Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 28, 2001

QUALCOMM INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

000-19528	**95-3685934**
(Commission File No.)	(IRS Employer Identification No.)

5775 MOREHOUSE DRIVE
SAN DIEGO, CALIFORNIA 92121
(Address of principal executive offices and zip code)

Registrant’s telephone number, including area code: **(858) 587-1121**

TABLE OF CONTENTS

Item 7. Financial Statements and Exhibits
Item 7.(b)(1) Unaudited Pro Forma Condensed Consolidated Financial Information of QUALCOMM Incorporated
Unaudited Pro Forma Condensed Consolidated Balance Sheet
Unaudited Pro Forma Condensed Consolidated Statement of Operations
Notes to Unaudited Pro Forma Condensed Consolidated Financial Information
Signature
EXHIBIT 23.1
EXHIBIT 23.2
EXHIBIT 99.1
EXHIBIT 99.2

This Form 8-K/A is amending the Form 8-K originally filed by QUALCOMM on November 28, 2001. For the purpose of this Form 8-K/A, NewCo is referred to as "Vesper Holding," and the combined consolidated wholly-owned subsidiaries of NewCo, the Vesper Companies, are together referred to as "Vesper Holding Companies."

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

(1) Combined consolidated financial information of Vesper Holding Companies dated as of December 31, 2000 and 1999 and as of September 30, 2001 (unaudited).

(2) Consolidated financial information of VeloCom Inc. dated as of December 31, 2000 and 1999 and as of September 30, 2001 (unaudited).

(b) Pro forma financial information.

(1) Unaudited pro forma condensed consolidated financial information of QUALCOMM Incorporated.

The following unaudited pro forma condensed consolidated financial information is being filed herewith:

Unaudited Pro Forma Condensed Consolidated Balance Sheet at September 30, 2001

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended September 30, 2001

Notes to Unaudited Pro Forma Condensed Consolidated Financial Information

(c) Exhibits.

*2.1 Restructuring Agreement, dated as of November 9, 2001, by and among the Company, Vesper Sao Paulo S.A., Vesper S.A., Vesper Holding Sao Paulo S.A., Vesper Holding S.A., VeloCom Cayman Brasil Holdings, QUALCOMM do Brasil Ltda., Bell Canada International (Brazil Telecom I) Limited, Bell Canada International (Megatel) Limited, VeloCom Inc., Nortel Networks Limited, Lucent Technologies Inc., Telefonaktiebolaget LM Ericsson (Publ.), Harris Corporation, VeloCom do Brasil Ltda., Vesper Sao Paulo Cayman and Vesper Holding, Ltd.

*2.2	The Subscription and Shareholders Agreement, dated as of November 9, 2001, by and among the Company, VeloCom Inc., Bell Canada International (Brazil Telecom I) Limited, Bell Canada International (Megatel) Limited, Bell Canada International (Espelho Sul) Limited, Nortel Networks Limited, Lucent Technologies Inc., Telefonaktiebolaget LM Ericsson (Publ.), Harris Corporation, and Vesper Holding, Ltd.
23.1	Consent of Arthur Andersen LLP.
23.2	Consent of Arthur Andersen LLP.
99.1	Combined consolidated financial information of Vesper Holding Companies dated as of December 31, 2000 and 1999 and as of September 30, 2001 (unaudited).
99.2	Consolidated financial information of VeloCom Inc. dated as of December 31, 2000 and 1999 and as of September 30, 2001 (unaudited).

* Previously filed on November 28, 2001 as an exhibit to the Form 8-K.

Item 7.(b)(1) Unaudited Pro Forma Condensed Consolidated Financial Information of QUALCOMM Incorporated

On November 13, 2001, QUALCOMM and VeloCom committed to invest $266 million and $80 million, respectively, in Vesper Holding as part of a series of transactions pursuant to a Restructuring Agreement as described in the Form 8-K filed on November 28, 2001. QUALCOMM acquired a controlling interest in Vesper Holding as a result of the investment. On November 29, 2001, QUALCOMM exchanged a convertible promissory note issued by VeloCom to QUALCOMM for equity securities of VeloCom. This exchange (the "VeloCom exchange") resulted in QUALCOMM having a 49.9% equity interest in VeloCom. The following unaudited pro forma condensed consolidated financial information presents the effects of QUALCOMM's acquisition of Vesper Holding and the VeloCom exchange. The unaudited pro forma condensed consolidated balance sheet presents the consolidated financial position of QUALCOMM as of September 30, 2001, assuming that the acquisition and the VeloCom exchange had occurred as of that date. Such pro forma information is based upon the historical balance sheet data of QUALCOMM and the combined consolidated balance sheet data of Vesper Holding Companies, referred to in the unaudited pro forma financial information as "Vesper," as of September 30, 2001. The unaudited pro forma condensed consolidated statement of operations for the year ended September 30, 2001 gives effect to the acquisition and the VeloCom exchange as if they had occurred on October 1, 2000. The unaudited pro forma condensed consolidated financial information is prepared using the purchase method of accounting. Although the acquisition of Vesper Holding will be accounted for in accordance with the Financial Accounting Standards Board Statement No. 141 (FAS 141), "Business Combinations," QUALCOMM has not adopted

FAS 141 in its entirety. Goodwill from previous acquisitions will continue to be amortized until QUALCOMM adopts FAS 141 as of the beginning of its fiscal 2003.

The unaudited pro forma condensed consolidated financial information is based on the estimates and assumptions set forth in the notes to such information, which is preliminary and has been made solely for purposes of developing such pro forma information. The unaudited pro forma condensed consolidated financial information is not necessarily an indication of the results that would have been achieved had the transaction been consummated as of the dates indicated.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with the historical financial statements and notes thereto of QUALCOMM, including the Annual Report on Form 10-K for the year ended September 30, 2001, and the historical financial statements of Vesper Holding Companies and VeloCom Inc. dated as of December 31, 2000 and 1999 and as of September 30, 2001 (unaudited), included herein.

QUALCOMM Incorporated
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)

	September 30, 2001			
	Historical			
	QUALCOMM	Vesper	Adjustments	Pro Forma
ASSETS				
Current Assets:				
Cash and cash equivalents	$1,388,602	$ 17,529	$ (101,470)(a)	$1,304,661
Marketable securities	894,577	—	—	894,577
Accounts receivable, net	517,557	24,633	—	542,190
Finance receivables, net	10,345	—	—	10,345
Inventories, net	95,863	—	—	95,863
Other current assets	147,814	32,148	(6,658)(b)	173,304
Total current assets	3,054,758	74,310	(108,128)	3,020,940
Marketable securities	297,333	—	—	297,333
Finance receivables, net	674,391	—	—	674,391
Other investments	245,220	—	53,602(c)	298,822
Property, plant and equipment, net	431,396	745,642	(392,184)(d)	784,854
Goodwill, net	585,046	—	—	585,046
Other assets	381,589	98,745	(46,687)(e)	433,647
Total assets	$5,669,733	$ 918,697	$ (493,397)	$6,095,033
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current Liabilities:				
Trade accounts payable	$ 106,433	$ 193,553	$ (19,244)(f)	$ 280,742
Payroll and other benefits related liabilities	117,795	14,025	—	131,820
Vendor financing and loans payable	—	96,541	(79,210)(g)	17,331
Unearned revenue	184,461	9,705	—	194,166
Other current liabilities	112,300	397	—	112,697
Total current liabilities	520,989	314,221	(98,454)	736,756
Vendor financing and loans payable	—	940,976	(833,707)(g)	107,269
Unearned revenue	295,005	1,527	—	296,532
Other liabilities	35,437	37,041	(37,041)(g)	35,437
Total liabilities	851,431	1,293,765	(969,202)	1,175,994
Minority interest in consolidated subsidiaries	5,887	—	100,737	106,624
Stockholders' Equity:				
Preferred stock	—	429,464	(429,464)(h)	—
Common stock	76	429,465	(429,465)(h)	76
Paid-in capital	4,791,559	561	(561)(h)	4,791,559
Retained earnings	244,947	(1,254,592)	1,254,592(h)	244,947
Accumulated other comprehensive (loss) income	(224,167)	20,034	(20,034)(h)	(224,167)
Total stockholders' equity (deficit)	4,812,415	(375,068)	375,068	4,812,415
Total liabilities and stockholders' equity	$5,669,733	$ 918,697	$ (493,397)	$6,095,033

See accompanying notes to unaudited pro forma condensed consolidated financial information

QUALCOMM Incorporated
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)

	Year Ended September 30, 2001			
	Historical			
	QUALCOMM	Vesper	Adjustments	Pro Forma
Revenues	$2,679,786	$ 125,480	$ —	$ 2,805,266
Operating expenses:				
Cost of revenues	1,035,103	313,378	(44,702)(i)	1,303,779
Research and development	414,760	—	—	414,760
Selling, general and administrative	367,155	217,558	(19,330)(i)	565,383
Amortization of goodwill and intangible assets	255,230	3,387	4,360(j)	262,977
Asset impairment and related charges	518,026	—	—	518,026
Other	50,825	—	—	50,825
Total operating expenses	2,641,099	534,323	(59,672)	3,115,750
				0
Operating income (loss)	38,687	(408,843)	59,672	(310,484)
Interest expense	(10,235)	(129,065)	88,866(k)	(50,434)
Investment expense, net	(365,156)	—	243,530(l)	(121,626)
Other	(167,001)	(339,109)	88,806(m)	(417,304)
Loss before income taxes and accounting change	(503,705)	(877,017)	480,874	(899,848)
Income tax expense	(104,501)	—	—	(104,501)
Loss before accounting change	(608,206)	(877,017)	480,874	(1,004,349)
Accounting changes, net of tax	(17,937)	—	—	(17,937)
Net loss	$ (626,143)	$(877,017)	$480,874	$(1,022,286)
Basic net loss per common share:				
Loss before accounting change	$ (0.81)			$ (1.33)
Accounting change, net of tax	(0.02)			(0.02)
Net loss	$ (0.83)			$ (1.35)
Diluted net loss per common share:				
Loss before accounting change	$ (0.81)			$ (1.33)
Accounting change, net of tax	(0.02)			(0.02)
Net loss	$ (0.83)			$ (1.35)
Shares used in per share calculations:				
Basic	755,969			755,969
Diluted	755,969			755,969

See accompanying notes to unaudited pro forma condensed consolidated financial information

QUALCOMM Incorporated

Notes to Unaudited Pro Forma Condensed Consolidated Financial Information

Note 1 — Basis of Presentation

On November 13, 2001, QUALCOMM and VeloCom committed to invest $266 million and $80 million, respectively, in Vesper Holding as part of a series of transactions pursuant to a Restructuring Agreement as described in the Form 8-K filed on November 28, 2001. QUALCOMM, VeloCom and Bell Canada International (Brazil Telecom I) Limited and Bell Canada International (Megatel) Limited (together referred to as "BCI") agreed to exchange all of their equity interests in the Vesper Operating Companies for 2,523,674 ordinary shares and 1,155,152 special voting shares of Vesper Holding. In addition, QUALCOMM received 53,752,243 and 908,182 ordinary shares of Vesper Holding for its $266 million investment and for the capitalization of acquisition-related costs paid by QUALCOMM, respectively. As a result of the restructuring, Vesper Holding Companies are wholly-owned subsidiaries of Vesper Holding, and QUALCOMM, VeloCom, and BCI hold direct equity interests in Vesper Holding of approximately 74%, 24% and 2% respectively. As part of the Restructuring, indebtedness payable by the Vesper Operating Companies to QUALCOMM was transferred to Vesper Holding, and, as a result, Vesper Holding was obligated to pay QUALCOMM $108 million as of November 13, 2001.

On November 29, 2001, QUALCOMM converted a promissory note issued to QUALCOMM by VeloCom into equity securities of VeloCom, increasing its ownership interest in VeloCom to 49.9%. QUALCOMM indirectly owns an additional 12% of Vesper Holding through its ownership interest in VeloCom, such that QUALCOMM's direct and indirect interests in Vesper Holding total approximately 86%. The preliminary allocation of the purchase price at November 13, 2001 reflects $313 million for property, plant and equipment, $39 million for licenses and $31 million for other intangible assets.

The preliminary purchase price allocation is based on the estimated fair values of the acquired assets and assumed liabilities. The fair values of the assets have been adjusted downward by approximately $301 million, as the purchase price was less than the fair value of the net assets acquired. QUALCOMM is in the process of finalizing the purchase price allocation and does not anticipate material adjustments to the preliminary purchase price allocation presented.

Note 2 — Pro Forma Adjustments

QUALCOMM and Vesper Holding Companies do not have material differences in accounting policies, and accordingly, there are no pro forma adjustments related to any such differences.

