WORLD WRESTLING ENTERTAINMENTINC
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ACCOUNTANTS..................................................................................73 WHERE YOU CAN FIND MORE INFORMATION..................................................................................73 INDEX TO CONSOLIDATED FINANCIAL STATEMENTS.......................................................................F-1 ii SUBJECT TO COMPLETION. DATED JANUARY 30, 2004 The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. [LOGO] P-COM 608,532,358 Shares P-COM, INC. COMMON STOCK The shares of common stock of P-com, Inc. covered by this prospectus may be sold from time to time by the selling stockholders identified in this prospectus. This prospectus relates to 608,532,358 shares of P-Com common stock, of which: o 177,055,243 are shares of P-Com's common stock that are currently outstanding and may in the future be sold from time to time by certain selling stockholders; o 11,457,487 are shares that may in the future be issued to certain selling stockholders upon conversion of P-Com's outstanding Series B Convertible Preferred Stock; o 206,257,028 are shares that may in the future be issued to certain selling stockholders upon conversion of P-Com's outstanding Series C Convertible Preferred Stock; o 13,333,333 are shares that may in the future be issued to certain selling stockholders upon conversion of P-Com's outstanding Series D Convertible Preferred Stock; and o 200,429,267 are shares that may in the future be issued to certain selling stockholders upon the exercise of certain warrants to purchase shares of P-Com's common stock. P-Com will not receive any of the proceeds from the sale of the shares of common stock by the selling stockholders. P-Com may receive proceeds from the exercise of the warrants held by the selling stockholders if they opt to pay the exercise price in cash rather than executing a cashless exercise. The shares of common stock may be sold through broker-dealers or in privately negotiated transactions in which commissions and other fees may be charged. These fees, if any, will be paid by the selling stockholders. P-Com has no agreement with any broker-dealer with respect to these shares and is unable to estimate the commissions that may be paid in any given transaction. For a more complete description of the methods of distribution that the selling stockholders may use, see "Plan of Distribution" beginning on page 65. P-Com common stock is traded on the OTC Bulletin Board of the National Association of Securities Dealers, Inc. under the symbol "PCOM." On January 20, 2004, the last sale price of P-Com common stock was $0.17 per share. An investment in the shares of P-Com common stock offered by this prospectus entails a high degree of risk. See "Risk Factors" beginning on page 4 for information that should be considered by prospective investors before buying shares of P-Com common stock. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. PROSPECTUS DATED JANUARY 30, 2004 PROSPECTUS SUMMARY This summary highlights information contained elsewhere in this prospectus, and it may not contain all of the information that is important to you. You should read the entire prospectus carefully, including the section entitled "Risk Factors," the consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. P-COM'S BUSINESS P-Com develops, manufactures and markets microwave radios for point-to-point, spread spectrum and point-to-multipoint applications for telecommunications networks worldwide. Cellular and personal communications service providers employ P-Com's point-to-point systems to transmit data between remote tower sites and switching centers. Network service providers and Internet service providers are able, through the deployment of P-Com's equipment and systems, to respond to the demands for high-speed wireless access services, such as Internet access associated with business-to-business and e-commerce business processes. Through deployment of P-Com's systems, network providers can quickly and efficiently establish integrated Internet, data, voice and video communications for their customers, then expand and grow those services as demand increases. On December 10, 2003, P-Com acquired the Wave Wireless Networking division of SPEEDCOM Wireless Corporation ("SPEEDCOM") and related assets, in consideration for the issuance to SPEEDCOM of 63,500,000 shares of P-Com's common stock, and the assumption of certain of its liabilities. Wave Wireless Networking ("Wave Wireless") specializes in manufacturing, configuring and delivering custom broadband wireless access networking equipment, including the SPEEDLAN family of wireless Ethernet bridges and routers, for business and residential customers internationally. The acquisition provides P-Com with complimentary unlicensed point-to-point and spread spectrum wireless access systems. P-Com's executive offices are located at 3175 S. Winchester Boulevard, Campbell, California 95008, and P-Com's telephone number is (408) 866-3666. THE OFFERING This prospectus relates to the registration for resale of up to 608,532,358 shares of P-Com's common stock that were issued or are issuable in connection with the following transactions: o In September 2002, P-Com issued a warrant to purchase up to 300,000 shares of common stock to Silicon Valley Bank in connection with the opening of a credit facility. The exercise price for the common stock underlying the warrant is $0.10 per share. o In April 2003, P-Com issued 1,500,000 shares of common stock to Liviakis Financial Communications, Inc. in consideration for certain financial, public and investor relations services provided to P-Com. o In April 2003, P-Com issued 3,000,000 shares of common stock to Cagan McAfee Capital Partners, LLC in consideration for certain investment banking and other services provided to P-Com. o In May 2003, P-Com issued 2,400,000 shares of common stock to one of its vendors, HeliOss Communications, in consideration for the release of some of P-Com's obligations to the vendor. o In March, May and July 2003, P-Com issued Series A Warrants to purchase 3,668,000 shares of common stock at an initial exercise price of $0.12 per share and Series B Warrants to purchase 5,132,000 shares of common stock at an initial exercise price of $0.20 per share. However, no holder of Series A Warrants or Series B Warrants may exercise any of these warrants if the exercise would cause the holder or any of its affiliates, individually or in the aggregate, to beneficially own more than 4.999% of P-Com's outstanding common stock. As of January 20, 2004, none of the outstanding Series A Warrants or Series B Warrants had been exercised. The number of shares of common stock 1 issuable upon exercise of these warrants is subject to adjustment for stock splits, stock dividends and similar transactions and for certain dilutive issuances. o In August 2003, P-Com issued 1,000,000 shares of its common stock to one of its landlords, Bryan Family Partnership II in consideration for the release of some of P-Com's obligations to the landlord. o In August 2003, P-Com issued approximately 1,000,000 shares of Series B Convertible Preferred Stock, with a stated value of $21.138 per share, upon the conversion of approximately $21 million of its 7% Convertible Subordinated Notes due 2005. Each share of Series B Convertible Preferred Stock is convertible into a number of shares of common stock equal to the stated value divided by a conversion price of $0.20. The holders of the Series B Convertible Preferred Stock are obligated to convert their shares into shares of common stock as soon as reasonably practicable. However, no holder of Series B Convertible Preferred Stock may convert its shares into shares of common stock if the conversion would cause the holder or any of its affiliates, individually or in the aggregate, to beneficially own more than 9.999% of P-Com's outstanding common stock. As of January 20, 2004, approximately 891,594 shares of Series B Convertible Preferred Stock had been converted into approximately 94,232,454 shares of common stock and approximately 108,406 shares of Series B Convertible Preferred remained outstanding. The shares of Series B Convertible Preferred Stock that remain outstanding are convertible into approximately 11,457,487 shares of common stock, subject to the limitation on conversion described above. The number of shares of common stock issuable upon conversion of the Series B Convertible Preferred Stock is subject to adjustment for stock splits, stock dividends and similar transactions. o In October and December 2003, P-Com issued and sold approximately 9,942 shares of Series C Convertible Preferred Stock, with a stated value of $1,750 per share. Together with the Series C Convertible Preferred Stock, P-Com also issued Series C Warrants to purchase 139,194,124 shares of common stock, in the aggregate. Each share of Series C Convertible Preferred Stock is convertible into a number of shares of common stock equal to the stated value plus accrued and unpaid dividends, if any, divided by an initial conversion price of $0.10. Based on this conversion price, the outstanding shares of Series C Convertible Preferred Stock are convertible into approximately 173,992,605 shares of P-Com's common stock. However, no holder of Series C Convertible Preferred Stock or any Series C Warrants may convert or exercise any of these securities into shares of common stock if the conversion or exercise would cause the holder or any of its affiliates, individually or in the aggregate, to beneficially own more than 9.999% of P-Com's outstanding common stock. As of January 20, 2004, approximately 513 shares of Series C Convertible Preferred Stock had been converted into approximately 8,986,983 shares of common stock and approximately 9,429 shares of Series C Convertible Preferred Stock remained outstanding and none of the Series C Warrants had been exercised. The shares of Series C Convertible Preferred Stock that remain outstanding are convertible into approximately 165,055,622 shares of common stock, subject to the limitation on conversion described above. The number of shares of common stock issuable upon conversion or exercise of these securities is subject to adjustment for stock splits, stock dividends and similar transactions and for certain dilutive issuances. o In December 2003, P-Com issued 2,000 shares of its Series D Convertible Preferred Stock, with a stated value of $1,000 per share, in partial consideration for the extinguishment of its obligations under three promissory notes in the aggregate original principal amount of $2,000,000. Each share of Series D Convertible Preferred Stock is convertible into a number of shares of common stock equal to the stated value, divided by an initial conversion price of $0.15. Based on this conversion price, the outstanding shares of Series D Convertible Preferred Stock are convertible into approximately 13,333,333 shares of

P-Com's common stock. However, no holder of Series D Convertible Preferred Stock may convert its shares into shares of common stock if the conversion would cause the holder or any of its affiliates, individually or in the aggregate, to beneficially own more than 9.999% of P-Com's outstanding common stock. As of January 20, 2004, none of the outstanding shares of Series D Convertible Preferred Stock had been converted into shares of common stock. The number of shares of common stock issuable upon conversion of the Series D Convertible Preferred Stock is subject to adjustment for stock splits, stock dividends and similar transactions. 2 o In December 2003, P-Com consummated its acquisition of substantially all of the assets of SPEEDCOM Wireless Corporation, and in consideration for those assets, P-Com issued 63,500,000 shares of its common stock to SPEEDCOM Wireless Corporation. o In December 2003, P-Com issued 1,363,636 shares of its common stock to United Manufacturing Assembly, Inc. ("UMAI"), in consideration for the reduction of $150,000 in accounts payable to UMAI. o In December 2003, P-Com issued warrants to purchase 350,000, 2,600,000, and 3,600,000 shares of its common stock to Carlos Belfiore, Samuel Smookler and Cagan McAfee Capital Partners, LLC ("CMCP"), respectively, in consideration for a reduction in the number of options granted to Messrs. Belfiore and Smookler and CMCP. This reduction in the number of options was due to a limitation in the maximum number of shares issuable to any single person or entity under P-Com's 1995 Stock Option/Stock Issuance Plan. As part of each transaction described above, P-Com agreed to register the resale of the shares of common stock issued and any shares of common stock that are issuable upon the conversion or exercise of the convertible securities issued in those transactions. P-Com is registering these shares of common stock for resale by the selling stockholders named in this prospectus. The prices at which the stockholders may sell their shares will be determined by the prevailing market for the shares or in negotiated transactions. See the section entitled "Selling Stockholders" on page 59 and the section entitled "Plan of Distribution" on page 65. 3 RISK FACTORS An investment in P-Com common stock is subject to many risks. You should carefully consider the risks described below, together with all of the other information included in this prospectus, including the financial statements and the related notes, before you decide whether to invest in P-Com common stock. P-Com's business, operating results and financial condition could be harmed by any of the following risks. The trading price of P-Com common stock could decline due to any of these risks, and you could lose all or part of your investment. RISKS RELATED TO P-COM'S FINANCIAL CONDITION AND OPERATIONS Continuing weakness in the telecommunications equipment and services sector has adversely affected the operating results, future growth and stability of P-Com's business. P-Com cannot sustain itself at the currently depressed sales levels. The worldwide slowdown in the telecommunications equipment and services sector has been severe, and continues. P-Com expects these conditions to continue to adversely affect P-Com, its financial condition and results of operations. Customers, particularly systems operators and integrated system providers, are deferring capital spending and orders to suppliers, such as P-Com, and in general are not building out any significant additional infrastructure at this time. In the United States, most competitive local exchange carriers have declared bankruptcy and, internationally, 3G network rollout and commercialization continue to experience delays. In addition, P-Com's accounts receivable, inventory turnover, and operating stability can be jeopardized if its customers experience financial distress. P-Com does not believe that its products sales levels can recover while an industry-wide slowdown in demand persists. Global economic conditions have had a depressing effect on sales levels in past years, including a significant slowdown for P-Com in 1998 and 2001, 2002 and 2003. This slowdown shows no substantial signs of improvement. The soft economy and slowdown in capital spending encountered in the United States, the United Kingdom, continental Europe, parts of Asia, and other geographic markets have had a significant depressing effect on the sales levels of telecommunications products, such as P-Com's. These factors will continue to adversely affect P-Com's business, financial condition and results of operations. P-Com cannot sustain itself at the currently depressed sales levels, unless it is able to substantially reduce costs, or obtain additional debt or equity financing. Any additional reduction in sales may negatively affect operating revenue. P-Com's business and financial positions have deteriorated significantly. P-Com's business and financial positions have deteriorated significantly. P-Com's core business product sales were reduced sharply beginning with the second half of 2001. From inception to September 30, 2003, P-Com's aggregate net loss is approximately $355.8 million. At September 30, 2003, P-Com's cash, working capital, accounts receivable, inventory, total assets, employee headcount, backlog and total stockholders' equity are all substantially below levels of one year ago. P-Com has negative working capital of $12.2 million as of September 30, 2003. P-Com's short-term liquidity deficiency could disrupt its supply chain, and result in its inability to manufacture and deliver its products, which would adversely affect its results of operations. P-Com's independent accountants' opinion on its 2002 consolidated financial statements includes an explanatory paragraph indicating substantial doubt about P-Com's ability to continue as a going concern. To continue as a going concern, P-Com will have to increase its sales, and possibly induce other creditors to forebear or to convert to equity, raise additional equity financing, and/or raise new debt financing. P-Com may not accomplish these tasks. P-Com's prospects for obtaining additional financing are uncertain, and failure to achieve profitability or obtain needed financing will affect its ability to pursue future growth, harm its business operations and affect its ability to continue as a going concern. If P-Com is unable to achieve profitability or raise additional debt or equity financing, it will not be able to continue as a going concern. Even if P-Com resolves its going concern difficulties, its future capital requirements 4 will depend upon many factors, including a re-energized telecommunications market, development costs of new products and related software tools, potential acquisitions, maintenance of adequate manufacturing facilities and contract manufacturing agreements, progress of research and development efforts, expansion of marketing and sales efforts and status of competitive products. Additional financing may not be available in the future on acceptable terms or at all. P-Com's history of substantial operating losses will also severely limit P-Com's ability to raise additional financing. In addition, given the recent price of its common stock, if P-Com raises additional funds by issuing equity securities, additional significant dilution to its stockholders will result. If P-Com is unable to increase sales, decrease costs, or obtain additional equity or debt financing, P-Com may be required to close business or product lines, further restructure or refinance its debt or delay, scale back further or eliminate its research and development program, or manufacturing operations. P-Com may also need to obtain funds through arrangements with partners or others that may require it to relinquish its rights to certain technologies or potential products or other assets. P-Com's inability to obtain capital, or its ability to obtain additional capital only upon onerous terms, could very seriously damage its business, operating results and financial condition. P-Com relies on a limited number of customers for a material portion of its sales and the loss of or reduction in sales to any of those customers could harm its business, financial condition and results of operation. For the nine-month period ended September 30, 2003, sales to four customers accounted for 56% of total sales. The loss of any one of these customers would have an immediate and material effect on P-Com's sales. P-Com's ability to maintain or increase its sales in the future will depend, in part upon its ability to obtain orders from new customers as well as the financial condition and success of its customers, the telecommunications industry and the global economy. P-Com's customer concentration also results in concentration of credit risk. As of September 30, 2003, four customers accounted for 67% of P-Com's total accounts receivable balances. Many of P-Com's significant recurring customers are located outside the United States, primarily in the Asia-Pacific Rim areas, United Kingdom, continental Europe, and Latin America. Some of these customers are implementing new networks and are themselves in the various stages of development. They may require additional capital to fully implement their planned networks, which may be unavailable to them on an as-needed basis, and which P-Com cannot supply in terms of long-term financing. If P-Com's customers cannot finance their purchases of its products or services, this may adversely affect P-Com's business, operations and financial condition. Financial difficulties of existing or potential customers may also limit the overall demand for P-Com's products and services. Current customers in the telecommunications industry have, from time to time, undergone financial difficulties and may therefore limit their future orders or find it difficult to pay for products sold to them. Any cancellation, reduction or delay in orders or shipments, for example, as a result of manufacturing or supply difficulties or a customer's inability to finance its purchases of P-Com's products or services, would adversely affect P-Com's business. Difficulties of this nature have occurred in the past and P-Com believes they can occur in the future. For instance, in July 2002, P-Com announced a multiple year $100 million supply agreement with an original equipment manufacturer in China. Even with an agreement in place, the customer has changed the timing and the product mix requested, and has cancelled or delayed most of its orders. Enforcement of the specific terms of the agreement would be difficult and expensive within China, and P-Com may not ultimately realize the total benefits currently expected in the contract period. Finally, acquisitions in the telecommunications industry are common, which tends to further concentrate the potential customer base in larger companies. P-Com faces substantial competition and may not be able to compete effectively. P-Com is experiencing intense competition worldwide from a number of leading telecommunications equipment and technology suppliers. These companies offer a variety of competitive products and services and some offer broader telecommunications product lines. These companies include Alcatel Network Systems, Alvarion, Stratex Networks, Ceragon, Ericsson Limited, Harris Corporation-Farinon Division, NEC, NERA, Nokia Telecommunications, SIAE, Siemens, and Proxim. Many of these companies have greater installed bases, financial resources and production, marketing, manufacturing, engineering and other capabilities than

P-Com does. P-Com 5 faces actual and potential competition not only from these established companies, but also from start-up companies that are developing and marketing new commercial products and services. Some of P-Com's current and prospective customers and partners have developed, are currently developing or could manufacture products competitive with P-Com's products. Nokia and Ericsson have developed competitive radio systems, and there is new technology featuring free space optical systems now in the marketplace. The principal elements of competition in P-Com's market and the basis upon which customers may select its systems include price, performance, software functionality, perceived ability to continue to be able to meet delivery requirements, and customer service and support. Recently, certain competitors have announced the introduction of new competitive products, including related software tools and services, and the acquisition of other competitors and competitive technologies. P-Com expects competitors to continue to improve the performance and lower the price of their current products and services and to introduce new products and services or new technologies that provide added functionality and other features. New product and service offerings and enhancements by P-Com's competitors could cause a decline in sales or loss of market acceptance of its systems. New offerings could also make P-Com's systems, services or technologies obsolete or non-competitive. In addition, P-Com is experiencing significant price competition and expects that competition to intensify. P-Com's operating results have been adversely affected by deteriorating gross margins. The intense competition for many of P-Com's products has resulted in a continued reduction in its average selling prices. These reductions have not been offset by a corresponding decrease in cost of goods sold, resulting in deteriorating gross margins in some of its product lines. These deteriorating gross margins may continue in the short term. Reasons for the decline include the maturation of the systems, the effect of volume price discounts in existing and future contracts and the intensification of competition. If P-Com cannot significantly reduce costs, develop new products in a timely manner or in the event it fails to achieve increased sales of new products at a higher average selling price, then it may be unable to offset declining average selling prices in many of its product lines. If P-Com is unable to offset declining average selling prices, or achieve corresponding decreases in manufacturing operating expenses, its gross margins will continue to decline. P-Com's operating results could be adversely affected by continued decline in capital spending in the telecommunications market. Although much of the anticipated growth in the telecommunications infrastructure is expected to result from the entrance of new service providers, many new providers do not have the financial resources of existing service providers. For example in the United States, most competitive local exchange carriers are continuing to experience financial distress. If these new service providers are unable to adequately finance their operations, they may cancel or delay orders. Moreover, purchase orders are often received and accepted far in advance of shipment and, as a result, P-Com typically permits orders to be modified or canceled with limited or no penalties. In periods of weak capital spending on the part of traditional customers, P-Com is at risk for curtailment or cancellation of purchase orders, which can lead to adverse operating results. Ordering materials and building inventory based on customer forecasts or non-binding orders can also result in large inventory write-offs, such as what occurred in 2000 and 2001, and continued to incur in 2003. Global economic conditions have had a depressing effect on sales levels in the past three years. The soft economy and reported slowdown in capital spending in 2001, 2002 and 2003 in the United States and European telecommunications markets have had a significant depressing effect on the sales levels in each of these years. In fiscal 2002, P-Com's sales in the United States and Europe markets totaled $12.2 million, compared to $79.4 million in 2001. This trend continued through 2003. P-Com does not have the customer base or other resources of more established companies, which makes it difficult for it to address the liquidity and other challenges it faces. Although P-Com has installed and has in operation over 150,000 radio units globally, it has not developed a large installed base of its equipment or the kind of close relationships with a broad base of customers of a type 6 enjoyed by larger, more developed companies, which would provide a base of financial performance from which to launch strategic initiatives and withstand business reversals. In addition, P-Com has not built up the level of capital often enjoyed by more established companies, so from time to time it faces serious challenges in financing its continued operations. P-Com may not be able to successfully address these risks. Failure to maintain adequate levels of inventory could result in a reduction or delay in sales and harm P-Com's results of operations. P-Com's customers have increasingly been demanding short turnaround on orders rather than submitting purchase orders far in advance of expected shipment dates. This practice requires that P-Com keep inventory on hand to meet market demands. Given the variability of customer needs and purchasing power, it is difficult to predict the amount of inventory needed to satisfy customer demand. If P-Com over-estimates or under-estimates inventory requirements to fulfill customer needs, or if purchase orders are terminated by customers, P-Com's results of operations could continue to be adversely affected. In particular, increases in inventory or cancellation of purchase orders could adversely affect operations if the inventory is ultimately not used or becomes obsolete. This risk was realized in the large inventory write-downs from 1999 to 2002, and a $5.5 million write-down in the first two quarters of 2003. P-Com's limited manufacturing capacity and sources of supply may affect its ability to meet customer demand, which would harm its sales and damage its reputation. P-Com's internal manufacturing capacity, by design, is very limited. Under certain market conditions, as for example when there is high capital spending and rapid system deployment, P-Com's internal manufacturing capacity will not be sufficient to fulfill customers' orders. P-Com would therefore rely on contract manufacturers to produce its systems, components and subassemblies. P-Com's failure to manufacture, assemble and ship systems and meet customer demands on a timely and cost-effective basis could damage relationships with customers and have a material adverse effect on its business, financial condition and results of operations. In addition, certain components, subassemblies and services necessary for the manufacture of P-Com's systems are obtained from a sole supplier or a limited group of suppliers. Many of these suppliers are in difficult financial positions as a result of the significant slowdown that P-Com, too, has experienced. P-Com's reliance on contract manufacturers and on sole suppliers or a limited group of suppliers involves risks. P-Com has from time to time experienced an inability to obtain, or to receive in a timely manner, an adequate supply of finished products and required components and subassemblies. This inability is due to the above factors and, in some cases, P-Com's financial condition. As a result, P-Com has less control over the price, timely delivery, reliability and quality of finished products, components and subassemblies. A significant ramp-up of production of products and services could require P-Com to make substantial capital investments in equipment and inventory, in recruitment and training of additional personnel and possibly in investment in additional manufacturing facilities. If undertaken, P-Com anticipates these expenditures would be made in advance of increased sales. In this event, operating results would be adversely affected from time-to-time due to short-term inefficiencies associated with the addition of equipment and inventory, personnel or facilities and these cost categories may periodically increase as a percentage of revenues. P-Com's business depends on the acceptance of its products and services, and it is uncertain whether the market will accept and demand its products and services at levels necessary for success. P-Com's future operating results depend upon the continued growth and increased availability and acceptance of micro cellular, personal communications networks/personal communications services and wireless local loop access telecommunications services in the United States and internationally. The volume and variety of wireless telecommunications services or the markets for and acceptance of the services may not continue to grow as expected. The growth of these services may also fail to create anticipated demand for P-Com's systems. Predicting which segments of these markets will develop and at what rate these markets will grow is difficult. 7 Some sectors of the telecommunications market will require the development and deployment of an extensive and expensive telecommunications infrastructure. In particular, the establishment of personal communications networks/personal communications services networks requires significant capital expenditures. Communications providers may determine not to make the necessary investment in this infrastructure, or the creation of this infrastructure may not occur in a timely manner, as has been the case in 2001 through 2003. Moreover, one potential application of P-Com's technology, the use of its systems in conjunction with the provision of alternative wireless access in competition with the existing wireline local exchange providers, depends on the pricing of wireless telecommunications services at rates competitive with those charged by wireline operators. Rates for wireless access must become competitive with rates charged by wireline companies for this approach to be successful. Absent that, consumer demand for wireless access will be negatively affected. If P-Com allocates resources to any market segment that does not grow, it may be unable to reallocate capital and other resources to other market segments in a timely manner, ultimately curtailing or eliminating its ability to enter the other segments. Certain current and prospective customers are delivering services and features that use competing transmission media, such as fiber optic and copper cable, particularly in the local loop access market. To successfully compete with existing products and technologies, P-Com must offer systems with superior price and performance characteristics and extensive customer service and support. Additionally, P-Com must supply these systems on a timely and cost-effective basis, in sufficient volume to satisfy these prospective customers' requirements, in order to induce them to transition to P-Com's technologies. Any delay in the adoption of P-Com's systems and technologies may result in prospective customers using alternative technologies in their next generation of systems and networks. P-Com's financial condition may prevent P-Com from meeting this customer demand or may dissuade potential customers from purchasing from P-Com Prospective customers may design their systems or networks in a manner that excludes or omits P-Com's products and technology. Existing customers may not continue to include P-Com's systems in their products, systems or networks in the future. P-Com's technology may not replace existing technologies and achieve widespread acceptance in the wireless telecommunications market. Failure to achieve or sustain commercial acceptance of P-Com's currently available radio systems or to develop other commercially acceptable radio systems would materially adversely affect P-Com. Due to P-Com's international sales and operations, P-Com is exposed to economic and political risks and significant fluctuations in the value of foreign currencies relative to the United States dollar. As a result of P-Com's current heavy dependence on international markets, especially in the United Kingdom, the European continent, the Middle East, China, and Latin America, P-Com faces economic, political and foreign currency fluctuations that are often more volatile than those commonly experienced in the United States. Approximately 90% of P-Com's sales in the nine-month period ended September 30,2003 were made to customers located outside of the United States. Historically, P-Com's international sales have been denominated in British pounds sterling, Euros or United States dollars. A decrease in the value of British pounds or Euros relative to United States dollars, if not hedged, will result in exchange loss for P-Com if it has Euro or British pounds sterling denominated sales. Conversely, an increase in the value of Euro and British pounds sterling will result in increased margins for P-Com on Euro or British pounds sterling denominated sales as its functional currency is in United States dollars. For international sales that P-Com would require to be United States dollar-denominated, such a decrease in the value of foreign currencies could make its systems less price-competitive if competitors choose to price in other currencies and could adversely affect its financial condition. P-Com funds its Italian subsidiary's operating expenses, which are denominated in Euros. An increase in the value of Euro currency, if not hedged relative to the United States dollar, could result in more costly funding for P-Com's Italian operations, and as a result, higher cost of production to it as a whole. Conversely, a decrease in the value of Euro currency will result in cost savings for P-Com. Additional risks are inherent in P-Com's international business activities. These risks include: o changes in regulatory requirements; 8 o costs and risks of localizing systems (homologation) in foreign countries; o availability of suitable export financing, particularly in the case of large projects which P-Com must ship in short periods; P-Com's bank line of credit allows this financing up to $4.0 million, subject to numerous conditions; o timing and availability of export licenses, tariffs and other trade barriers; o difficulties in staffing and managing foreign operations, branches and subsidiaries; o difficulties in managing distributors; o terrorist activities; o recurrence of worldwide health epidemic similar to SARS, which significantly affected P-Com's ability to travel and do business in Asia and the Pacific Rim areas; o potentially adverse tax consequences; and o difficulty in accounts receivable collections, if applicable. Due to political and economic instability in new markets, economic, political and foreign currency fluctuations may be even more volatile than conditions in developed countries. Countries in the Asia/Pacific, African, and Latin American regions have in recent years experienced weaknesses in their currency, banking and equity markets. These weaknesses have adversely affected and could continue to adversely affect demand for P-Com's products. P-Com's international operations subject P-Com to the laws, regulations and local customs of the countries in which it conducts business, which may be significantly different from those of the United States. In many cases, local regulatory authorities own or strictly regulate international telephone companies. Established relationships between government-owned or government-controlled telephone companies and their traditional indigenous suppliers of telecommunications often limit access to these markets. The successful expansion of P-Com's international operations in some markets will depend on its ability to locate, form and maintain strong relationships with established companies providing communication services and equipment in designated regions. The failure to establish these regional or local relationships or to successfully market or sell P-Com's products in specific international markets could limit its ability to compete in today's highly competitive local markets for broadband wireless equipment. In addition, many of P-Com's customer purchases and other agreements are governed by a wide variety of complex foreign laws, which may differ significantly from United States laws. Therefore, P-Com may be limited in its ability to enforce its rights under those agreements and to collect damages, if awarded in any litigation. Governmental regulations affecting markets in which P-Com competes could adversely affect its business and results of operations. Radio communications are extensively regulated by the United States and foreign governments as well as by international treaties. P-Com's systems must conform to a variety of domestic and international requirements established to, among other things, avoid interference among users of radio frequencies and to permit interconnection of equipment. Historically, in many developed countries, the limited availability of radio frequency spectrum has inhibited the growth of wireless telecommunications networks. Each country's regulatory process differs. To operate in a jurisdiction, P-Com must obtain regulatory approval for its systems and comply with differing regulations. 9

