited to deferred revenue	$ -	$ 322,400
Exchange of common stock for marketable securities	$ -	$ 843,750
Discount related to warrants granted in conjunction with debt	$ 277,288	$ -
Warrants issued in debt settlement	$ 5,269	$ -
Negotiated settlements of accounts payable for fixed assets and prior offering costs	$ -	$ 377,185

The accompanying notes are an integral part of these financial statements

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NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheet as of September 30, 2002, the condensed consolidated statements of operations for the three months and nine months ended September 30, 2002 and 2001, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2002 and 2001 are unaudited. However, in the opinion of management, all adjustments (which include reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2002 and for all periods presented, have been made. The results of operation for the three-month and nine-month periods ended September 30, 2002 are not necessarily indicative of the operating results for the full year.

These condensed consolidated financial statements and notes are presented in accordance with rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's December 31, 2001 Form 10-K.

NOTE 2 - GOING CONCERN CONSIDERATIONS

The accompanying condensed consolidated financial statements have been presented assuming the continuity of the Company as a going concern. However, the Company has incurred substantial losses resulting in an accumulated deficit of approximately $61.2 million as of September 30, 2002. The Company's current liabilities exceed current assets by approximately $1.25 million at September 30, 2002. These conditions raise substantial doubt as to the ability of the Company to continue as a going concern.

Management's plans with regards to these issues are as follows:

- Expanding revenues by focusing on a small number of existing customers that management believes are growing and whose needs for Burstware are increasing.
- Expanding revenues by finding a limited number of new customers that can benefit by utilizing either Burstware in its current form, or by licensing a combination of the Company's intellectual property and/or Burstware source-code.
- Raising new investment capital, either in the form of equity or loans, sufficient to meet the Company's greatly reduced monthly operating expenses, until the revenues are sufficient to meet operating expenses on an ongoing basis.
- Management is in the process of renegotiating outstanding short-term debt.

Presently, the Company cannot ascertain the eventual success of management's plans with any degree of certainty. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the eventual outcome of the risks and uncertainty described above.

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NOTE 3 - MARKETABLE SECURITIES

During the nine months ended September 30, 2001, the Company sold 400,000 shares of marketable securities resulting in a realized loss of $388,966, included in other expenses.

NOTE 4 - DEFERRED REVENUE

During 2001, the Company entered into a licensing agreement with Eagle Wireless International, Inc. whereby Eagle Wireless issued 104,000 of its common stock valued at $322,400 in exchange for a two-year license for certain technological rights. The license agreement is effective the earlier of January 2002 or the commercial deployment of any products incorporating the technology licensed from Burst. During the nine months ended September 30, 2002, the Company recognized revenue of $120,900 in conjunction with this agreement, reducing deferred revenue to $201,500 as of September 30, 2002.

NOTE 5 - NOTES AND OBLIGATIONS PAYABLE

	September 30, 2002	December 31, 2001
Notes payable to Gordon Rock (net of unamortized discount of $272,384 and $276,246, respectively)	$1,217,616	$ 993,754
Notes payable to investors, (net of unamortized discount of $56,104 and $4,280, respectively)	203,896	125,720

Notes and obligations payable issued in connection with debt settlements	373,895	208,735
	$1,795,407	$1,328,209

Notes Payable to Gordon Rock

In February and April 2001, the Company issued two notes payable to Gordon Rock in the aggregate principal amount of $350,000 at 9% collateralized by a security interest in the assets of the Company. Mr. Rock was a member of the Board of Directors at that time, but has since resigned his seat on the Board. Mr. Rock is also one of the Company's major stockholders and is deemed a related party.

In August and September 2001, the Company issued a series of notes payable to Mr. Rock totaling an additional $305,000. Each of these notes bears interest at 9% and is collateralized by a security interest in all assets of the Company.

In connection with the April, August and September notes, Mr. Rock received five-year warrants to acquire up to 183,333 shares of the Company's common stock at an exercise price of $.30 per share, 1,000,000 shares at $.20 per share, and 1,666,666 shares at $.15 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The resulting discount of $368,333 is being amortized over the term of the notes.