(a) Reflects $81 million for QUALCOMM's portion of cash paid to vendors of Vesper Operating Companies to acquire vendor financing liabilities. Also includes cash paid by QUALCOMM for acquisition-related costs and the elimination of cash advances in transit from QUALCOMM to Vesper Operating Companies reflected on both the QUALCOMM and Vesper balance sheets.

(b) Reflects the write off of deferred loan fees associated with the vendor financing.

(c) Reflects the reclassification of the promissory note receivable from VeloCom from other assets to other investments.

(d) Reflects an adjustment to reduce Vesper Holding Companies' property, plant and equipment to fair value, as adjusted for the excess of the fair value of the net assets acquired over the purchase price.

(e) Reflects the reclassification of the promissory note receivable from VeloCom from other assets to other investments and the write off of $10 million in deferred loan fees associated

with the vendor financing. Also reflects the recording of other intangible assets resulting from the acquisition based on the purchase price allocation described in Note 1.

(f) Reflects a reduction in related party payables in accordance with the Restructuring Agreement.

(g) Reflects the reduction of vendor financing liabilities as a result of their acquisition for $135 million in cash and the issuance of warrants to acquire ordinary shares of Vesper Holding. Also includes the elimination of the $108 million note payable to QUALCOMM.

(h) Reflects the elimination of the combined consolidated Vesper Holding Companies' equity accounts.

(i) Reflects the adjustment to depreciation and amortization of property, plant and equipment based on their assigned values. Property, plant and equipment are depreciated over their estimated useful lives of 2 to 18 years as if the restructuring had occurred as of the beginning of the period presented.

(j) Reflects the adjustment to amortization expense for other intangible assets based on their assigned values. Wireless licenses and other intangible assets are amortized over their useful lives of 18 years and 3 to 18 years, respectively, as if the restructuring had occurred as of the beginning of the period presented.

(k) Reflects the adjustment to interest expense resulting in the reduction of vendor financing as part of the restructuring.

(l) Reflects the reversal of $152 million in equity in losses of Vesper Holding Companies recorded by QUALCOMM during fiscal 2001 and the elimination of $9 million in interest income from Vesper Holding Companies. Also includes $189 million in minority interest resulting from the consolidation of Vesper Holding Companies and $89 million in equity losses due to QUALCOMM's increased ownership in VeloCom.

(m) Reflects the reclassification of a portion of impairment charges recorded by QUALCOMM during fiscal 2001 related to its promissory note receivable from VeloCom to equity in losses of VeloCom.

SIGNATURE

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.

QUALCOMM Incorporated

Dated: January 28, 2002

By: /s/ Anthony S. Thornley

Anthony S. Thornley
Chief Operating Officer and
Chief Financial Officer

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated April 3, 2001 (except with respect to the matters discussed in Note 12, as to which the date is December 5, 2001) included in this Form 8-K, into QUALCOMM, Inc's. previously filed Registration Statements (as amended, as applicable) File Numbers 333-32926, 333-60484, 333-32924, 333-95291, 333-69457, 333-32013, 333-60484, 333-2752, 333-2754, 333-2756, 33-78150, 33-78158, and 33-45083.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado
January 24, 2002

EXHIBIT 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated January 15, 2001 (except with respect to the matters discussed in Notes 1, 2, and 4, as to which the date is November 13, 2001) included in this Form 8-K, into QUALCOMM, Inc's. previously filed Registration Statements (as amended, as applicable) File Numbers 333-32926, 333-60484, 333-32924, 333-95291, 333-69457, 333-32013, 333-60484, 333-2752, 333-2754, 333-2756, 33-78150, 33-78158, and 33-45083.

/s/ ARTHUR ANDERSEN LLP

San Diego, California
January 25, 2002

EXHIBIT 99.1

Vesper Holding Companies

Index

	Page Number
Report of Independent Public Accountants	1
Combined Consolidated Balance Sheets at December 31, 2000 and 1999 and at September 30, 2001 (unaudited)	2
Combined Consolidated Statements of Operations for the year ended December 31, 2000, for the period from January 18, 1999 (inception) to December 31,1999 and for the nine month periods ended September 30, 2001 and 2000 (unaudited)	3
Combined Consolidated Statements of Shareholders' Equity (Deficit) for the year ended December 31, 2000, for the period from January 18, 1999 (inception) to December 31, 1999 and for the nine month periods ended September 30, 2001 (unaudited)	4
Combined Consolidated Statements of Cash Flows for the year ended December 31, 2000, for the period from January 18, 1999 (inception) to December 31, 1999 and for the nine month periods ended September 30, 2001 and 2000 (unaudited)	5
Notes to Combined Consolidated Financial Statements	6

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Vesper Holding S.A and Vesper Holding Sao Paulo S.A.:

We have audited the accompanying combined consolidated balance sheets of Vesper Holding S.A. (a Brazilian corporation) and Subsidiaries and Vesper Holding Sao Paulo S.A. (a Brazilian corporation) and Subsidiaries (together, the Vesper Holding Companies, see Note 1) as of December 31, 2000 and 1999, and the related combined consolidated statements of operations, shareholders' equity (deficit) and cash flows for the year ended December 31, 2000 and for the period from January 18, 1999 (inception) to December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vesper Holding Companies as of December 31, 2000 and 1999 and the results of their operations and their cash flows for the year ended December 31, 2000 and for the period from January 18, 1999 (inception) to December 31, 1999 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

San Diego, California
January 15, 2001 (except with respect to the matters discussed in
Notes 1, 2 and 4, as to which the date is November 13, 2001)

VESPER HOLDING COMPANIES
COMBINED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS

	September 30, 2001	December 31, 2000	December 31, 1999
	(unaudited)		
Current assets:			
Cash and cash equivalents	$ 17,529	$ 38,102	$ 94,588
Accounts receivable, net	24,633	58,841	—
Recoverable taxes	16,139	45,404	43,465
Prepaid expenses and other	16,009	18,573	20,557
Total current assets	74,310	160,920	158,610
Recoverable taxes	32,439	37,033	—
Property, plant and equipment, net	745,642	1,004,827	500,923
Intangible assets, net	48,243	68,725	83,957
Other assets	18,063	20,605	18,705
Total assets	$ 918,697	$1,292,110	$762,195

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

	September 30, 2001	December 31, 2000	December 31, 1999
Current liabilities:			
Accounts payable	$ 163,731	$ 71,326	$ 86,856
Accrued expenses	14,025	25,315	33,732
Vendor financing and loans payable	96,541	72,908	—
Amounts due related parties	29,822	33,254	71,042
Deferred revenues	9,705	13,067	—
Other current liabilities	397	14,261	—
Total current liabilities	314,221	230,131	191,630
Vendor financing and loans payable, net of current portion	940,976	694,952	414,605
Accounts payable (Note 4)	—	300,628	—
Deferred revenues	1,527	7,767	—
Other liabilities	37,041	800	28,002
Total liabilities	1,293,765	1,234,278	634,237
Commitments and contingencies (Note 10)			
Shareholders' equity (deficit):			
Capital stock	859,490	607,170	183,234
Accumulated deficit	(1,254,592)	(540,683)	(55,712)
Accumulated other comprehensive income (loss)	20,034	(8,655)	436
Total shareholders' equity (deficit)	(375,068)	57,832	127,958
Total liabilities and shareholders' equity (deficit)	$ 918,697	$1,292,110	$762,195

See accompanying notes.

VESPER HOLDING COMPANIES
COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Nine months ended			Period From January 18, 1999
	September 30, 2001	September 30, 2000	Year Ended December 31, 2000	(Inception) to December 31, 1999
	(Unaudited)			
Revenues	$ 102,006	$ 47,648	$ 71,122	$ —
Operating expenses:				
Cost of revenues	175,634	149,525	203,793	—
Selling, general and administrative	145,589	96,230	132,102	67,397
Foreign currency transaction loss (gain), net	302,405	20,141	56,845	(10,642)
Depreciation and amortization	98,039	41,585	66,506	120
Total operating expenses	721,667	307,481	459,246	56,875
Operating loss	(619,661)	(259,833)	(388,124)	(56,875)
Interest (expense) income, net	(94,248)	(62,030)	(96,847)	1,163
Net loss	$ (713,909)	$ (321,863)	$(484,971)	$ (55,712)

See accompanying notes.

VESPER HOLDING COMPANIES
COMBINED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Capital Stock	Accumulated Deficit	Cumulative Translation Adjustment	Total Shareholders' Equity (Deficit)
Balance at January 18, 1999 (inception)	$ —	$ —	$ —	$ —
Components of comprehensive income:				
Net loss	—	(55,712)	—	(55,712)
Cumulative translation adjustment	—	—	436	436
Total comprehensive loss				(55,276)
Proceeds from sale of capital stock	183,234	—	—	183,234
Balance at December 31, 1999	183,234	(55,712)	436	127,958
Components of comprehensive income:				
Net loss	—	(484,971)	—	(484,971)
Cumulative translation adjustment	—	—	(9,091)	(9,091)
Total comprehensive loss				(494,062)
Proceeds from sale of capital stock	423,936	—	—	423,936
Balance at December 31, 2000	607,170	(540,683)	(8,655)	57,832
Components of comprehensive income:				
Net loss (unaudited)	—	(713,909)	—	(713,909)
Cumulative translation adjustment (unaudited)	—	—	28,689	28,689
Total comprehensive loss (unaudited)				(685,220)
Proceeds from sale of capital stock (unaudited)	252,320	—	—	252,320
Balance at September 30, 2001 (unaudited)	$859,490	$(1,254,592)	$ 20,034	$ (375,068)

See accompanying notes.

VESPER HOLDING COMPANIES
COMBINED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine months ended			Period from January 18,
	September 30, 2001	September 30, 2000	Year ended December 31, 2000	1999 (inception) to December 31, 1999
	(unaudited)			
Cash Flows From Operating Activities:				
Net loss	$ (713,909)	$ (321,863)	$(484,971)	$ (55,712)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	98,039	41,585	66,506	120
Loss on disposal of property and equipment	10,135	266	26,323	—
Foreign currency transaction loss (gain)	302,405	20,141	56,845	(10,642)
Increase (decrease) in cash resulting from changes in:				
Accounts receivable, net	34,208	(39,111)	(63,228)	—
Recoverable taxes	29,265	(28,091)	(6,023)	(42,975)
Prepaid expenses and other	6,777	13,089	(3,882)	(29,766)
Other assets	2,923	1,817	(38,945)	(9,810)
Accounts payable	25,544	(26,354)	1,567	70,395
Accrued expenses	(25,154)	10,997	(3,874)	6,175
Amounts due related parties	(3,432)	(42,243)	(33,912)	45,836
Deferred revenues	(9,602)	—	21,899	—
Net cash used in operating activities	(242,801)	(369,767)	(461,695)	(26,379)
Cash Flows From Investing Activities:				
Capital expenditures	(39,574)	(221,373)	(386,806)	(454,669)
Acquisition of intangibles	—	(7,395)	(36,369)	(29,066)
Net cash used in investing activities	(39,574)	(228,768)	(423,175)	(483,735)
Cash Flows From Financing Activities:				
Proceeds from sale of capital stock	252,320	311,990	423,936	183,234
Other liabilities	36,240	(13,465)	—	—
Net proceeds (payments) on vendor financing and loans	(30,971)	257,578	407,321	420,444
Net cash provided by financing activities	257,589	556,103	831,257	603,678
Effect of exchange rate changes on cash and cash equivalents	4,213	17,965	(2,873)	1,024
Net increase (decrease) in cash and cash equivalents	(20,573)	(24,467)	(56,486)	94,588
Cash and cash equivalents at beginning of period	38,102	94,588	94,588	—
Cash and cash equivalents at end of period	$ 17,529	$ 70,121	$ 38,102	$ 94,588
Supplemental Disclosures of Non-Cash Investing and Financing Activities:				
Assets acquired under debt obligations:				
Property, plant and equipment	$ 66,861	$ 213,752	$ 300,628	$ 103,225
Licenses and intangibles	—	$ 14,261	$ 14,261	$ 49,823

See accompanying notes.

VESPER HOLDING COMPANIES
NOTES TO COMBINED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001 (unaudited), December 31, 2000 and 1999

Note 1. Vesper Holding Companies Operations and Liquidity

Vesper Holding S.A. (Vesper Northeast) and Vesper Holding Sao Paulo S.A. (Vesper Sao Paulo) were formed by Velocom Inc. (Velocom), Bell Canada International, Inc. (BCI) and QUALCOMM, Incorporated (QUALCOMM) to act as holding companies and to establish the operating companies Vesper S.A. (formerly Canbra Telefonica S.A.) and Vesper Sao Paulo S.A. (formerly Megatel S.A.), together referred to herein as the Vesper Holding Companies. Vesper Northeast and Vesper Sao Paulo were organized under the laws of Brazil as corporations in September 1998 and May 1999, respectively (Vesper Northeast having remained dormant from September 2, 1998 to January 18, 1999). The operating companies are subject to the laws and regulations governing telecommunication services in effect in Brazil.