Regulatory bodies worldwide continue to adopt new standards for wireless telecommunications products. The delays inherent in this governmental approval process may cause the cancellation, postponement or rescheduling of the installment of communications systems by P-Com's customers and P-Com. The failure to comply with current or future regulations or changes in the interpretation of existing regulations could result in the suspension or cessation of operations. Those regulations or changes in interpretation could require P-Com to modify its products and services and incur substantial costs in order to comply with the regulations and changes. In addition, P-Com is also affected by domestic and international authorities' regulation of the allocation and auction of the radio frequency spectrum. Equipment to support new systems and services can be marketed only if permitted by governmental regulations and if suitable frequency allocations are auctioned to service providers. Establishing new regulations and obtaining frequency allocation at auction is a complex and lengthy process. If PCS operators and others are delayed in deploying new systems and services, P-Com could experience delays in orders. Similarly, failure by regulatory authorities to allocate suitable frequency spectrum could have a material adverse effect on P-Com's results. In addition, delays in radio frequency spectrum auction process in the United States could delay P-Com's ability to develop and market equipment to support new services. P-Com operates in a regulatory environment subject to significant change. Regulatory changes, which are affected by political, economic and technical factors, could significantly impact P-Com's operations by restricting its development efforts and those of its customers, making current systems obsolete or increasing competition. Any such regulatory changes, including changes in the allocation of available spectrum, could have a material adverse effect on P-Com's business, financial condition and results of operations. P-Com may also find it necessary or advisable to modify its systems and services to operate in compliance with these regulations. These modifications could be expensive and time-consuming. P-Com may enter into agreements to merge or consolidate with other companies, and it may incur significant costs in the process, whether or not these transactions are completed. P-Com signed an Agreement and Plan of Merger with Telaxis Communications Corporation, dated September 9, 2002. This merger agreement was terminated by mutual agreement on January 7, 2003. On January 27, 2003, P-Com signed a letter of intent to acquire privately held Procera Networks Inc., of Sunnyvale, California, in a stock-for-stock transaction. This acquisition effort was terminated in April 2003. On June 16, 2003, P-Com entered into an Asset Purchase Agreement with SPEEDCOM Wireless Corporation to acquire substantially all of the assets of SPEEDCOM (the "SPEEDCOM Acquisition"). The SPEEDCOM Acquisition closed on December 10, 2003. P-Com may not be able to close any strategic acquisition on the timetable it anticipates, if at all. P-Com has and may further incur significant non-recoverable expenses in these efforts. P-Com may not realize the intended benefits of the SPEEDCOM Acquisition if it is unable to integrate SPEEDCOM's operations, products and personnel with its own in a timely and efficient manner. Achieving the benefits of the SPEEDCOM Acquisition will depend in part on the integration of P-Com's and SPEEDCOM's operations, products and personnel in a timely and efficient manner. In order for P-Com to provide enhanced and more valuable products to its customers after the SPEEDCOM Acquisition, P-Com will need to integrate both companies' development operations and product lines. This integration may be difficult and unpredictable because P-Com's and SPEEDCOM's products are highly complex, have been developed independently and were designed without regard to integration. Successful integration of P-Com's and SPEEDCOM's product development operations and product lines also requires coordination of different development and engineering teams, as well as sales and marketing efforts and personnel. This, too, may be difficult and unpredictable because of possible cultural conflicts between the companies and different opinions on product and technology decisions. If P-Com cannot successfully integrate SPEEDCOM's operations, products and personnel with its own, P-Com may not realize the expected benefits of the SPEEDCOM Acquisition, which could adversely affect P-Com's business. 10 Integrating P-Com's and SPEEDCOM's operations is expected to negatively affect SPEEDCOM's sales, and will divert management's attention away from its day-to-day operations. Integration of P-Com's and SPEEDCOM's operations, products and personnel is expected to negatively affect SPEEDCOM's sales in the fourth quarter of 2003 and the first quarter of 2004. In addition, the SPEEDCOM Acquisition is expected to place a significant burden on P-Com's management and its internal and financial resources. The negative affect on SPEEDCOM's sales during the fourth quarter of 2003 and first quarter of 2004, and the diversion of P-Com management's attention and any difficulties encountered in the transition and integration process, will negatively affect P-Com's financial condition, and could negatively affect P-Com's business. The SPEEDCOM Acquisition will continue to result in significant costs to P-Com. The SPEEDCOM Acquisition has resulted, and will continue to result in significant costs to P-Com. As of December 10, 2003, P-Com had loaned SPEEDCOM approximately $1.58 million, which indebtedness was assumed by P-Com in connection with the SPEEDCOM Acquisition. Transaction costs were approximately $250,000. These costs consisted primarily of fees for attorneys, accountants, filing fees and financial printers. Additional costs will be incurred in connection with the integration of the assets and business of SPEEDCOM. In addition to transaction costs, P-Com assumed approximately $630,000 in accounts payable of SPEEDCOM, and assumed certain other liabilities in connection with the SPEEDCOM Acquisition. These liabilities are expected to continue to affect P-Com's financial condition in the short-term. RISK RELATING TO CAPITAL MARKETS AND P-COM COMMON STOCK The NASDAQ Small Cap Market has delisted P-Com's common stock and this may severely limit the ability of P-Com's stockholders to sell any of their shares of P-Com common stock. NASDAQ moved P-Com's stock listing from the NASDAQ National Market to the NASDAQ Small Cap Market, effective August 27, 2002, due to P-Com's failure to meet certain listing requirements, including a minimum bid price of $1.00 per share. P-Com subsequently failed to meet certain NASDAQ Small Cap Market quantitative listing standards, including a minimum $1.00 per share bid price requirement, and the NASDAQ Listing Qualifications Panel determined that P-Com common stock would no longer be listed on the NASDAQ Small Cap Market. Effective March 10, 2003, P-Com's common stock commenced trading electronically on the OTC Bulletin Board of the National Association of Securities Dealers, Inc. This move could result in a less liquid market available for existing and potential stockholders to trade shares of P-Com common stock and could ultimately further depress the trading price of P-Com common stock. P-Com's common stock is subject to the SEC's "penny stock" regulation. For transactions covered by this regulation, broker-dealers must make a special suitability determination for the purchase of the securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, the rules generally require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker-dealer is also subject to additional sales practice requirements. Consequently, the penny stock rules may restrict the ability of broker-dealers to sell shares of P-Com common stock and may affect the ability of holders to sell P-Com common stock in the secondary market, and the price at which a holder can sell P-Com common stock. Issuing securities as a means of raising capital and the future sales of these securities in the public market could lower P-Com's stock price and adversely affect its ability to raise additional capital in subsequent financings. P-Com has traditionally relied on debt and equity financings to meet its working capital needs including the issuances of Series B Convertible Preferred Stock in August 2003 and Series C Convertible Preferred Stock in October and December 2003. When the shares of common stock that are issuable upon conversion of these securities are subsequently sold in the public market, the trading price of P-Com common stock may be negatively affected. As of January 20, 2004, the last reported sale price of P-Com common stock was $0.17. Future sales of P-Com's common stock, particularly shares issued upon the exercise or conversion of outstanding or newly issued 11 securities upon exercise of its outstanding options, could have a significant negative effect on the market price of P-Com's common stock. If the market price of P-Com common stock continues to decrease, P-Com may not be able to conduct additional financings in the future on acceptable terms or at all, and its ability to raise additional capital will be significantly limited. The conversion or exercise of P-Com's outstanding convertible securities will have a significant dilutive effect on P-Com's existing stockholders. In March, May and July 2003, P-Com issued warrants to purchase approximately 8.8 million shares of its common stock. In August 2003, P-Com's remaining 7% Convertible Subordinated Notes due 2005 were converted into 1.0 million shares of Series B Convertible Preferred Stock, of which 889,393 shares were converted into approximately 94 million shares of common stock in December 2003. The remaining outstanding shares of Series B Convertible Preferred Stock are convertible into approximately 11 million shares of P-Com common stock. In October and December 2003, P-Com issued approximately 10,000 shares of Series C Convertible Preferred Stock together with warrants to purchase approximately 139.2 million shares of common stock. These shares of Series C Convertible Preferred Stock are convertible into approximately 174.0 million shares of common stock. In December 2003, P-Com issued 2,000 shares of Series D Convertible Preferred Stock which, in turn, are convertible into approximately 13.3 million shares of common stock. Although the conversion or exercise of these securities is subject to limitations that prevent any single holder from holding more than 4.999% or 9.999%, as the case may be, of P-Com's outstanding common stock, the conversion or exercise of these securities will nevertheless result in substantial dilution to P-Com's existing stockholders. In December 2003, P-Com also issued 63,500,000 shares of its common stock in connection with the SPEEDCOM Acquisition. This issuance resulted in substantial dilution to P-Com's existing stockholders. A recent amendment to P-Com's bylaws increases P-Com's ability to conduct financing transactions using its equity securities and, as a result, may cause further dilution to P-Com's stockholders. At P-Com's 2003 annual meeting of stockholders, P-Com's stockholders approved a proposal to amend P-Com's bylaws. As a result of this amendment, P-Com may issue securities that are convertible into or exercisable for shares of P-Com common stock at a conversion or exercise price that is subject to downward adjustment without obtaining stockholder approval. This downward adjustment mechanism is designed to protect the holders of these securities from having their investments diluted by future issuances of P-Com common stock at a lower price per share. This is accomplished by issuing an increased number of shares of P-Com common stock to these security holders upon the conversion or exercise of those securities. If the market price of P-Com common stock continues to decline and P-Com is forced to continue raising capital through dilutive equity financings, the holders of these convertible securities will be protected from any dilution that may occur but, as a result, P-Com's other stockholders will be diluted to a greater extent than if these convertible securities did not exist. Due to the reservation of a substantial number of P-Com's authorized and unissued shares of common stock, P-Com has little or no flexibility to issue additional shares of stock in connection with financing programs, acquisitions and other corporate purposes. P-Com is authorized to issue a total of 700 million shares of common stock. Of this amount, approximately 212.6 million shares of common stock are currently outstanding. In addition P-Com is required to reserve approximately 431.5 million shares of common stock for issuance upon conversion or exercise of P-Com's outstanding convertible securities. P-Com has also reserved approximately 50 million shares for issuance under its 1995 Stock Option/Stock Issuance Plan. As a result, P-Com will have little or no flexibility to act in the future with respect to financing programs, acquisitions, forward stock splits and other corporate purposes without the delay and expense involved in obtaining stockholder approval each time an opportunity requiring the issuance of shares of common stock arises. Such a delay could cause P-Com to lose the opportunity to pursue one or more of these transactions. Moreover, P-Com's stockholders may refuse to grant the necessary approval. P-Com's stock price has been volatile and has experienced significant decline, and it may continue to be volatile and continue to decline. In recent years, the stock market in general, and the market for shares of small capitalization technology stocks in particular, have experienced extreme price fluctuations. These fluctuations have often negatively affected small cap companies such as P-Com, and may impact its ability to raise equity capital in periods of liquidity crunch. Companies with liquidity problems also often experience downward stock price volatility. P-Com believes that factors such as announcements of developments relating to its business (including any financings or any resolution of liabilities), announcements of technological innovations or new products or enhancements by P-Com or its competitors, developments in the emerging countries' economies, sales by competitors, sales of significant volumes of P-Com common stock into the public market, developments in its relationships with customers, partners, lenders, distributors and suppliers, shortfalls or changes in revenues, gross margins, earnings or losses or other financial results that differ from analysts' expectations, regulatory developments and fluctuations in results of operations could and have caused the price of P-Com common stock to fluctuate widely and decline over the past two years during the telecommunications recession. The market price of P-Com common stock may continue to decline, or otherwise continue to experience significant fluctuations in the future, including fluctuations that are unrelated to P-Com's performance. 12 P-Com has adopted anti-takeover defenses that could delay or prevent an acquisition of P-Com. P-Com's stockholder rights plan, certificate of incorporation, equity incentive plans, bylaws and Delaware law may have a significant effect in delaying, deferring or preventing a change in control and may adversely affect the voting and other rights of other holders of P-Com common stock. The rights of the holders of P-Com common stock will be subject to, and may be adversely affected by, the rights of any other preferred stock that may be issued in the future, including the Series A Junior Participating Preferred Stock that may be issued pursuant to the stockholder rights plan, upon the occurrence of certain triggering events. In general, the stockholder rights plan provides a mechanism by which the share position of anyone that acquires 15% or more (or 20% or more in the case of the State of Wisconsin Investment Board and Firsthand Capital Management) of P-Com's common stock will be substantially diluted. Future issuance of stock or additional preferred stock could have the effect of making it more difficult for a third party to acquire a majority of P-Com's outstanding voting stock. 13 STATEMENT REGARDING FORWARD-LOOKING INFORMATION This prospectus contains forward-looking statements that involve substantial risks and uncertainties. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would" or similar words. You should read statements that contain these words carefully because they may discuss P-Com's future expectations, contain projections of P-Com's future results of operations or of P-Com's financial position or state other forward-looking information. P-Com believes that it is important to communicate its future expectations to its investors. However, there may be events in the future that P-Com is able to accurately predict or control. The factors listed above in the section captioned "Risk Factors," as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause P-Com's actual results to differ materially from any expectations that P-Com describes. Actual results or outcomes may differ materially from those predicted in P-Com's forward-looking statements due to the risks and uncertainties inherent in its business, including risks and uncertainties in: o P-Com's ability to achieve positive cash flow given the Company's existing and anticipated operating and other costs, and current sales trends; o P-Com's ability to attract additional customers, therefore, decreasing its reliance on a limited number of customers for a material portion of its sales; o The possible need to raise additional equity capital, and whether that capital is available on acceptable terms, if at all; o P-Com's ability to negotiate repayment terms with many of its creditors, and settle outstanding litigation; o Market conditions including a continued severe worldwide slowdown in the telecommunications equipment and services sector; o Fluctuations in customer demand, pricing and competition; o P-Com's reliance upon subcontractors; o The ability of P-Com's customers to finance their purchases; o The timing of new technology and product introductions; o The risk of early obsolescence. o P-Com's ability to protect its intellectual property; and o obtaining and maintaining regulatory approval where required; You should also consider carefully the statements under "Risk Factors" beginning on page 4 and other sections of this prospectus and in the other documents filed with the SEC, which address factors that could cause P-Com's actual results to differ from those set forth in the forward-looking statements. You should not place undue reliance on any forward-looking statements, which reflect P-Com's management's view only as of the date of this prospectus. P-Com will not update any forward-looking statements to reflect events or circumstances that occur after the date on which such statement is made. 14 USE OF PROCEEDS P-Com will not receive any of the proceeds from the sale of the shares of common stock by the selling stockholders. If and when all or a portion of the Series B Convertible Preferred Stock, Series C Convertible Preferred Stock and Series D Convertible Preferred Stock are converted into shares of common stock, P-Com will not receive any proceeds from the conversion. If and when all or a portion of the warrants held by the selling stockholders are exercised, P-Com will receive the proceeds from the exercise of those warrants to the extent that the exercise price is paid in cash. However, warrants held by the selling stockholders may be exercised through a cashless exercise, in which event, P-Com will not receive any proceeds from the exercise. If these warrants are exercised and the exercise price is paid in cash, P-Com will receive approximately $24.8 million, which would be used by P-Com for working capital and other general corporate purposes. BUSINESS OVERVIEW P-Com develops, manufactures, and markets microwave radios for point-to-point, spread spectrum and point-to-multipoint applications for telecommunications networks worldwide. Cellular and personal communications providers employ P-Com's point-to-point systems for backhaul between remote tower sites and switching centers. Network service providers and Internet service providers are able, through the deployment of P-Com equipment and systems, to respond to the demands for high-speed wireless access services, such as Internet access associated with business-to-business and e-commerce business processes. Through deployment of P-Com's systems, network providers can quickly and efficiently establish integrated Internet, data, voice, and video communications for their customers, then expand and grow those services as demand increases. The wireless broadband networking market is a subset of the global telecommunications, cellular, personal services communications, wireless Internet access, and private network markets. Because of the number of sub-markets for various products globally, reliable market statistics are not readily available. P-Com's point-to-point, spread spectrum and point-to-multipoint products contributed 71% (2001:74%) and 21% (2001:13%) and 8% (2001:13%) of P-Com's equipment revenue, respectively, in 2002. Since early 2000, because of a severe industry downturn related to curtailed capital spending by operators and integrators of telecommunications systems globally, P-Com has disposed of non-core businesses, (including Technosystem, Cemetel, Control Resources, RT Masts and P-Com Network Services, Inc.), reduced employee headcount sharply, closed non-essential offices, and reduced capital expenditure significantly. Notwithstanding the downturn, P-Com raised $72 million in private equity financings during fiscal years 2000 to 2002, and during the first nine months of 2003. P-Com currently has $4.0 million in availability under a secured line of credit from a commercial bank. P-Com's business has been severely distressed and it has endured the bankruptcy and related loss of revenues and write-offs of its single largest customer in 2001. Short-term demand levels for broadband wireless products such as P-Com's is unclear. However, P-Com believes that should a market turnaround occur, wireless equipment solutions such as those offered by P-Com will continue to be attractive to broadband access providers from a viewpoint of cost efficiency, applications and ease of deployment. On December 10, 2003, P-Com acquired the Wave Wireless Networking division of SPEEDCOM Wireless Corporation ("SPEEDCOM") and related assets, in consideration for the issuance to SPEEDCOM of 63,500,000 shares of P-Com's common stock, and the assumption of certain of its liabilities (the "Acquisition"). Wave Wireless Networking ("Wave Wireless") offers custom broadband wireless access networking equipment, including the SPEEDLAN family of wireless Ethernet bridges and routers, for security-related government, business and residential customers in the U.S. and internationally. Internet service providers, telecommunications carriers and other service providers, and private organizations in the U.S. and internationally use Wave Wireless' products to provide broadband "last-mile" wireless connectivity in various point-to-point and point-to-multipoint configurations at speeds up to 155 megabits per second and distances up to 25 miles. Wave Wireless' flagship product, SPEEDLAN 9000, offers two key features as market differentiators: 128 bit over-the-air encryption and self-healing mesh networking. Wave Wireless' products provide high-performance broadband fixed wireless solutions specifically designed for building-to-building local area network connectivity and wireless Internet distribution. 15 Wave Wireless' wireless products are designed to meet the "backbone" and "last-mile" needs of three distinct market sectors: the government/security market, the service provider market and the enterprise market. Increasingly, the private and the government sector have insisted on products that incorporates security features, resulting in the development of new markets. Specifically, a need has developed for video surveillance and secure communications - whether voice or data. Video or VoIP (Voice over IP) can be transported with special prioritization by the SPEEDLAN products and all data transported in a SPEEDLAN network can be optionally encrypted with Department of Defense approved encryption. The service provider market is comprised of various Internet service providers and telecommunication carriers, which provide fixed wireless broadband Internet connectivity to business and residential customers. The enterprise market is comprised of corporations, schools, universities, governments and the military, which need wireless campus-wide private data networks. In both cases, Wave Wireless' wireless broadband products provide the user with lower cost of ownership and significantly reduced installation time compared to alternative wired solutions. As a result of the SPEEDCOM Acquisition, P-Com is able to add the SPEEDLAN product family to its unlicensed spread spectrum wireless product portfolio. In addition, P-Com gains greater access to the enterprise and government markets through sales channels established by Wave Wireless. On January 29, 2004, P-Com released its results of operations for the fourth quarter of 2003, which are described in the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations--Recent Results" beginning on page 47 of this prospectus. P-Com was organized on August 23, 1991 as a Delaware Corporation. INDUSTRY BACKGROUND During the 1990s, the demand for additional multimedia infrastructure, and in particular Internet usage growth, fueled network expansion using both wireline and wireless protocols. Speed, reliability and economies of scale are the key elements inherent in commercially successful networked systems. Broadband wireless access was found to supply an efficient and particularly economical means to meet this growing demand for information transfer. Wireless networks are constructed using microwave radios and other equipment to connect cell sites, wireline and other fixed asset systems. P-Com's broadband wireless products and services are targeted to add value to the integrated service providers and wireless telephone operators globally. P-Com's products are designed to be frequency specific by country if required. The broadband wireless market developed into two commercially recognized architectures for voice and data transmission: point-to-point and point-to-multipoint. P-Com has developed and sold equipment in commercial quantities for both formats. P-Com does not provide products for wireline sub-sectors of the telecommunications market, including wireline systems and cable systems. Since 2000, system build out has been in a significant slowdown in the United States, Latin America, and European telecommunications markets. Demand for wireless broadband products is currently deeply depressed. P-Com cannot ensure the proliferation of its products or guarantee a given market share of the global telecommunications equipment market in future years. Additionally, there are competing technologies which service the telecommunication sector's hardware demands. BROADBAND WIRELESS IMPLEMENTATION Global deregulation of telecommunications markets and the related allocation of radio frequencies for broadband wireless access transmission have spurred competition to supply wireless-based systems as a cost-effective alternative to traditional wireline service delivery systems. Broadband wireless systems are competitive due to the relatively short set up and deployment time, high return on capital investment, and ability to connect customers quickly once the transmission hardware and software infrastructure are in place. Moreover, network operators can mitigate the risk of "stranded capital costs" inherent in wireline hardware. Such systems do not scale as well as the wireless alternatives as user's needs expand or change over time. End users who need to transport information from one location to another have a choice of wired or wireless solutions. Wired solutions typically take the form of lines that are leased from telephone companies. The associated lease payments tend to be less attractive than the cost of ownership of a wireless digital microwave system. Wireless transmission of voice, data and video traffic has become a desirable alternative to wired solutions due to its advantages in cost, speed of deployment, reliability, range, and ease of installation, especially in developing countries. Incumbent telephone companies also are historically slow to deploy leased lines, especially when the user is a cellular operator who essentially competes directly with them. Wireless digital microwave radios, 16 on the other hand, can be deployed immediately upon receiving location rights. P-Com believes, particularly in a time of stringent capital asset rationalization, the wireless choice will be economical and effective. Global Privatization and Deregulation: Stimuli to Broadband Wireless Access Growth In many parts of the world, telecommunications services are inadequate, unreliable or non-existent due to the lack of existing infrastructure. Additionally, many such countries have privatized the state-owned telecommunications monopoly and opened their markets to competitive network service providers. P-Com believes competitive service providers in such markets often find deployment of wireless broadband the quickest, most economical and scalable means of providing reliable, modern telecommunications services. NETWORK ARCHITECTURE BOTTLENECKS Fiber optic networks have received much attention because of the speed and quality associated with the technology. Increasingly, network service providers are constructing fiber optic interoffice backbones to meet the significant demand created by Internet and data, video conferencing, and voice services. To satisfy the growing user demand for high-speed access, the fiber optic channels would (if not supplemented by other systems) have to extend all the way into the buildings in which the users reside. The fiber optic channel usually ends short of the building, at the beginning of the "last mile." Thus, users are often forced to use slower dial-up modem connections and ISDN (Integrated Services Digital Network) services, or ADSL (Asymmetrical Digital Subscriber Line) service, with its inherent distance limitations. This local access "bottleneck" denies users the real benefits afforded by fiber optic backbones because the highest speed that users can experience is that of the local access portion of their end-to-end connection. To overcome such limitations in a quick and efficient manner, P-Com believes a broadband wireless solution is attractive to incumbent and competitive carriers alike because the local access speed restrictions are not an issue with broadband wireless equipment. THE P-COM STRATEGY P-Com's goal is to be a leading worldwide supplier of high-performance point-to-point licensed and spread spectrum point-to-point and point-to-multipoint wireless access equipment. P-Com's strategy to accomplish this objective is to: o Focus on point-to-point licensed and spread spectrum point to point and point-to-multipoint microwave markets. P-Com designs products specifically for the millimeter wave (licensed) and spread spectrum (unlicensed) microwave frequency bands. P-Com has designed P-Com's core architecture to optimize the systems for operation at millimeter and microwave frequencies. o Continue expansion of P-Com's identified global market opportunities. P-Com has met the standards established by the European Telecommunications Standards Institute ("ETSI") and achieved regulatory approval for P-Com systems in Argentina, Australia, Austria, Brazil, Canada, China, the Czech Republic, Latvia, France, Germany, Greece, Hungary, Italy, Japan, Jordan, Mexico, Saudi Arabia, Spain, and the United Kingdom, as well as the United States. P-Com continues to seek to obtain type approval in other countries as the markets develop and the need arises. P-Com maintains international sales and/or support offices in Italy, China, Singapore and the United Kingdom. o Build and sustain manufacturing cost advantage. P-Com has designed its system architecture to reduce the number of components incorporated into each system, and to permit the use of common components and "building blocks" across the range of P-Com products. This approach assists in manufacturing cost reduction through volume component purchases and enabling a standardized manufacturing process. o Outsource manufacturing to reduce costs. Following the acquisition of Wave Wireless, P-Com shut down Wave Wireless' manufacturing facility in Sarasota, Florida, instead relying on a contract manufacturer to manufacture the SPEEDLAN product beginning in January 2004. P-Com is looking at additional opportunities to outsource manufacturing of its point-to-point product family. Utilization of 17 turnkey contract manufacturers eliminates expensive in-house manufacturing assembly, and provides ability to scale up or down as market conditions dictate. o Exploit engineering synergies. Due to similarities among P-Com's product lines, P-Com has created new design architectures that strive to obtain commonality in different products. This approach reduces manufacturing costs and affords improved time to market and feature sets. o Maximize P-Com's customers' revenue. One of the main objectives of the access providers who buy broadband wireless products from P-Com or P-Com's competitors is the establishment of an access system that enables them to derive from their allocated frequency bandwidth the maximum amount of revenue-producing traffic, also known as "throughput." The greater the "throughput" capability of a wireless broadband system, the greater the access provider's revenue production potential. Because P-Com's products are scaleable, users can quickly maximize throughput-utilizing software alone to meet network demands. This allows network operators to make optimum use of their allocated frequency bandwidth, thus maximizing revenue. o Leverage and maintain software leadership. P-Com differentiates its systems through proprietary software embedded in the Indoor Unit, Outdoor Unit, and in the Windows and SNMP-based software tools. This software is designed to allow P-Com to deliver to its customers a high level of functionality that can be easily reconfigured by the customer to meet changing needs. Software tools are also used to facilitate network management. o Leverage the distribution and sales network established by Wave Wireless to increase sales of P-Com's unlicensed point-to-point spread spectrum products in domestic and international markets. Wave Wireless maintains a significant sales presence both internationally and domestically. With the addition of Wave Wireless' products, P-Com's sales force will now be able to offer a more complete solution within the newly-enhanced sales channel. RANGE OF PRODUCT CHOICES Overview. P-Com offers access providers around the world a range of wireless systems that encompass point-to-point wireless broadband, and point-to-point and point-to-multipoint spread spectrum systems, with each product targeting a specific market. Point-to-point wireless broadband systems are typically deployed by cellular operators for wireless cellular interconnect and backhaul. Cellular interconnect comprises any of the wireless connections between a Base Station Transceiver, Base Station Controller, and Mobile Switching Center. Backhaul, or the transport of cellular traffic between mobile wireless towers and the mobile switching office on cellular phone networks, is a typical application for point-to-point equipment. Point-to-point wireless broadband is a dedicated link wireless technology enabling voice and data services between a subscriber and the network. For each new subscriber using this service, the network service provider provides a separate set of dedicated access equipment. As mobile service usage continues to grow, cellular service providers will have to continue to scale down existing cells into smaller ones to reuse precious spectrum. With each such division of cells comes opportunity for new wireless point-to-point applications because of the need for more backhauls. Spread spectrum radios are license-free, that is it does not require the Federal Communication Commission's approval (or other regulatory body in foreign countries) before P-Com equipment is deployed, and they are generally less expensive than licensed products. They are sold through Value Added Resellers and system integrators for private and public networks, providing last-mile wireless connectivity. Internet service providers and system operators typically use point-to-multipoint where bandwidth availability is critical to profitable system operation. Point-to-multipoint broadband wireless service is a wireless technology that provides the high-speed access service. This service can be rapidly deployed; it is highly efficient, 18 reliable and scalable; it is cost effective because it can serve many subscribers from one hub; and it can be expanded as demand for service dictates. Nonetheless, P-Com's and its competitors' point-to-multipoint products operating in the high bandwidth licensed spectrum have not gained sufficient market share in the wireless broadband market, and it is unclear when sales of these products will materialize, if at all. However, the unlicensed point-to-multipoint market remains strong, especially with the recent popularity of Wireless Internet products. The greater the number of frequencies provided for by the wireless broadband manufacturer, the greater the manufacturer's potential market penetration. P-Com's systems utilize a common architecture in the millimeter wave and spread spectrum microwave frequencies, including 2.4 GHz, 5.7 GHz, 7 GHz, 13 GHz, 14 GHz, 15 GHz, 18 GHz, 23 GHz, 24 GHz, 26 GHz, 28 GHz, 31 GHz, 38 GHz and 50 GHz. Wave Wireless. As a result of the acquisition of the Wave Wireless division of SPEEDCOM Wireless Corporation, P-Com is able to offer additional wireless broadband equipment, serving the enterprise market. Wave Wireless' high performance wireless bridge/router systems connect existing enterprise local area networks for point-to-point and point-to-multipoint, campus area, or metropolitan area networks. Within the current product line, Wave Wireless offers eight SPEEDLAN products, which use unlicensed radio frequencies to communicate at 11 megabits per second at distances up to 25 miles, and two OEM licensed microwave products, which use licensed radio frequencies to communicate at 52 or 155 megabits per second at distances up to ten miles. Because the performance and distance a particular product is capable of reaching varies depending on the end-user's network configuration, topography, and other engineering variables, these network performance values may vary from application to application. P-Com intends to develop additional SPEEDLAN products with smaller size, greater functionality and greater ease of use for new markets, including developing a next generation of fixed wireless broadband products, which are to be based on the 802.11a/g and/or 802.16 standards, operating in the 5.7 gigahertz band. P-Com expects that the new products will deliver throughput at rates up to 54 megabits per second, nearly five times as fast as today's SPEEDLAN products. P-Com intends to utilize a proprietary board design and software acquired from SPEEDCOM, utilizing many off the shelf radio components available from one of several manufacturers of 54 megabits per second radio chip sets (currently being developed). TECHNOLOGY P-Com's technological approach to point-to-point and spread spectrum digital microwave radio systems is, in P-Com's opinion, meaningfully different from conventional approaches. Through the use of proprietary designs, P-Com can quickly produce highly integrated, feature-rich systems. The results of these integrated designs are reliability, ability to customize customer specific designs and continuing ability to be cost competitive, particularly in the current market. P-Com's products are optimized for streamlined components, immunity to noise and interference, ease of high-volume manufacturing and installation. Yet P-Com's radios contain superior features. Equally important, because critical components and building blocks perform common functions across different product lines, P-Com's design philosophy is to design sections of each radio in a way that enable the designs to be reused with little or no modification in a different product line. P-Com's point-to-point and spread spectrum microwave radios consist of three primary assemblies: the Indoor Unit, the Outdoor Unit and the antenna. The Indoor Unit houses the digital signal processing and the interfaces to the Outdoor Unit via a single coaxial cable. The Outdoor Unit, a radio frequency drum or enclosure, which is installed outdoors, establishes the specific frequencies for transmitting and receiving data. The antenna interfaces directly to the Outdoor Unit via proprietary P-Com technology. 19 Software embedded in P-Com's systems allows the user to easily configure and adjust system settings such as frequency, power, and capacity without manual tuning and mechanical adjustments. Software provided with P-Com's systems includes PC-based sophisticated diagnostics, maintenance, network management, and system configuration tools. Competing systems also employ the Indoor Unit/Outdoor Unit concept but P-Com's products are differentiated by how P-Com implements the components within the Indoor Unit and Outdoor Unit. By moving many frequency-sensitive components to the Outdoor Unit, the user is afforded improved reliability, lower cost and easier interchangeability. P-Com believes that its spread spectrum products are industry leaders, especially with P-Com's latest product release line of AirPro Gold (TM). AirPro Gold represents P-Com's latest generation of license-free spread spectrum radios that address many markets including wireless Internet and the voice and data or E1 market. Rather than develop separate products for each market and application, P-Com created a single radio architecture that offers that ability to rapidly and reliably change the interface of the radio depending on the application. By inserting a series of plug-in modules, the radio interface can be changed to connect to different types of services. The simplest model, AirPro Gold.Net, offers wireless Internet connectivity via an ethernet port to address the wireless Internet and Hotspot markets. The voice and data market requires a different network interface to connect to the network. By simply installing a plug-in module, AirPro Gold.Net is transformed into a completely different product, AirPro Gold E1. Thus the functionality is changed from a wireless Internet radio to a 4 Mbps or E1 point-to-point radio. Additional advantages of this architecture are simplified stocking and the ability to change the radio interface as dictated by customer requirements. No other broadband wireless radio company at present offers such diverse functionality. SERVICES On April 30, 2003, P-Com entered into an Asset Purchase Agreement with JKB Global, LLP to sell certain assets of P-Com Network Services, Inc., P-Com's discontinued service business. The total cash consideration was approximately $105,000, plus the assumption of certain liabilities. The sale of P-Com Network Services, Inc. was consummated on April 30, 2003. MANUFACTURING AND TESTING P-Com's Campbell, California facility received its initial ISO 9001 registration in December 1993, and maintains a current certification. P-Com's ISO 9001 registration for the United Kingdom sales and customer support facility was received in 1996 and it has current certifications; P-Com's ISO 9001 registration for the Tortona facility in Italy was first received in 1996 and it has current certification. P-Com's production facility in Melbourne, Florida was ISO 9001 certified in 1999. On December 15, 2003, P-Com successfully upgraded to ISO 9001:2000. Once a system reaches commercial status, P-Com contracts with one or more of several turnkey fabricators to build radio system units in commercial quantities. Utilization of such fabricators relieves P-Com of expensive investments in manufacturing facilities, equipment, and parts inventories. This strategy enables P-Com to quickly scale to meet varying customer demands and changes in technology. P-Com tests and manufactures systems in P-Com's California, Italy and Florida locations prior to shipment to its customers. Testing includes the complete Indoor-Outdoor unit assembly, thereby providing customers with a completely tested end-to-end system. P-Com's designs make every effort to use components that are readily available from multiple sources, but in some cases, components that are single source or sole source must be used. Most manufacturers provide P-Com with advanced notice of the discontinuation of a device, but in the current depressed economy some manufacturers have discontinued components with little or no notice. When components are discontinued it may cause a significant expense to redevelop a replacement component and may even disrupt the flow of products from P-Com's manufacturing facilities. 20 Beginning January 2004, P-Com intends to outsource manufacturing of Wave Wireless' SPEEDLAN family of products, and is looking at additional opportunities to outsource manufacturing of its point-to-point product family. SALES CHANNELS AND P-COM CUSTOMERS P-Com's wireless access systems are sold internationally and domestically directly through its own sales force as well as through strategic partners, distributors, systems providers, and original equipment manufacturers. In 2002, P-Com's customers included: Percentage Customer of 2002 Revenue -------- --------------- Myntahl Corporation 14% Orange Personal Communications System 11% Vodafone (Mannesmann) 7% During 2002, sales to Myntahl Corporation and Orange Personal Communications System accounted for 14% and 11% of P-Com's total sales, respectively. During the first nine months of 2003, sales to Myntahl Corporation, Orange Personal Communications, Vodafone and T-Mobile accounted for 12%, 20%, 12% and 12%, respectively, of total sales. P-Com expects that sales to a relatively small number of customers will continue to account for a high percentage of its sales in the foreseeable future. Although the composition of P-Com's largest customer group may vary from period to period, the loss of a significant customer or a major reduction in orders by any significant customer, through reductions due to market, economic or competitive conditions in the telecommunications industry, may adversely affect its business, financial condition, and results of operations. While P-Com generally enters into written agreements with its major customers, P-Com generally does not provide for minimum purchase commitments. P-Com's ability to maintain or increase its sales in the future will depend, in part, upon its ability to obtain orders from new customers as well as the financial condition and success of P-Com customers, and the economy in general. P-Com's product sales segment is located primarily in the United States, with manufacturing and/or sales support operations in Italy, the United Kingdom, Singapore, and China. P-Com develops, manufactures and/or market networks access systems for use in the worldwide wireless telecommunications market. P-Com's backlog was approximately $2.9 million as of December 31, 2002, as compared to approximately $5.9 million as of December 31, 2001. The decrease was due to continuing worldwide recession in capital spending within the telecommunications industry and lack of forecast clarity from continuing customers. P-Com includes in backlog only those firm customer commitments to be shipped within the following twelve months. A significant portion of P-Com's backlog scheduled for shipment in the twelve months following December 31, 2002 can be cancelled, since orders are often made substantially in advance of shipment, and most of P-Com's contracts provide that orders may be cancelled with limited or no penalties for a specified period before shipment. Therefore, backlog is not necessarily indicative of future sales for any particular period. RESEARCH AND DEVELOPMENT P-Com has a continuing research and development program to enhance its existing systems and related software tools and to introduce new systems. P-Com invested approximately $12.7 million, $19.8 million and $20.2 million in 2002, 2001, and 2000, respectively, in research and development efforts. P-Com expects to continue to 21 invest material resources in research and development to maintain superior features creating value for many customers. P-Com's research and development efforts can be classified into two distinct efforts: (1) increasing the functionality of its point-to-point, point-to-multipoint and spread spectrum radio systems under development by adding additional frequencies and capacities to its product lineup, its network management system software offering, and developing other advancements to radio systems, and (2) integrating new functionality to extend the reach of its products into the customers' networks, such as access technology which allows the customer to manage telecommunications services at its site and to integrate voice, data, video and facsimile in one offering. P-Com's current efforts may not result in new product introductions or material modifications to existing products. The wireless telecommunications market is subject to rapid technological change, frequent new product introductions and enhancements, product obsolescence, changes in end-user requirements and evolving industry standards globally. P-Com's ability to be competitive in this market will depend in significant part upon its ability to successfully develop, introduce, and sell new systems and enhancements and related software tools on a timely and cost effective basis that respond to changing customer requirements. P-Com has experienced and may continue to experience delays from time to time in completing development and introduction of new systems, and enhancements for related software tools. P-Com has in place a Product Qualification / Quality Assurance structure that ensures product acceptance in the marketplace before and after commencement of commercial shipments. SALES AND MARKETING P-Com's sales and marketing efforts are directed from P-Com's corporate offices in Campbell, California. P-Com has sales operations and customer support facilities in the United Kingdom and Italy that serve the European market, and in China and Singapore for Asian markets. Internationally, P-Com uses a variety of sales channels, including system providers, original equipment manufacturers, dealers, and local agents. P-Com also sells directly to its customers. P-Com has established agent relationships in numerous other countries in the Asia/Pacific region, the Middle East, Latin America, and Europe. Typically, P-Com's sales process commences with the solicitation of bids by prospective customers. If selected to proceed further, P-Com may provide systems for incorporation into system trials, or P-Com may proceed directly to contract negotiations. When system trials are required and successfully completed, P-Com then negotiates a contract with the customer to set technical and commercial terms of sale. These terms of sale govern the purchase orders issued by the customer as the network is deployed and/or enhanced. P-Com believes that, due to the complexity of its radio systems, a high level of technical sophistication is required on the part of P-Com's sales and marketing personnel. In addition, P-Com believes that after-sale customer service programs are fundamental to customer satisfaction and the potential for follow-on business. New customers are provided engineering assistance for installation of the initial units as well as varying degrees of field training depending upon the customer's technical aptitude. All customers are provided telephone support via a 24-hour customer service help desk. P-Com's customer service efforts are supplemented by P-Com system providers. COMPETITION The worldwide wireless communications market is very competitive. P-Com's wireless radio systems compete with other wireless telecommunications products and alternative telecommunications transmission media, including copper and fiber optic cable. P-Com has experienced competition worldwide from a number of leading telecommunications companies that offer a variety of competitive products and services, including Alcatel Network Systems, Alvarion, Stratex Networks, Ericsson, Harris-Farinon Division, NEC, Nokia, Nortel, SIAE, Hughes Network Systems and Proxim. Many of these companies have substantially greater installed bases, financial resources and production, marketing, manufacturing, engineering and other capabilities than P-Com. P-Com may also face competition in the future from new market entrants offering competing technologies. P-Com's results of operations may depend in part upon the extent to which customers who choose to rely on 22 wireless strategies, elect to purchase from outside sources rather than develop and manufacture their own radio systems. Customers may choose not to rely on, or expand, their reliance on P-Com as an external source of supply for their radio systems. Recently, some of P-Com's competitors have announced the introduction of competitive products, including related software tools, and the acquisition of other competitors and competitive technologies. Competition is especially intense during the current period of depressed demand for telecommunications infrastructure equipment. P-Com expects its competitors to continue to improve the performance and lower the price of their current products, and to introduce new products or new technologies that provide added functionality and other features. New product introductions and enhancements by P-Com's competitors prior to its introduction of competing technology could cause a significant decline in sales or loss of market acceptance of P-Com systems or intense price competition, or make P-Com systems or technologies obsolete or noncompetitive. P-Com has experienced significant price competition and expects price competition to intensify in view of the current market downturn. This has adversely affect P-Com's gross margins and business, financial condition and results of operations. P-Com believes that its ability to continue to compete successfully is based on factors both within and outside of P-Com's control. Timing of new product line introductions, performance characteristics of P-Com's equipment and the ability of P-Com's own customers to be successful all play key roles. P-Com will continue to be required to expend significant resources on new product development, cost reduction and enhancements. The principal elements of competition in P-Com's market, and the basis upon which customers may select P-Com's systems, include price, performance, software functionality, and ability to meet delivery requirements and customer service and support. GOVERNMENT REGULATION Radio telecommunications are subject to extensive regulation by the United States and foreign governmental agencies and international treaties. P-Com's systems must conform to a variety of domestic and international requirements established to, among other things, avoid interference among users of radio frequencies and to permit interconnection of equipment. Each country has a different regulatory process. Historically, in many developed countries, the limited availability of frequency spectrum has inhibited growth of wireless telecommunications networks. In order for P-Com to operate within a specific country's jurisdiction, P-Com must obtain regulatory approval for its systems and comply with different regulations in each jurisdiction. Regulatory bodies worldwide are continuing the process of adopting new standards for wireless telecommunications products. The delays inherent in this governmental approval process may cause the cancellation, postponement or rescheduling of the installation of communications systems by P-Com and its customers, which in turn may have prevented or delayed the sale of systems by P-Com to such customers. The failure to comply with current or future regulations or changes in the interpretation of existing regulations could result in suspension or cessation of operations in that particular jurisdiction. These regulations and changes could require