In October and December 2001, the Company issued three additional notes to Mr. Rock for loans totaling $115,000, with interest ranging from prime plus 2% to 9%. The notes are collateralized by a security interest in all assets of the Company. In connection with these notes payable, Mr. Rock was issued 383,333 warrants to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount of $23,900 is being amortized over the term of the notes.

In December 2001, all of Mr. Rock's notes, originally expiring in various amounts from November 2001 through February 2002, were extended as follows: aggregate principal amount of $1,210,000 plus accrued interest due and payable in November 2002; aggregate principal amount of $30,000 plus accrued interest due in November 2004; and the remaining $30,000 of principal and accrued interest due in December 2004. In connection with the extensions, Mr. Rock received 2,600,000 additional warrants to buy shares of the Company's common stock at $.25 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount of $151,060 is being amortized over the term of the notes.

On September 30, 2002, the maturities of all of the above notes payable to Mr. Rock, aggregating $1,270,000, were extended to January 15, 2005. In connection with the extensions, Mr. Rock received 1,000,000 additional warrants to buy shares of the Company's common stock at $.75 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount of $198,100 will be amortized over the term of the notes.

During February 2002, the Company issued two additional notes to Mr. Rock for loans totaling $60,000, with interest at prime plus 2%. The notes are collateralized by a security interest in all assets of the Company. In connection with these notes, Mr. Rock was issued 200,000 warrants to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount of $6,700 is being amortized over the respective terms of the notes.

During April 2002, the Company issued two additional notes to Mr. Rock for loans totaling $160,000, with interest at prime plus 2%. The notes are collateralized by a security interest in all assets of the Company. In connection with these notes, Mr. Rock was issued 300,000 warrants to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount of $16,620 is being amortized over the respective terms of the notes.

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Notes Issued to Investors

During 2001, the Company issued 9% convertible notes payable to Draysec Finance Limited, one of the Company's major stockholders, in the aggregate principal amount of $100,000, with interest and principal due in February and March 2002. The notes are convertible into a new series of preferred stock to be identified as Series A-2001 at a per share conversion price of $5.00 at the option of the noteholder.

In November 2001, Draysec agreed to extend the due date of the loan to November 2002.

On September 30, 2002, the maturities of the Draysec notes were extended to January 15, 2005. In connection with the extensions, Draysec received 82,645 warrants to buy shares of the Company's common stock at $.75 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount of $16,372 will be amortized over the term of the notes.

In addition, during 2001, the Company issued a promissory note to an investor, in the principal amount of $30,000. The note is collateralized by a security interest in all assets of the Company. The note is due in December 2004 and bears interest at prime plus 2%. In connection with the note, the Company issued 100,000 warrants to the investor to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the note for the fair value of the warrants issued using the Black-Scholes model. The discount totaling $4,280 is being amortized over the term of the note.

During February 2002, the Company issued promissory notes to two investors, in the aggregate principal amount of $70,000. The notes are due in December 2004 and January 2005, respectively, and bear interest at prime plus 2%. In connection with the notes, the Company issued 233,333 warrants to the investors to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the notes for the fair value of the warrants issued using the Black-Scholes model. The discount totaling $8,437 is being amortized over the respective terms of the notes.

During June 2002, the Company issued a promissory note to an investor, in the principal amount of $60,000. The note is due in June 2005, and bears interest at prime plus 2%. In connection with the note, the Company issued 200,000 warrants to the investor to acquire common stock at $.30 per share. Accordingly, the Company recorded a discount on the note for the fair value of the warrants issued using the Black-Scholes model. The discount totaling $30,629 is being amortized over the term of the note.

Notes and Obligations Issued in Connection with Debt Settlements

During 2001, the Company entered into various settlement agreements with some of its vendors, employees and landlord. In connection therewith, the Company renegotiated its liabilities and reduced its overall obligations from approximately $2,388,900 to $208,735. Some settlements resulted in the recognition of extraordinary income. In addition, the Company issued 80,000 warrants to acquire common stock at $0.30 per share and 50,000 options to acquire common stock at $0.30 per share. The warrants were valued at $2,520 and the options were valued at $2,140, using the Black-Scholes model. As part of these settlements, the Company was obligated to issue an aggregate amount of 794,946 shares of its common stock.