Vesper Northeast and Vesper Sao Paulo submitted bids for two competitive local exchange carrier licenses (the Licenses) for commercial operations of switched fixed telephone services, one in Rio de Janeiro and the North and Northeast regions of Brazil comprised of sixteen Brazilian states, and one for the State of Sao Paulo, Brazil, respectively. Vesper Northeast and Vesper Sao Paulo were awarded their respective Licenses in public auctions held on January 18, 1999 and May 5, 1999, respectively. Commercial switched fixed telephone operations started in January 2000 for Vesper Northeast and February 2000 for Vesper Sao Paulo.

From inception to December 31, 2000, the Vesper Holding Companies generated an accumulated deficit of approximately $541 million and negative cash flows from operations totaling approximately $488 million. At December 31, 2000 current liabilities exceeded current assets by approximately $69 million. From inception to September 30, 2001, the unaudited accumulated deficit was approximately $1.25 billion and unaudited cumulative negative cash flows from operations totaled approximately $731 million. At September 30, 2001, unaudited current liabilities exceeded current assets by approximately $240 million and unaudited stockholders' deficit totaled approximately $375 million. The Vesper Holding Companies expect to incur substantial future losses and negative cash flows from operations during the development, construction, and expansion of their business in an effort to generate a sufficient customer revenue basis to cover switched fixed telephone service operating expenses in initial markets under the Licenses. The Vesper Holding Companies expect further continuing operating losses and negative cash flows from operations upon expansion of operations into new markets, even if and after they achieve positive cash flows from operations in the Vesper Holding Companies' initial markets.

Note 2. Subsequent Recapitalization and Debt Restructuring of the Vesper Holding Companies

On October 11, 2001, Vesper Holding, Ltd. (the Parent) was incorporated in the Cayman Islands. On November 13, 2001, QUALCOMM, VeloCom, and BCI (collectively, the Shareholders), entered into agreements to exchange all of their equity interests in Vesper Northeast and Vesper Sao Paulo for 2,523,674 ordinary shares and 1,155,152 special voting shares of the Parent. As part of the same transaction, QUALCOMM and VeloCom converted other previously existing advances to Vesper Northeast and Vesper Sao Paulo into 12,177,290 ordinary shares of the Parent for an aggregate value of $60 million. QUALCOMM and VeloCom also agreed to purchase 57,720,404 ordinary shares of the Parent for an aggregate purchase price of $286 million. As a result, QUALCOMM, VeloCom, and BCI became 74%, 24%, and 2% shareholders in the Parent, respectively, and Vesper Holding and Vesper Holding Sao Paulo became wholly-owned subsidiaries of the Parent. Also in November 2001, QUALCOMM converted a previously existing promissory note receivable into equity securities of VeloCom, thereby increasing its ownership interest in VeloCom to 49.9% and, as a consequence, increasing QUALCOMM's direct and indirect ownership of the Parent to approximately 86%. At November 13, 2001, cash proceeds totaling $135 million out of the total due of $286 million were received by the Parent from QUALCOMM and VeloCom. The remaining $151 million is due and payable by QUALCOMM on an as needed basis.

Effective November 13, 2001, the Parent entered into a restructuring agreement (the Restructuring Agreement) between itself and its Shareholders and Nortel, Ericsson, Lucent, Harris Corporation and QUALCOMM (collectively, the Vendors). The Restructuring Agreement resulted in a reduction of over $1 billion in debt on the Vesper Holding Companies' balance sheet. Using proceeds from the recapitalization transactions described in the

preceding paragraph, the Vendors, excluding QUALCOMM, were paid approximately $135 million in exchange for a release in full of any claims against the Parent and its shareholders, including Vendor financing approximating $ 1.08 billion at November 13, 2001 (see also Note 4). In addition to the cash payment, the Vendors, excluding QUALCOMM, received 5,687,717 warrants for ordinary shares of the Parent, which expire on November 9, 2006 and have an exercise price of $4.96 per share. The warrants were assigned a fair value of $5 million.

As a condition precedent to the closing of the Restructuring Agreement, vendor supply agreements were terminated. Thus, the Parent and the Vesper Holding Companies are no longer committed to acquire the remaining balances of equipment and services, as would have been required under the original vendor supply agreements (see Note 4).

When all transactions contemplated in the restructuring agreements are completed, the liquidity and financial position of the Vesper Holding Companies will significantly improve. However, management and the shareholders of the Parent believe that successive increases in funding, in the form of equity capital, shareholder loans, debt financing or other instruments, beyond amounts received and committed through November 13, 2001, will be needed. In particular, additional financing will be necessary to purchase telecommunications capital equipment, fund principal and interest payments under debt and lease structures and to support operations until such time, if ever, that the Vesper Holding Companies are able to generate positive cash flows from operations. Management of the Vesper Holding Companies remains confident, given the current economic and financing conditions in Brazil, that the Vesper Holding Companies will be able to secure additional financing to bridge any funding gaps through December 2002. There is no assurance that the Parent or the Vesper Holding Companies will be able to obtain such financial resources on acceptable terms, if at all, and the Parent may be dependent upon its shareholders to provide such capital resources. Without additional capital resources, the conditions existing at November 13, 2001 raise substantial doubt about the Vesper Holding Companies' ability to continue as a going concern. In this regard, QUALCOMM delivered to the Parent's board of directors a written assurance that QUALCOMM intends to continue its support of the Parent sufficient to allow the Vesper Holding Companies to continue operating at least through December 31, 2002. This assurance is in addition to the $151 million receivable by the Parent for the sale of ordinary shares to QUALCOMM discussed above.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements reflect the historical combined consolidated financial position, results of operations and cash flows of the Vesper Holding Companies, for all periods since the inception of Vesper Northeast and Vesper Sao Paulo, in January 1999 and May 1999, respectively, prior to giving effect the purchase transaction described in Note 2.

The consolidated financial statements of Vesper Northeast include the accounts of its wholly owned subsidiaries Vesper S.A. and Vesper Cayman S.A. The consolidated financial statements of Vesper Sao Paulo include the accounts of its wholly owned subsidiaries Vesper Sao Paulo S.A. and Vesper Sao Paulo Cayman S.A. All significant intercompany accounts and transactions have been eliminated in consolidation and combination.

All amounts as of and for the nine months ending September 30, 2000 and 2001 included in the notes to the combined consolidated financial statements are unaudited. The accompanying unaudited combined consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation and combination. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenues

Revenues for usage charges, network usage charges and other customer services are recognized when the services are provided.

Customer activation fee revenues and related costs are deferred and amortized over the period of the customer relationship, which is estimated to be two years.

Cash and Cash Equivalents

The Vesper Holding Companies consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Buildings and improvements are depreciated for up to twenty-five years, equipment and vehicles are depreciated over three to twenty years, furniture and office equipment are depreciated over five to ten years and computer software and hardware are depreciated over five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the related lease. Maintenance, repairs, and minor renewals and betterments are charged to expense as incurred.

Upon the retirement or disposition of property, plant and equipment, the related cost and accumulated depreciation and amortization are removed and any resulting gain or loss is recorded in operations.

Capital leases and sale leaseback transactions are recorded as vendor financing and loans payable. The purchase price is recorded as property and equipment, and lease payable amounts as financing liabilities. Interest is expensed as incurred.

Construction in progress includes labor, material, transmission and related equipment, engineering, site development, capitalized interest and other costs relating to the construction and development of switched fixed telephone networks. The Company reclassifies construction in progress and begins depreciating related equipment upon commencement of commercial operations of the equipment.

Intangible Assets

Intangible assets consist primarily of acquisition cost for Licenses for spectrum and are recorded at cost. The Licenses were allocated conditionally through January 2019 and May 2019 and are each renewable for an additional twenty-year period. The Licenses are renewable provided that the licensee has complied with applicable rules and policies of Agencia Nacional de Telecommunicacoes (ANATEL), the Brazilian Government regulatory body, and upon payment of an additional fee based on a specific formula. The cost of such licenses is being amortized on a straight-line basis over the initial twenty-year terms of the Licenses.

Long-Lived Assets

The Vesper Holding Companies assess potential impairments to their long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying amount. Any required impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value, and is recorded as a reduction in the carrying value of the related asset and a charge to operating results.

Start-up Activities and Organization Costs

Costs of start-up activities and organization costs are expensed as incurred.

Foreign Currency

The functional currency of Vesper Holding Companies is the Brazilian real, which is the currency of the country in which they operate. Assets and liabilities are translated to United States dollars at year-end or historical exchange rates; capital stock and accumulated deficit are translated at historical exchange rates; and revenues, expenses, gains and losses are translated at rates of exchange that approximate the rates in effect at the transaction date. Resulting translation adjustments are recognized as a component of other comprehensive

income. Transactions denominated in currencies other than the Brazilian real are recorded based on the exchange rate at the time such transactions occur. Subsequent changes in exchange rates result in transaction gains and losses. The resulting transaction gains or losses are recognized as a component of net loss.

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets, liabilities and carryovers. The Company recognizes deferred tax assets for the expected future effects of all deductible temporary differences, loss carryovers and tax credit carryovers. Net deferred tax assets are then reduced, if deemed necessary, by a valuation allowance if management believes it is more likely than not that some or all of the net deferred tax assets will not be realized.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments. The Vesper Holdings Companies present other comprehensive loss in the combined consolidated statements of shareholders' equity.

Concentration of Operations

Vesper Holding Companies' operations are located in Brazil. The Vesper Holding Companies are exposed to credit and currency risks resulting from adverse general economic conditions, which may affect Brazil and Latin America in general. The Vesper Holding Companies have not entered into any foreign currency forward contracts, hedges or other instruments to mitigate currency risks.

Fair Value of Financial Instruments

Fair values of cash equivalents and other current amounts receivable and payable approximate the carrying amount due to their short-term nature. Carrying amounts under vendor financing and loans payable approximate fair value based on borrowing arrangements available to the Company (see Notes 2 and 4).

The Vesper Holding Companies have certain agreements with suppliers of network interface unit for the supply of network equipment manufactured locally, under which acquisition cost of related products are denominated in U.S. dollars. The Companies do not enter into currency hedging arrangements, thus exposing the Companies to currency rate risk on amounts payables in denominations other than the functional currency. Gains and losses arises from this exposure are recorded in the determination of net income.

Recent Accounting Pronouncements

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Views on Selected Revenue Recognition Issues" (SAB 101), which provides the staff's views in applying generally accepted accounting principles to revenue recognition issues. The Vesper Holding Companies adopted SAB 101 effective as of January 1, 2000. The Company did not report any revenue during the period from inception to December 31, 1999.

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (FAS 141 and FAS 142), "Business Combinations" and "Goodwill and Other Intangible Assets,'' respectively. FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. FAS 141 and FAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of FAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under FAS 141 will be reclassified to goodwill. Companies are required to adopt FAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Vesper Holding Companies will adopt FAS 142 as of the beginning of fiscal 2002 and do not expect the adoption of FAS 142 to have a material effect on their

consolidated financial position and results of operations, given that no goodwill has been recorded in the accompanying balance sheets.

In August 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 replaces FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The FASB issued FAS 144 to establish a single accounting model, based on the framework established in FAS 121, as FAS 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB 30, "Reporting The Results of Operations – Reporting The Effects of Disposal of a Segment of a Business, and Extraordinary Unusual and Infrequently Occuring Events and Transactions." FAS 144 also resolves significant implementation issues related to FAS 121. Companies are required to adopt FAS 144 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Vesper Holding Companies will adopt FAS 144 as of the beginning of fiscal 2002 and do not expect the adoption of FAS 144 to have a material effect on their consolidated financial position or results of operations.