P-Com to modify its products and incur substantial costs and delays to comply with these time-consuming regulations and changes. In addition, P-Com is also affected by the regulation, allocation and auction of radio frequency spectrum by domestic and international authorities. Equipment to support new services can be marketed only if permitted by suitable frequency allocations, auctions and regulations, and the process of establishing new regulations is complex and lengthy. If personal communications service operators and others are delayed in deploying their systems, P-Com could experience delays in orders for its products. Failure by the regulatory authorities to allocate suitable frequency spectrum could adversely affect P-Com's business, financial condition and results of operations. The regulatory environment in which P-Com operates is subject to significant change. Regulatory changes, which are affected by political, economic and technical factors, could significantly impact P-Com's operations by restricting the development efforts of its customers, making current systems obsolete or increasing the opportunity for additional competition. Any of these regulatory changes, including changes in the allocation of available spectrum, could adversely affect P-Com's business and results of operations. P-Com might deem it necessary or advisable to modify its systems to operate in compliance with applicable regulations. These modifications could be extremely expensive and time consuming. 23 INTELLECTUAL PROPERTY P-Com relies on its ability to obtain and enforce combination of patents, trademarks, trade secrets, copyrights, and a variety of other measures to protect P-Com's intellectual property rights, including patents and copyrights on it's proprietary software. P-Com generally enters into confidentiality and nondisclosure agreements with service providers, customers and others, and to limit access to and distribution of P-Com's proprietary technology. P-Com also enters into software license agreements with its customers and others. However, these measures may not provide adequate protection for P-Com's trade secrets and other proprietary information. Disputes over the ownership of P-Com's intellectual property rights may still arise and P-Com's trade secrets and proprietary technology may otherwise become known or be independently developed by competitors. Any patent owned by P-Com may be invalidated, circumvented or challenged, the rights granted thereunder may not provide competitive advantages to P-Com or any of P-Com's pending or future patent applications may not be issued with the scope of the claims sought by P-Com, if at all. Furthermore, others may develop similar products or software, duplicate P-Com's products or software or design around the patents owned by P-Com, or third parties may assert intellectual property infringement claims against P-Com. In addition, foreign intellectual property laws may not adequately protect P-Com's intellectual property rights abroad. Failure to protect P-Com's proprietary rights could adversely affect P-Com's business, financial condition, and results of operations. Litigation may be necessary to enforce P-Com's patents, copyrights, and other intellectual property rights, to protect P-Com's trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. This litigation could result in substantial costs and diversion of resources and could adversely affect P-Com's business, financial condition and results of operations regardless of the outcome of the litigation. Infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims may be asserted in the future and these assertions may adversely affect P-Com's business, financial condition, and results of operations. If any claims or actions are asserted against P-Com, P-Com may seek to obtain a license under a third party's intellectual property rights. However, a license may not be available under reasonable terms or at all. In addition, if P-Com decides to litigate these claims, the litigation could be extremely expensive and time consuming and could adversely affect P-Com's business, financial condition and results of operations, regardless of the outcome of the litigation. EMPLOYEES As of January 1, 2004, P-Com and its subsidiaries employed a total of 149 employees, including 78 in Operations, 23 in Research and Development, 24 in Sales and Marketing and 24 in Administration. Twenty-four of P-Com's employees were added on December 10, 2003 as a result of the acquisition of Wave Wireless. P-Com believes that future results of operations will depend in large part on its ability to attract and retain highly skilled employees. None of P-Com's employees are represented by a labor union, and P-Com has not experienced any work stoppages to date. 24 PROPERTIES Square Location of Lease Facility Functions Footage Date Lease Expires ---------------------------- ------------------------ ------- ----------------- Headquarters, Campbell, CA Administration/Customer Support/Sales/Engineering; Manufacturer 61,000 November 2005 Redditch, England Warehouse 6,800 September 2004 Melbourne, FL (1) Research/Development 8,697 July 2004 Beijing, China Sales/Customer Support 3,180 July 2004 Sarasota, FL Sales/Customer Support 16,522 November 2015 Sarasota, FL Manufacturing 8,000 February 2006 Shanghai, China Sales/Customer Support 1,115 August 2004 (1) This facility's lease was amended in April 2003, reducing the square footage from 22,225 to 8,697 square feet. P-Com Italia, S.p.A., owns and maintains its corporate headquarters in Tortona, Italy. This facility, consisting of approximately 36,000 square feet, provides design, test, manufacturing, mechanical, and warehouse functions. LEGAL PROCEEDINGS On June 20, 2003, Agilent Financial Services, Inc. filed a complaint against P-Com for Breach of Lease, Claim and Delivery and Account Stated, in the Superior Court of the State of California, County of Santa Clara. The amount claimed in the complaint is $2,512,509, and represents accelerated amounts due under the terms of capitalized equipment leases of P-Com. On June 27, 2003, the parties filed a Stipulation for Entry of Judgment and Proposed Order of Dismissal of Action Without Prejudice. Under the terms of the Stipulation, P-Com paid Agilent $50,000 on July 15, 2003, $100,000 on September 1, 2003, and is obligated to pay monthly payments of $50,000 for fourteen months, from October 1, 2003, up to and including November 1, 2004, and $1,725,000 on December 1, 2004. As a result of the Stipulation, judgment under the Complaint will not be entered unless and until P-Com defaults under the terms of the Stipulation. In the event P-Com satisfies each of its payment obligations under the terms of the Stipulation, the complaint will be dismissed, with prejudice. On April 4, 2003, Christine Schubert, Chapter 7 Trustee for Winstar Communications, Inc. et al, filed a Motion to Avoid and Recover Transfers Pursuant to 11 U.S.C. ss.ss. 547 and 550, in the United States Bankruptcy Court for the District of Delaware and served the Summons and Notice on July 22, 2003. The amount of the alleged preferential transfers to P-Com is approximately $13.7 million. P-Com has filed a response to the Motion that the payments made by Winstar Communications, Inc. are not voidable preference payments under the United States Bankruptcy Code. Subject to approval by the Bankruptcy Court, P-Com and Winstar have agreed to settle all preference claims for $100,000. 25 Other than the amounts claimed by Christine Schubert, Chapter 7 Trustee for Winstar Communications, Inc., the amount of ultimate liability with respect to each of the currently pending actions is less than 10% of P-Com's current assets. In the event P-Com is unable to satisfactorily resolve these and other proceedings that arise from time to time, its financial position and results of operations may be materially affected. MARKET PRICE AND DIVIDEND INFORMATION P-Com's common stock was quoted in the NASDAQ National Market under the symbol PCOM, until August 26, 2002. Due to P-Com's failure to meet certain listing requirements, including a minimum bid price of $1.00 per share, NASDAQ moved P-Com's stock listing from the NASDAQ National Market to the NASDAQ Small Cap Market, effective August 27, 2002. Additionally, NASDAQ notified P-Com that, subject to maintaining compliance with the various rules necessary for continued listing on the NASDAQ Small Cap Market, P-Com's stock could be delisted from the NASDAQ Small Cap Market unless it reached and maintained the minimum $1 bid price for a period of 10 consecutive days by February 10, 2003. P-Com did not meet this minimum bid price requirement, and effective March 10, 2003, P-Com's common stock was delisted from the Small Cap Market and now trades on the OTC Bulletin Board operated by the National Association of Securities Dealers, Inc. This change could result in a less liquid market available for existing and potential stockholders to trade shares of P-Com's common stock and could ultimately further depress the trading price of its common stock. In addition, P-Com's common stock is subject to the SEC's "penny stock" regulation. For transactions covered by this regulation, broker-dealers must make a special suitability determination for the purchase of the securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, the rules generally require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker-dealer is also subject to additional sales practice requirements. Consequently the penny stock rules may restrict the ability of broker-dealers to sell P-Com's common stock and may affect the ability of holders to sell the common stock in the secondary market, and the price at which a holder can sell the common stock. The following table sets forth the range of high and low sale prices, as reported on the NASDAQ National Market, NASDAQ Small Cap Market and OTC Bulletin Board for the first, second, and third quarters of 2003 and each quarter in 2002 and 2001. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions. As of January 1, 2004, there were 807 holders of record of P-Com common stock. Price Range of Common Stock -------------------------- High Low ---- --- 2001: First Quarter $1.10 $0.25 Second Quarter 0.30 0.11 Third Quarter 0.14 0.05 Fourth Quarter 0.08 0.03 2002: First Quarter $0.37 $0.13 Second Quarter 0.36 0.09 Third Quarter 0.82 0.19 Fourth Quarter 0.38 0.15 2003: First Quarter $0.31 $0.09 Second Quarter $0.13 $0.06 Third Quarter $0.36 $0.09 Fourth Quarter $0.28 $0.12 26 P-Com has not paid any cash dividends on shares of its common stock. P-Com does not anticipate paying any cash dividends in the foreseeable future. P-COM'S QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK P-Com has international sales and facilities and is, therefore, subject to foreign currency rate exposure. Historically, P-Com's international sales have been denominated in British pounds sterling, Euros, and United States dollars. The functional currencies of P-Com's wholly owned foreign subsidiaries are the local currencies. Assets and liabilities of these subsidiaries are translated into United States dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Accumulated net translation adjustments are recorded in stockholders' equity. Foreign exchange transaction gains and losses are included in the results of operations, and were not material for all periods presented. Based on P-Com's overall currency rate exposure at September 30, 2003, a near-term 10% appreciation or depreciation of the United States dollar would have an insignificant effect on P-Com's financial position, results of operations and cash flows over the next fiscal year. P-Com does not use derivative financial instruments for speculative or trading purposes. 27 SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION The following selected historical consolidated financial data for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 were derived from P-Com's audited financial statements which as to 2000, 2001, and 2002 are included elsewhere in this registration statement. The selected financial data for the nine months ended September 30, 2002 and 2003 were derived from the unaudited condensed consolidated financial statements of P-Com. In P-Com's opinion, the unaudited interim financial data includes all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of its interim results of operation. The pro forma information is unaudited and has been derived from the Unaudited Pro Forma Financial Information, beginning on page 29 of this registration statement. This information should be read in conjunction with P-Com's Management's Discussion and Analysis of Financial Condition and Results of Operations, beginning on page 33 of this registration statement, the Unaudited Pro Forma Financial Information, beginning on page 29 of this registration statement, and P-Com's financial statements and related notes, beginning on page F-1 of this registration statement. Year Ended December 31, ------------------------------------------------------------------------------- Pro Historical (1) Forma ----------------------------------------------------------------- -------- 1998 1999 2000(6) 2001(5) 2002(4) 2002(3) --------- --------- --------- -------- -------- -------- Consolidated Statements of Operations Data: Revenue, net $ 118,948 $ 116,409 $ 183,606 $ 73,236 $ 29,686 $ 37,362 Gross profit (loss) 25,119 9,031 22,641 (21,654) (1,091) 2,083 Loss from continuing operations (63,238) (66,647) (64,094) (75,327) (44,522) (48,971) Net loss from continuing operations applicable to common stockholders (65,077) (85,168) (64,094) (75,327) (44,522) (48,971) Basic and diluted net loss from continuing operations per common share (7.52) (7.47) (4.11) (4.55) (1.74) (0.55) Shares used in computing basic and diluted net loss from continuing operations per common share 8,650 11,399 15,600 16,551 25,546 89,046 Cash dividends declared -- -- -- -- -- -- 28 Nine Months Ended September 30, --------------------------------------- Historical Pro Forma --------------------- --------- 2002 2003(2) 2003(3) -------- -------- --------- Consolidated Statements of Operations Data: Revenue, net $ 22,292 $ 15,151 $ 18,883 Gross profit (loss) 3,029 (1,030) 283 Loss from continuing operations (22,862) (4,741) (8,307) Net loss from continuing operations applicable to common stockholders (22,862) (4,741) (8,307) Basic and diluted net loss from continuing operations per common share (0.97) (0.12) (0.08) Shares used in computing basic and diluted net loss from continuing operations per common share 23,323 39,884 103,384 Cash dividends declared -- -- -- 29 December 31, September 30, ------------------------------------------------------- ------------------------ Historical (1) Historical Pro Forma ------------------------------------------------------- ---------- ---------- 1998 1999 2000 2001 2002 2003 2003(3) -------- -------- -------- -------- -------- -------- -------- Consolidated Balance Sheet Data: Cash and cash equivalents $ 26,460 $ 10,667 $ 25,754 $ 5,436 $ 1,276 $ 1,130 $ 1,313 Working capital (deficiency) 82,669 38,618 78,932 (9,171) (1,776) (12,176) (17,112) Total assets 315,217 218,746 216,219 92,234 35,723 19,002 32,602 Long-term obligations, less current portion 109,694 38,644 30,106 680 24,466 1,804 1,816 Redeemable preferred stock -- -- -- -- -- 11,626 11,626 Total stockholders' equity (deficit) 99,409 89,215 95,247 24,256 (15,350) (20,092) (1,202) (1) The historical financial information does not give effect to P-Com Network Services, Inc. which is accounted for as a discontinued operation. The historical financial information also do not give effect to the cumulative effects of accounting changes of $(5,300) and $(1,534) during the years ended December 31, 2002 and 2000, respectively. (2) During the nine months ended September 30, 2003, P-Com recorded charges of approximately $3.7 million related to excess and obsolete inventories and related charges and $3.1 million related to the write down of fixed assets. (3) The pro forma financial information gives effect to the acquisition of substantially all of the assets of SPEEDCOM Wireless Corporation as if the acquisition had occurred at the beginning of each period reflected. (4) In 2002, P-Com recorded charges of approximately $5.8 million related to excess and obsolete inventory and a write-down of goodwill carrying value relating to the services business of $11.4 million. (5) In 2001, P-Com recorded charges of approximately $30.0 million related to excess inventory and inventory purchase commitments, $5.8 million related to a write-down of goodwill and other intangibles, and $11.6 million increase in bad debt expense related to a customer bankruptcy. (6) In 2000, P-Com recorded charges of approximately $21.7 million related to excess inventory and inventory purchase commitments, $15.0 million related to write-down of goodwill, and a $9.9 million increase in the valuation allowance against the carrying value of deferred tax assets. P-COM'S UNAUDITED PRO FORMA FINANCIAL INFORMATION The following unaudited pro forma combined financial information of P-Com gives effect to the acquisition of substantially all of the assets of SPEEDCOM Wireless Corporation as if that transaction had occurred as of September 30, 2003 as it relates to the pro forma balance sheet and as of January 1, 2003 and 2002 as it relates to the pro forma statements of operations for the nine months ended September 30, 2003 and the year ended December 31, 2002. The unaudited pro forma financial information is based upon P-Com's assumptions and adjustments that are described in the accompanying notes and do not include any adjustments related to the integration of SPEEDCOM with P-Com. Pro forma financial information is not necessarily indicative of the financial position or results of operations that would have been achieved had the transaction occurred on the aforementioned dates. The following pro forma financial information should be read in conjunction with P-Com's financial statements and its management's discussion and analysis included elsewhere in this registration statement. P-Com's Unaudited Pro Forma Balance Sheet As of September 30, 2003 Pro Forma P-COM SPEEDCOM Pro Forma for the Historical Historical Adjustments Transaction ---------- ---------- ---------- ---------- Current assets: Cash and cash equivalents ................ $ 1,105 $ 183 $ 1,288 Restricted cash ........................... 25 -- 25 Accounts receivable ....................... 4,918 293 5,211 Inventories ............................... 4,929 814 5,743 Other current assets ...................... 2,511 98 2,609 --------- -------- ------- --------- Total current assets ......................... 13,488 1,388 14,876 Property and equipment ....................... 4,135 343 4,478 Intangible assets ........................... -- 889 (889)(b) 12,723(d) 12,723 Other assets ................................ 1,379 246 (1,100)(e) 525 --------- -------- ------- --------- Total assets ................................ $ 19,002 $ 2,866 $10,734 $ 32,602 ========= ======== ======= ========= Current liabilities: Accounts payable .......................... $ 4,441 $ 904 $ 5,345 Accrued liabilities ....................... 16,766 1,199 (205)(c) 18,010 250(a) Note payable .............................. 2,220 59 2,279 Convertible promissory notes ............... 2,237 -- 2,237 Notes payable-related parties ............. -- 4,117 4,117 --------- -------- ------- --------- Total current liabilities ................... 25,664 6,279 45 31,988 Other long-term liabilities ................. 1,804 1,112 (1,100)(e) 1,816 --------- -------- ------- --------- Total liabilities ........................... 27,468 7,391 (1,055) 33,804 --------- -------- ------- --------- Redeemable preferred stock .................. 11,626 -- -- 11,626 --------- -------- ------- --------- Stockholders' equity (deficit): Preferred stock ........................... -- 5,456 (5,456)(f) -- Common stock .............................. 335,492 17,815 (17,815)(f) 342,756 7,264(a) Accumulated deficit ....................... (355,765) (27,796) 27,796(f) (355,765) Comprehensive items ....................... 181 -- 181 Total stockholders' deficit ................. (8,466) (4,525) 11,789 (1,202) --------- -------- ------- --------- Total liabilities and stockholders' deficit .. $ 19,002 $ 2,866 $10,734 $ 32,602 --------- -------- ------- --------- See accompanying notes. 30 P-Com's Unaudited Pro Forma Statement of Operations Nine Months Ended September 30, 2003 Pro Forma P-COM SPEEDCOM Pro Forma for the Historical Historical Adjustments Transaction ---------- ---------- ---------- ---------- Sales ............................................................ $ 15,151 $ 3,732 $ 18,883 Cost of sales ..................................................... 16,181 2,419 18,600 Gross margin ...................................................... (1,030) 1,313 283 Costs and expenses: Research and development ........................................ 4,805 711 5,516 Selling and marketing ........................................... 2,645 1,757 4,402 General and administrative ...................................... 4,303 2,108 $ (208)(g) 6,203 Asset impairment and restructuring .............................. 3,712 3,712 Interest and other expense (income) ............................. (1,492) 511 (981) (Gain) on debt extinguishment ................................. (10,262) -- (10,262) -------- ------- ------ --------- Total costs and expenses ....................................... 3,711 5,087 (208) 8,590 -------- ------- ------ --------- Profit (loss) from continuing operations .......................... $ (4,741) $(3,774) $ 208 $ (8,307) ======== ======= ====== ========= Basic and diluted loss per common share from continuing operations . $ (0.12) $ (0.08) -------- ------- ------ --------- Weighted average common shares .................................... 39,884 63,500(h) 103,384 ======= ====== ========= See accompanying notes. 31 P-Com's Unaudited Pro Forma Statement of Operations Year Ended December 31, 2002 Pro Forma P-COM SPEEDCOM Pro Forma for the Historical Historical Adjustments Transaction ---------- ---------- ---------- ---------- Sales ............................................................ $ 29,686 $ 7,676 $ 37,362 Cost of sales ...................................................... 30,777 4,502 35,279 -------- ------- -------- (1,091) 3,174 2,083 Costs and expenses: Research and development ........................................ 12,745 256 13,001 Selling and marketing ........................................... 6,621 3,463 10,084 General and administrative ...................................... 10,750 4,408 $ (277)(g) 14,251 (630)(i) Impairments