Accordingly, the Company recorded a liability for stock to be issued in the amount of $31,796. During the nine months ended September 30, 2002, all of those shares were issued.

During the nine months ended September 30, 2002, the Company entered into settlement agreements with two other employees. In connection therewith, the Company renegotiated its liabilities and reduced its obligations from $152,816 to $64,487. As part of these settlements, the Company issued an aggregate amount of 103,361 shares of its common stock valued at $3,547. In addition, some of the settlement agreements entered into by the Company with some of its former employees during the fourth quarter of 2001 were amended to include additional payments of $115,083. As a result of these settlements and revised settlement agreements, the Company recognized additional compensation expense of $32,841 during the nine months ended September 30, 2002.

Maturities of long-term debt at September 30, 2002 are as follows:

2004	$ 20,000
2005	1,775,407
2006	-
2007	-
Total	1,795,407
Less: current portion	(-)
	$ 1,795,407

NOTE 6 - LOAN PAYABLE - RELATED PARTY

During the three months ended September 30, 2002, the Company borrowed $100,000 from Gordon Rock. The loan was repaid subsequent to September 30, 2002.

NOTE 7 - EQUITY

COMMON STOCK ISSUED FOR CONSULTING SERVICES

During the nine months ended September 30, 2002, the Company issued 138,750 shares of its common stock at fair market value to independent consultants for services performed during the period. In connection with these agreements, the Company recognized $4,114 in consulting fees.

EXERCISE OF WARRANTS

During the nine months ended September 30, 2002, warrants to purchase 138,888 shares of the Company's common stock were exercised, for $25,000.

SHARES ISSUED IN CONNECTION WITH SETTLEMENT AGREEMENTS

During the fourth quarter of 2001, the Company had agreed to issue 794,946 shares of is common stock valued at $31,796 in connection with various settlement agreements. In addition, during the six months ended June 30, 2002, the Company agreed to issue an additional 103,361 shares of its common stock valued at $3,547 in connection with new settlement agreements. All of these shares were issued during the nine months ended September 30, 2002.

SALE OF COMMON STOCK

During the nine months ended September 30, 2002, the Company issued 233,333 shares of its common stock to two investors, for net proceeds of $70,000.

WARRANTS ISSUED IN DEBT SETTLEMENT

During the quarter ended September 30, 2002, the Company issued 30,000 warrants to acquire common stock at $0.75 to a vendor in connection with a debt settlement. See Note 10. The warrants expire in October 2005.

Share Exchange Agreement

During February 2001, the Company exchanged 1,500,000 shares of its common stock for 400,000 shares of Eagle Wireless International, Inc. common stock. This transaction was valued at $843,735, the estimated fair value of the Company's common stock at the date of the transaction.

NOTE 8 - STOCK OPTIONS

In January 2001, the Company granted options to purchase 150,000 shares of common stock exercisable at $0.2812 to an independent contractor. In addition, existing options for employees under variable plan accounting and unvested options being earned by contractors were revalued, resulting in a net reduction in stock-based compensation of $250,000.

Furthermore, as a result of severance agreements with certain senior officials, the lives of their options were extended to one year after termination or the full contractual life instead of expiring within a shorter time. These extensions resulted in a stock-based compensation charge of $616,000. During the fourth quarter of 2001, as a result of further negotiations with those senior officials, the stock-based compensation was reduced to $127,947.

NOTE 9 - NEGOTIATED SETTLEMENTS

During the quarter ended September 30, 2002, the Company entered into settlements with various vendors, which resulted in a gain on debt extinguishment of $112,932. In accordance with FASB Statement 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which the Company adopted during the quarter ended September 30, 2002, this amount was included in other income and not as an extraordinary item because it did not meet the criteria in Opinion No. 30 for classification as an extraordinary item.

In connection with those settlements, the Company issued 30,000 warrants to acquired common stock at $0.75 to a vendor. The warrants expire in October 2005.

During the quarter ended September 30, 2001, the Company entered into a settlement with its landlord. The settlement resulted in a reduction to previously recorded restructuring charges of approximately $900,000. In addition, the Company entered into settlements with various vendors, which resulted in reductions to previously recorded general and administrative and sales and marketing expenses of $209,016, fixed assets of $37,264, and prior offering costs of $629,665.