Note 4. Vendor Financing and Loans Payable

The Vesper Holding Companies have vendor financing and loans payable as follows (in thousands):

	September 30, 2001	December 31,	
		2000	1999
	(In thousands) (Unaudited)	(In thousands)	
Vendor financing	$ 886,607	$639,146	$414,605
Bank loans	55,000	56,796	—
Notes	25,114	55,918	—
Equipment leases	41,131	13,936	—
Interest payable	29,665	2,064	—
	1,037,517	767,860	414,605
Current maturities	(96,541)	(72,908)	—
Noncurrent vendor financing and loans payable	$ 940,976	$694,952	$414,605

In December 1999, Vesper Northeast entered into a series of agreements with Nortel, Ericsson, Harris Corporation and QUALCOMM to issue up to $997 million in aggregate principal of long-term vendor financing, of which $549 million (unaudited), $386 million and $270 million in principal was outstanding as of September 30, 2001, and December 31, 2000 and 1999, respectively. Interest on these notes was payable quarterly in arrears commencing March 2000 at LIBOR plus 6% per annum. In December 1999 Vesper Sao Paulo entered into agreements with Lucent to issue up to $782 million of long-term vendor financing (available in three separate tranches), of which $338 million (unaudited), $252 million and $145 million in principal was outstanding as of September 30, 2001 and December 31, 2000 and 1999, respectively. Interest on these notes was payable quarterly, at the option of the Vesper Companies, at LIBOR plus 6% for tranche A and 8% for tranche C or a compounded rate of 5.5% plus the higher of prime rate and the Federal Funds effective rate. All long-term vendor financing, other than financing provided under an agreement with QUALCOMM, was restructured and retired in November 2001 as part of the Restructuring Agreement (see Note 2).

The terms of bank loans and notes were amended as part of the restructuring in November 2001 (see Note 2). After restructuring, the bank loans bear interest at the Certificate of Deposit Inter Bank (CDI) rate (the LIBOR rate equivalent in Brazil) plus 1.5% (approximately 20.5% at September 30, 2001) and are payable in lump-sum payments approximating $20 million in 2004 and $60 million in 2005. The bank loans are subject to certain restrictive financial covenants.

Equipment leases are subject to interest from 11% to 14.5% or LIBOR plus additional interest varying from 1.5% to 8%. As of the date of the restructuring in November 2001, equipment leases are payable as follows: $17.7 million in 2002; $18.5 million in 2003; $3.5 million in 2004; $1.0 million in 2005; and $0.4 million thereafter.

Substantially all of the Companies' assets are collateralized under the various financing agreements discussed above.

The Vesper Holding Companies have not historically hedged foreign currency denominated debt. Substantially all vendor financing is denominated in US dollars. Accordingly, the Company has experienced significant economic loss and a negative impact on earnings and equity with respect to its holdings solely as a result of foreign currency exchange rate fluctuations, reflecting local currency devaluations against the US dollar. If the Vesper Holding Companies were to enter into hedging transactions, there can be no assurance that any such hedging transactions would be successful and that the exchange rate fluctuations would not have a material adverse effect on the Vesper Holding Companies.

The Vesper Holding Companies hired specialized companies to supply infrastructure and telecommunication equipment, which will be delivered ready for use at the sites indicated by the Vesper Holding Companies. When the equipment is delivered to the respective sites, the property and equipment balance is recorded and the related liability is recorded in trade accounts payable, as a long-term liability, the balance of which, after the definitive acceptance of the site by the Vesper Holding Companies, is converted into financing, according to the conditions noted above.

Cash paid for interest was $43 million (unaudited), $63 million and none for the nine months ended September 30, 2001, the year ended December 31, 2000 and the period from inception to December 31, 1999.

Note 5. Composition of Certain Financial Statement Captions

Accounts Receivable, Net

	September 30, 2001	December 31, 2000	December 31, 1999
	(In thousands) (unaudited)	(In thousands)	
Billed	$ 67,960	$ 54,451	$—
Unbilled	8,104	14,896	—
	76,064	69,347	—
Less — allowance for doubtful receivables	(51,431)	(10,506)	—
	$ 24,633	$ 58,841	$—

Unbilled accounts receivable relate to services rendered that had not been invoiced as of the balance sheet date.

Recoverable Taxes

Recoverable taxes are mainly comprised of Value Added Taxes (VAT) incurred on the acquisition of property and equipment, which is recoverable against VAT payable on operating revenues. Beginning January 1, 2001, new VAT legislation requires that VAT tax credit generated after January 2, 2001 will be recovered in forty-eight monthly installments, if VAT tax payment is applicable.

Property, Plant and Equipment

	September 30, 2001	December 31, 2000	December 31, 1999
	(In thousands)	(In thousands)	
	(Unaudited)		
Land	$ 4,356	$ 5,951	$ 2,863
Buildings and improvements	17,129	15,104	13,650
Equipment and vehicles	627,465	729,571	3,408
Furniture and office equipment	2,340	5,984	7,927
Computer software and hardware	140,150	122,580	—
Leasehold improvements	4,474	—	499
Construction in progress	62,296	183,897	472,696
	858,210	1,063,087	501,043
Less — accumulated depreciation and amortization	(112,568)	(58,260)	(120)
	$ 745,642	$1,004,827	$500,923

The Vesper Holding Companies recorded a provision for losses related to installed equipment held by customers, which upon discontinuation of the services is considered unlikely to be recovered, as a component of depreciation and amortization totaling approximately $4 million (unaudited), $23 million, and $0 for the nine months ended September 30, 2001, for the year ended December 31, 2000, and for the period from inception to December 31, 1999, respectively.

Intangible Assets

	September 30, 2001	December 31, 2000	December 31, 1999
	(In thousands)	(In thousands)	
	(Unaudited)		
Licenses — spectrum	$ 52,946	$72,329	$83,957
Less — accumulated amortization	(4,703)	(3,604)	—
	$ 48,243	$68,725	$83,957

Amortization of intangible assets commenced in 2000 upon activation of the network.

Note 6. Transactions with Related Parties

		September 30, 2001	December 31, 2000	December 31, 1999
		(In thousands)	(In thousands)	
		(Unaudited)		
Current Liabilities:				
Bell Canada International (BCI)	(a,e)	$ 13,252	$14,426	$ 9,447
CGI Brasil (BCI related party)	(b)	11,333	12,122	—
CGI Telecom International	(b)	1,791	4,555	60,856
QUALCOMM do Brasil	(c)	60	76	437
QUALCOMM International	(d)	—	325	—
VeloCom do Brasil	(c)	—	540	302
VeloCom International	(d,e)	3,386	1,210	—
		$ 29,822	$33,254	$71,042

(a) In connection with service and royalty agreements signed between the parties (see Note 10).
(b) In connection with the development and implementation of billing, accounting and other system, software and information technology services.
(c) Loans between the parties. Interest based on market rates.
(d) Refers to the Company's inception costs.
(e) (unaudited) September 30, 2001 balances were extinguished in the Restructuring (see Note 2)

Note 7. VAT Financing

Vesper Northeast has an agreement with the Rio de Janeiro State Government and Banco do Brasil, as the financing agent, to obtain a line of credit in the amount of approximately R$940 million (US$480 million using the prevailing exchange rate on December 31, 2000), for the period of sixty months, to be valid from the date of the first authorization, to be used at the beginning of the VAT taxation. Such financing will be equivalent to 60% of the effective VAT paid over operating revenues. Financing has a grace period of eighty-four months, an amortization period of sixty months, interest rates of 4.5 percent and service tax equivalent to 1 percent over each installment. For the year ended December 31, 2000, the period from inception to December 31, 1999 and for the nine months ended September 30, 2001 (unaudited), Vesper Northeast has not borrowed against this line of credit.

Note 8. Shareholders' Equity

During the periods presented, the Vesper Holding Companies issued common stock and preferred stock to various parties in exchange for contributions of cash. Such capital stock was exchanged in full as part of the Restructuring in November 2001 (see Note 2).

Note 9. Income Taxes

The tax rates in Brazil for calendar years 2000 and 2001 (and for 2002) were 25% for federal income tax and 9% for social contribution tax. Beginning in 2003, the social contribution tax rate will be reduced to 8%. Tax losses can be carried forward without expiration but utilization is limited to 30% of annual taxable income.

The Vesper Holding Companies net deferred tax assets are as follows:

	September 30, 2001	December 31, 2000	December 31, 1999
	(In thousands) (Unaudited)	(In thousands)	
Deferred costs	$ 14,351	$ 20,602	$ 18,238
Net operating loss carryforwards	306,458	138,040	—
Total gross deferred assets	320,809	158,642	18,238
Less — valuation allowance	(320,809)	(158,642)	(18,238)
Total net deferred assets	$ —	$ —	$ —

The Vesper Holding Companies have provided a full valuation allowance on its gross deferred tax assets because management believes it is more likely than not that the deferred tax assets will not be realized.

A reconciliation of the income tax benefit based on statutory rates to the reported Vesper Holding Companies income tax provision is as follows:

	September 30, 2001	December 31, 2000	December 31, 1999
	(In thousands) (Unaudited)	(In thousands)	
Income tax benefit at statutory rates	$ 235,590	$ 160,040	$ 18,385
Effect of currency translation	(32,479)	(19,636)	(147)
Other	1,571	—	—
Change in valuation allowance	(204,682)	(140,404)	(18,238)
Income tax provision	$ —	$ —	$ —

The Vesper Holding Companies had no cash payments for income taxes during the nine months ended September 30, 2001 (unaudited), the year ended December 31, 2000 and the period from inception to December 31, 1999.

Note 10. Commitments and Contingencies

Litigation

The Vesper Holding Companies are engaged in legal actions arising in the ordinary course of its business and believe that the ultimate outcome of these actions will not have a material adverse effect on their financial position or results of operations.

Operating Leases

The Vesper Holding Companies lease certain facilities and equipment under noncancelable operating leases. Rental expense for these facilities and equipment for the nine months ended September 30, 2001, the year ended December 31, 2000 and the period from inception to December 31, 1999 was $14 million (unaudited), $13 million and $5 million, respectively. Future minimum lease payments as of December 31, 2000 are as follows: $23 million in 2001; $20 million in 2002; $16 million in 2003; $15 million in 2004; $9 million in 2005; and $9 million thereafter.

Know-how and Transfer of Technical Service Agreement

The Vesper Holding Companies have a royalty agreement with a shareholder, BCI, in connection with the transfer of know-how and technology, under which royalty fees are payable. The agreement was cancelled in

November 2001 as part of the Restructuring (see Note 2). For the nine months ended September 30, 2001, the year ended December 31, 2000 and the period from inception to December 31, 1999, royalty expense totaled $2 million (unaudited), $6 million and $9 million, respectively.

License Agreements

The Vesper Holding Companies have commitments within the terms of its Licenses and certain regulatory requirements, including achievement of minimum levels of network service coverage areas and telecommunication services offerings. If such commitments are not met, the Vesper Holding Companies could be subject to fines and potential revocation of the Licenses.

Note 11. Employee Benefits

The Vesper Holding Companies do not maintain a private pension plan for their employees, but contribute monthly, based on payroll, to the government pension, social security, and severance indemnity plans as required by local labor legislation. Contributions totaled $16 million (unaudited), $29 million and $3 million for the nine months ended September 30, 2001, the year ended December 31, 2000 and the period from inception to December 31, 1999, respectively.

Note 12. Operating Segments

The Vesper Holding Companies are organized based on geographical location. Reportable segments are as follows: Rio de Janeiro (Vesper Holding) and Sao Paulo (Vesper Holding Sao Paulo).

The Vesper Holding Companies evaluate the performance of segments based on net earnings (loss). There are no intersegment revenues. Reconciling items are comprised of eliminations of intersegment receivables. Segment assets are primarily comprised of cash and cash equivalents, accounts receivable, recoverable taxes, property, plant and equipment and intangible assets.

The table below presents information about reported segments for the nine month periods ended September 30, 2001 and 2000 (unaudited), the year ended December 31, 2000, and the period from inception to December 31, 1999 (in thousands):

	Vesper Northeast	Vesper Sao Paulo	Reconciling Items	Total
September 30, 2001 (unaudited)				
Revenues	$ 60,267	$ 41,739	$ —	$ 102,006
Operating loss	(177,905)	(139,351)	—	(317,256)
Net loss	(403,952)	(309,957)	—	(713,909)
Long-lived assets	456,874	337,011	—	793,885
Total assets	526,193	393,531	(1,027)	918,697
December 31, 2000				
Revenues	$ 41,147	$ 29,975	$ —	$ 71,122
Operating loss	(164,093)	(167,186)	—	(331,279)
Net loss	(251,735)	(233,236)	—	(484,971)
Long-lived assets	609,609	463,943	—	1,073,552
Total assets	741,863	550,459	(212)	1,292,110
December 31, 1999				
Revenues	$ —	$ —	$ —	$ —
Operating loss	(18,289)	(49,228)	—	(67,517)
Net loss	(37,402)	(18,310)	—	(55,712)
Long-lived assets	327,438	257,442	—	584,880
Total assets	443,334	319,103	(242)	762,195

Note 13. Combining Financial Statement Data

The following tables present the combining consolidating balance sheet information for Vesper Northeast and Vesper Sao Paulo as of September 30, 2001 (unaudited), December 31, 200 and 1999, and the related results of operations for each of the periods presented in the accompanying financial statements.