...................................................... 11,409 -- 11,409 Interest and other ............................................... 2,376 403 2,779 -------- ------- ------ -------- Total costs and expenses .......................................... 43,901 8,530 (907) 51,524 -------- ------- ------ -------- Income tax benefit .................................................. 470 -- 470 Loss from continuing operations ..................................... $(44,522) $(5,356) $ 907 $(48,971) -------- ------- ------ -------- Basic and diluted loss per common share from continuing operations .. $ (1.74) $ (0.55) -------- -------- Weighted average common shares ..................................... 25,546 63,500(h) 89,046 -------- ------ -------- See accompanying notes. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION NOTE 1. SPEEDCOM PURCHASE P-Com, Inc. will account for the SPEEDCOM purchase transaction using the purchase method of accounting. Under the purchase method of accounting, the total purchase price, plus the fair value of assumed liabilities, is allocated to the net tangible and identifiable intangible assets acquired, based upon their respective fair values. The total estimated purchase price of $7,514,000 consists of 63,500,000 shares of P-Com, Inc. common stock, valued using market values for such shares around the commitment date ($0.114), plus $250,000 of estimated expenses. A final determination of the fair values of assets acquired and liabilities assumed has not yet been completed. Accordingly, the allocations reflected in the pro forma financial statements are preliminary and subject to change. The preliminary estimated allocation that is reflected in the accompanying pro forma financial statements as of September 30, 2003 is as follows: Current assets ...................................... $ 1,388,000 Property and equipment ............................... 343,000 Goodwill ............................................ 12,723,000 Other assets ........................................ 246,000 Assumed liabilities .................................. (7,186,000) ----------- $ 7,514,000 =========== 32 The pro forma purchase price has been allocated to the fair values of assets acquired and liabilities assumed based upon management's best estimates, as follows: Current assets consist of accounts receivables that are recorded at estimated net realizable value and work in process inventories that are recorded at estimated selling prices, less cost to complete and a reasonable sales margin. Property and equipment are recorded at estimated replacement costs. Assumed liabilities are recorded at estimated net present values of future cash outlays for liabilities due in over one year and the face values of future cash outlays for all current liabilities. GOODWILL In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill resulting from the purchase, if any, will not be amortized into operations. Rather, such amounts will be tested for impairment at least annually. In the event that management of P-Com determines that the value of goodwill has become impaired, an accounting charge for the amount of the impairment will be recorded. NOTE 2. SUMMARY OF PRO FORMA ADJUSTMENTS The pro forma adjustments in the unaudited pro forma financial information are as follows: a. These adjustments record the issuance of 63,500,000 shares of common stock, valued at the average market price around the commitment date of the transaction, and $250,000 of estimated expenses. b. This adjustment combines the SPEEDCOM intangible asset amounts with goodwill for purposes of final allocation upon completion of the transaction. c. This adjustment eliminates certain accrued severance amounts, which are not an assumed liability. d. This adjustment records preliminary goodwill arising from the transaction, which is subject to final allocation upon completion of the transaction. e. These adjustments eliminate the investment balance between P-Com and SPEEDCOM. f. These adjustments eliminate SPEEDCOM equity accounts. g. These adjustments eliminate the amortization of SPEEDCOM intangible assets. h. These adjustments reflect the affect on loss per share of the P-Com common stock issued in the transaction. i. This adjustment eliminates severance expense, which is not an assumed liability. 33 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Management's discussion and analysis of financial condition and results of operations contain forward-looking statements, which involve risks and uncertainties. P-Com's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the section entitled "Risk Factors" beginning on page 4 of this prospectus. OVERVIEW P-Com supplies broadband wireless equipment and services for use in telecommunications networks. Currently, P-Com ships 2.4 GHz and 5.7 GHz spread spectrum (unlicensed) radio systems, as well as 7 GHz, 13 GHz, 14 GHz, 15 GHz, 18 GHz, 23 GHz, 26 GHz, 38 GHz and 50 GHz point-to-point radio systems. P-Com's performance in 2002 continued to be impacted by the capital expenditure level reductions maintained by the telecommunications industry in the United States and globally. The net loss in 2002 included inventory related charges to product costs of sales of $5.8 million, and a goodwill impairment write-off of $16.9 million related to the carrying value of P-Com's services business subsidiary, arising from P-Com's adoption of Financial Accounting Standard ("FAS") 142. P-Com implemented cost reduction programs, including a headcount reduction of approximately 186 employees or 48% compared to previous year's headcount and termination of facility leases. These cost reductions were insufficient to offset the impact of the reduction in revenue and continued low gross profit margins in a depressed industry. In the first quarter of 2003, P-Com decided to exit the services business. Accordingly, this business is reported as a discontinued operation and P-Com recorded losses from its operations for the year ended December 31, 2002, 2001, and 2000. On December 10, 2003, P-Com acquired the Wave Wireless Networking division of SPEEDCOM Wireless Corporation ("SPEEDCOM") and related assets, in consideration for the issuance to SPEEDCOM of 63,500,000 shares of P-Com's common stock, and the assumption of certain of its liabilities. Wave Wireless Networking ("Wave Wireless") specializes in manufacturing, configuring and delivering custom broadband wireless access networking equipment, including the SPEEDLAN family of wireless Ethernet bridges and routers, for business and residential customers internationally. The acquisition provides P-Com with complimentary unlicensed point-to-point and spread spectrum wireless access systems. CRITICAL ACCOUNTING POLICIES Management's discussion and analysis of P-Com's financial condition and results of operations are based upon P-Com's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires P-Com to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, P-Com evaluates its estimates. P-Com bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates unde volatile equity and foreign currency markets and reductions in information technology spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The company s accounting policies are set forth in detail in note (1) of the notes to the consolidated financial statements in the company s Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission. Such Annual Report also contains a discussion of the company s critical accounting policies. The company believes that these critical accounting policies affect its more significant estimates and judgments used in the preparation of the company s consolidated financial statements. There have been no changes in the company s critical accounting policies from those disclosed in the company s Annual Report on Form 10-K for the year ended December 31, 2009.

a. On February 1, 2010, the company closed on the sale of its U.S. specialized technology check sorter equipment and related U.S. maintenance business. At December 31, 2009, the assets and liabilities of the business sold were reported as held for sale in the company s consolidated balance sheet as follows: approximately $24 million in prepaid expenses and other current assets and approximately $20 million in other accrued liabilities. These amounts had been reflected at fair value, less cost to sell, and as a result, the company reported an impairment of $13.4 million in 2009 in the company s consolidated statement of income. In the first half of 2010, the company recorded an additional loss on the sale of approximately $2.8 million, principally as a result of closing date working capital and other adjustments. The divested business, which had operations in both of the company s reporting segments of Services and Technology, generated 2009 revenue and pretax loss of approximately $100 million and $3 million, respectively.

On April 30, 2010, the company closed on the previously disclosed sale of its health information management (HIM) business. Effective January 1, 2010, the company s financial statements have been retroactively reclassified to report the HIM business as discontinued operations. As a result, all items relating to the HIM business within the consolidated statements of income have been reported as income from discontinued operations, net of tax, and all items relating to the HIM business within the consolidated balance sheets have been reported as either assets or liabilities of discontinued operations.

The HIM business, which had operations in the company s Services reporting segment, generated 2009 revenue, pretax income and capital expenditures of approximately $110 million, $20 million and $50 million, respectively.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The results of discontinued operations for the three and six months ended June 30, 2010 and 2009 are as follows (in millions of dollars):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2010*** | **2009** | **2010*** | **2009** |
| Revenue | $ 10.4 | $ 27.5 | $ 42.0 | $ 54.7 |
| Income | | | | |
| Operations | $ .9 | $ 7.7 | $ 9.7 | $ 14.7 |
| Gain on sale | 64.8 | | 64.8 | |
| | 65.7 | 7.7 | 74.5 | 14.7 |
| Income tax provision | 4.9 | 3.1 | 8.4 | 5.9 |
| Income from discontinued operations, net of tax | $ 60.8 | $ 4.6 | $ 66.1 | $ 8.8 |

* Includes results of operations through the April 30, 2010 closing date.

Pursuant to the indentures governing the secured notes maturing in 2014 and 2015, net proceeds from the sale of the HIM business were required to be placed in a segregated account and may be used only for certain purposes, including to purchase long-term assets that would constitute collateral; to make capital expenditures with respect to assets that constitute collateral; to repay certain of the company s outstanding debt obligations; or to acquire other assets that are used or useful in its business and that would constitute collateral. If more than $75 million of net proceeds remain 360 days following the closing of the transaction, the company will be required to use those proceeds to offer to acquire the outstanding secured notes at 100% of face value plus accrued and unpaid interest. At June 30, 2010, $101.3 million remained in such account, which is reported in other long-term assets in the company s consolidated balance sheet.

b. Due to cumulative inflation of approximately 100 percent or more over the last 3-year period, the company s Venezuelan subsidiary has applied highly inflationary accounting beginning January 1, 2010. For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income (expense), net. Effective January 11, 2010, the Venezuelan government devalued the Bolivar Fuerte by 50 percent by resetting the official exchange rate from 2.15 to the U.S. dollar to 4.30 to the U.S. dollar. As a result, the company recorded a foreign exchange loss in the first quarter of 2010 of approximately $20 million. The company has used and continues to use the official exchange rate for translation purposes. At June 30, 2010, the company s operations in Venezuela had net monetary assets denominated in local currency of approximately $20 million.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

c. The following table shows how earnings per share attributable to Unisys Corporation was computed for the three and six months ended June 30, 2010 and 2009 (dollars in millions, shares in thousands):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net income from continuing operations attributable to Unisys Corporation | $ 59.4 | $ 33.5 | $ 42.5 | $ 4.9 |
| Income from discontinued operations, net of tax | 60.8 | 4.6 | 66.1 | 8.8 |
| Net income attributable to Unisys Corporation | $ 120.2 | $ 38.1 | $ 108.6 | $ 13.7 |
| Basic Earnings Per Share | | | | |
| Weighted average shares | 42,590 | 37,032 | 42,494 | 37,018 |
| Continuing operations | $ 1.39 | $ .91 | $ 1.00 | $ .13 |
| Discontinued operations | 1.43 | .12 | 1.56 | .24 |
| Total | $ 2.82 | $ 1.03 | $ 2.56 | $ .37 |
| Diluted Earnings Per Share | | | | |
| Weighted average shares | 42,590 | 37,032 | 42,494 | 37,018 |
| Plus incremental shares from assumed conversions of employee stock plans | 739 | 417 | 862 | 260 |
| Adjusted weighted average shares | 43,329 | 37,449 | 43,356 | 37,278 |
| Continuing operations | $ 1.37 | $ .90 | $ .98 | $ .13 |
| Discontinued operations | 1.40 | .12 | 1.52 | .24 |
| Total | $ 2.77 | $ 1.02 | $ 2.50 | $ .37 |

The following number of securities was antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 2010, 2,545 and 2009, 3,217.

d. Net periodic pension expense (income) for the three and six months ended June 30, 2010 and 2009 is presented below (in millions of dollars):

| | Three Months Ended June 30, 2010 | | | Three Months Ended June 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Total | U.S. Plans | Int l. Plans | Total | U.S. Plans | Int l. Plans |
| Service cost | $ 3.3 | $ | $ 3.3 | $ 2.7 | $ | $ 2.7 |
| Interest cost | 97.8 | 69.0 | 28.8 | 98.1 | 70.3 | 27.8 |
| Expected return on plan assets | (122.0) | (90.9) | (31.1) | (127.3) | (95.9) | (31.4) |
| Amortization of prior service cost | | .1 | (.1) | .3 | .2 | .1 |
| Recognized net actuarial loss | 19.7 | 13.3 | 6.4 | 17.3 | 16.2 | 1.1 |
| Net periodic pension expense (income) | $ (1.2) | $ (8.5) | $ 7.3 | $ (8.9) | $ (9.2) | $ .3 |

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

| | Six Months Ended June 30, 2010 | | | Six Months Ended June 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Total | U.S. Plans | Int l. Plans | Total | U.S. Plans | Int l. Plans |
| Service cost | $ 7.2 | $ | $ 7.2 | $ 5.6 | $ | $ 5.6 |
| Interest cost | 197.7 | 138.2 | 59.5 | 196.4 | 142.5 | 53.9 |
| Expected return on plan assets | (246.8) | (182.5) | (64.3) | (253.6) | (192.4) | (61.2) |
| Amortization of prior service cost | .2 | .3 | (.1) | .5 | .4 | .1 |
| Recognized net actuarial loss | 40.2 | 27.2 | 13.0 | 39.3 | 37.1 | 2.2 |
| Net periodic pension expense (income) | $ (1.5) | $ (16.8) | $ 15.3 | $ (11.8) | $ (12.4) | $ .6 |

The company currently expects to make cash contributions of approximately $115 million to its worldwide defined benefit pension plans in 2010 compared with $94.0 million in 2009. For the six months ended June 30, 2010 and 2009, $39.5 million and $30.9 million, respectively, of cash contributions have been made. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2010.