NOTE 10 - <u>BUSINESS RISKS AND SEGMENT DISCLOSURES</u>

The Company's primary source of revenue is the licensing of Burst technology, and its success is largely dependent on this product. Changes in desirability of the product in the marketplace may significantly affect the Company's future operating results.

The Company operates in one segment and accordingly has provided only the required enterprise wide disclosure. The Company recognized no foreign revenues during the nine months ended September 30, 2002 and 2001.

The Company currently has two customers who are acting as resellers and use the Company's software in their business. One customer accounted for 100% of the Company's total revenue during the three months ended September 30, 2002. The two customers accounted for approximately 80%, and 20% respectively, of the Company's total revenue during the nine months ended September 30, 2002.

NOTE 11 - <u>SUBSEQUENT EVENTS</u>

In October 2002, the Company sold 2,252,250 shares of its common stock at $0.333 per share for total proceeds of $750,000 in private placements with accredited investors. Each two shares came with a warrant to purchase one share of the Company's common stock at a purchase price of $0.75 per share.

ITEM 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion of the financial condition and results of operations of Burst.com, Inc. should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the Notes thereto for the year ended December 31, 2001 included in the Company's Form 10-KSB.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Some of the matters discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this quarterly report on Form 10-QSB, include forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," and similar expressions. We have based these forward-looking statements on our current expectations, assumptions and projections about future events, including, among other things, our ability to attract financing; our ability to respond to technological challenges from competitors and our ability to obtain and expand market acceptance of the products we offer. These forward-looking statements involve risks and uncertainties that could cause our results to differ materially from those discussed. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, those described under the caption "Factors That May Impact Future Results" below and in our annual report on Form 10-KSB for the fiscal year ended December 31, 2001. These forward-looking statements are made as of the date of this report, and except as required under applicable securities law, we assume no obligation to update them or to explain the reasons why actual results may differ

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- attracting financing;

- delivering quality product that meets customer expectations;

- obtaining and expanding market acceptance of the products we offer;

- responding quickly to technological challenges from third parties;

- forecasts of Internet usage and the size and growth of relevant markets;

- rapid technological changes in our industry and relevant markets; and

- competition in our market.

Introduction:

We believe that period-to-period comparisons of our operating results, including our revenues, costs of sales, gross margins, expenses, and capital expenditures may not necessarily provide meaningful results and should not be relied upon as indications of future performance. The Company does not believe that its historical growth rates are indicative of future growth or trends.

We believe that period-to-period comparisons of our operating results, including our revenues, cost of sales, gross margins, expenses, and capital expenditures may not necessarily provide meaningful results and should not be relied upon as indications of future performance. The Company does not believe that its historical growth rates are indicative of future growth or trends.

The Company has incurred significant losses since its inception, and as of September 30, 2002, it had an accumulated deficit of $61,251,052. There can be no assurance that the Company will achieve or sustain profitability and the Company believes that it will continue to incur net losses in 20023.

Overview

We are an independent provider of client/server network software for the delivery of video and audio information over networks. Our principal executive offices are located in Santa Rosa, California. Our software manages the delivery of video and audio content over various networks, including the Internet and corporate intranets, optimizing network efficiency and quality of service. Our Burstware® suite of software products enables companies to transmit video and audio files at Faster-Than-Real-Time® speed, which is accomplished by utilizing available bandwidth capacity to send more video or audio data to users than the players are demanding. This data is stored on the users' machine for playing on demand, thus isolating the user from noise and other network interference. The result is high quality, full-motion video and CD-quality audio to the end-user. Our revenue is derived from fees for software licenses, patent licenses, and some consulting services.

Results of Operations

Revenue recorded for the three and nine-month period ended September 30, 2002 was $40,300 and $150,650, respectively, versus $23,076 and $80,836 during the same periods in 2001. The revenue was due primarily to a licensing agreement with Eagle Wireless. The cost of revenue recorded for the quarter and nine month period ended September 30, 2002 was zero.

Research and development expenditures during the three and nine month periods ended September 30, 2002 were $zero and $13,540, respectively, as compared to $48,516 and $207,418 during the same period in 2001. The decrease resulted from personnel reductions and curtailment of new product development and testing. There was no significant amount of research and development that would qualify for capitalization under SFAS 86.