ASSETS	September 30, 2001 (unaudited)			
	Vesper Northeast	Vesper Sao Paulo	Eliminating Entries	Combined
Current assets:				
Cash and cash equivalents	$ 5,672	$ 11,857	$ —	$ 17,529
Accounts receivable, net	13,326	11,307	—	24,633
Recoverable taxes	14,070	2,069	—	16,139
Prepaid expenses and others	10,615	5,394	—	16,009
Total current assets	43,683	30,627	—	74,310
Recoverable taxes	17,079	15,360	—	32,439
Property, plant and equipment, net	432,696	312,946	—	745,642
Intangible assets, net	24,178	24,065	—	48,243
Other assets	8,557	10,533	(1,027)	18,063
Total assets	$ 526,193	$ 393,531	$ (1,027)	$ 918,697
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current Liabilities:				
Accounts payable	$ 25,580	$ 138,151	$ —	$ 163,731
Accrued expenses	8,090	5,935	—	14,025
Vendor financing and loans payable	39,072	57,469	—	96,541
Amounts due related parties	19,449	10,961	(588)	29,822
Unearned revenue	7,050	2,655	—	9,705
Other current liabilities	126	271	—	397
Total current liabilities	99,367	215,442	(588)	314,221
Vendor financing and loans payable, net of current portion	590,873	350,103	—	940,976
Accounts payable	—	—	—	—
Unearned revenue	1,059	468	—	1,527
Other liabilities	37,042	438	(439)	37,041
Total Liabilities	728,341	566,451	(1,027)	1,293,765
Commitments and contingencies				
Shareholders' equity (deficit):				
Capital stock	479,459	380,031	—	859,490
Accumulated deficit	(693,089)	(561,503)	—	(1,254,592)
Accumulated other comprehensive (loss) income	11,482	8,552	—	20,034
Total shareholders' equity (deficit)	(202,148)	(172,920)	—	(375,068)
Total liabilities and shareholder's equity (deficit)	$ 526,193	$ 393,531	$ (1,027)	$ 918,697

Note 13. Combining Financial Statement Data (continued)

ASSETS	December 31, 2000			
	Vesper Northeast	Vesper Sao Paulo	Eliminating Entries	Combined
Current assets:				
Cash and cash equivalents	$ 21,632	$ 16,470	$ —	$ 38,102
Accounts receivable, net	38,988	19,853	—	58,841
Recoverable taxes	30,355	15,049	—	45,404
Prepaid expenses and others	11,359	7,426	(212)	18,573
Total current assets	102,334	58,798	(212)	160,920
Recoverable taxes	18,601	18,432	—	37,033
Property, plant and equipment, net	575,155	429,672	—	1,004,827
Intangible assets, net	34,454	34,271	—	68,725
Other assets	11,319	9,286	—	20,605
Total assets	$ 741,863	$ 550,459	$ (212)	$1,292,110
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current Liabilities:				
Accounts payable	$ 45,139	$ 26,187	$ —	$ 71,326
Accrued expenses	9,428	15,887	—	25,315
Vendor financing and loans payable	25,177	47,731	—	72,908
Amounts due related parties	18,979	14,487	(212)	33,254
Unearned revenue	9,558	3,509	—	13,067
Other current liabilities	14,261	—	—	14,261
Total current liabilities	122,542	107,801	(212)	230,131
Vendor financing and loans payable, net of current portion	420,418	274,534	—	694,952
Accounts payable	149,752	150,876	—	300,628
Unearned revenue	5,987	1,780	—	7,767
Other liabilities	800	—	—	800
Total Liabilities	699,499	534,991	(212)	1,234,278
Commitments and contingencies				
Shareholders' equity (deficit):				
Capital stock	334,129	273,041	—	607,170
Accumulated deficit	(289,137)	(251,546)	—	(540,683)
Accumulated other comprehensive (loss) income	(2,628)	(6,027)	—	(8,655)
Total shareholders' equity (deficit)	42,364	15,468	—	57,832
Total liabilities and shareholder's equity (deficit)	$ 741,863	$ 550,459	$ (212)	$1,292,110

Note 13. Combining Financial Statement Data (continued)

ASSETS	December 31, 1999			
	Vesper Northeast	Vesper Sao Paulo	Eliminating Entries	Combined
Current assets:				
Cash and cash equivalents	$ 61,172	$ 33,416	$ —	$ 94,588
Accounts receivable, net	—	—	—	—
Recoverable taxes	27,395	16,070	—	43,465
Prepaid expenses and others	18,310	2,489	(242)	20,557
Total current assets	106,877	51,975	(242)	158,610
Recoverable taxes	—	—	—	—
Property, plant and equipment, net	287,704	213,219	—	500,923
Intangible assets, net	39,734	44,223	—	83,957
Other assets	9,019	9,686	—	18,705
Total assets	$ 443,334	$ 319,103	$ (242)	$762,195
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current Liabilities:				
Accounts payable	$ 27,818	$ 59,038	$ —	$ 86,856
Accrued expenses	15,445	18,303	(16)	33,732
Vendor financing and loans payable	—	—	—	—
Amounts due related parties	35,542	35,726	(226)	71,042
Unearned revenue	—	—	—	—
Other current liabilities	—	—	—	—
Total current liabilities	78,805	113,067	(242)	191,630
Vendor financing and loans payable, net of current portion	270,000	144,605	—	414,605
Accounts payable	—	—	—	—
Unearned revenue	—	—	—	—
Other liabilities	13,075	14,927	—	28,002
Total Liabilities	361,880	272,599	(242)	634,237
Commitments and contingencies				
Shareholders' equity (deficit):				
Capital stock	117,496	65,738	—	183,234
Accumulated deficit	(37,402)	(18,310)	—	(55,712)
Accumulated other comprehensive (loss) income	1,360	(924)	—	436
Total shareholders' equity (deficit)	81,454	46,504	—	127,958
Total liabilities and shareholder's equity (deficit)	$ 443,334	$ 319,103	$ (242)	$762,195

Note 13. Combining Financial Statement Data (continued)

	Nine months ended Septebmer 30, 2001 (unaudited)			
	Vesper Northeast	Vesper Sao Paulo	Eliminating Entries	Combined
Revenue	$ 60,267	$ 41,739	$ —	$ 102,006
Operating expenses:				
Cost of revenues	98,791	76,843	—	175,634
Selling, general and administrative	84,195	61,394	—	145,589
Foreign currency translation loss, net	174,908	127,497	—	302,405
Depreciation and amortization	55,186	42,853	—	98,039
Total operating expenses	413,080	308,587	—	721,667
Operating loss	(352,813)	(266,848)	—	(619,661)
Interest (expense) income	(51,139)	(43,109)	—	(94,248)
Net loss	$ (403,952)	$(309,957)	$ —	$(713,909)

	Year Ended December 31, 2000			
	Vesper Northeast	Vesper Sao Paulo	Eliminating Entries	Combined
Revenue	$ 41,147	$ 29,975	$ —	$ 71,122
Operating expenses:				
Cost of revenues	106,446	97,347	—	203,793
Selling, general and administrative	68,198	63,904	—	132,102
Foreign currency translation loss, net	28,611	28,234	—	56,845
Depreciation and amortization	30,596	35,910	—	66,506
Total operating expenses	233,851	225,395	—	459,246
Operating loss	(192,704)	(195,420)	—	(388,124)
Interest (expense) income	(59,031)	(37,816)	—	(96,847)
Net loss	$ (251,735)	$(233,236)	$ —	$(484,971)

Note 13. Combining Financial Statement Data (continued)

	Nine months ended Septebmer 30, 2000 (unaudited)			
	Vesper Holdings S.A	Vesper Holdings Sao Paulo S.A.	Eliminating Entries	Combined
Revenue	$ 29,199	$ 18,449	$ —	$ 47,648
Operating expenses:				
Cost of revenues	80,488	69,037	—	149,525
Selling, general and administrative	46,668	49,562	—	96,230
Foreign currency translation loss, net	11,217	8,924	—	20,141
Depreciation and amortization	17,415	24,170	—	41,585
Total operating expenses	155,788	151,693	—	307,481
Operating loss	(126,589)	(133,244)	—	(259,833)
Interest (expense) income	(35,144)	(26,886)	—	(62,030)
Net loss	$ (161,733)	$ (160,130)	$ —	$(321,863)

	Period from January 18, 1999 to December 31, 1999			
	Vesper Northeast	Vesper Sao Paulo	Eliminating Entries	Combined
Revenue	$ —	$ —	$ —	$ —
Operating expenses:				
Cost of revenues	—	—	—	—
Selling, general and administrative	49,108	18,289	—	67,397
Foreign currency translation gain, net	(10,642)	—	—	(10,642)
Depreciation and amortization	120	—	—	120
Total operating expenses	38,586	18,289	—	56,875
Operating loss	(38,586)	(18,289)	—	(56,875)
Interest (expense) income	1,184	(21)	—	1,163
Net loss	$ (37,402)	$ (18,310)	$ —	$(55,712)

EXHIBIT 99.2

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To VeloCom Inc.:

We have audited the accompanying consolidated balance sheets of VeloCom Inc. (a Delaware corporation) and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit), mandatorily redeemable, convertible preferred stock and cash flows for the periods from April 29, 1998 (inception) through December 31, 1998 and for the years ended December 31, 1999 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VeloCom Inc. and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for the periods from April 29, 1998 (inception) through December 31, 1998 and for the years ended December 31, 1999 and 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado
April 3, 2001, (except with respect to the matters
discussed in Note 12, as to which the
date is December 5, 2001)

VELOCOM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(amounts in thousands except share and per share data)

	As of December 31, 1999	As of December 31, 2000	As of September 30, 2001 (unaudited)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 24,745	$ 107,166	$ 32,244
Restricted cash	1,913	619	150
Short term investments	—	—	25,006
Net assets held for sale	7,828	—	—
Receivable from affiliates	1,063	2,202	—
Other receivables	—	3	413
Other current assets, discontinued operations	836	1,902	1,230
Total current assets	36,385	111,892	59,043
INVESTMENT IN AFFILIATES	69,101	41,879	—
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $45, $219 and $388, respectively	412	988	707
OTHER NONCURRENT ASSETS	3,596	5,291	7,389
OTHER NONCURRENT ASSETS, discontinued operations	48,043	75,134	28,980
Total assets	$157,537	$ 235,184	$ 96,119
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES:			
Accounts payable	$ 4,918	$ 917	$ 455
Convertible debt, plus accrued interest	—	—	179,560
Other current liabilities	—	—	138
Other current liabilities, discontinued operations	7,720	30,026	29,834
Accrued liabilities	30	2,839	146
Total current liabilities	12,668	33,782	210,133
LONG TERM LIABILITIES:			
Other long term liabilities	—	123	—
Convertible debt, plus accrued interest	—	18,291	—
Deferred tax liability, discontinued operations	12,535	12,065	—
Total liabilities	25,203	64,261	210,133
CONVERTIBLE PREFERRED STOCK, 105,921,577 shares authorized, mandatorily redeemable, $.0001 par value:			
Series A, $3.00 per share redemption value, 31,000,000 shares authorized; 30,706,333 (1999, 2000 and 2001) issued and outstanding	92,103	92,106	92,108
Series B/B-1, $6.00 per share redemption value, 49,146,577 shares authorized; 7,657,073 (1999) and 42,499,999 (2000 and 2001) shares issued and outstanding	45,194	250,500	251,322
Series C, $10.00 per share redemption value, 5,150,000 shares authorized; none (1999) and 5,102,000 (2000 and 2001) shares issued and outstanding	—	50,979	50,987
Series D, $8.00 per share redemption value, 20,625,000 shares authorized; none (1999) and 7,762,500 (2000 and 2001) shares issued and outstanding	—	62,100	62,100
COMMITMENTS AND CONTINGENCIES (Notes 7 and 12)			
STOCKHOLDERS' DEFICIT:			
Common stock, $.0001 par value, 166,046,577 shares authorized; 11,283,826 (1999) and 11,356,325 (2000 and 2001) shares issued and outstanding	1	1	1
Additional paid-in capital	27,040	27,093	26,261
Other cumulative comprehensive income (loss)	214	(4,301)	(11,363)
Accumulated deficit	(32,218)	(307,555)	(585,430)
Total stockholders' deficit	(4,963)	(284,762)	(570,531)
Total liabilities and stockholders' deficit	$157,537	$ 235,184	$ 96,119

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

VELOCOM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands)