Net periodic postretirement benefit expense for the three and six months ended June 30, 2010 and 2009 is presented below (in millions of dollars):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | $ .1 | $ .1 | $ .1 | $ .2 |
| Interest cost | 2.6 | 2.9 | 5.3 | 5.9 |
| Expected return on assets | (.2) | (.1) | (.3) | (.2) |
| Amortization of prior service cost | .3 | .4 | .7 | .7 |
| Recognized net actuarial loss | 1.0 | .8 | 1.9 | 1.7 |
| Net periodic postretirement benefit expense | $ 3.8 | $ 4.1 | $ 7.7 | $ 8.3 |

The company expects to make cash contributions of approximately $24 million to its postretirement benefit plan in 2010 compared with $22.7 million in 2009. For the six months ended June 30, 2010 and 2009, $10.4 million and $10.0 million, respectively, of cash contributions have been made.

e. Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar, principally related to intercompany account balances. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates on such balances. The company enters into foreign exchange forward contracts, generally having maturities of one month, which have not been designated as hedging instruments. At June 30, 2010 and 2009, the notional amount of these contracts was $40.1 million and $31.0 million, respectively. At June 30, 2010 and 2009, the fair value of such contracts was zero and a net gain of $.5 million, respectively, of which $6.5 million and $4.0 million, respectively, has been recognized in Prepaid expenses and other current assets and $6.5 million and $3.5 million, respectively, has been recognized in Other accrued liabilities in the company s consolidated balance sheet. For the six months ended June 30, 2010 and 2009, changes in the fair value of these instruments were a loss of $.1 million and a gain of $.3 million, respectively, which has been recognized in earnings in Other income (expense), net in the company s consolidated statement of income. The fair value of these forward contracts is based on quoted prices for similar but not identical financial instruments; as such, the inputs are considered Level 2 inputs.

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities. The carrying amounts of these financial assets and liabilities approximate fair value due to their short maturities. At June 30, 2010 and December 31, 2009, the carrying amount of long-term debt was less than fair value, which is based on market prices (Level 2 inputs), of such debt by approximately $95 million and $100 million, respectively.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

f. Under stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees. At June 30, 2010, 5.1 million shares of unissued common stock of the company were available for granting under these plans.

The fair value of stock option awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted-average fair values:

| | Six Months Ended June 30, 2010 | 2009 |
|---|---|---|
| Weighted-average fair value of grant | $ 17.97 | $ 2.82 |
| Risk-free interest rate | 1.74% | 1.57% |
| Expected volatility | 72.20% | 58.28% |
| Expected life of options in years | 3.63 | 3.77 |
| Expected dividend yield | | |

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero to 1.5 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals.

The company records all share-based expense in selling, general and administrative expense.

During the six months ended June 30, 2010 and 2009, the company recorded $5.8 million and $3.8 million of share-based compensation expense, respectively, which is comprised of $2.1 million and $2.6 million of restricted stock unit expense and $3.7 million and $1.2 million of stock option expense, respectively.

A summary of stock option activity for the six months ended June 30, 2010 follows (shares in thousands):

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value ($ in millions) |
|---|---|---|---|---|
| Outstanding at December 31, 2009 | 3,981 | $ 109.30 | | |
| Granted | 608 | 34.90 | | |
| Exercised | (190) | 6.49 | | |
| Forfeited and expired | (962) | 174.95 | | |
| Outstanding at June 30, 2010 | 3,437 | 83.84 | 2.53 | $ 9.9 |
| Expected to vest at June 30, 2010 | 1,072 | 21.99 | 4.09 | 5.3 |
| Exercisable at June 30, 2010 | 2,317 | 113.76 | 1.77 | 4.3 |

The aggregate intrinsic value represents the total pretax value of the difference between the company s closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on June 30, 2010. The intrinsic value of the company s stock options changes based on the closing price of the company s stock. The total intrinsic value of options exercised for the six months ended June 30, 2010 and 2009 was

$5.4 million and zero, respectively. As of June 30, 2010, $8.2 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.4 years.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

A summary of restricted stock unit activity for the six months ended June 30, 2010 follows (shares in thousands):

| | Restricted Stock Units | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2009 | 561 | $ 40.42 |
| Granted | 219 | 34.73 |
| Vested | (146) | 25.17 |
| Forfeited and expired | (203) | 66.47 |
| Outstanding at June 30, 2010 | 431 | 29.54 |

The fair value of restricted stock units is determined based on the trading price of the company s common shares on the date of grant. The aggregate weighted-average grant-date fair value of restricted stock units granted during the six months ended June 30, 2010 and 2009 was $7.6 million and $1.1 million, respectively. As of June 30, 2010, there was $5.8 million of total unrecognized compensation cost related to outstanding restricted stock units granted under the company s plans. That cost is expected to be recognized over a weighted-average period of 2.1 years. The aggregate weighted-average grant-date fair value of restricted share units vested during the six months ended June 30, 2010 and 2009 was $3.7 million and $.4 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units is newly issued shares. Cash received from the exercise of stock options for the six months ended June 30, 2010 and 2009 was $1.2 million and zero, respectively. The company is currently not recognizing any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units in light of its tax position. Tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as financing cash flows.

g. The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology enterprise-class servers and other technology.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company s Services channels. In the company s consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment s sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended June 30, 2010 and 2009 was $.1 million and $9.1 million, respectively. The amount for the six months ended June 30, 2010 and 2009 was $.5 million and $10.6 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

A summary of the company s operations by business segment for the three and six month periods ended June 30, 2010 and 2009 is presented below (in millions of dollars):

| | Total | Corporate | Services | Technology |
|---|---|---|---|---|
| **Three Months Ended June 30, 2010** | | | | |
| Customer revenue | $ 1,056.3 | | $ 911.3 | $ 145.0 |
| Intersegment | | $ (36.2) | 1.5 | 34.7 |
| Total revenue | $ 1,056.3 | $ (36.2) | $ 912.8 | $ 179.7 |
| Operating income | $ 106.7 | $ 2.6 | $ 54.9 | $ 49.2 |
| **Three Months Ended June 30, 2009** | | | | |
| Customer revenue | $ 1,101.2 | | $ 1,002.5 | $ 98.7 |
| Intersegment | | $ (47.3) | 1.6 | 45.7 |
| Total revenue | $ 1,101.2 | $ (47.3) | $ 1,004.1 | $ 144.4 |
| Operating income (loss) | $ 67.7 | $ 1.4 | $ 74.2 | $ (7.9) |
| **Six Months Ended June 30, 2010** | | | | |
| Customer revenue | $ 2,054.6 | | $ 1,782.7 | $ 271.9 |
| Intersegment | | $ (59.2) | 2.3 | 56.9 |
| Total revenue | $ 2,054.6 | $ (59.2) | $ 1,785.0 | $ 328.8 |
| Operating income | $ 165.6 | $ .9 | $ 95.1 | $ 69.6 |
| **Six Months Ended June 30, 2009** | | | | |
| Customer revenue | $ 2,173.9 | | $ 1,959.1 | $ 214.8 |
| Intersegment | | $ (85.2) | 3.3 | 81.9 |
| Total revenue | $ 2,173.9 | $ (85.2) | $ 1,962.4 | $ 296.7 |
| Operating income (loss) | $ 82.7 | $ 14.9 | $ 93.4 | $ (25.6) |

Presented below is a reconciliation of total business segment operating income to consolidated income from continuing operations before income taxes (in millions of dollars):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Total segment operating income | $ 104.1 | $ 66.3 | $ 164.7 | $ 67.8 |

| | | | | |
|---|---|---|---|---|
| Interest expense | (25.3) | (21.2) | (51.8) | (43.0) |
| Other income (expense), net | (7.6) | 3.0 | (44.4) | (3.7) |
| Corporate and eliminations | 2.6 | 1.4 | .9 | 14.9 |
| Total income from continuing operations before income taxes | $ 73.8 | $ 49.5 | $ 69.4 | $ 36.0 |

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Services | | | | |
| Systems integration and consulting | $ 335.3 | $ 351.7 | $ 630.5 | $ 691.2 |
| Outsourcing | 402.3 | 430.4 | 792.0 | 828.6 |
| Infrastructure services | 115.1 | 143.8 | 240.7 | 286.0 |
| Core maintenance | 58.6 | 76.6 | 119.5 | 153.3 |
| | 911.3 | 1,002.5 | 1,782.7 | 1,959.1 |
| Technology | | | | |
| Enterprise-class servers | 131.6 | 77.1 | 234.0 | 156.7 |
| Other technology | 13.4 | 21.6 | 37.9 | 58.1 |
| | 145.0 | 98.7 | 271.9 | 214.8 |
| Total | $ 1,056.3 | $ 1,101.2 | $ 2,054.6 | $ 2,173.9 |

Geographic information about the company s revenue, which is principally based on location of the selling organization, is presented below (in millions of dollars):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| United States | $ 450.2 | $ 514.6 | $ 880.8 | $ 1,025.9 |
| United Kingdom | 133.0 | 136.3 | 251.8 | 266.4 |
| Other international | 473.1 | 450.3 | 922.0 | 881.6 |
| Total | $ 1,056.3 | $ 1,101.2 | $ 2,054.6 | $ 2,173.9 |

h. Comprehensive income for the three and six months ended June 30, 2010 and 2009 includes the following components (in millions of dollars):

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Consolidated net income from continuing operations | $ 60.6 | $ 36.0 | $ 44.9 | $ 9.7 |
| Income from discontinued operations, net of tax | 60.8 | 4.6 | 66.1 | 8.8 |
| Total | 121.4 | 40.6 | 111.0 | 18.5 |

Other comprehensive income (loss)

| | | | | |
|---|---|---|---|---|
| Foreign currency translation adjustments | (17.0) | 59.5 | (26.0) | 45.7 |
| Postretirement adjustments | 36.1 | (21.7) | 100.5 | 10.2 |
| Total other comprehensive income | 19.1 | 37.8 | 74.5 | 55.9 |
| Consolidated comprehensive income | 140.5 | 78.4 | 185.5 | 74.4 |
| Comprehensive income attributable to noncontrolling interests | 1.7 | 6.6 | 3.9 | 8.3 |
| Comprehensive income attributable to Unisys Corporation | $ 142.2 | $ 85.0 | $ 189.4 | $ 82.7 |

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Accumulated other comprehensive loss as of December 31, 2009 and June 30, 2010 is as follows (in millions of dollars):

| | Total | Translation Adjustments | Post-retirement Plans |
|---|---|---|---|
| Balance at December 31, 2009 | $ (3,013.5) | $ (629.9) | $ (2,383.6) |
| Change during period | 73.0 | (23.0) | 96.0 |
| Balance at June 30, 2010 | $ (2,940.5) | $ (652.9) | $ (2,287.6) |

Noncontrolling interests as of December 31, 2009 and June 30, 2010 is as follows (in millions of dollars):

| | Non-Controlling Interests |
|---|---|
| Balance at December 31, 2009 | $ (3.4) |
| Net income | 2.4 |
| Translation adjustments | (3.0) |
| Postretirement plans | 4.5 |
| Balance at June 30, 2010 | $ .5 |

i. Cash paid during the six months ended June 30, 2010 and 2009 for income taxes was $28.3 million and $40.0 million, respectively.

Cash paid during the six months ended June 30, 2010 and 2009 for interest was $57.4 million and $46.1 million, respectively.

j. Effective January 1, 2010, the company adopted a Financial Accounting Standards Board (FASB) accounting standard which among other changes, eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale and requires additional disclosures. The recognition and measurement provisions are effective for transfers occurring on or after January 1, 2010. The company concluded that sales of participating interest in accounts receivable under its U.S. accounts receivable securitization facility no longer meet the requirements to be accounted for as sales due to the change in the definition of a participating interest, whereby all cash flows received from the entire financial asset must be divided proportionally among the participating interest holders in an amount equal to their share of ownership. Since in the company s U.S. accounts receivable securitization facility, the company s retained interest is subordinated to the other holders, the transaction does not meet the definition of the sale of a participating interest, and therefore will be accounted for as a secured borrowing. See note (m).

In October 2009, the FASB issued two accounting standards. The first standard supersedes certain prior accounting guidance and requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices (i.e., the relative-selling-price method). The standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to this standard. The second standard amends prior software revenue recognition accounting guidance by excluding from the scope of such prior guidance tangible products that contain both software elements and non-software elements that function together to deliver the tangible product s essential functionality. Both of these standards must be adopted at the same time and both will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for the company is January 1, 2011. Early adoption is permitted. If an entity elects early adoption and the period of adoption is not the beginning of the entity s fiscal year, the entity is required to apply the amendments retrospectively from the beginning of the entity s fiscal year. An entity may elect, but is not required, to adopt these amendments retrospectively to prior periods. The company is currently assessing when it will adopt these standards and is evaluating the impact of the adoption on its consolidated results of operations and financial position; however, the company expects, as indicated in the standards, that the application of the amended guidance will result in revenue being recognized earlier than had been required under the prior guidance.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  (Continued)**

k. There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters and intellectual property. The company records a provision for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information and events pertinent to a particular matter.

The company believes that it has valid defenses with respect to legal matters pending against it. Based on its experience, the company also believes that the damage amounts claimed in the lawsuits disclosed below are not a meaningful indicator of the company s potential liability. Litigation is inherently unpredictable, however, and it is possible that the company s results of operations or cash flow could be affected in any particular period by the resolution of one or more of the legal matters pending against it.

In 2002, the company and the Transportation Security Administration (TSA) entered into a competitively awarded contract providing for the establishment of secure information technology environments in airports. The Civil Division of the Department of Justice, working with the Inspector General s Office of the Department of Homeland Security, is reviewing issues relating to labor categorization and overtime on the TSA contract. The Civil Division is also reviewing issues relating to cyber intrusion protection under the TSA and follow-on contracts. The company is working cooperatively with the Civil Division. The company does not know whether the Civil Division will pursue these matters, or, if pursued, what effect they might have on the company.

The company has contracts with the General Services Administration (GSA), known as Multiple Award Schedule Contracts, under which various U.S. governmental agencies can purchase products and services from the company. Auditors from the GSA s Office of Inspector General have been reviewing the company s compliance with the disclosure and pricing provisions under two of these contracts, and whether the company has potentially overcharged the government under the contracts. Separately, the company has made voluntary disclosures about these matters to the responsible GSA contracting officers. The company has been providing pricing and other information to the GSA auditors and is working cooperatively with them. The Inspector General has completed its audit on one of these contracts and has proposed a resolution for a de minimis amount. The audit on the other contract is in its preliminary stages, and the company cannot predict the outcome at this time.

In April 2007, the Ministry of Justice of Belgium sued Unisys Belgium SA-NV, a Unisys subsidiary (Unisys Belgium), in the Court of First Instance of Brussels. The Belgian government had engaged the company to design and develop software for a computerized system to be used to manage the Belgian court system. The Belgian State terminated the contract and in its lawsuit has alleged that the termination was justified because Unisys Belgium failed to deliver satisfactory software in a timely manner. It claims damages of approximately 28 million Euros. Unisys Belgium has filed its defense and counterclaim in the amount of approximately 18.5 million Euros. The company believes it has valid defenses to the claims and contends that the Belgian State s termination of the contract was unjustified.

In December 2007, Lufthansa AG sued Unisys Deutschland GmbH, a Unisys subsidiary (Unisys Germany), in the District Court of Frankfurt, Germany, for allegedly failing to perform properly its obligations during the initial phase of a 2004 software design and development contract relating to a Lufthansa customer loyalty program. Under the contract, either party was free to withdraw from the project at the conclusion of the initial design phase. Rather than withdraw, Lufthansa instead terminated the contract and failed to pay the balance owed to Unisys Germany for the initial phase. Lufthansa s lawsuit alleges that Unisys Germany breached the contract by failing to deliver a proper design for the new system and seeks approximately 21.4 million Euros in damages. The company believes it has valid defenses and has filed its defense and a counterclaim in the amount of approximately 1.5 million Euros. The litigation is proceeding.

Notwithstanding that the ultimate results of the lawsuits, claims, investigations and proceedings that have been brought or asserted against the company are not currently determinable, the company believes that at June 30, 2010, it has adequate provisions for any such matters.

**Unisys Corporation**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

l. Accounting rules governing income taxes require that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. In addition, the rules require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

The company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company s forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets. The company uses tax-planning strategies to realize or renew net deferred tax assets to avoid the potential loss of future tax benefits.

A full valuation allowance was recognized in 2005 and is currently maintained for all U.S. and certain foreign deferred tax assets in excess of deferred tax liabilities. The company will record a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their deferred tax assets. Any profit or loss recorded for the company s U.S. continuing operations will have no provision or benefit associated with it due to full valuation allowance, except with respect to benefits related to income from discontinued operations. As a result, the company s provision or benefit for taxes will vary significantly depending on the geographic distribution of income. Due to its full valuation allowance in the U.S., the recently enacted health care legislation will have no impact on the company s U.S. deferred tax assets.

m. In May 2008, the company entered into a three-year, U.S. accounts receivable securitization facility. Under this facility, the company has agreed to sell, on an ongoing basis, through Unisys Funding Corporation I, a wholly owned subsidiary, up to $150 million of interests in eligible U.S. trade accounts receivable. Under the facility, receivables are sold at a discount that reflects, among other things, a yield based on LIBOR subject to a minimum rate. The facility includes customary representations and warranties, including no material adverse change in the company s business, assets, liabilities, operations or financial condition. It also requires the company to maintain a minimum fixed charge coverage ratio and requires the maintenance of certain ratios related to the sold receivables. Other termination events include failure to perform covenants, materially incorrect representations and warranties, change of control and default under debt aggregating at least $25 million.

As discussed in note (j), effective January 1, 2010, the company adopted a new accounting standard whereby the company s U.S. accounts receivable securitization facility no longer meets the requirements to be treated as a sale, and therefore will be accounted for as a secured borrowing. At June 30, 2010 and December 31, 2009, receivables of zero and $100 million, respectively, were sold. At December 31, 2009, the receivables sold under the facility of $100 million were treated as a sale and therefore removed from the accompanying consolidated balance sheet.

n. At June 30, 2010, the company s cost-reduction liability, substantially all of which relates to idle lease cost, was approximately $25 million.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.**
**MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Overview***

The company reported significantly improved operating income in the first half of 2010 driven by strong ClearPath technology sales, as well as the continuing benefits from streamlining operations and refocusing its business model. First-half 2010 operating profit doubled to $165.6 million, or 8.1% of revenue, compared with operating profit of $82.7 million, or 3.8% of revenue, in the first half of 2009. The company reported significant profit improvement in its technology segment in the period.

The company reported first-half 2010 net income of $108.6 million compared with a first-half 2009 net income of $13.7 million. The results for the first six months of 2010 include income of $66.1 million from discontinued operations, related primarily to the gain on the sale of the company s health information management (HIM) business, completed on April 30, 2010 (see note (a) of the Notes to Consolidated Financial Statements). The company s results for the six months ended June 30, 2010 also include approximately $39 million of foreign exchange losses in other income (expense), net , including $20 million relating to the January 2010 currency devaluation in Venezuela (see note (b) of the Notes to Consolidated Financial Statements). First-half 2009 results included approximately $6 million of foreign exchange losses in other income (expense), net .

Revenue in the first half of 2010 declined 5% to $2.05 billion compared with $2.17 billion in the year-ago period, as the company continues to focus on profitable businesses that build on its core areas of strength. Approximately two percentage points of the revenue decline in the period was due to the divestiture of the company s U.S. specialized technology check sorter equipment and related U.S. maintenance business. Foreign exchange rates had an approximately 4 percentage-point positive impact on revenue in the first half of 2010.

Effective January 1, 2010, the company s financial statements have been retroactively reclassified to report the HIM business as discontinued operations. As a result, all items relating to the HIM business within the consolidated statements of income have been reported as income from discontinued operations, net of tax, and all items relating to the HIM business within the consolidated balance sheets have been reported as either assets or liabilities of discontinued operations.

On July 27, 2010, the company learned that it was unsuccessful in its protest of the decision by the U.S. Transportation Security Administration (TSA) to select another company as the prime contractor on the TSA s Information Technology Infrastructure Program contract providing for the establishment of secure information technology environments in airports. The company s current contract with the TSA expires at the end of August 2010, and the TSA has an option to extend it for three months to facilitate the transition to the new contractor. For the first six months of 2010, the company recognized revenue of approximately $60 million from the TSA.

***Results of operations***

***Company results***

***Three months ended June 30, 2010 compared with the three months ended June 30, 2009***

Revenue for the quarter ended June 30, 2010 was $1,056.3 million compared with $1,101.2 million for the second quarter of 2009, a decrease of 4% from the prior year. Approximately one half of the decline was due to divestitures of businesses. Foreign currency fluctuations had a 1-percentage-point positive impact on revenue in the current period compared with the year-ago period. Services revenue declined 9% (2 percentage points of the decline were due to divested businesses) and Technology revenue increased 47% (adjusting for divested businesses, the increase would have been 9 percentage points higher) in the current quarter compared with the year-ago period. U.S. revenue was down 13% in the second quarter compared with the year-ago period, driven by decreases in both Federal government and commercial revenue. Approximately 5 percentage points of the decline were due to divestitures of businesses. International revenue increased 3% in the current quarter principally due to increases in Brazil and Asia, offset in part by declines in Europe. Foreign currency had a 3-percentage-point positive impact on international revenue in the three months ended June 30, 2010 compared with the three months ended June 30, 2009.

Total gross profit margin was 27.3% in the three months ended June 30, 2010 compared with 23.7% in the three months ended June 30, 2009. The increase in gross profit margin principally reflects higher ClearPath sales as well as the benefits derived from cost reduction actions.

Selling, general and administrative expense in the three months ended June 30, 2010 was $160.5 million (15.2% of revenue) compared with $167.8 million (15.2% of revenue) in the year-ago period. The decrease in selling, general and administrative expense reflects the benefits derived in 2010 from cost reduction actions, offset in part by foreign currency exchange impacts.

Research and development (R&D) expenses in the second quarter of 2010 were $21.1 million compared with $25.1 million in the second quarter of 2009. The decrease in R&D expenses in 2010 compared with 2009 principally reflects changes in the company s development model as the company has focused its investments on software development versus hardware design.

For the second quarter of 2010, the company reported an operating profit of $106.7 million compared with an operating profit of $67.7 million in the second quarter of 2009. During the three months ended June 30, 2010, operating profit was negatively impacted due to changes in estimates related to previously-recorded accrued cost reduction charges. During the three months ended June 30, 2010, $2.5 million was recorded as expense compared with $7.0 million of income in the prior-year period. In addition, during the three months ended June 30, 2009, the company recorded a benefit of $11.2 million (a $5.4 million benefit in other income, a $6.1 million benefit in cost of revenue and an expense of $.3 million in selling, general and administrative expense related to legal fees) relating to a change in Brazilian law involving a gross receipt tax.

For the three months ended June 30, 2010 pension income was $1.2 million compared with pension income of $8.9 million for the three months ended June 30, 2009. The company records pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is based on where the salaries of active employees are charged.

Interest expense for the three months ended June 30, 2010 was $25.3 million compared with $21.2 million for the three months ended June 30, 2009. The increase in interest expense in 2010 was primarily due to higher interest rates associated with debt issued in 2009.

Other income (expense), net was an expense of $7.6 million in the second quarter of 2010, compared with income of $3.0 million in 2009. The decrease was principally due to foreign exchange losses of $3.5 million in the three months ended June 30, 2010 compared with gains of $1.4 million in the three months ended June 30, 2009 and the income of $5.4 million in the second quarter of 2009 related to the Brazilian law change discussed above.

Income from continuing operations before income taxes for the three months ended June 30, 2010 was $73.8 million compared with income of $49.5 million in 2009. The provision for income taxes was $13.2 million in the current quarter compared with a provision of $13.5 million in the year-ago period. As discussed in note (l) of the Notes to Consolidated Financial Statements, the company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The company will record a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their deferred tax assets. Any profit or loss recorded for the company s U.S. continuing operations will have no provision or benefit associated with it due to its full valuation allowance, except with respect to benefits related to income from discontinued operations. As a result, the company s provision or benefit for taxes will vary significantly quarter to quarter depending on the geographic distribution of income. Due to its full valuation allowance in the U.S., the recently enacted health care legislation will have no impact on the company s U.S. deferred tax assets.

Net income from continuing operations attributable to Unisys Corporation for the three months ended June 30, 2010 was $59.4 million, or $1.37 per diluted share, compared with $33.5 million, or $.90 per share, for the three months ended June 30, 2009.

Income from discontinued operations for the three months ended June 30, 2010 was $60.8 million, or $1.40 per diluted share, compared with $4.6 million, or $.12 per share, for the three months ended June 30, 2009. See note (a) of the Notes to Consolidated Financial Statements.

***Six months ended June 30, 2010 compared with the six months ended June 30, 2009***

Revenue for the six months ended June 30, 2010 was $2.05 billion compared with $2.17 billion for the six months ended June 30, 2009, a decrease of 5% from the prior year. Approximately 2 percentage points of the decline were due to divestitures of businesses. Foreign currency fluctuations had a 4-percentage-point positive impact on revenue in the current period compared with the year-ago period. Services revenue declined 9% (2 percentage points of the decline were due to divested businesses) and Technology revenue increased 27% (adjusting for divested businesses, the increase would have been 6 percentage points higher) for the six months ended June 30, 2010 compared with the year-ago period. U.S. revenue was down 14% in the first half of 2010 compared with the year-ago period, driven by decreases in both Federal government and commercial revenue. Approximately 4 percentage points of the decline were due to divestitures of businesses. International revenue increased 2% in the first half of 2010 due to increases in Brazil and Asia, offset in part by declines in Europe. Foreign currency had a 7-percentage-point positive impact on international revenue in the six months ended June 30, 2010 compared with the six months ended June 30, 2009.

Total gross profit margin was 25.5% in the six months ended June 30, 2010 compared with 21.9% in the six months ended June 30, 2009. The increase in gross profit margin principally reflects higher ClearPath sales as well as the benefits derived from cost reduction actions.

Selling, general and administrative expense in the six months ended June 30, 2010 was $316.9 million (15.4% of revenue) compared with $339.9 million (15.6% of revenue) in the year-ago period. The decrease in selling, general and administrative expense reflects the benefits from cost reduction actions, offset in part by foreign currency exchange impacts.

Research and development (R&D) expenses in the first half of 2010 were $41.9 million compared with $52.5 million in the first half of 2009. The decrease in R&D expenses in 2010 compared with 2009 principally reflects changes in the company s development model as the company has focused its investments on software development versus hardware design.

For the six months ended June 30, 2010, the company reported operating income of $165.6 million compared with operating income of $82.7 million for the six months ended June 30, 2009. During the six months ended June 30, 2010, operating profit was negatively impacted due to changes in estimates related to previously-recorded accrued cost reduction charges. During the six months ended June 30, 2010, $3.0 million was recorded as expense compared with $9.4 million of income in the prior-year period. In addition, during the six months ended June 30, 2009, the company recorded a benefit of $11.2 million (a $5.4 million benefit in other income, a $6.1 million benefit in cost of revenue and an expense of $.3 million in selling, general and administrative expense related to legal fees) relating to a change in Brazilian law involving a gross receipt tax.