Sales and marketing expenses during the three and nine month periods ended September 30, 2002 were $6,791 and $6,791, as compared to $94,522 of income and $194,686 of expense during the same periods in 2001. The decrease was the result of staff reductions and curtailment of sales, support and product marketing activity The income in 2001 was due to the reversal of previously accrued charges as the result of negotiated settlements.

During the three and nine month periods ended September 30, 2002, general and administrative expenses were $158,474 and $533,441, respectively, as compared to $236,254 and $2,027,464 during the same periods in 2001. The decrease was primarily due to a continued size reduction and efficiencies in our operations, as well as termination of employees during 2001 as part of our restructuring.

Restructuring costs were $0 during the nine-months ended September 30, 2002 as compared to $2,053,972 during the same period in 2001 The 2001 restructuring costs resulted primarily from steep staff reductions and moving from the company's San Francisco office to the current office space in Santa Rosa, California. During that same period in 2001, we had income of $910,790 which was due to the reversal of accrued rent as a result of negotiations with a previous landlord.

Other income (expense), net, was $7,335 and $(224,703) for the three and nine month periods ended September 30, 2002, as compared to $(165,401)and $(771,886) during the same periods in 2001. During the third quarter of 2002, the company had a gain on debt extinguishments of $112,932, as a result of negotiated settlements with vendors.

The decrease in interest expense during the three and nine months periods ended September 30, 2002 is due to lower interest rates and lower non-cash interest expense resulting from amortization of the warrants..

During the third quarter of 2001, the company incurred $85,821 of income, mostly due to the sales of marketable securities and a cumulative loss of $401,112 during the nine months ended September 30, 2001, also due to the sale of marketable securities. There were no sales of marketable securities during 2002.

Liquidity and Capital Resources

The opinion of our independent certified public accountants on the audited financial statements for the year ended December 31, 2001 contained an explanatory paragraph regarding doubt about our ability to continue as a going concern.

Although we have been successful in our fundraising efforts to meet previous operating requirements, there can be no guarantee that we will be successful in future fundraising efforts. During the nine months ending September 30, 2002, we raised $350,000 in cash by issuing notes payable, and we raised an additional $70,000 through the sale of 233,333 shares of our common stock. We also raised $25,000 through the exercise of warrants, $100,000 from short term financing from a related party and we repaid $14,360 of loans. As September 30, 2002, we had cash reserves of approximately $7,058.

As of September 30, 2002, we had a working capital deficit of $1,281,556 as compared to a deficit of $2,629,844 at December 31, 2001. This $1,348,288 decrease is primarily the result of the extension of $1,310,000 of short-term notes to long term due January 15th, 2005.

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Net cash used in operating activities totaled $529,694 during the nine months ended September 30, 2002, as compared to net cash used in operating activities of $1,862,981 during the nine months ended September 30, 2001. The decrease reflects reduced operating activities.

The Company is being represented in its pending litigation against Microsoft by 3 law firms. These law firms are providing this representation on a 100% contingency basis, including all court costs. We do not anticipate that the pursuit of its litigation will cause us to incur any additional costs.

Factors That May Impact Future Results

At the time of this report, we believe we have sufficient cash reserves and receivables necessary to meet forecast operating requirements through December 2003, without reliance on licensing revenue. The addition of licensing revenue would permit us to operate beyond December 2003.

We develop complex software for media delivery, content management and storage. We depend on a limited number of key personnel who would be difficult to replace, and we may not be able to attract and retain management and technical personnel. We have yet to achieve very large commercial deployments. We began our current product line of software only recently and, as a result, your ability to evaluate our prospects may be limited. Our products could contain defects, which would reduce sales of those products or result in claims against us. Our future success in the licensing of our software may depend on our ability to keep pace with technological changes, which could result in a loss of revenues. If we do not develop new products or new product features in response to customer requirements or in a timely way, customers may not buy our products, which would seriously harm our business. We will not be able to sell sufficient quantities of our software products to sustain a viable software licensing business if the market for software media delivery products does not develop or if a competing technology displaces our products. We rely upon our sales of a small number of products, and the failure of any one of our products to be successful in the market could substantially reduce our revenue. Our software products generally have long sales cycles and implementation periods, which increase our costs in obtaining orders and reduce the predictability of our earnings.