	April 29, 1998 (Inception) to December 31, 1998	For the Year Ended December 31, 1999	For the Year Ended December 31, 2000	For the Nine Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001
				(unaudited)	(unaudited)
OPERATING COSTS AND EXPENSES:					
General and administrative expense	$ 913	$ 6,301	$ 11,259	$ 6,960	$ 8,991
Depreciation and amortization expense	1	44	190	81	204
Operating loss	(914)	(6,345)	(11,449)	(7,041)	(9,195)
OTHER INCOME (EXPENSE):					
Interest income	70	1,074	4,135	3,105	3,048
Interest expense	—	(87)	(252)	—	(19,112)
Other	—	—	61	54	(13)
Share in results of affiliates	—	(23,721)	(244,752)	(159,658)	(205,625)
Loss from continuing operations	(844)	(29,079)	(252,257)	(163,540)	(230,897)
DISCONTINUED OPERATIONS:					
Loss from operations	—	(2,295)	(23,080)	(14,612)	(16,918)
Loss on disposal, net of deferred tax benefit of $12,065	—	—	—	—	(30,060)
Loss from discontinued operations	—	(2,295)	(23,080)	(14,612)	(46,978)
NET LOSS	$ (844)	$ (31,374)	$ (275,337)	$ (178,152)	$ (277,875)

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

VELOCOM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(amounts in thousands except share data)

	Common Stock		Additional	Other Cumulative Comprehensive		Total	
	Shares	Amounts	Paid-in Capital	Income (Loss)	Accumulated Deficit	Comprehensive Income (Loss)	Total
April 29, 1998 (Inception)	—	$ —	$ —	$ —	$ —	$ —	$ —
Common stock issued for cash	3,155,000	—	3,155	—	—	—	3,155
Net loss	—	—	—	—	(844)	(844)	(844)
BALANCES, December 31, 1998	3,155,000	—	3,155	—	(844)	$ (844)	2,311
Common stock issued for cash	531,948	—	1,121	—	—	—	1,121
Common stock issued for services	18,138	—	54	—	—	—	54
Common stock issued for cash and net assets acquired	7,578,740	1	22,736	—	—	—	22,737
Accretion of mandatorily redeemable preferred stock to redemption value	—	—	(26)	—	—	—	(26)
Change in cumulative translation adjustment	—	—	—	214	—	214	214
Net loss	—	—	—	—	(31,374)	(31,374)	(31,374)
BALANCES, December 31, 1999	11,283,826	1	27,040	214	(32,218)	$ (31,160)	(4,963)
Exercise of stock options for cash	72,499	—	210	—	—	—	210
Accretion of mandatorily redeemable preferred stock to redemption value	—	—	(714)	—	—	—	(714)
Issuance of warrant in connection with Series B preferred stock offering	—	—	557	—	—	—	557
Change in cumulative translation adjustment	—	—	—	(4,515)	—	(4,515)	(4,515)
Net loss	—	—	—	—	(275,337)	(275,337)	(275,337)
BALANCES, December 31, 2000	11,356,325	1	27,093	(4,301)	(307,555)	$ (279,852)	(284,762)
Accretion of mandatorily redeemable preferred stock to redemption value	—	—	(832)	—	—	—	(832)
Change in cumulative translation adjustment	—	—	—	(7,062)	—	(7,062)	(7,062)
Net loss	—	—	—	—	(277,875)	(277,875)	(277,875)
BALANCES, September 30, 2001 (unaudited)	11,356,325	$ 1	$ 26,261	$ (11,363)	$(585,430)	$ (284,937)	$(570,531)

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

VELOCOM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MANDATORILY REDEEMABLE, CONVERTIBLE

PREFERRED STOCK
(amounts in thousands except share and per share data)

	Series A		Series B/B-1	
	Shares	Amounts	Shares	Amounts
Balances, December 31, 1998	—	$ —	—	$ —
Preferred stock issued for cash at $3.00 per share on January 26, 1999, net	2,333,334	6,982	—	—
Preferred stock issued for cash at $3.00 per share on March 15, 1999	7,666,666	23,000	—	—
Preferred stock issued for cash at $3.00 per share on May 7, 1999	4,998,138	14,994	—	—
Preferred stock issued for services at $3.00 per share on May 7, 1999	1,862	5	—	—
Preferred stock issued for cash and net assets acquired, valued at $3.00 per share on September 27, 1999	15,706,333	47,119	—	—
Preferred stock issued for cash at $6.00 per share on December 6, 1999, net	—	—	7,657,073	45,171
Accretion of mandatorily redeemable, convertible preferred stock to redemption value	—	3	—	23
Balances, December 31, 1999	30,706,333	92,103	7,657,073	45,194
Preferred stock issued for cash at $6.00 per share on January 7, 2000, net	—	—	13,613,759	80,226
Preferred stock issued for cash at $6.00 per share on January 8, 2000, net	—	—	833,333	4,443
Preferred stock issued for cash at $10.00 per share on April 20, 2000, net	—	—	—	—
Preferred stock issued for cash at $6.00 per share on June 30, 2000, net	—	—	10,197,923	60,160
Preferred stock issued for cash at $6.00 per share on September 29, 2000, net	—	—	10,197,911	59,772
Preferred stock issued for cash at $8.00 per share on December 21, 2000	—	—	—	—
Accretion of mandatorily redeemable, convertible preferred stock to redemption value	—	3	—	705
Balances, December 31, 2000	30,706,333	92,106	42,499,999	250,500
Accretion of mandatorily redeemable, convertible preferred stock to redemption value	—	2	—	822
Balances, September 30, 2001 (unaudited)	30,706,333	$ 92,108	42,499,999	$251,322

VELOCOM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MANDATORILY REDEEMABLE, CONVERTIBLE

PREFERRED STOCK
(amounts in thousands except share and per share data)
(CONTINUED)

	Series C		Series D	
	Shares	Amounts	Shares	Amounts
Balances, December 31, 1998	—	$ —	—	$ —
Preferred stock issued for cash at $3.00 per share on January 26, 1999, net	—	—	—	—
Preferred stock issued for cash at $3.00 per share on March 15, 1999	—	—	—	—
Preferred stock issued for cash at $3.00 per share on May 7, 1999	—	—	—	—
Preferred stock issued for services at $3.00 per share on May 7, 1999	—	—	—	—
Preferred stock issued for cash and net assets acquired, valued at $3.00 per share on September 27, 1999	—	—	—	—
Preferred stock issued for cash at $6.00 per share on December 6, 1999, net	—	—	—	—
Accretion of mandatorily redeemable, convertible preferred stock to redemption value	—	—	—	—
Balances, December 31, 1999	—	—	—	—
Preferred stock issued for cash at $6.00 per share on January 7, 2000, net	—	—	—	—
Preferred stock issued for cash at $6.00 per share on January 8, 2000, net	—	—	—	—
Preferred stock issued for cash at $10.00 per share on April 20, 2000, net	5,102,000	50,973	—	—
Preferred stock issued for cash at $6.00 per share on June 30, 2000, net	—	—	—	—
Preferred stock issued for cash at $6.00 per share on September 29, 2000, net	—	—	—	—
Preferred stock issued for cash at $8.00 per share on December 21, 2000	—	—	7,762,500	62,100
Accretion of mandatorily redeemable, convertible preferred stock to redemption value	—	6	—	—
Balances, December 31, 2000	5,102,000	50,979	7,762,500	62,100
Accretion of mandatorily redeemable, convertible preferred stock to redemption value	—	8	—	—
Balances, September 30, 2001 (unaudited)	5,102,000	$ 50,987	7,762,500	$ 62,100

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

VELOCOM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	April 29, 1998 (Inception) to December 31, 1998	For the Year Ended December 31, 1999	For the Year Ended December 31, 2000	For the Nine Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001
				(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net loss	$ (844)	$ (31,374)	$(275,337)	$ (178,152)	$ (277,875)
Adjustments to reconcile net loss to net cash used in operating activities—					
Loss from discontinued operations	—	2,295	23,080	14,612	46,978
Share in results of affiliated companies	—	23,721	244,752	159,658	205,625
Depreciation and amortization expense	1	44	190	81	204
Write off affiliates receivable	—	—	—	—	2,597
Issuance of common and preferred stock for services	—	59	—	—	—
Changes in operating assets and liabilities—					
Increase in receivable from affiliates	(395)	(668)	(1,139)	(1,069)	(394)
(Increase) decrease in other assets	—	(3,753)	2,305	(9,317)	(2,508)
Increase (decrease) in accounts payable, accrued liabilities and others	469	4,478	(983)	(2,635)	14,878
Net cash used in operating activities	(769)	(5,198)	(7,132)	(16,822)	(10,495)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment	(46)	(410)	(751)	(698)	—
Investments in affiliates	—	(79,881)	(222,019)	(161,776)	(170,778)
Proceeds from net assets held for sale	—	—	8,300	8,300	—
Purchase of short term investments	—	—	—	—	(25,006)
Acquisition of affiliates, net of purchase money note payable, other liabilities assumed and cash acquired	—	(1,627)	—	—	—
Restricted cash (deposited) released	—	(1,913)	1,294	1,599	469
Payment of purchase money note payable (see Note 1)	—	(10,345)	—	—	—
Net cash used in investing activities	(46)	(94,176)	(213,176)	(152,575)	(195,315)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of common stock and preferred stock, net	3,155	125,940	318,441	256,338	—
Proceeds from borrowings on convertible debt	—	—	18,200	—	143,300
Deferred financing costs	—	—	(4,511)	—	—
Net cash provided by financing activities	3,155	125,940	332,130	256,338	143,300
CASH FLOWS ATTRIBUTABLE TO DISCONTINUED OPERATIONS	—	(4,161)	(29,401)	(18,925)	(12,412)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,340	22,405	82,421	68,016	(74,922)
CASH AND CASH EQUIVALENTS, beginning of year	—	2,340	24,745	24,745	107,166
CASH AND CASH EQUIVALENTS, end of year	$ 2,340	$ 24,745	$ 107,166	$ 92,761	$ 32,244
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for interest	$ —	$ 87	$ —	$ —	$ —
Cash paid for taxes	$ —	$ —	$ —	$ —	$ —
Non-cash financing and investing activities — Issuance of common stock and Series A preferred stock for acquisition of affiliates	$ —	$ 35,184	$ —	$ —	$ —
Issuance of purchase money note payable for acquisition of affiliates	$ —	$ 10,345	$ —	$ —	$ —
Other liabilities assumed and deferred income tax liability recognized upon acquisition of affiliates	$ —	$ 20,145	$ —	$ —	$ —

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

(1) ORGANIZATION AND OWNERSHIP

General

VeloCom Inc. and subsidiaries (collectively, the "Company") is a Delaware corporation incorporated in April 1998 with the goal of becoming a leading facilities-based provider of integrated communications services to businesses and residential customers in major Latin American markets. Through December 31, 1999, the Company was in the development stage, and as a result, the Company's financial statements were presented on that basis. During fiscal 2000, the Company commenced its planned principal operations and, therefore, exited the development stage. Accordingly, the historical development stage presentation has been eliminated from the accompanying financial statements.

The Company formed two joint ventures, which applied for and won, in a public auction, two Brazilian competitive local exchange carrier licenses, one for the northeast region of Brazil (which comprises 16 states, including Rio de Janeiro) and one for the São Paulo, Brazil region (the "Brazilian Mirror Licenses"). The Company, after the transactions noted below, is the largest shareholder of Vésper Holding S.A. ("Vésper Northeast") with a 49.4% economic ownership interest and a 50% voting interest. Vésper Northeast owns a 99.9% interest in Vésper S.A., which is the entity that was awarded the mirror license for the northeast region of Brazil on February 4, 1999. The Company, after the transactions noted below, is the largest shareholder of Vésper Holding São Paulo S.A. ("Vésper São Paulo") with a 49.4% economic ownership interest and a 50% voting interest. Vésper São Paulo owns a 99.9% interest in Vésper São Paulo S.A., which is the entity that was awarded the mirror license for the São Paulo region on May 5, 1999. Vésper Northeast and Vésper São Paulo, together, are referred to as "Vésper". The licenses grant a three-year exclusive use of wireless local loop at 1.9 GHz (20 MHz) and at 3.4 GHz (50 MHz) for a 20-year renewable period, provided that all license conditions are satisfied. The licenses also grant a duopoly with the incumbent local service provider until December 31, 2001. Vésper implemented part of the necessary infrastructure to provide switched fixed telephone services and launched operations in January 2000 in certain areas of each region. Vésper offers telephony and data transport services. See Note 12, "Subsequent Events," for a discussion of the Company's current ownership interest in Vésper Northeast and Vésper São Paulo.

Acquisitions of Shares in Subsidiaries/Affiliates and Dispositions

On September 27, 1999, the Company completed a number of acquisitions. As a result of these transactions, the Company increased its ownership interest to 49.4% in both Vésper Northeast and Vésper São Paulo, purchased a 100% interest in a group of commonly managed companies now known as VeloCom Argentina and also acquired a number of other licenses and license applications in the various countries noted below. The following table details the sellers (as defined in the paragraphs following the table), the ownership percentage of the assets acquired and the cost of assets acquired.