For the six months ended June 30, 2010 pension income was $1.5 million compared with pension income of $11.8 million for the six months ended June 30, 2009.

Interest expense for the six months ended June 30, 2010 was $51.8 million compared with $43.0 million for the six months ended June 30, 2009.

Other income (expense), net was an expense of $44.4 million for the six months ended June 30, 2010, compared with expense of $3.7 million for the six months ended June 30, 2009. The increase in expense was principally due to foreign exchange losses of $38.9 million in the six months ended June 30, 2010 compared with losses of $5.6 million in the six months ended June 30, 2009. Included in the foreign exchange losses for the first half of 2010 was $19.9 million related to the Venezuelan devaluation, see note (b) of the Notes to Consolidated Financial Statements. In addition, income of $5.4 million was recognized in the first half of 2009 related to the Brazilian law change discussed above.

The company reported income from continuing operations before income taxes for the six months ended June 30, 2010 of $69.4 million compared with income of $36.0 million in 2009. The provision for income taxes was $24.5 million in the first half of 2010 compared with a provision of $26.3 million in the year-ago period.

Net income from continuing operations attributable to Unisys Corporation for the six months ended June 30, 2010 was $44.9 million, or $.98 per diluted share, compared with $9.7 million, or $.13 per share, for the prior-year period.

Income from discontinued operations for the six months ended June 30, 2010 was $66.1 million, or $1.52 per diluted share, compared with $8.8 million, or $.24 per share, for the six months ended June 30, 2009. See note (a) of the Notes to Consolidated Financial Statements.

Due to cumulative inflation of approximately 100 percent or more over the last 3-year period, the company s Venezuelan subsidiary has applied highly inflationary accounting beginning January 1, 2010. For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income (expense), net. Effective January 11, 2010, the Venezuelan government devalued the Bolivar Fuerte by 50 percent by resetting the official exchange rate from 2.15 to the U.S. dollar to 4.30 to the U.S. dollar. As a result, the company recorded a foreign exchange loss in the first quarter of 2010 of approximately $20 million. The company has used and continues to use the official exchange rate for translation purposes. At June 30, 2010, the company s operations in Venezuela had net monetary assets denominated in local currency of approximately $20 million.

***Segment results***

The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology enterprise-class servers and other technology.

The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profit on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company s Services channels. In the company s consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment s sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the three months ended June 30, 2010 and 2009 was $.1 million and $9.1 million, respectively. The amount for the six months ended June 30, 2010 and 2009 was $.5 million and $10.6 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments, based principally on revenue, employees, square footage or usage.

***Three months ended June 30, 2010 compared with the three months ended June 30, 2009***

Information by business segment is presented below (in millions of dollars):

| | Total | Elimi-nations | Services | Technology |
|---|---|---|---|---|
| **Three Months Ended June 30, 2010** | | | | |
| Customer revenue | $ 1,056.3 | | $ 911.3 | $ 145.0 |
| Intersegment | | $ (36.2) | 1.5 | 34.7 |
| Total revenue | $ 1,056.3 | $ (36.2) | $ 912.8 | $ 179.7 |
| Gross profit percent | 27.3% | | 19.0% | 61.3% |
| Operating income percent | 10.1% | | 6.0% | 27.4% |
| **Three Months Ended June 30, 2009** | | | | |
| Customer revenue | $ 1,101.2 | | $ 1,002.5 | $ 98.7 |
| Intersegment | | $ (47.3) | 1.6 | 45.7 |
| Total revenue | $ 1,101.2 | $ (47.3) | $ 1,004.1 | $ 144.4 |
| Gross profit percent | 23.7% | | 20.7% | 40.4% |
| Operating income (loss) percent | 6.1% | | 7.4% | (5.4)% |

Gross profit percent and operating income (loss) percent are as a percent of total revenue.

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

| | Three Months Ended June 30 2010 | Three Months Ended June 30 2009 | Percent Change |
|---|---|---|---|
| Services | | | |
| Systems integration and consulting | $ 335.3 | $ 351.7 | (4.7)% |
| Outsourcing | 402.3 | 430.4 | (6.5)% |
| Infrastructure services | 115.1 | 143.8 | (20.0)% |
| Core maintenance | 58.6 | 76.6 | (23.5)% |
| | 911.3 | 1,002.5 | (9.1)% |
| Technology | | | |
| Enterprise-class servers | 131.6 | 77.1 | 70.7% |
| Other technology | 13.4 | 21.6 | (38.0)% |
| | 145.0 | 98.7 | 46.9% |
| Total | $ 1,056.3 | $ 1,101.2 | (4.1)% |

In the Services segment, customer revenue was $911.3 million for the three months ended June 30, 2010 down 9.1% from the three months ended June 30, 2009. Approximately 2 percentage points of the decline were due to divestitures of businesses. Foreign currency translation had a 1-percentage-point positive impact on Services revenue in the current quarter compared with the year-ago period.

Revenue from systems integration and consulting decreased 4.7% from $351.7 million in the June 2009 quarter to $335.3 million in the June 2010 quarter, reflecting lower demand for project-based services from the company s U.S. federal business.

Outsourcing revenue decreased 6.5% for the three months ended June 30, 2010 to $402.3 million compared with the three months ended June 30, 2009, principally reflecting a decline in business processing outsourcing (BPO) revenue. Excluding the company s U.S. federal business, information technology outsourcing (ITO) revenue grew in the current period compared with the prior year.

Infrastructure services revenue declined 20.0% for the three month period ended June 30, 2010 compared with the three month period ended June 30, 2009, reflecting the company s de-emphasis of lower-margin business, as well as the shift from project work to managed outsourcing contracts. Approximately 4 percentage points of the decline were due to divestitures of businesses.

Core maintenance revenue declined 23.5% in the current quarter compared with the prior-year quarter, reflecting the continuing secular decline of core maintenance. Approximately 15 percentage points of the decline were due to divestitures of businesses.

Services gross profit was 19.0% in the second quarter of 2010 compared with 20.7% in the year-ago period. Services operating income percent was 6.0% in the three months ended June 30, 2010 compared with 7.4% in the three months ended June 30, 2009.

In the Technology segment, customer revenue was $145.0 million in the current quarter compared with $98.7 million in the year-ago period for an increase of 46.9% (adjusting for divested businesses, the increase would have been 9 percentage points higher). Foreign currency translation had a positive impact of approximately 1-percentage points on Technology revenue in the current period compared with the prior-year period. The increase in Technology revenue in 2010 was principally due to higher sales in the United States, Europe and Brazil.

Revenue from the company s enterprise-class servers, which includes the company s ClearPath and ES7000 product families, increased 70.7% for the three months ended June 30, 2010 compared with the three months ended June 30, 2009. The increase was due to higher sales of the company s ClearPath products.

Revenue from other technology decreased 38.0% for the three months ended June 30, 2010 compared with the three months ended June 30, 2009, principally due to lower sales of third-party technology products as well as the divestiture of a business. Approximately 18 percentage points of the decline were due to divestitures of businesses.

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Technology gross profit was 61.3% in the current quarter compared with 40.4% in the year-ago quarter. Technology operating income (loss) percent was 27.4% in the three months ended June 30, 2010 compared with (5.4)% in the three months ended June 30, 2009. The increases in gross profit and operating profit margins in 2010 compared with 2009 principally reflect a richer mix of high margin enterprise servers.

***Six months ended June 30, 2010 compared with the six months ended June 30, 2009***

Information by business segment is presented below (in millions of dollars):

| | Total | Elimi-nations | Services | Technology |
|---|---|---|---|---|
| **Six Months Ended June 30, 2010** | | | | |
| Customer revenue | $ 2,054.6 | | $ 1,782.7 | $ 271.9 |
| Intersegment | | $ (59.2) | 2.3 | 56.9 |
| Total revenue | $ 2,054.6 | $ (59.2) | $ 1,785.0 | $ 328.8 |
| Gross profit percent | 25.5% | | 18.6% | 57.2% |
| Operating income percent | 8.1% | | 5.3% | 21.2% |
| **Six Months Ended June 30, 2009** | | | | |
| Customer revenue | $ 2,173.9 | | $ 1,959.1 | $ 214.8 |
| Intersegment | | $ (85.2) | 3.3 | 81.9 |
| Total revenue | $ 2,173.9 | $ (85.2) | $ 1,962.4 | $ 296.7 |
| Gross profit percent | 21.9% | | 18.3% | 36.7% |
| Operating income (loss) percent | 3.8% | | 4.8% | (8.6)% |

Gross profit percent and operating income (loss) percent are as a percent of total revenue.

Customer revenue by classes of similar products or services, by segment, is presented below (in millions of dollars):

| | Six Months Ended June 30 2010 | 2009 | Percent Change |
|---|---|---|---|
| Services | | | |
| Systems integration and consulting | $ 630.5 | $ 691.2 | (8.8)% |
| Outsourcing | 792.0 | 828.6 | (4.4)% |
| Infrastructure services | 240.7 | 286.0 | (15.8)% |
| Core maintenance | 119.5 | 153.3 | (22.0)% |
| | 1,782.7 | 1,959.1 | (9.0)% |
| Technology | | | |
| Enterprise-class servers | 234.0 | 156.7 | 49.3% |
| Other technology | 37.9 | 58.1 | (34.8)% |
| | 271.9 | 214.8 | 26.6% |
| Total | $ 2,054.6 | $ 2,173.9 | (5.5)% |

In the Services segment, customer revenue was $1,782.7 million for the six months ended June 30, 2010 down 9.0% from the six months ended June 30, 2009. Approximately 2 percentage points of the decline were due to divestitures of businesses. Foreign currency translation had a 3-percentage-point positive impact on Services revenue in the first half of 2010 compared with the year-ago period.

Revenue from systems integration and consulting decreased 8.8% from $691.2 million for the six months ended June 30, 2009 to $630.5 million for the six months ended June 30, 2010, reflecting lower demand for project-based services from the company s U.S. federal business.

Outsourcing revenue decreased 4.4% for the six months June 30, 2010, as a decline in business processing outsourcing (BPO) revenue was only partially offset by an increase in information technology outsourcing (ITO) revenue.

Infrastructure services revenue declined 15.8% for the six months ended June 30, 2010, reflecting the company s de-emphasis of lower-margin business, as well as the shift from project work to managed outsourcing contracts. Approximately 4 percentage points of the decline were due to divestitures of businesses.

Core maintenance revenue declined 22.0% in the six months ended June 30, 2010 compared with the prior-year period, reflecting the continuing secular decline of core maintenance. Approximately 12 percentage points of the decline were due to divestitures of businesses.

Services gross profit was 18.6% for the six months ended June 30, 2010 compared with 18.3% in the year-ago period. Services operating income percent was 5.3% for the six months ended June 30, 2010 compared with 4.8% for the six months ended June 30, 2009.

In the Technology segment, customer revenue was $271.9 million in the six months ended June 30, 2010 compared with $214.8 million in the year-ago period for an increase of 26.6% (adjusting for divested businesses, the increase would have been 7 percentage points higher). Foreign currency translation had a positive impact of approximately 5-percentage points on Technology revenue in the first half of 2010 compared with the prior-year period. The increase in Technology revenue in 2010 was principally due to higher sales in the United States, Europe, Latin America and Brazil.

Revenue from the company s enterprise-class servers, which includes the company s ClearPath and ES7000 product families, increased 49.3% for the six months ended June 30, 2010 compared with the six months ended June 30, 2009. The increase was due to higher sales of the company s ClearPath products.

Revenue from other technology decreased 34.8% for the six months ended June 30, 2010 compared with the six months ended June 30, 2009, principally due to lower sales of third-party technology products as well as the divestiture of a business. Approximately 18 percentage points of the decline were due to divestitures of businesses.

Technology gross profit was 57.2% in the first half of 2010 compared with 36.7% in the year-ago period. Technology operating income (loss) percent was 21.2% for the six months ended June 30, 2010 compared with (8.6)% for the six months ended June 30, 2009. The increases in gross profit and operating profit margins in 2010 compared with 2009 principally reflect a richer mix of high margin enterprise servers.

***New accounting pronouncements***

See note (j) of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

***Financial condition***

The company s principal sources of liquidity are cash on hand, cash from operations and its $150 million U.S. accounts receivable securitization facility, which is discussed below. The company believes that it will have adequate sources of liquidity to meet its expected near-term cash requirements.

Cash and cash equivalents at June 30, 2010 were $496.5 million compared with $647.6 million at December 31, 2009. The decline was primarily due to the payment of $78 million to redeem and extinguish long-term debt and a $100 million reduction in the utilization of the company s U.S. accounts receivable securitization facility. At December 31, 2009, the company had sold $100 million of receivables under the facility compared with zero as of June 30, 2010.

During the six months ended June 30, 2010, cash provided by operations was $23.2 million compared with cash provided of $87.7 million for the six months ended June 30, 2009. The principal reason for the decline in cash provided from operations was the $100 million decrease in the utilization in the company s U.S. accounts receivable securitization facility, discussed above. In addition, cash expenditures in the current six-month period related to cost-reduction actions (which are included in operating activities) were approximately $10.4

million compared with $46.4 million for the prior-year period. Cash expenditures for prior year cost-reduction actions are expected to be approximately $11.8 million for the remainder of 2010, resulting in an expected cash expenditure of approximately $22.2 million in 2010 compared with $61.3 million in 2009.

Cash used for investing activities for the six months ended June 30, 2010 was $66.2 million compared with cash usage of $173.3 million during the six months ended June 30, 2009. The current six-month period includes net proceeds of $130.3 million related to the sale of the company s HIM business, as well as the sale of the company s U.S. specialized technology check sorter and related U.S. maintenance business (see note (a) of the Notes to Consolidated Financial Statements). Items affecting cash used for investing activities were the following: Net proceeds of investments were $.4 million for the six months ended June 30, 2010 compared with net proceeds of $1.3 million in the prior-year period. Proceeds from investments and purchases of investments represent derivative financial instruments used to reduce the company s currency exposure to market risks from changes in foreign currency exchange rates. During the six months ended June 30, 2010, the company used $80.6 million of cash related to the net change in restricted deposits compared with a cash usage of $72.3 million in the prior year period. In addition, in the current year period, the investment in marketable software was $27.3 million compared with $29.5 million in the year-ago period, capital additions of properties were $37.3 million in 2010 compared with $18.1 million in 2009 and capital additions of outsourcing assets were $51.7 million in 2010 compared with $53.2 million in 2009. The increase in capital additions of properties was principally due to expenditures related to new facilities as part of the company s multi-year plan to reduce its leased square footage.

Cash used for financing activities during the six months ended June 30, 2010 was $76.9 million compared with cash used of $.7 million during the six months ended June 30, 2009. The current-year period includes $78.0 million used to redeem and to extinguish long-term debt.

At June 30, 2010, total debt was $836.4 million, a decrease of $75.3 million from December 31, 2009, principally due to the redemption at maturity of the remainder of the company s 6 7/8% senior notes.

The company and certain international subsidiaries have access to uncommitted lines of credit from various banks.

On May 16, 2008, the company entered into a three-year, U.S. accounts receivable securitization facility. Under this facility, the company has agreed to sell, on an ongoing basis, through Unisys Funding Corporation I, a wholly owned subsidiary, up to $150 million of interests in eligible U.S. trade accounts receivable. Under the facility, receivables are sold at a discount that reflects, among other things, a yield based on LIBOR subject to a minimum rate. The facility includes customary representations and warranties, including no material adverse change in the company s business, assets, liabilities, operations or financial condition. It also requires the company to maintain a minimum fixed charge coverage ratio and requires the maintenance of certain ratios related to the sold receivables. Termination events include failure to perform covenants, materially incorrect representations and warranties, change of control and default under debt aggregating at least $25 million. At June 30, 2010 and December 31, 2009, the company had sold zero and $100 million, respectively, of eligible receivables. As discussed in note (j) of the Notes to Consolidated Financial Statements, effective January 1, 2010, the company concluded that sales of participating interest in accounts receivable under its U.S. trade accounts receivable facility no longer meet the requirements to be accounted for as sales due to the change in the definition of a participating interest, whereby all cash flows received from the entire financial asset must be divided proportionally among the participating interest holders in an amount equal to their share of ownership. Since in the company s U.S. trade accounts receivable facility, the company s retained interest is subordinated to the other holders, the transaction does not meet the definition of the sale of a participating interest, and therefore will be accounted for as a secured borrowing. See note (m) of the Notes to Consolidated Financial Statements.

At June 30, 2010, the company has met all covenants and conditions under its various lending and funding agreements. The company expects to continue to meet these covenants and conditions.

The company currently expects to make cash contributions of approximately $115 million to its worldwide, primarily non-U.S., defined benefit pension plans in 2010. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to make cash contributions to its U.S. qualified defined benefit pension plan in 2010. Under an amendment to the Pension Protection Act (PPA) enacted on June 25, 2010, the company expects that no cash contribution to its U.S. qualified defined benefit pension plan will be required in 2011. Previously, the company expected that it would be required to make a cash contribution of up to approximately $30 million in 2011.

Pursuant to the indentures governing the secured notes maturing in 2014 and 2015, net proceeds from the sale of the HIM business were required to be placed in a segregated account and may be used only for certain purposes, including to purchase long-term assets that would constitute collateral; to make capital expenditures with respect to assets that constitute collateral; to repay certain of the company s outstanding debt obligations; or to acquire other assets that are used or useful in its business and that would constitute collateral. If more than $75 million of net proceeds remain 360 days following the closing of the transaction, the company will be required to use those proceeds to offer to acquire the outstanding secured notes at 100% of face value plus accrued and unpaid interest. At June 30, 2010, $101.3 million remained in such account, which is reported in other long-term assets in the company s consolidated balance sheet. See note (a) of the Notes to Consolidated Financial Statements.

The company may, from time to time, redeem, tender for, or repurchase its securities in the open market or in privately negotiated transactions depending upon availability, market conditions and other factors. The company has on file with the Securities and Exchange Commission an effective registration statement covering $1.1 billion of debt or equity securities, which enables the company to be prepared for future market opportunities.

***Factors that may affect future results***

From time to time, the company provides information containing forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as anticipates, believes, expects, intends, plans, projects and similar expressions may i such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company s actual results to differ materially from expectations. Factors that could affect future results include, but are not limited to, those discussed below. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

Factors that could affect future results include the following:

*The company s business has been adversely affected by recent global economic conditions and could be further adversely affected if economic conditions worsen or if there are acts of war, terrorism or natural disasters.* The company s recent financial results have been impacted by the global economic slowdown. The company has seen this slowdown particularly in its financial services business but also in other key commercial industries, as clients reacted to economic uncertainties by reducing information technology spending. Decreased demand for the company s services and products has impacted its revenue and profit margins. If economic conditions worsen, the company could see reductions in demand and increased pressure on revenue and profit margins. The company could also see a further consolidation of clients, which could also result in a decrease in demand. The company s business could also be affected by acts of war, terrorism or natural disasters. Current world tensions could escalate, and this could have unpredictable consequences on the world economy and on the company s business.

*Financial market conditions may inhibit the company s ability to access credit markets to address its liquidity needs.* The capital and credit markets have experienced volatility and disruption. Financial market conditions may impact the company s ability to borrow, to refinance its outstanding debt, or to utilize surety bonds, letters of credit, foreign exchange derivatives and other financial instruments the company uses to conduct its business. Although the company intends to use cash on hand to address its liquidity needs, its ability to do so assumes that its operations will continue to generate sufficient cash.

*The company has significant pension obligations and may be required to make significant cash contributions to its defined benefit pension plans.* The company has unfunded obligations under its U.S. and non-U.S. defined benefit pension plans. The company expects to make cash contributions of approximately $115 million to its worldwide, primarily non-U.S., defined benefit pension plans in 2010. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. qualified defined benefit pension plan in 2010. Under an amendment to the Pension Protection Act (PPA) enacted on June 25, 2010, the company expects that no cash contribution to its U.S. qualified defined benefit pension plan will be required in 2011. Previously, the company expected that it would be required to make a cash contribution of up to approximately $30 million in 2011.

Deterioration in the value of the company s worldwide defined benefit pension plan assets could require the company to make larger cash contributions to its defined benefit pension plans in the future. In addition, the funding of plan deficits over a shorter period of time than currently anticipated could result in making cash contributions to these plans on a more accelerated basis. Either of these events would reduce the cash available for working capital and other corporate uses and may have an adverse impact on the company s operations, financial condition and liquidity.

*The company s future results will depend on the success of its program to reduce costs, focus its global resources and simplify its business structure.* Over the past several years, the company has implemented and is continuing to implement, significant cost-reduction measures intended to improve profitability. In prior years, the company has incurred significant cost reduction charges in connection with these efforts. Future results will depend on the success of these efforts as well as on the success of the company s program to focus its global resources and simplify its business structure. This program is based on various assumptions, including assumptions regarding market segment growth, client demand, and the proper skill set of and training for sales and marketing management and personnel, all of which are subject to change. Furthermore, the company s institutional stockholders may attempt to influence these strategies.

*The company faces aggressive competition in the information services and technology marketplace, which could lead to reduced demand for the company s products and services and could have an adverse effect on the company s business.* The information services and technology markets in which the company operates include a large number of companies vying for customers and market share both domestically and internationally. The company s competitors include consulting and other professional services firms, systems integrators, outsourcing providers, infrastructure services providers, computer hardware manufacturers and software providers. Some of the company s competitors may develop competing products and services that offer better price-performance or that reach the market in advance of the company s offerings. Some competitors also have or may develop greater financial and other resources than the company, with enhanced ability to compete for market share, in some instances through significant economic incentives to secure contracts. Some also may be better able to compete for skilled professionals. Any of these factors could lead to reduced demand for the company s products and services and could have an adverse effect on the company s business. Future results will depend on the company s ability to mitigate the effects of aggressive competition on revenues, pricing and margins and on the company s ability to attract and retain talented people.

*The company s future results will depend upon its ability to effectively anticipate and respond to volatility and rapid technological change in its industry.* The company operates in a highly volatile industry characterized by rapid technological change, evolving technology standards, short product life cycles and continually changing customer demand patterns. Future success will depend in part on the company s ability to anticipate and respond to these market trends and to design, develop, introduce, deliver or obtain new and innovative products and services on a timely and cost-effective basis. The company may not be successful in anticipating or responding to changes in technology, industry standards or customer preferences, and the market may not demand or accept its services and product offerings. In addition, products and services developed by competitors may make the company s offerings less competitive.

*The company s future results will depend on its ability to retain significant clients.* The company has a number of significant long-term contracts with clients, including governmental entities, and its future success will depend, in part, on retaining its relationships with these clients. The company could lose clients for such reasons as contract expiration, conversion to a competing service provider, disputes with clients or a decision to in-source services, including for contracts with governmental entities as part of the rebid process. The company could also lose clients as a result of their merger, acquisition or business failure. The company may not be able to replace the revenue and earnings from any such lost client.

*The company s future results will depend in part on its ability to take on, successfully implement and grow outsourcing operations.* The company s outsourcing contracts are multiyear engagements under which the company takes over management of a client s technology operations, business processes or networks. In a number of these arrangements, the company hires certain of its clients employees and may become responsible for the related employee obligations, such as pension and severance commitments. In addition, system development activity on outsourcing contracts may require the company to make significant upfront investments. The company will need to have available sufficient financial resources in order to take on these obligations and make these investments.

Recoverability of outsourcing assets is dependent on various factors, including the timely completion and ultimate cost of the outsourcing solution, and realization of expected profitability of existing outsourcing contracts. These risks could result in an impairment of a portion of the associated assets, which are tested for recoverability quarterly.

As long-term relationships, outsourcing contracts provide a base of recurring revenue. However, outsourcing contracts are highly complex and can involve the design, development, implementation and operation of new solutions and the transitioning of clients from their existing business processes to the new environment. In the early phases of these contracts, gross margins may be lower than in later years when an integrated solution has been implemented, the duplicate costs of transitioning from the old to the new system have been eliminated and the work force and facilities have been rationalized for efficient operations. Future results will depend on the company s ability to effectively and timely complete these implementations, transitions and rationalizations.

*Future results will also depend in part on the company s ability to drive profitable growth in consulting and systems integration.* The company s ability to grow profitably in this business will depend on the level of demand for systems integration projects and the portfolio of solutions the company offers for specific industries. It will also depend on an improvement in the utilization of services delivery personnel. In addition, profit margins in this business are largely a function of the rates the company is able to charge for services and the chargeability of its professionals. If the company is unable to attain sufficient rates and chargeability for its professionals, profit margins will suffer. The rates the company is able to charge for services are affected by a number of factors, including clients perception of the company s ability to add value through its services; introduction of new services or products by the company or its competitors; pricing policies of competitors; and general economic conditions. Chargeability is also affected by a number of factors, including the company s ability to transition employees from completed projects to new engagements, and its ability to forecast demand for services and thereby maintain an appropriate headcount.

*Future results will also depend, in part, on market demand for the company s high-end enterprise servers and maintenance on these servers.* In recent years, the company s high-end enterprise servers and maintenance on these servers have experienced revenue declines. The company continues to apply its resources to develop value-added software capabilities and optimized solutions for these server platforms which provide competitive differentiation. Future results will depend, in part, on customer acceptance of ClearPath systems and the company s ability to maintain its installed base for ClearPath and to develop next-generation ClearPath products that are purchased by the installed base.

*The company s contracts with U.S. governmental agencies may subject the company to audits, criminal penalties, sanctions and other expenses and fines.* The company frequently enters into contracts with governmental entities. U.S. government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit government contractors. These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The U.S. government also may review the adequacy of, and a contractor s compliance with contract terms and conditions, its systems and policies, including the contractor s purchasing, property, estimating, billing, accounting, compensation and management information systems. Any costs found to be overcharged or improperly allocated to a specific contract or any amounts improperly billed for products or services will be subject to reimbursement to the government. If an audit uncovers improper or illegal activities, the company may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government.

*The company s contracts may not be as profitable as expected or provide the expected level of revenues*. In a number of the company s long-term contracts for infrastructure services, outsourcing, help desk and similar services, the company s revenue is based on the volume of products and services provided.