Our success will depend, in large part, on our ability to protect the intellectual property that we have developed. If our proprietary technology infringes upon the intellectual property rights of others, our costs could increase and our ability to license our products or patents could be limited.

If software media technology or our method of implementing this technology is not accepted, we will not be able to sustain or expand our business. The markets in which we operate are highly competitive, and many of our competitors have much greater resources than we do, which may make it difficult for us to become profitable. Internal development efforts by our customers and new entrants to the market may increase competition. We depend on the continued growth and commercial acceptance of the Internet and we may face government regulation and legal uncertainties relating to the Internet.

A more detailed description of these risk factors can be found under the caption "Risks and Uncertainties" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

ITEM 3: CONTROLS AND PROCEDURES

The Company's chief executive officer who is also the chief financial officer has evaluated the Company's disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and have concluded that, particularly in view of the Company's minimal operations and number of employees, as of September 30, 2002 those disclosure controls and procedures are effective.

There have been no changes in the Company's internal controls or in other factors known to the Company that could significantly affect these controls subsequent to their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On June 18, 2002, the company filed a lawsuit accusing software giant Microsoft Corporation of violations of the Patent Act, Sherman Act Sections 1 & 2, California Cartwright Act (anti-trust), California Business & Professions Code Section 17200 (unfair acts or practices), the California Trade Secrets Act and for breach of contract. Burst.com is being represented in the action by San Francisco law firm Hosie, Frost, Large & McArthur; and Palo Alto intellectual property law firm Carr-Ferrell, LLP.

In the complaint, filed in the U.S. District Court for the Northern District of California Tuesday, June 18th, Burst alleges that:

1. Microsoft's newly announced "Corona" product uses technologies and

trade secrets misappropriated from Burst.com and is in violation of several U.S. patents issued to Burst.

2. Microsoft anticompetitively damaged Burst in violation of federal and state antitrust laws in many of the same ways that prompted the federal courts to find that it monopolized the market for Intel-compatible operating systems.

A complete copy of the complaint can be found on the company's web site:

.=>www.burst.com.

The company is seeking damages to be determined by the court. There is no guarantee that the company will be successful in its pursuit of this lawsuit against Microsoft.

Subsequent to the filing of the lawsuit, the litigation has been assigned to District Judge J. Frederick Motz, United States District Court for the District of Maryland, the same judge presiding over pre-trial proceedings in the Sun Microsystems, and Netscape Communications Company cases against Microsoft. At a hearing in September 2002, and in a subsequent ruling Judge Motz ruled that both sides must have completed discovery and expert witness testimony and be ready for trial by mid- February 2004.

Item 2. Changes in Securities.

1. Since December 31, 2001, the company issued the following warrants, having a term of seven years, securities in conjunction with the loans made to the Company:

a. Warrants to purchase 133,333 shares of common stock at an exercise price of $.30/share, issued to an individual investor in conjunction with a $40,000 loan to the Company.
b. Warrants to purchase 100,000 shares of common stock at an exercise price of $.30/share, issued

to an individual investor in conjunction with a $30,000 loan to the Company.

c. Warrants to purchase 200,000 shares of common stock at an exercise price of $.30/share, issued

to an individual investor in conjunction with a $60,000 loan to the Company..

d. Warrants to purchase 200,000 shares of common stock at an exercise price of $.30/share, issued to an individual investor in conjunction with a $60,000 loan to the Company..
e. Warrants to purchase 100,000 shares of common stock at an exercise price of $.30/share, issued to an individual investor in conjunction with a $100,000 loan to the Company.
f. Warrants to purchase 200,000 shares of common stock at an exercise price of $.30/share, issued to an individual investor in conjunction with a $60,000 loan to the Company.

2. During the quarter ending March 31, 2002, the Company issued 300,000 shares of its common stock to a former landlord under the terms of a settlement agreement.

3. During the quarter ending March 31, 2002, the company issued 138,888 shares of its common stock to an affiliate of Mr. John Micek, then a member of the Board of Directors, as the result of the exercise of an option at an exercise price of $.18/share.