	Vésper Northeast	Vésper São Paulo	Velocom Argentina	Colombia and Peru	Other (1)
	(dollar amounts in thousands)				
SLI	12.5%	12.8%	Various	—	10.0-100%
Formus	—	—	Various	100%	100%
Taquari	2.5%	1.3%(2)	—	—	—
PCN/INEPAR	—	—	Various	—	15.0-35.0%
Total ownership interest acquired	15.0%	14.1%	100%	100%	Various
Cost of assets acquired	$ 7,730	$ 4,998	$ 46,901	$ 7,672	$ —

(1) The Company acquired license holding companies and companies with pending license applications in a number of countries listed below to which no value was attributed.

(2) The Company acquired a right to purchase a 1.3% interest in Vésper São Paulo, which was immediately exercised.

The detail of the net assets acquired, excluding cash acquired of $0.7 million, of the acquisitions noted above is as follows (amounts in thousands):

Net assets held for sale	7,672
Property and equipment	7,886
Investment in affiliates	12,728
Licenses	35,814
Other assets	3,201
Liabilities assumed	(7,610)
Purchase money note payable	(10,345)
Deferred tax liability	(12,535)
Net assets acquired(1)	$ 36,811

(1) Includes a net cash payment totaling approximately $1.6 million and the issuance of common and preferred stock valued at approximately $35.2 million.

The Company and SLI Wireless S.A. (“SLI”) executed an agreement whereby the Company acquired from SLI (a) a 12.5% interest and 12.8% interest in Vésper Northeast and Vésper São Paulo, respectively, (b) a 100% interest in and a 50% interest in two Argentine license holding companies, (c) a 55% interest in a Delaware operating company (operating in Argentina) (Telelatina Management Company LLC “TMC”) and (d) a 10% indirect interest in a Colombian license holding company. In addition, SLI paid approximately $13.8 million to the Company. In consideration for these assets and cash, the Company issued to SLI 4,330,709 shares of common stock and 7,840,000 shares of Series A preferred stock.

The Company and Formus Communications Inc. (“Formus”) executed an agreement whereby the Company acquired (a) license holding companies in Argentina, Colombia and Peru, (b) holding companies with pending license applications in Chile, Venezuela and Bolivia and (c) an approximate 30% interest in TMC. In addition, Formus paid approximately $20.8 million to the Company. In consideration for these assets and cash, the Company issued to an affiliate of Formus 1,574,803 shares of common stock and 7,866,333 shares of Series A preferred stock.

The Company and Taquari Participaçôes S.A. (“Taquari”) executed an agreement whereby the Company acquired (a) a 2.5% interest in Vésper Northeast and the right to purchase 1.3% of the outstanding shares in Vésper São Paulo. In addition, Taquari was to have contributed cash of approximately $3.3 million which was forgiven in exchange for the forgiveness of a note payable owed by the Company in the same amount discussed below. In consideration for these assets and cash, the Company issued to Taquari and an affiliate 1,673,228 shares of common stock.

The Company acquired from PCN do Brasil (“PCN”) and Inepar S/A Indústria e Construçôes (“INEPAR”) (a) Inepar’s 15% interest in an Argentine license holding company, (b) PCN’s 15% interest in TMC, (c) PCN’s 35% interest in an Argentine license holding company and (d) PCN’s 15% indirect interest in a Colombian license holding company. In consideration for these assets, the Company paid to INEPAR approximately $0.7 million and paid to PCN approximately $1.7 million. In addition, the Company issued approximately $13.6 million worth of 7% secured promissory notes, approximately $3.3 million were immediately forgiven in exchange for the cash to be contributed by Taquari noted above and the remainder were paid on November 10, 1999.

The following pro forma information for the year ended December 31, 1999 gives effect to the acquisition of VeloCom Argentina and the acquisition of the additional interest in Vésper Northeast and Vésper São Paulo as if each had occurred on January 1, 1999. The pro forma financial information does not purport to represent what the Company’s results of operations would actually have been if such transactions had in fact occurred on such date. The pro forma results presented below are based upon currently available information and upon certain assumptions that management believes are current circumstances.

Pro forma net loss applicable to common stockholders (amount in thousands)	$(43,639)

VeloCom Argentina holds near nationwide non-exclusive licenses for data transmission, video conferencing, value-added services and for a portion of Argentina, transportation of broadcasting signals. VeloCom Argentina launched Internet access services in March 2000. See Note 12, “Subsequent Events,” regarding the current status of the Company’s operations in Argentina.

The Company's 85% owned subsidiary in Uruguay, Odecar S.A., was awarded LMDS spectrum in December 1999 for use in providing commercial data transmission service. Odecar S.A. began providing broadband data and Internet services in August 2000. See Note 12, "Subsequent Events," regarding the current status of the Company's operations in Uruguay.

On March 17, 2000, the Company and two other parties completed an acquisition of BR Homeshopping Internet S.A. ("BRHS"), now referred to as "Vento." The Company's ownership percentage is 45%. The total purchase price was Brazilian Reais (R$) 25.0 million ($14.4 million using the exchange rate in effect on March 17, 2000), of which the Company's portion was R$11.3 million ($6.5 million using the exchange rate in effect on March 17, 2000). Of the purchase price, 50% was paid at closing, R$5.6 million ($3.2 million) in cash, and the remaining R$5.6 million ($3.3 million) was paid eight months after closing. See Note 12, "Subsequent Events," regarding the current status of the Company's investment in Vento.

On April 10, 2000, the Company completed the sale of certain of its Colombian and Peruvian license holding companies that it had previously acquired in the transactions described above and which had been held for sale from the date of acquisition. The sale price was $8.3 million of which $7.8 million was received at closing and $0.5 million was placed in escrow and released 90 days later. The carrying value of such assets held for sale approximated the selling price. Accordingly, the Company did not recognize any gain or loss on such disposition.

Liquidity and Capital Resources

The Company has incurred cumulative net losses totaling approximately $307.6 million through December 31, 2000. During the nine months ended September 30, 2001, the Company incurred operating losses of approximately $230.9 million (unaudited) of which $205.6 million (unaudited) related to its equity investments in Vésper and Vento. In addition, approximately $175.1 million (unaudited) of suspended losses related to the investment in Vésper were not recognized due to the investment being reduced to zero during this period. As a result of its development stage activities, the Company has experienced significant operating losses and negative cash flows from operations. The Company expects to continue to generate operating losses and negative cash flows from operations in each market until the Company establishes a sufficient revenue generating customer base in its markets.

The Company has received gross proceeds totaling $487.5 million from the sale of common and preferred stock for cash and assets (see Notes 1 and 8). In addition, on December 4, 2000, the Company entered into a $200.0 million term loan agreement with Qualcomm Incorporated ("Qualcomm") as lender (the "lender"), which is available until August 31, 2002 (the "Loan Agreement"). The Loan Agreement contains certain default provisions which, among other things, provides for an event of default and acceleration should any Vésper financing agreements be accelerated due to an event of default (see Notes 4 and 6). The Company has used, and expects to continue to use, its funds in the build out of its operating subsidiaries and affiliates and to fund corporate overhead and development. The Company's current business plan contemplates substantial additional investment in its affiliates and subsidiaries during 2001 to fund their operations. If the Company does not fund the Vésper entities, it is subject to dilution and loss of certain voting rights. The Company has agreed in connection with credit facilities signed by Vésper Northeast and Vésper São Paulo (see Note 4) to make specified equity contributions to Vésper Northeast and Vésper São Paulo. Vésper has received a waiver, which is available through April 15, 2001, for a cumulative EBITDA covenant it is not in compliance with under a financing facility with Lucent Technologies (see Note 4). See Note 12 "Subsequent Events," regarding the Company's current liquidity and capital resources.

The Company's ultimate success could be affected by the problems, expenses and delays encountered in connection with the formation of any new business and by the competitive environment in which the Company operates. Delays or failure in receiving required regulatory approvals or the enactment of new regulations or regulatory requirements may have a material adverse effect upon the Company.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. As of December 31, 1999 and 2000, the Company held a 49.4% interest in Vésper Northeast and Vésper São Paulo and as of December 31, 2000, a 45% interest in Vento, all of which are accounted for under the equity method of accounting.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For the nine months ended September 30, 2001 (Unaudited). All amounts as of and for the nine months ended September 30, 2000 and 2001 included in the notes to the consolidated financial statements are unaudited. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles and with the instructions to Article 10 of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. Certain prior year amounts have been reclassified to conform with the current year presentation.

Credit Risk and Concentration of Operations

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company has total assets in Latin America of approximately $119.3 million, of which approximately $42.3 million is an investment in three companies in Brazil and costs invested at the Company’s regional office in Brazil, and $77.0 million of which is invested in Argentina and Uruguay as of December 31, 2000. The Company is exposed to credit risk resulting from adverse general economic conditions, which may affect these countries and Latin America in general. The Company has not entered into any foreign currency forward contracts, hedges or options.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less which are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

Restricted Cash

Restricted cash as of December 31, 1999 and 2000 includes $0.3 million on deposit with a financial institution as a guarantee for performance bonds for certain construction and operational obligations related to the spectrum awarded in Uruguay. In addition, as of December 31, 1999, approximately $1.6 million was escrowed in connection with the acquisition of Vento that closed in March 2000 (see Note 1). As of December 31, 2000, the balance also includes $0.3 million on deposit, which is restricted under the terms of the Company’s office lease. As of September 30, 2001 (unaudited), the balance represents $0.2 million on deposit, which is restricted under the terms of the Company’s office lease. The guarantee for the performance bonds in Uruguay was released due to successful completion of the obligations and the $0.3 million for the office lease was reduced to $0.2 million per the terms of the office lease.

Receivable From Affiliates

The Company incurs costs on behalf of its affiliates such as salaries and benefits of the Company’s employees, travel and professional services. These costs are charged to the affiliates and include an administrative fee of 15%. All amounts were written off as of September 30, 2001 (unaudited) as the Company released certain of its affiliates from such obligations.

Investments in Affiliates

For those investments in companies in which the Company’s ownership interest is 20% to 50%, and the Company exerts significant influence through board representation and management authority, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company’s proportionate share of net earnings or losses of the affiliates, limited to the extent of the Company’s investment and any planned or contractual funding obligations. The

Company may recognize an impairment on its equity method investments if there is a loss in value of an investment, which is other than a temporary decline. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity sufficient to justify the carrying amount of the investment. As of December 31, 1999 and 2000, the Company held a 49.4% interest in Vésper Northeast, which holds a 99.9% interest in Vésper S.A., the operating company. Additionally, the Company held a 49.4% interest in Vésper São Paulo, which holds a 99.9% interest in Vésper São Paulo S.A., the operating company. The operating companies were awarded licenses to operate fixed switched telephony services in the northeast and São Paulo regions of Brazil. See Note 12, "Subsequent Events," for a description of the Company's current ownership interest in Vésper. As of December 31, 2000, the Company also held a 45% interest in Vento. Investments in affiliates are as follows (amounts in thousands):

	As of December 31, 1999			
	Investments in Affiliated Companies(1)	Equity in Losses of Affiliated Companies	Cumulative Translation Adjustment	Total
Total Vésper	$ 92,609	$ (23,721)	$ 213	$ 69,101

	As of December 31, 2000			
	Investments in Affiliated Companies(1)	Equity in Losses of Affiliated Companies	Cumulative Translation Adjustment	Total
Total Vésper	$ 303,126	$ (263,612)	$ (4,275)	$ 35,239
Vento (2)	11,501	(4,861)	—	6,640
Total	$ 314,627	$ (268,473)	$ (4,275)	$ 41,879

	As of September 30, 2001 (unaudited)			
	Investments in Affiliated Companies(1)	Equity in Losses of Affiliated Companies	Cumulative Translation Adjustment	Total
Total Vésper (3)	$ 473,402	$ (462,095)	$ (11,307)	$ —
Vento (2)	12,003	(12,003)	—	—
Total	$ 485,405	$ (474,098)	$ (11,307)	$ —

(1) Includes investments in Vésper Northeast ($7.7 million) and Vésper São Paulo ($5.0 million) recorded by the Company in connection with the transactions described in Note 1.

(2) See Note 1 for a discussion regarding the Company's investment in Vento. See Note 12, "Subsequent Events," regarding the write off of the Company's investment in Vento.

(3) The Company began suspending recognition of equity losses in July 2001 on its investment in Vésper as its investment balance, including accrued funding commitments, had been reduced to zero. As of September 30, 2001, the Company had suspended recognition of its proportionate share of losses with respect to its investment in Vésper totaling approximately $175.1 million (unaudited). See Note 12, "Subsequent Events," regarding the current status of the Company's investment in Vésper.