As a result, revenue levels anticipated at the contract s inception are not guaranteed. In addition, some of these contracts may permit termination at the customer s discretion before the end of the contract s term or may permit termination or impose other penalties if the company does not meet the performance levels specified in the contracts.

The company s contracts with governmental entities are subject to the availability of appropriated funds. These contracts also contain provisions allowing the governmental entity to terminate the contract at the governmental entity s discretion before the end of the contract s term. In addition, if the company s performance is unacceptable to the customer under a government contract, the government retains the right to pursue remedies under the affected contract, which remedies could include termination.

Certain of the company s outsourcing agreements require that the company s prices be benchmarked if the customer requests it and provide that those prices may be adjusted downward if the pricing for similar services in the market has changed. As a result, revenues anticipated at the beginning of the terms of these contracts may decline in the future.

Some of the company s systems integration contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services and products at an agreed-upon fixed price. At times the company has experienced problems in performing some of these fixed-price contracts on a profitable basis and has provided periodically for adjustments to the estimated cost to complete them. Future results will depend on the company s ability to perform these services contracts profitably.

*The company may face damage to its reputation or legal liability if its clients are not satisfied with its services or products.* The success of the company s business is dependent on strong, long-term client relationships and on its reputation for responsiveness and quality. As a result, if a client is not satisfied with the company s services or products, its reputation could be damaged and its business adversely affected. Allegations by private litigants or regulators of improper conduct, as well as negative publicity and press speculation about the company, whatever the outcome and whether or not valid, may harm its reputation. In addition to harm to reputation, if the company fails to meet its contractual obligations, it could be subject to legal liability, which could adversely affect its business, operating results and financial condition.

*Future results will depend in part on the performance and capabilities of third parties with whom the company has commercial relationships.* The company has commercial relationships with suppliers, channel partners and other parties that have complementary products, services or skills. Future results will depend, in part, on the performance and capabilities of these third parties, on the ability of external suppliers to deliver components at reasonable prices and in a timely manner, and on the financial condition of, and the company s relationship with, distributors and other indirect channel partners.

*More than half of the company s revenue is derived from operations outside of the United States, and the company is subject to the risks of doing business internationally.* More than half of the company s total revenue is derived from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, currency restrictions and devaluations, changes in political or economic conditions, trade protection measures, import or export licensing requirements, multiple and possibly overlapping and conflicting tax laws, new tax legislation, weaker intellectual property protections in some jurisdictions and additional legal and regulatory compliance requirements applicable to businesses that operate internationally, including the Foreign Corrupt Practices Act and non-U.S. laws and regulations.

*The company could face business and financial risk in implementing future dispositions or acquisitions.* As part of the company s business strategy, it may from time to time consider disposing of existing technologies, products and businesses that may no longer be in alignment with its strategic direction, including transactions of a material size, or acquiring complementary technologies, products and businesses. Potential risks with respect to dispositions include difficulty finding buyers or alternative exit strategies on acceptable terms in a timely manner; potential loss of employees; and dispositions at unfavorable prices or on unfavorable terms, including relating to retained liabilities. Any acquisitions may result in the incurrence of substantial additional indebtedness or contingent liabilities. Acquisitions could also result in potentially dilutive issuances of equity securities and an increase in amortization expenses related to intangible assets. Additional potential risks associated with acquisitions include integration difficulties;

difficulties in maintaining or enhancing the profitability of any acquired business; risks of entering markets in which the company has no or limited prior experience; potential loss of employees or failure to maintain or renew any contracts of any acquired business; and expenses of any undiscovered or potential liabilities of the acquired product or business, including relating to employee benefits contribution obligations or environmental requirements. Further, with respect to both dispositions and acquisitions, management s attention could be diverted from other business concerns. Current adverse credit conditions could also affect the company s ability to consummate divestments or acquisitions. The risks associated with dispositions and acquisitions could have a material adverse effect upon the company s business, financial condition and results of operations. There can be no assurance that the company will be successful in consummating future dispositions or acquisitions on favorable terms or at all.

*The company s services or products may infringe upon the intellectual property rights of others.* The company cannot be sure that its services and products do not infringe on the intellectual property rights of third parties, and it may have infringement claims asserted against it or against its clients. These claims could cost the company money, prevent it from offering some services or products, or damage its reputation.

*Pending litigation could affect the company s results of operations or cash flow.* There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters and intellectual property. See note (k) of the Notes to Consolidated Financial Statements for more information on litigation. The company believes that it has valid defenses with respect to legal matters pending against it. Litigation is inherently unpredictable, however, and it is possible that the company s results of operations or cash flow could be affected in any particular period by the resolution of one or more of the legal matters pending against it.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material change in the company s assessment of its sensitivity to market risk since its disclosure in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Item 4. Controls and Procedures**

The company s management, with the participation of the company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the company s Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures are effective. Such evaluation did not identify any change in the company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting.

## Part II OTHER INFORMATION

**Item 1 Legal Proceedings**
Information with respect to litigation is set forth in note (k) of the Notes to Consolidated Financial Statements, and such information is incorporated herein by reference.

**Item 1A. Risk Factors**
See Factors that may affect future results in Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of risk factors.

**Item 6. Exhibits**

(a) Exhibits
See Exhibit Index

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNISYS CORPORATION

Date: July 30, 2010

By: /s/ JANET BRUTSCHEA HAUGEN
**Janet Brutschea Haugen**
**Senior Vice President and Chief Financial Officer**
**(Principal Financial Officer)**

By: /s/ SCOTT HURLEY
**Scott Hurley**
**Vice President and Corporate Controller**
**(Chief Accounting Officer)**

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of Unisys Corporation (incorporated by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K dated April 29, 2010) |
| 3.2 | Bylaws of Unisys Corporation, as amended through April 29, 2010 (incorporated by reference to Exhibit 3.2 to the registrant s Current Report on Form 8-K dated April 29, 2010) |
| 12 | Statement of Computation of Ratio of Earnings to Fixed Charges |
| 31.1 | Certification of J. Edward Coleman required by Rule 13a-14(a) or Rule 15d-14(a) |
| 31.2 | Certification of Janet Brutschea Haugen required by Rule 13a-14(a) or Rule 15d-14(a) |
| 32.1 | Certification of J. Edward Coleman required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 32.2 | Certification of Janet Brutschea Haugen required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |

* Furnished, not filed.



31, 2002. Management's plans with respect to the continuation of SPEEDCOM are described in Note 2. During 2002, F-63 SPEEDCOM incurred severance costs as described in Note 16. While SPEEDCOM's accounting for the severance cost followed EITF 94-3, there would have been no material difference had SFAS No. 146 been in effect. SFAS No. 145 Rescission of SFAS No. 4, 44 and 64, Amendment of SFAS No. 13 and TECHNICAL CORRECTIONS (SFAS 145): During April 2002, the FASB issued SFAS No. 145. SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishments of Debt (SFAS No. 4), which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result of the rescission of SFAS No. 4, the classification of gain and losses arising from debt extinguishments requires consideration of the criteria for extraordinary accounting treatment provided in APB No. 30, Reporting the Results of Operations. In the absence of SFAS No. 4, debt extinguishments that are not unusual in nature and infrequent in occurrence would be treated as a component of net income or loss from continuing operations. SFAS No. 145 is effective for financial statements issued for fiscal years beginning after May 15, 2002. In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The statement amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This statement is designed to improve financial reporting such that contracts with comparable characteristics are accounted for similarly. The statement, which is generally effective for contracts entered into or modified after June 30, 2003, is not anticipated to have a significant effect on SPEEDCOM's financial position or results of operations. In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. SPEEDCOM currently has no such financial instruments outstanding or under consideration and therefore adoption of this standard currently has no financial reporting implications. In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Valuable Interest Entities. This interpretation clarifies rules relating to consolidation where entities are controlled by means other than a majority voting interest and instances in which equity investors do not bear the residual economic risks. This interpretation was originally effective immediately for variable interest entities created after January 31, 2003 and for interim periods beginning after June 15, 2003 for interests acquired prior to February 1, 2003. However, the FASB is reviewing certain provisions of the standard and has deferred the effective date for public companies to periods ending after December 15, 2003. SPEEDCOM currently has no ownership in variable interest entities and therefore adoption of this standard currently has no financial reporting implications. 4. Leases Receivable During the year ended December 31, 2002, SPEEDCOM converted two leases receivable, recorded at approximately $1,290,000, into a single lease receivable with approximately $336,000 due immediately, five payments of $50,000 due over a five-month period and a balloon payment of approximately $328,000 due in August 2002. As a result of this restructuring, SPEEDCOM recorded a provision for bad debt of approximately $395,000 for the year ended December 31, 2002. This lease was restructured again in August 2002, extending the payment schedule through May 2003. There are no further credit allowances considered by management to be necessary for these transactions. 5. Inventories A summary of inventories, net at December 31, 2002 and September 30, 2003 is as follows: F-64 2002 2003 ---- ---- Component parts $ 800,485 $371,931 Completed assemblies 723,249 442,500 ---------- -------- $1,523,734 $814,431 ========== ======== SPEEDCOM recorded provisions to reduce inventories to the lower of the cost or net realizable value of the inventories in the amounts of approximately $167,000 during the year ended December 31, 2002. Such reserves amounting to approximately $234,000 and has been allocated to the appropriate categories of inventories in the table, above. 6. Property and Equipment A summary of property and equipment at December 31, 2002 is as follows: 2002 ----------- Computer and office equipment $ 1,085,154 Automobiles 7,600 Leasehold improvements 130,546 Furniture and fixtures 175,784 Store and warehouse 192,747 ----------- 1,591,831 Less accumulated depreciation (966,431) ----------- $ 625,400 =========== Property and equipment included computer and office equipment of $91,954 acquired under capital lease arrangements at December 31, 2002. Amortization and depreciation expense of property and equipment amounted to $427,983 for the year ended December 31, 2002. Amortization of assets under capital lease arrangements is included in depreciation expense. 7. Intellectual Property In January 2001, SPEEDCOM acquired worldwide rights to PacketHop(TM), a wireless routing software developed by SRI International (SRI). Under the terms of the agreement, SPEEDCOM obtained rights to SRI's PacketHop(TM) technology in the fixed wireless infrastructure market for certain specific frequencies below 6 gigahertz. SRI received $360,000 in cash and a total of 325,000 shares of common stock of SPEEDCOM that was issued in four tranches. Each tranch was measured on the specific date that the stock was issued. As of September 30, 2003, the $360,000 in cash and the value of the shares at the date of grant less amortization are classified in intellectual property, net on the balance sheet and are being amortized using the straight-line method over the six-year term of the agreement. A summary of intellectual property balances at December 31, 2002 and September 30, 2003 is as follows: 2002 2003 ---- ---- Intellectual property $ 1,599,500 $ 1,599,500 Less accumulated amortization (503,375) (710,984) ----------- ----------- $ 1,096,125 $ 888,516 =========== =========== Supplemental amortization information for intellectual property is as follows: Amortization expense: Nine Months ended September 30, 2003 $207,609 ======== Year ended December 31, 2002 $276,812 ======== F-65 Estimate future amortization expense for the periods indicated: Three months ended December 31, 2003 $ 69,203 ======== Year ended December 31, 2004 $276,812 ======== Year ended December 31, 2005 $276,812 ======== Year ended December 31, 2006 $265,689 ======== 8. Accrued Expenses A summary of accrued expenses at December 31, 2002 is as follows: 2002 -------- Accrued payroll $164,589 Accrued commissions 48,184 Severance costs 345,103 Accrued interest 228,677 Other 144,396 -------- $930,949 ======== 9. Related Party Transactions Notes Receivable-Related Party/Sale of Assets During 2001, SPEEDCOM sold its InstallGuys division to SPEEDCOM's then Chief Executive Officer. In return, SPEEDCOM received two 6% secured promissory notes totaling approximately $211,000. SPEEDCOM recorded a gain on the sale of approximately $168,000. In October 2001, SPEEDCOM loaned InstallGuys an additional $50,000 at 6% interest. The notes and interest were due in August 2004. As a stipulation to the separation agreement, as amended, between SPEEDCOM and its former Chief Executive Officer, SPEEDCOM forgave all indebtedness owed by InstallGuys. Consequently, SPEEDCOM charged the Notes receivable-related party to severance expense during the year ended December 31, 2002. Due to Related Parties These matters relate to items due to related parties outstanding at December 31, 2002: In March 2002, SPEEDCOM issued three promissory notes to each of SPEEDCOM's then current outside Board members for $14,738, $13,875 and $15,750, respectively. Each note bears an interest rate of 14% and carries an additional 2% penalty on outstanding principal not paid by April 15, 2002. $29,919 of these notes has been paid as of December 31, 2002. During the year ended December 31, 2002, SPEEDCOM borrowed an aggregate $2,928,000 under secured promissory notes from three institutional investors who are shareholders. All tangible and intangible assets of SPEEDCOM secure the notes. As a stipulation to these secured promissory notes, the term of all outstanding Series B Warrants of SPEEDCOM dated August 23, 2001 was extended to October 14, 2002. In October 2002, the Board of Directors extended the term of these Series B Warrants to December 28, 2002. All Series B Warrants were exercised before their December 28, 2002 expiration date. The notes bear an interest rate of 15% and are payable on December 31, 2003. Prepayment is permitted under the secured promissory notes with a 50% premium on the outstanding principal amount. During January 2003, SPEEDCOM borrowed an aggregate $340,000 from three institutional investors who are shareholders. The promissory notes bear interest at 15% and are payable on December 31, 2003. As a stipulation of the preferred stock financing received in August 2001, SPEEDCOM was required to file and F-66 obtain SEC acceptance of a registration statement within a specified period of time or incur penalties. As a result of obtaining acceptance from the SEC nineteen days late, SPEEDCOM incurred a penalty of $163,970, payable to the preferred stockholders. The penalty was accrued during 2001 and is included in due to related parties at December 31, 2002 and 2001. These matters relate to items due to related parties outstanding at September 30, 2003: In March 2002, SPEEDCOM issued three promissory notes to each of SPEEDCOM's then current outside board members for $14,738, $13,875 and $15,750, respectively. Each note bears an interest rate of 14% and carries an additional 2% penalty on outstanding principal not paid by April 15, 2002. $33,863 of these notes has been paid as of September 30, 2003. During the year ended December 31, 2002 and the nine months ended September 30, 2003, SPEEDCOM borrowed an aggregate $2,928,000 and $1,015,000, respectively under secured promissory notes from institutional investors who are shareholders. All tangible and intangible assets of SPEEDCOM secure the notes. The notes bear an interest rate of 15% and are payable December 31, 2003. Prepayment is permitted under the secured promissory notes with a 50% premium on the outstanding principal amount. As a stipulation of the preferred stock financing received in August 2001, SPEEDCOM was required to file and obtain SEC acceptance of a registration statement within a specified period of time or incur penalties. As a result of obtaining acceptance from the SEC nineteen days late, SPEEDCOM incurred a penalty of $163,970, payable to the preferred stockholders. The penalty was accrued during 2001 and is included in due to related parties at September 30, 2003 and December 31, 2002. Related Party Interest Expense: Interest expense recorded during the years ended December 31, 2002 related to related party notes, loans and other balances amounted to $212,330. Interest expense recorded during the nine months ended September 30, 2003 and 2002 related to related party notes, loans and other balances amounted to approximately $424,000 and $117,000, respectively. 10. Notes and Capital Leases Payable A summary of notes and capital leases payable at December 31, 2002 and September 30, 2003 is as follows: 2002 2003 ---- ---- 12% convertible note (a) $ 40,000 $ 40,000 Convertible promissory notes (b) -- 1,100,000 Capital lease obligations 38,706 19,085 ----------- ----------- 78,706 1,159,085 Less current portion (64,606) (59,085) ----------- ----------- $ 14,100 $ 1,100,000 =========== =========== (a) In January 2002, SPEEDCOM entered into a financial relations and consultant contract whereby the consulting firm will receive a $10,000 convertible note with a 12% coupon rate each month. This contract was cancelled in May 2002. The notes are convertible at any time at $1.125 per common share. As of September 30, 2003, the note holder possesses rights to convert the notes to 45,000 shares of restricted common stock. (b) SPEEDCOM borrowed $1,100,000 from P-Com during the nine months ended September 30, 2003 through convertible promissory notes, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the notes. These notes are due March 21, 2005 ($400,000), July 17, 2005 ($300,000), August 8, 2005 ($200,000), September 8, 2005 ($50,000), September 16, 2005 F-67 ($50,000), September 24, 2005 ($50,000) and September 30, 2005 ($50,000). These notes are convertible at

$0.12 per common share. Aggregate future maturities of notes and capital leases payable as of December 31, 2002 are as follows: Year ending December 31: Notes Leases ----- ------ 2003 $40,000 $ 30,056 2004 -- 14,285 ------- -------- Total maturities and payments $40,000 44,341 ======= Less amount representing interest (5,635) Less current portion (24,606) -------- $14,100 ======== SPEEDCOM borrowed $400,000 in March 2003 from an accredited investor through a convertible promissory note, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the note, due March 21, 2005. 11. Income Taxes SPEEDCOM has not realized a current tax benefit (consisting of federal and state taxes) from its net operating losses during the year ended December 31, 2002. Deferred tax benefits of approximately $2,008,000 and $2,664,000 for the years ended December 31, 2002, respectively, were fully offset by the increases in the valuation allowances in each period, since realization of those benefits is not assured and does not meet the standards for recognition. Deferred tax benefits included the benefits of net operating losses of approximately $1,717,000 during the year ended December 31, 2002. A reconciliation of the differences between the effective income tax rate and the statutory federal tax rate follows: 2002 ------- Tax at U.S. statutory rate (35.00)% State taxes, net of federal benefit (3.30) Change in valuation allowance 38.44 Other (0.14) ------- 0.00% ======= Significant components of deferred tax assets and liabilities are as follows: 2002 ---------- Deferred tax assets: Net operating loss carryforwards $ 8,135,008 Accounts receivable 75,538 Intangible assets 109,168 Deferred revenue 9,620 Accrued expenses 160,380 Other 87,918 ---------- Gross deferred tax assets 8,577,632 Less: valuation allowance (8,577,632) ---------- Net deferred tax asset $ -- ========== Accounting principles generally accepted in the United States of America require a valuation allowance be recorded to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, F-68 management has determined that a valuation allowance is necessary at December 31, 2002 to fully offset the deferred tax asset. At December 31, 2002, net operating losses available to be carried forward for federal income tax purposes are approximately $21,618,000, expiring in various amounts from 2013 through 2022. Utilization of SPEEDCOM's net operating losses may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitation could result in the expiration of the net operating loss before utilization. 12. Stockholders' Equity Preferred Stock Each share of preferred stock is convertible into 2.25 shares of common stock, subject to anti-dilution protection, discussed below. Beginning August 23, 2003, SPEEDCOM's preferred stockholders are entitled to cumulative dividends at the rate of 14% per year times the $3.38 ($4.50 if paid in stock) per share liquidation preference. The cumulative, undeclared dividend in arrearage that the preferred stockholders are entitled to as of September 30, 2003 is $251,570, assuming a stock payout. SPEEDCOM's Board of Directors has established no record date for the dividend. Common Stock, Common Stock Warrants and Employee Stock Options Non-employee Common Stock Warrants: As of December 31, 2002, SPEEDCOM had the following warrants outstanding to purchase common stock of SPEEDCOM: Expiration Exercise Number of Warrants Date Price ------------------------------------------------------------------------- 3,668,448 8/23/2006 $2.50 513,333 6/11/2006 $2.50 11,500 1/21/2003 $5.40 135,000 6/24/2003 $3.25 150,000 3/31/2006 $6.00 o During the year ended December 31, 2002, 4,560,481 Series B Warrants were exercised for 3,849,957 shares of common stock, which was net of certain cashless exercises. In June 2002, SPEEDCOM issued stock options to its former Chief Executive Officer for the purchase of 500,000 common shares at $0.20 per share in connection with the Officer's separation agreement that also provided for on-going consulting services. The stock options had an original term of 40 months. SPEEDCOM accounted for this transaction as an issuance of options to a non-employee and, accordingly, recognized severance costs for the fair value of the options, amounting to $29,850 using the Black-Scholes option-pricing model during the year ended December 31, 2002. These options were cancelled in November 2002 as a result of a restructuring of the separation agreement. o These matters relate to common stock issuances and common stock warrant activity during the year ended December 31, 2002: In January 2002, 459,219 shares of common stock were issued to three investors pursuant to a repricing provision that applied to 83,000 shares of common stock issued on and under an agreement dated October 30, 2000. The original shares were issued for a price of $7.35 per share, or a total of $610,050. The additional shares issued on the repricing date of January 16, 2002 were calculated based on a reset price, which is the weighted average closing price of SPEEDCOM common stock for the first ten trading days of January 2002; provided that the reset F-69 price was not less than $1.1251 or more than $1.19. Because the average price of SPEEDCOM's common stock during the first ten trading days of 2002 was below the $1.1251 reset floor, the total number of shares, as adjusted after repricing, was determined by dividing $610,050 by such floor. As discussed under employee stock-based compensation, below, SPEEDCOM issued 59,375 shares of common stock in connection with the exercise of 65,000 employee stock options. In December 2000, SPEEDCOM issued a retainer of $25,000 in cash and 25,000 shares of common stock with an ascribed value of $5.25 per share to H.C. Wainwright & Co., Inc., a Boston-based investment banker. The retainers were for services rendered through April 2001 in connection with raising capital for SPEEDCOM. The amounts were charged against equity when the capital was raised in 2001. Employee Stock-Based Compensation In February 2002, SPEEDCOM issued stock options to employees for the purchase of 780,300 common shares at $0.60 per share. SPEEDCOM recorded $67,500 in stock-based compensation expense in relation to these options during the year ended December 31, 2002. These options vest in full one year from the issuance. These options also vest upon a change of control transaction with the ability to exercise the options for up to one year after vesting. Upon a change of control and if the one-year performance period has not expired, the employee may surrender the performance options for cash payment at the calculated change of control common share transaction value for payment within 30 days by the surviving company. In 2002, 65,000 $0.01 employee stock options were exercised for 59,375 shares of common stock. At December 31, 2002, SPEEDCOM had 3,000,000 shares of common stock reserved for issuance under employee incentive stock bonus, purchase or option plans. One plan, initiated in July 1998, reserved 2,000,000 shares, and another plan, initiated in September 2000, reserved 1,000,000 shares. Additional options of 904,480 are outstanding outside these two plans to Executive Officers. All full time employees are eligible for both plans. Plan options have a term of 5 years and vest 25% annually on the employee's anniversary date over a four-year period. As of December 31, 2002 there were 799,987 shares unissued under both plans. F-70 Employee stock option activity was as follows during the years ended December 31, 2002: 2002 Weighted Average Options Exercise Price ------------------------------ Outstanding-- Beginning of year 3,771,285 $2.75 Granted at market price 1,460,300 0.44 Exercised (65,000) 0.01 Expired or cancelled (2,211,709) 2.13 --------------- Outstanding - end of year 2,954,876 $2.28 ========== ===== Exercisable as of December 31 2,189,963 $2.63 ========== ===== The weighted average exercise price of the options granted during 2002 is $0.44. The range of exercise prices of outstanding options is $0.15 to $10.25. The weighted average remaining contractual life of the options as of December 31, 2002 is 2.5 years. Pro forma information regarding SPEEDCOM's stock option grants is presented in Note 3. The fair market value for these options was estimated at the date of grant using the Black-Scholes option-pricing model. In order to calculate the fair value, the following assumptions were made: the expected dividend payment rate used was zero, the expected option life used was five years, the volatility used was 1.26 in 2002 and the risk free interest rate was assumed to be 2.96% in 2002. Because the options have a four-year vesting period, the pro forma effect shown is not reflective of the reported net earnings or losses in future years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Anti-Dilution Features Under the anti-dilution provisions of our preferred stock, if SPEEDCOM issues common stock or common stock equivalents at a purchase price, conversion price, or warrant or option exercise price that is less than the lesser of the current preferred stock conversion price of $1.125 per share or the current market price, the conversion price of the preferred stock will be reduced using a customary weighted average basis formula. Under the anti-dilution provisions of 7,160,810 outstanding warrants (1) the exercise price will be lowered to equal the purchase price, conversion price, or warrant or option exercise price for any common stock or common stock equivalent issued (other than to employees) at a purchase price, conversion price, or warrant or option exercise price less than the current per share exercise price of the applicable warrants ($0.12 in the case of Series A Warrants), and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced. Alternatively, (1) the exercise price will be reduced by the percentage by which the purchase price, conversion price, or warrant or option exercise price of any issued security (others than to employees) is less than the current market price of the common stock, and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced, if this formula results in a lower exercise price than the adjustment described in the preceding sentence. Similar anti-dilution provisions apply to outstanding warrants to acquire 1,002,026 shares of our common stock (as adjusted) at an exercise price of $0.12 per share and $1,100,000 of P-Com convertible notes at an exercise price of $0.12. Effective with the issuance of the convertible notes discussed in Note 10, the conversion prices of SPEEDCOM's warrants was decreased to $0.12 during the nine months ended September 30, 2003, resulting in common shares of 8,162,836 issuable under these securities, if currently converted or exercised. F-71 13. Leases SPEEDCOM leases office and manufacturing facilities and computer and office equipment under operating leases. Rent expense under operating leases, amounted to $801,835 for the year ended December 31, 2002. Future noncancellable lease payments under operating leases for each year ended December 31 are as follows: 2003-$760,480; 2004-$733,895; 2005-$719,543; 2006-$705,018; 2007-$704,760 and thereafter-$6,166,650. 14. Employee Benefit Plan SPEEDCOM has established a 401(k) profit-sharing plan. Employees 21 years or older are eligible to participate in the plan. Participants may elect to contribute, on a tax-deferred basis, up to the legal maximum of their compensation. SPEEDCOM will contribute 25% matching after an employee has been with SPEEDCOM for 90 days. SPEEDCOM's contribution to the plan was $28,955 for the year ended December 31, 2002. 15. Provision for Bad Debt During the year ended December 31, 2002, SPEEDCOM converted two of its leases receivable, recorded at approximately $1,290,000, into a new lease receivable with approximately $336,000 due immediately, five payments of $50,000 due over a five month period and a balloon payment of approximately $328,000 due in August 2002. As a result of this restructuring of the leases, SPEEDCOM recorded a provision for bad debt of approximately $395,000 for the year ended December 31, 2002. This lease was restructured again in August 2002, extending payments through May 2003. An adjustment was not necessary for this additional restructuring. 16. Severance Costs During the year ended December 31, 2002, SPEEDCOM recorded severance costs of approximately $630,000, in accordance with the separation agreements, as amended, between SPEEDCOM and its former Chief Executive Officer and Chief Operating Officer. The costs include severance pay and other employee benefits, including amounts to be paid over future periods and the write off of Notes receivable-related party. During the nine months ended September 30, 2003, SPEEDCOM recorded severance costs of $90,000 in accordance with the separation agreement between SPEEDCOM and its former Vice President of Marketing and Product Development. The costs include severance pay to be paid over future periods. During the nine months ended September 30, 2002, SPEEDCOM recorded severance costs of approximately $680,000 in accordance with the separation agreements, as amended, between SPEEDCOM and its former Chief Executive Officer and Chief Operating Officer. The costs include severance pay and other employee benefits and the write off of notes receivable-related party, as described below. 17. Segment and Geographic Information SPEEDCOM operated during all periods in a single operating segment when applying the management approach defined in SFAS No. 131, DISCLOSURES ABOUT SEGMENTS. SPEEDCOM's business and principal operations are domiciled in North America. SPEEDCOM generated revenue in the following geographic areas: North America, Latin America, Asia, Africa, Middle East, Europe and Australia. Revenues from customers in foreign geographic areas represented 46% and 53% of total revenues for the years ended December 31, 2002 and 2001, respectively. During 2002, 11% and 14% of SPEEDCOM's revenues were derived from customers located in Asia and Africa, respectively. During 2001, 16%, 15% and 12% of SPEEDCOM's revenues were derived from customers located in Latin America, Asia and Africa, respectively. No other foreign geographic area contributed 10% or greater of total revenues for the year ended December 31, 2002 or the nine months ended September 30, 2003. SPEEDCOM has no significant property in any foreign geographic area. F-72 No single customer accounted for 10% or more of SPEEDCOM's revenue for the year ended December 31, 2002 or the nine months ended September 30, 2003. 18. Subsequent Events In October 2003, SPEEDCOM borrowed $230,000 from P-Com through two convertible promissory notes, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the notes, due October 14, 2005 ($130,000) and October 22, 2005, ($100,000), respectively. These notes are convertible at $0.12 per common share. In October 2003, SPEEDCOM converted $570,000 of notes payable that were due December 31, 2003, plus accrued interest of $102,163, into 5,601,358 shares of SPEEDCOM common stock utilizing a conversion rate of $0.12. SPEEDCOM recorded a gain on this conversion of approximately $336,000. In October 2003, SPEEDCOM acquired software from JDK Technology for $50,000, to be paid over time, which was an enhancement to the PacketHop(TM) technology. The value of the software was classified in intellectual property and is being amortized using the straight-line method over the remaining life of the PacketHop(TM) technology. On December 10, 2003, the Company completed the sale of all of its operating assets to P-Com in exchange for 63,500,000 shares of P-Com common stock and P-Com's assumption of approximately $5,250,000 of liabilities. Upon completion of the sale, SPEEDCOM's only assets are the investment in P-Com common stock, which applying recent trading prices, has a value of approximately $9,000,000, and a receivable from P-Com of $75,000. While management of SPEEDCOM is currently evaluating the effects of the sale, it is not currently expected to result in a loss if current P-Com market prices continue. F-73 SPEEDCOM WIRELESS CORPORATION SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS YEARS ENDED DECEMBER 31, 2002 (AMOUNTS IN THOUSANDS) Additions Write Offs and Balance at Charged to Deductions Beginning Statement From Balance at of Year of Operations Reserves End of Year ------- ------------ -------- ----------- Allowance for doubtful accounts: Year ended December 31, 2002...................... $ 231 420 (488) $ 163 ============================================================ Inventory related reserves: Year ended December 31, 2002...................... $ 67 167 (--) $ 234 ============================================================ F-74 608,532,358 Shares P-COM, INC. COMMON STOCK [LOGO] P-COM, INC. PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION. All costs and expenses incurred in connection with the sale and distribution of the common stock being registered for sale will be paid by the Registrant. The following is an itemized statement of these costs and expenses. All amounts shown are estimates except for the Securities and Exchange Commission registration fee. SEC Registration Fee $ 6,940 Blue sky qualification fees and expenses 10,000 Printing and engraving 10,000 Legal fees and expenses 25,000 Accounting fees and expenses 25,000 Transfer agent and registrar fees 5,000 Miscellaneous expenses 10,000 -------- Total $ 9,194 ======== ---------- ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS. Section 102 of the Delaware General Corporation Law allows a corporation to include in its certificate of incorporation a provision that eliminates the personal liability of the directors of that corporation to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached the duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. The Registrant's certificate of incorporation contains a provision that eliminates the personal liability of its directors in accordance with Section 102 of the Delaware General Corporation Law. Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnification to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Article VII of the Registrant's bylaws provides for mandatory indemnification of its directors and permissible indemnification of its officers, employees and other agents to the maximum extent permitted under the Delaware General Corporation Law. The Registrant has entered into indemnification agreements with its officers and directors, which are intended to provide the Registrant's officers and directors with indemnification to the maximum extent permitted under the Delaware General Corporation Law. ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES. In July 2001, the Registrant issued 3,797,468 shares of its common stock to two existing stockholders at a per share price of $0.79, for aggregate proceeds of $3.0 million. The unregistered shares were priced at an amount greater that the public market trading price of the common stock and was based on the pro forma calculation of Adjusted Net Tangible Book Value per share. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). In December 2002, the Registrant issued 3,333,333 shares of common stock to two investors at a per share price of $0.15, for aggregate proceeds of $500,000 in cash. The unregistered shares were priced at an amount greater that the public market trading price of the common stock and was based on the pro forma calculation of Adjusted II-1 Net Tangible Book Value per share. In conjunction with this common stock issuance, the Registrant issued warrants to purchase up to 750,000 shares of common stock to these two investors. The warrants have an exercise price of $0.30 a share, an exercise period of 10 years from the date of issuance, are fully vested and are immediately exercisable. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. On March 26, 2003, May 28, 2003, and July 18, 2003, the Registrant issued and sold convertible promissory notes in the aggregate face amount of $2.7 million to accredited investors for aggregate gross proceeds of $2.7 million in cash. These convertible promissory notes mature one year from their respective dates of issuance. Together with the convertible promissory notes, the Registrant issued (i) Series A Stock Purchase Warrants for the purchase of up to 4,074,075 shares of the Registrant's common stock at an exercise price of $0.12 per share and an exercise period of three years; (ii) Series B Stock Purchase Warrants for the purchase of 5,703,704 shares of the Registrant's common stock at an exercise price of $0.20 per share and an exercise period of three years; (iii) Series A-1 Stock Purchase Warrants for the purchase of 4,074,075 shares of the Registrant's common stock at an exercise price of $0.0001 per share and an exercise period of three years; and (iv) Series B-1 Stock Purchase Warrants for the purchase of 5,703,704 shares of the Registrant's common stock at an exercise price of $0.0001 per share and an exercise period of three years. On December 2, 2003, all of the outstanding Series A-1 Stock Purchase Warrants and Series B-1 Stock Purchase