4. During the six months ending June 30, 2002, the Company issued 682,057 shares of its common stock as a result of severance settlements.

5. During the quarter ending June 30, 2002 the company sold 233,333 shares of stock for $.30/share.

6. During the quarter ending June 30, 2002, the company issued 30,000 shares of its common stock in conjunction with a consulting agreement.

7. During the six months ending June 30, 2002, 294,552 Warrants were issued under re-price commitments to two groups of Warrant holders.

8. During the 3 months ending September 30, 2002, the company issued 25,000 shares of its common stock in conjunction with a consulting agreement.

The sales of the above securities were deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Act") in reliance on Section 4(2) of the Act, Regulation D and /or Rule 701 promulgated under the Act. In each such transaction, the recipients of securities represented that they were accredited investors and intended to acquire securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the securities issued in such transactions.

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

1. On September 30, 2002, the company renegotiated notes with two secured investors resulting the extension of both notes, totaling $1,310,000. The notes, which were originally due on November 16, 2002, were changed to be due on January 15, 2005. In exchange, the company agreed to issue a total of 1, 082,645 warrants to purchase the company's stock at a price of $.75/share.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

3.1 NoneArticles of Incorporation are incorporated herein by reference to Exhibit 3.1 to the Company's Form S-18 Registration Statement filed with the SEC under (No.33-35580-D) and as amended, by reference to Exhibit 3.3 to the Company's Form SB-2 Registration Statement filed with the SEC under (No.33-69914).

3.2 Bylaws are incorporated herein by reference to 3.2 to the Company's Form S-18 Registration Statement filed with the SEC under (No.33-35580-D) and as amended, by reference to Exhibit No. 3.2 to the Company's Form SB-2 Registration Statement filed with the SEC under (No.33-69914).

4.1 Notes and Security Agreements are incorporated herein by reference to Exhibit 10.1 and 10.2 as filed with the SEC on the Company's 10-Q/A on December 24, 2001.

4.2 Warrants are incorporated herein by reference to Exhibit 10.3 as filed with the SEC on the Company's 10-Q/A on December 24, 2001,and by reference to Exhibit 4.6 and 4.7 as filed with the SEC with the Company's 10-K on April 15, 2002.

99.1 Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

Form 8-K, filed on June 19, 2002, announced that the company had filed a patent infringement and anti-trust lawsuit against software developer Microsoft, Inc. A copy of the complaint is attached to the 8-K filing.

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Item 7. Subsequent Events.

1. On October 14, 2002, the company the company completed a round of equity financing in which it sold 2,252,252 shares of its common stock to a group of private investors at a price of $.333/share. In conjunction with this transaction, the company also issued a total of 1,126,126 warrants to purchase its common stock at a price of

$.75/share. The company raised a total of $750,000 in this transaction.

2. On November 5, 2002, the Company's Board of Directors granted new options to the following individuals, in conjunction with their previous and continuing relationships and contributions to the company:

a. 500,000 options to the Company's CEO, at an exercise price of $.75 per share, expiring on April 28, 2008. 166,666 of these vest upon issuance and the balance of 333,334 will vest in equal monthly amounts of 18,519 over the subsequent 18 months.
b. 150,000 options to the Company's Vice President of Operations, at an exercise price of $.75 per share, expiring on April 28, 2008. 50,000 of these vest upon issuance and the balance of 100,000 will vest in equal monthly amounts of 5,556 over the subsequent 18 months.
c. 100,000 to each of the Company's outside Board Members, at an exercise price of $.75 per share, expiring on April 28, 2008. 33,333 of these vests for each individual upon issuance and the balance of 66,667 each will vest in equal monthly amounts of 3,704 over the subsequent 18 months.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BURST.COM, INC.

Date: November 14, 2002

By: /s/ Richard Lang

Richard Lang, Chairman and
Chief Executive Officer

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CERTIFICATION

I, Richard Lang, the Principal Executive Officer and Principal Financial Officer of Burst.com, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Burst.com;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002	By: /s/Richard Lang
	Signature
	Richard Lang
	Chief Executive Officer and Chief Financial Officer