Warrants were terminated in accordance with their terms, without ever being exercised. On October 3, 2003, the holders of these convertible promissory notes converted the aggregate outstanding principal amount of these notes into shares of the Registrant's Series C Convertible Preferred Stock, which have a state value of $1,750 per share, as further described below. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. On August 4, 2003, the Registrant issued approximately 1,000,000 shares of its Series B Convertible Preferred Stock, with a stated value of $21.138 per share, upon the conversion of approximately $22 million of its 7% Convertible Subordinated Notes due 2005. The Series B Convertible Preferred Stock will bear no dividends. Pursuant to an agreement with the Registrant, the holders of the Series B Convertible Preferred Stock are required to convert their shares into shares of common stock as soon as reasonably practicable. However, no holder of Series B Convertible Preferred Stock is required to convert its shares into shares of common stock if the conversion would cause the holder or any of its affiliates, individually or in the aggregate, to hold more than 9.999% of P-Com's outstanding common stock. Each share of Series B Convertible Preferred Stock is convertible into a number of shares of the Registrant's common stock equal to the stated value divided by $0.20. This conversion price is subject to adjustment for stock splits, stock dividends and similar transactions. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. On October 3, 2003, the Registrant issued and sold approximately 8553 shares of its Series C Convertible Preferred Stock, with a stated value of $1,750 per share, resulting in aggregate gross proceeds of approximately $14.6 million. On December 18, 2003, the Registrant issued and sold approximately 1590 additional shares of Series C Convertible Preferred Stock for aggregate gross proceeds of approximately $2.8 million. Dividends will accrue on all outstanding shares of Series C Convertible Preferred Stock, beginning on the first anniversary of their respective dates of issuance, at 6% per annum paid semi-annually in cash or common stock, at the option of the Registrant, and increasing to 8% per annum beginning on the second anniversary of their respective dates of issuance. The Series C Convertible Preferred Stock may be converted into shares of the Registrant's common stock at any time at the option of their holders. However, no holder of Series C Convertible Preferred Stock may convert its shares into shares of common stock if the conversion would cause the holder or any of its affiliates, individually or in the aggregate, to hold more than 9.999% of P-Com's outstanding common stock. The outstanding shares of Series C Convertible Preferred Stock are also mandatorily convertible at the option of the Registrant beginning on the 180th day following the effective date of the registration statement covering the sale of the shares of common stock issuable upon their conversion, subject to certain conditions. Each share of Series C Convertible Preferred Stock is convertible into a number of shares of the Registrant's common stock equal to the stated value plus accrued dividends, if any, divided by $0.10. This conversion price is subject to adjustment for stock splits, stock dividends and similar transactions and for any dilutive issuances of common stock or common stock equivalents. Together with each share of Series C Convertible Preferred Stock, the Registrant also issued (i) one Series C-1 Warrant to purchase 7,000 shares of the Registrant's common stock at an initial exercise price of $0.15 per share and an II-2 exercise period of five years, and (ii) one Series C-2 Warrant to purchase 7,000 shares of the Registrant's common stock at an initial exercise price of $0.18 per share and an exercise period of 5 years. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. On December 12, 2003, the Registrant issued 1,363,636 shares of its common stock to United Manufacturing Assembly, Inc. ("UMAI"), in consideration for the reduction of $150,000 in accounts payable to UMAI. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. On December 18, 2003, the Registrant issued warrants to purchase 350,000, 2,600,000, and 3,600,000 shares of its common stock to Carlos Belfiore, Samuel Smookler and Cagan McAfee Capital Partners, LLC ("CMCP"), respectively, in consideration for the reduction in the number of options granted to Messrs. Belfiore and Smookler, and CMCP, due to a limitation in the maximum number of shares issuable under the Registrant's 1995 Stock Option/Stock Issuance Plan. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. On December 18, 2003, the Registrant issued and sold 2,000 shares of its Series D Convertible Preferred Stock, with a stated value of $1,000 per share, as partial consideration for the extinguishment of its obligations under three promissory notes in the aggregate principal amount of $3 million. The Series D Convertible Preferred Stock will bear no dividends. The Series D Convertible Preferred Stock may be converted into shares of the

Registrant's common stock at any time at the option of its holders. However, no holder of Series D Convertible Preferred Stock may convert its shares into shares of common stock if the conversion would cause the holder or any of its affiliates, individually or in the aggregate, to hold more than 9.999% of P-Com's outstanding common stock. Each share of Series D Convertible Preferred Stock is convertible into a number of shares of the Registrant's common stock equal to the stated value, divided by $0.15. This conversion price is subject to adjustment for stock splits, stock dividends and similar transactions. There were no underwriters involved in the issuance and sale of these securities, and the Registrant relied on the exemption from registration provided by Section 4(2) of the Securities Act. ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES. (a) Exhibits. See Index of Exhibits on page II-6. (b) Schedules. The required schedules are set forth in Part I of this Registration Statement. ITEM 17. UNDERTAKINGS. (a) The undersigned Registrant hereby undertakes: (1) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: (i) to include any prospectus required by section 10(a)(3) of the Securities Act; (ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the Registration Statement; (2) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered II-3 therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (b) Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. II-4 SIGNATURES Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Campbell, State of California, on this 30th day of January, 2004. P-COM, INC. By: /s/ Samuel Smookler ------------------------------------ Samuel Smookler Chief Executive Officer Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the date indicated. Name Title Date ---------------------------- ----------------------------------------- ------------------ /s/ Samuel Smookler Chief Executive Officer (Principal January 30, 2004 ---------------------------- Executive Officer) Samuel Smookler /s/ Daniel Rumsey Acting Chief Financial Officer, Vice ---------------------------- President and General Counsel (Principal Daniel W. Rumsey Financial Officer and Principal Accounting ---------------------------- Officer) January 30, 2004 * Chairman of the Board January 30, 2004 ---------------------------- George P. Roberts * Director January 30, 2004 ---------------------------- Frederick Fromm * Director January 30, 2004 ---------------------------- Brian T. Josling * Director January 30, 2004 ---------------------------- John A. Hawkins /s/ R. Craig Roos Director January 30, 2004 ---------------------------- R. Craig Roos *By: /s/ SAM SMOOKLER ------------------------ As Attorney-in-Fact II-5 INDEX OF EXHIBITS Exhibit Number Description of Document ------ ---------------------- 3.1(1) Restated Certificate of Incorporation filed with the Delaware Secretary of State on March 9, 1995 3.1A(2) Certificate of Amendment of Restated Certificate of Incorporation filed with the Delaware Secretary of State on June 16, 1997 3.1B(3) Certificate of Designation for the Series A Junior Participating Preferred Stock, as filed with the Delaware Secretary of State on October 8, 1997 3.1C(4) Amended and Restated Certificate of Designation of the Series A Junior Participating Preferred Stock, as filed with the Delaware Secretary of State on December 21, 1998 3.1D(5) Certificate of Designation for the Series B Convertible Participating Preferred Stock, as filed with the Delaware Secretary of State on December 21, 1998 3.1E(6) Certificate of Correction of Certificate of Designations for the Series

B Convertible Participating Preferred Stock, as filed with the Delaware Secretary of State on December 23, 1998 3.1F(7) Certificate of Elimination of Series B Convertible Participating Preferred Stock as filed with the Delaware Secretary of State on June 15, 1999 3.1G(8) Certificate of Amendment of Restated Certificate of Incorporation filed with the Delaware Secretary of State on October 20, 2000 3.1H(9) Certificate of Amendment of Restated Certificate of Incorporation filed with the Delaware Secretary of State on June 24, 2002 3.1I(10) Certificate of Designation, Preferences and Rights of Series B Convertible Preferred Stock of P-Com, Inc., as filed with the Delaware Secretary of State on July 29, 2003. 3.1J(11) Certificate of Designation, Preferences and Rights of Series C Convertible Preferred Stock of P-Com, Inc., as filed with the Delaware Secretary of State on September 24, 2003. 3.1I+ Certificate of Amendment of Restated Certificate of Incorporation filed with the Delaware Secretary of State on December 3, 2003. 3.1J+ Certificate of Designation, Preferences and Rights of Series D Convertible Preferred Stock of P-Com, Inc., as filed with the Delaware Secretary of State on December 15, 2003. 3.2(12) Bylaws 3.2A+ Amendment to Bylaws, effective as of December 3, 2003. 4.1(13) Form of Common Stock Certificate 4.2(14) Amended and Restated Rights Agreement dated as of January 24, 2001 between Registrant and BankBoston, N.A. 4.3*(15) 1995 Stock Option/Stock Issuance Plan (as amended and restated through July 17, 2002), including forms of Notices of Grant of Automatic Stock Option for initial grant and annual grants and Automatic Stock Option Agreements. 4.4*(16) Amendment to 1995 Stock Option/Stock Issuance Plan, effective as of December 3, 2003. 4.5*(17) Employee Stock Purchase Plan, as amended 5.1 Opinion of Sheppard, Mullin, Richter & Hampton, LLP 10.18(18) Form of Indemnification Agreement by and between the Company and each of its officers and directors and a list of signatories. 10.35#(19) Joint Development and License Agreement between Siemens Aktiengesellschaft and P-Com, Inc. dated June 30, 1998. II-6 Exhibit Number Description of Document ------ ---------------------- 10.74(20) Stock Purchase Warrant between P-Com, Inc. and Marshall Capital Management, Inc., dated January 20, 2000. 10.90*(21) Employment and Continuity of Benefits Agreement by and between George Roberts and P-Com, Inc., dated May 31, 2001. 10.92(22) Common Stock PIPES Agreement, dated June 26, 2002, by and among P-Com, Inc and the investors signatory thereto. 10.93*#(23) General Release and Settlement Agreement by and between P-Com, Inc. and James J. Sobczak dated May 1, 2002. 10.94*#(23) Severance Letter Agreement by and between P-Com, Inc. and Caroline dated April 8, 2002. 10.95*#(23) Severance Letter Agreement by and between P-Com, Inc. and Alan T. Wright dated April 8, 2002. 10.96*#(23) Form of Amendment to Change in Control Severance Agreement by and between P-Com, Inc. and the officers P-Com listed as signatories thereto. 10.97(23) Form of Letter of Intent regarding Proposed Restructuring of 4 1/4% Convertible Subordinated Notes due 2002 by and among P-Com, Inc. and the beneficial holders of the Notes dated April 12, 2002. 10.98#(23) Engagement Letter Agreement by and between P-Com, Inc. and Cagan McAfee Capital Partners dated December 10, 2001 and Addendum dated June 13, 2002. 10.99(23) Warrant Issuance Agreement by and between P-Com, Inc. and Cagan McAfee Capital Partners dated December 1, 2001. 10.100(23) Accounts Receivable Purchase Agreement by and between P-Com, Inc. and Silicon Valley Bank dated June 26, 2002. 10.101#(23) OEM Agreement by and between P-Com, Inc. and Shanghai Datang Mobile Communications dated July 1, 2002. 10.102(24) Registration Rights Agreement, dated November 1, 2002, between P-Com, Inc. and the noteholders signatory thereto. 10.103(25) Indemnification Agreement between P-Com, Inc. and Caroline B. Kahl dated September 19, 2002. 10.104(25) Agreement for Settlement and Release of Claims between SPC Electronics America, Inc. and P-Com, Inc. dated April 3, 2002. 10.105(25) Agreement for Settlement and Release of Claims among Remec, Inc., Remec Wireless, Inc., and Remec Manufacturing Philippines, Inc. and P-Com, Inc. and P-Com, Italia S.p.A. dated July 10, 2002. II-7 Exhibit Number Description of Document ------ ---------------------- 10.106(25) Agreement for Settlement and Release of Claims by and between EESA, Inc., EESA Europe S.r.l., and Eltel Engineering S.r.l. and P-Com, Inc. and P-Com, Italia S.p.A. dated April 23, 2002. 10.107(25) Loan and Security Agreement between P-Com, Inc. and Silicon Valley Bank dated September 20, 2002 10.108(25) Loan and Security Agreement (Exim Program) between P-Com, Inc. and Silicon Valley Bank dated September 20, 2002. 10.109(25) Secured Promissory Notes issued to Silicon Valley Bank dated September 20, 2002. 10.110(25) Warrant to Purchase Stock Agreement between P-Com, Inc. and Silicon Valley Bank dated September 20, 2002. 10.111(25) Amendment to OEM Agreement between P-Com, Inc. and Shanghai Datang Mobile Communication effective July 1, 2002. 10.112(26) Senior Subordinated Secured Promissory Notes issued to BBT Fund LP dated November 1, 2002. 10.113(26) Addendum II to Engagement Letter, dated December 10, 2001, between P-Com, Inc. and Cagan McAfee Capital Partners, effective as of January 9, 2003. 10.114(26) Termination Agreement and Release among P-Com, Inc., XT Corporation and Telaxis Communications Corp., dated January 7, 2003. 10.115(26)

Consulting Agreement with Liviakis Financial Communications dated February 3, 2003. 10.116(26) Engagement letter with HPC Capital Management dated February 6, 2003. 10.117(10) Securities Purchase Agreement, dated May 28, 2003, by and among P-Com, Inc., North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.118(10) Registration Rights Agreement, dated May 28, 2003, by and among P-Com, Inc., North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.119(10) Security Agreement, dated May 28, 2003, by P-Com, Inc. and North Sound Legacy Institutional Fund LLC, as collateral agent for North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.120(11) Form of Securities Purchase Agreement, dated October 3, 2003, by and among P-Com, Inc. and certain investors signatory thereto. 10.121(11) Form of Registration Rights Agreement, dated October 3, 2003, by and among P-Com, Inc. and certain investors signatory thereto. 10.122(11) Form of Series C-1 Warrant 10.123(11) Form of Series C-2 Warrant 10.124+ Form of Registration Rights Agreement, dated as of October 3, 2003, by and among P-Com, Inc., P Investors LLC, Woodmont Investments Ltd. and Newberg Family Trust. 10.125+ Form of Joinder Agreement, dated December 16, 2003, by and among P-Com, Inc. and certain investors signatory thereto. 10.126+ Closing Memorandum, dated as of December 10, 2003, by and between P-Com, Inc. and SPEEDCOM Wireless Corporation. 10.127+ Debt Conversion Agreement, dated as of December 10, 2003, by and among P-Com, Inc., SPEEDCOM Wireless Corporation, North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.128 Form of Convertible Promissory Note, issued by P-Com to each of North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.129+ Note Repurchase Agreement, dated as of December 18, 2003, by and among P-Com, Inc., North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.130+ Form of Registration Rights Agreement, dated as of December 18, 2003, by and among P-Com, Inc., North Sound Legacy Fund LLC, North Sound Legacy Institutional Fund LLC and North Sound Legacy International Ltd. 10.131 Engagement Letter Agreement, dated as of August 25, 2003, between P-Com, Inc. and Burnham Hill Partners, a division of Pali Capital, Inc. 10.132* Severance Agreement, dated April 4, 2003, between P-Com, Inc. and Daniel W. Rumsey. 10.133* Employment Letter Agreement, dated July 25, 2003, between P-Com, Inc. and Samuel Smookler. 10.134* Employment Letter Agreement, dated October 20, 2003, between P-Com, Inc. and Carlos Belfiore. 16.1(27) Letter from PricewaterhouseCoopers LLP to the Securities and Exchange Commission, dated August 14, 2003, regarding the change in the independent auditor of P-Com, Inc. 21.1(26) Subsidiaries of the Registrant II-8 Exhibit Number Description of Document ------ ---------------------- 23.1 Consent of Aidman, Piser & Company, P.A. 23.2 Consent of PricewaterhouseCoopers LLP 23.3 Consent of Sheppard, Mullin, Richter & Hampton LLP (included in Exhibit 5.1) 24.1+ Power of Attorney (on signature page to initial filing of this Registration Statement) ---------- * Compensatory benefit arrangement. # Confidential treatment has been granted as to certain portions of these exhibits. + Previously filed. (1) Incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (File No. 33-95392) declared effective with the Securities and Exchange Commission on August 17, 1995. (2) Incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 000-25356) for the quarterly period ended June 30, 1997, filed with the Securities and Exchange Commission on August 18, 1997. (3) Incorporated by reference to Exhibit 3 to the Registrant's Current Report on From 8-K (File No. 000-25356) filed with the Securities and Exchange Commission on October 2, 1997. (4) Incorporated by reference to Exhibit 3.2C of the Registrant's Form 8-A/A filed with the Securities and Exchange Commission on December 22, 1998. (5) Incorporated by reference to Exhibit 3.2D of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 24, 1998. (6) Incorporated by reference to Exhibit 3.2E of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 24, 1998. (7) Incorporated by reference to Exhibit 3.2F to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission on April 2, 2001. (8) Incorporated by reference to Exhibit 3.2A to the Registrant's Annual Report on Form 10-K, for the fiscal year ended December 31, 2001, filed with the Securities and Exchange Commission on April 1, 2002. (9) Incorporated by reference to Exhibit 3.2G to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, filed with the Securities and Exchange Commission on August 14, 2002. (10) Incorporated by reference to the exhibits filed as part of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003, filed with the Securities and Exchange Commission on August 14, 2003. (11) Incorporated by reference to the exhibits filed as part of the Registrant's Current Report on Form 8-K, filed with the Securities and

Exchange Commission on October 7, 2003. (12) Incorporated by reference to Exhibit 3.3A to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2002, filed with the Securities and Exchange Commission on November 14, 2002. (13) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (File No. 33-88492) declared effective with the Securities and Exchange Commission on March 2, 1995. (14) Incorporated by reference to Exhibit 4.10 to the Registrant's Form 8-A/A filed with the Securities and Exchange Commission on May 7, 2001. (15) Incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-55604) filed with the Securities and Exchange Commission on February 14, 2001. (16) Incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (File No. 111511) filed with the Securities and Exchange Commission on December 23, 2003. (17) Incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-63762) filed with the Securities and Exchange Commission on June 25, 2001. (18) Incorporated by reference to the identically numbered exhibit to the Registrant's Registration Statement on Form S-1 (File No. 33-88492) declared effective with the Securities and Exchange Commission on March 2, 1995. (19) Incorporated by reference to the identically numbered exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998. (20) Incorporated by reference to the identically numbered exhibit to the Registrant's Registration Statement on Form S-3/A (File No. 333-70937) as filed with the Securities and Exchange Commission on May 4, 2000. II-9 (21) Incorporated by reference to the identically numbered exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001, filed with the Securities and Exchange on December 24, 2001. (22) Incorporated by reference to the identically numbered exhibit to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 26, 2002. (23) Incorporated by reference to the identically numbered exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002, filed with the Securities and Exchange Commission on August 14, 2002. (24) Incorporated by reference to the identically numbered exhibit to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 6, 2002. (25) Incorporated by reference to the identically numbered exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002, filed with the Securities and Exchange Commission on November 14, 2002. (26) Incorporated by reference to the identically numbered exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the Securities and Exchange Commission on March 31, 2003. (27) Incorporated by reference to the identically numbered exhibit to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 14, 2003. II-10