As of December 31, 1999 and 2000, the Company had $5.9 million, and $5.6 million, respectively, in excess cost over the net tangible assets of Vésper. The excess cost relates to the value of licenses and is amortized over approximately 20 years, which commenced with the activation of the networks in Brazil in January 2000.

Property and Equipment

Property and equipment are recorded at cost. Maintenance and repair expenditures are expensed as incurred, and expenditures for improvements which increase the expected useful lives of the assets are capitalized. Depreciation expense is computed using the straight-line method over the useful lives of the respective assets when such assets are placed in service. The economic lives of property and equipment at acquisition are as follows:

Furniture and office equipment	5-10 years
Computer equipment and software	3-5 years
Leasehold improvements	3 years

Spectrum Licenses

Direct and certain indirect costs of obtaining licenses, including the fair market value of licenses obtained in acquisitions, are capitalized and are amortized using the straight-line method over approximately 20 years, the term of the license. Amortization commenced in March 2000 when operations were launched. See Note 12, "Subsequent Events," regarding the write-off of the spectrum licenses.

Long-lived Assets

Long-lived assets to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company continually evaluates the recoverability of its long-lived assets based on estimated future cash flows from and the estimated liquidation value of such long-lived assets, and provides for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the long-lived asset. If impaired, the long-lived asset is written down to its estimated fair value.

Start-Up Costs

The Company has expensed all start-up and organization costs.

Mandatorily Redeemable, Convertible Preferred Stock

The Company's mandatorily redeemable, convertible preferred stock is recorded at its issuance price less offering costs. The carrying value is increased to the redemption value (see Note 8) by a charge to stockholders' equity (deficit) ratably over the period from issue date to redemption date.

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets, liabilities and carryovers. The Company recognizes deferred tax assets for the expected future effects of all deductible temporary differences, loss carryovers and tax credit carryovers. Net deferred tax assets are then reduced, if deemed necessary, by a valuation allowance if management believes it is more likely than not that some or all of the net deferred tax assets will not be realized.

Fair Value of Financial Instruments

Fair values of cash equivalents and other current amounts receivable and payable approximate the carrying amount due to their short-term nature.

Foreign Operations and Foreign Exchange Rate Risk

The functional currency of the Company's foreign subsidiaries and equity investees is the applicable local currency. The Argentine peso is currently linked to the US dollar at a one to one rate. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency, are translated at exchange rates in effect at period-end, and the statements of operations are translated at the average exchange rates during the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a separate component of stockholders' equity (deficit) and are included in Other Cumulative Comprehensive Income (Loss).

Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions.

The Company's foreign subsidiaries can have payables and debt that are denominated in a currency other than their own functional currency. The Company has not historically hedged foreign currency denominated transactions for receivables or payables related to current operations. If the Company enters into hedging transactions, there can be no assurance that any such hedging transactions would be successful and that the exchange rate fluctuations would not have a material adverse effect on the Company. Accordingly,

the Company may experience economic loss and a negative impact on earnings and equity with respect to its holdings solely as a result of foreign currency exchange rate fluctuations, which include foreign currency devaluations against the U.S. dollar.

Stock Options

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option plan. Accordingly, the Company does not recognize compensation cost for options granted to employees when the exercise price is equal to or exceeds the fair value of the underlying stock as of the grant date and which qualify for fixed plan treatment. The Company currently has no performance based stock incentive plans.

Revenue Recognition

VeloCom Argentina and Odecar S.A. (discontinued operations – see Note 12, "Subsequent Events") recognize monthly fixed charges when the services are provided. Installation revenue and the direct costs associated with the installation are deferred and amortized over the average expected customer life.

New Accounting Principles

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that companies recognize all derivatives as either assets or liabilities in the balance sheet at fair value. Under SFAS 133, accounting for changes in fair value of a derivative depends on its intended use and designation. SFAS 133 is effective for the Company beginning after January 1, 2001.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Views on Selected Revenue Recognition Issues" ("SAB 101"), which provides the staff's view in applying generally accepted accounting principles to selected revenue recognition issues. The Company and its equity affiliates adopted SAB 101 effective as of January 1, 2000.

In June 2001, the FASB authorized the issuance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS 141 requires intangible assets acquired in a business combination to be recognized if they arise from contractual or legal rights or are "separable," that is, feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS 141 than its predecessor APB No. 16 although in some instances previously recognized intangibles will be subsumed into goodwill. The Company does not expect a material impact on the Company's financial position or results of operations upon adoption of SFAS 141.

In June 2001, the FASB authorized the issuance of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. Goodwill will no longer be tested for impairment under SFAS no. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." Under SFAS 142, intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower of cost of market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives. SFAS 142 is effective for fiscal years beginning after December 15, 2001, although goodwill on business combinations consummated after July 1, 2001 will not be amortized. The Company is currently evaluating the potential impact, if any, the adoption of SFAS 142 will have on its financial position and results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which is effective for fiscal periods beginning after December 15, 2001, and interim periods within those fiscal years. SFAS 144 supercedes SFAS 121 and establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. Under SFAS 144 there is no longer a requirement to allocate goodwill to long-lived assets to be tested for impairment. It also establishes a probability weighted cash flow estimation approach to deal with situations in which there are a range of cash flows that may be generated by the assets being tested for impairment. SFAS 144 also establishes criteria for determining when an asset should be treated as held for sale. The Company is currently evaluating the potential impact, if any, the adoption of SFAS 144 will have on its financial position and results of operations.

(3) NET ASSETS HELD FOR SALE

As discussed in Note 1, the Company acquired license holding companies in Colombia and Peru in September 1999 as a condition to increasing its ownership interest in the Vésper companies and acquiring VeloCom Argentina. Since the Company's business plan did not contemplate operations in Colombia or Peru at the date of acquisition, management made the decision to dispose of those assets. The Company completed a sale of the license holding companies in Colombia and Peru in April 2000 (see Note 1). The Company did not recognize any gain or loss on this disposition.

(4) INVESTMENT IN AFFILIATES (CONDENSED FINANCIAL INFORMATION)

The Company formed two joint ventures, which applied for and won, in a public auction, two licenses in Brazil to provide fixed switched telephony services, one for the northeast region of Brazil and one for the São Paulo region of Brazil. Combined condensed financial statements as of December 31, 1999 and 2000 and September 30, 2001 (unaudited) and for the period from inception to December 31, 1999, for the year ended December 31, 2000 and for the nine months ended September 30, 2000 and 2001 (unaudited) for Vésper are as follows (amounts in thousands):

	December 31, 1999	December 31, 2000	September 30, 2001
			(unaudited)
Current assets	$ 158,610	$ 160,920	$ 74,310
Non-current assets	603,585	1,131,190	844,387
Total assets	$ 762,195	$1,292,110	$ 918,697
Current liabilities	$ 191,630	$ 230,131	$ 314,222
Non-current liabilities	442,607	1,004,147	979,543
Stockholders' equity (deficit)	127,958	57,832	(375,068)
Total liabilities and stockholders' Equity (deficit)	$ 762,195	$1,292,110	$ 918,697

	For the Period From Inception to December 31, 1999	For the Year Ended December 31, 2000	For the Nine Months Ended September 30, 2000	For the Nine Months Ended September 30, 2001
			(unaudited)	(unaudited)
Revenue	$ —	$ 71,122	$ 47,648	$ 102,006
Cost of revenue	—	(203,793)	(149,525)	(175,634)
Selling, general and administrative expense	(67,397)	(132,102)	(96,230)	(145,589)
Depreciation and amortization expense	(120)	(66,506)	(41,585)	(98,039)
Interest and foreign currency transactions	11,805	(153,692)	(82,171)	(396,653)
Net Loss	$ (55,712)	$(484,971)	$ (321,863)	$ (713,909)

Vésper Northeast:

See Note 12, "Subsequent Events," regarding the subsequent recapitalization of Vésper Northeast.

In December 1999, Vésper Northeast entered into a series of agreements with Nortel Networks ("Nortel"), Ericsson and Harris Corporation ("Harris") to issue up to $997.0 million in aggregate principal amount of long-term capital market notes, of which $270.0 million and $386.0 million in principal amount were outstanding as of December 31, 1999 and 2000, respectively. Of the total principal amount issuable, however, $415.0 million (subject to certain adjustments) will not be issuable until the occurrence of certain events, including the assumption by third party lenders of all or a portion of the original lenders' obligations to purchase unissued notes, the assignment or transfer by the original lenders of outstanding notes, the repayment by Vésper Northeast of outstanding notes or the exchange, at the option of Nortel, Ericsson or Harris, of all or any portion of the outstanding notes for subordinated debt securities of Vésper Northeast. Moreover, the lenders' obligations to purchase any notes are conditioned on the satisfaction of certain conditions, including compliance with specific financial maintenance and operating covenants and the receipt by Vésper Northeast of approval from the Central Bank of Brazil with respect to the issuance of the notes. Vésper Northeast will use a portion of the financing to pay interest and fees and the balance to purchase from Nortel, Ericsson and Harris equipment and services for Vésper's network in the northeast region and to pay related costs.

Subject to mandatory or optional partial repurchase under certain circumstances, the notes mature on July 1, 2012. The lenders have the option, however, in their sole discretion, to require that all of the notes be repurchased on July 1, 2004 for a repurchase price equal to the aggregate outstanding principal amount of the notes plus any accrued and unpaid interest thereon. Interest on the notes is payable quarterly in arrears commencing March 2000 at LIBOR plus 6% per annum. Up to $216.0 million of the loan arrangement can be used to finance the payment of interest and fees. The arrangement is also subject to various fees throughout the term of the agreements.

To secure the repayment or repurchase of notes as required under this financing, Vésper Northeast has granted to the lenders a first priority security interest in equipment, infrastructure and other assets and property related to Vésper's network in the northeast region. Any non-equity financing made by the Company to Vésper Northeast will be subordinated in right of payment to the notes and the proceeds of that financing will be pledged to the lenders as further security for Vésper Northeast's obligations and as security for the Company's contribution obligations described in the next sentence. The Company and the other Vésper Northeast shareholders also have agreed, on Vésper Northeast's failure to comply with certain financial covenants and at the request of the lenders, to make additional equity contributions to Vésper Northeast. The Company satisfied its funding requirements to Vésper Northeast in January 2001.

Vésper São Paulo

See Note 12, "Subsequent Events," regarding the subsequent recapitalization of Vésper São Paulo.

On December 27, 1999 Vésper São Paulo entered into credit agreements providing it with $781.5 million of long-term vendor financing (available in three separate tranches), of which $145.0 million and $251.7 million has been utilized as of December 31, 1999 and 2000, respectively. Amounts outstanding bear interest, at the option of Vésper São Paulo, at LIBOR plus 6% per annum for tranch A and 8% per annum for tranch C or a compounded rate of 5.5% per annum plus the higher of prime rate and the Federal Funds effective rate. Interest is payable on a quarterly basis. A portion of the financing is available for interest and fees under the financing. The lenders are not obligated to make loans unless certain conditions are satisfied, including compliance with specified financial maintenance and operating covenants.

Subject to mandatory or optional prepayment under certain circumstances, principal amounts borrowed under two of the tranches will be repayable on a semi-annual basis commencing June 2003, with an effective final maturity date of December 27, 2004, and principal amounts borrowed under the third tranche will be repayable in full on December 27, 2004.

To secure repayment of disbursements under the financing, Vésper São Paulo has granted a lender a first priority security interest over equipment, infrastructure and other assets related to Vésper's network in the São Paulo region to be acquired with the proceeds of the financing. The Company and the other Vésper São Paulo shareholders have agreed, on Vésper São Paulo's failure to comply with certain financial covenants and at the request of the lenders, to make equity contributions in the aggregate amount of $385.0 million (with the Company's share being up to $190.2 million) of which approximately $273.0 million (including approximately $135.0 million from the Company) has been contributed as of December 31, 2000. During February 2001, Bell Canada International Inc. ("BCI") and Qualcomm satisfied their equity commitments. The Company had $45.0 million remaining under its original equity commitment as of December 31, 2000. The Company funded such amount to Vésper São Paulo during 2001.

Vésper has received a waiver, which is available through April 16, 2001, for a cumulative EBITDA covenant it was not in compliance with under the Lucent facility. The Company and Vésper are working together to get all the required information to Lucent to ensure that either a long-term waiver is received or an amendment to the agreement is reached. If such long-term waiver or amendment is not obtained, Lucent could call the agreement in default which would accelerate Vésper's obligation to repay such facility. Such acceleration, due to certain provisions under the Company's secured term loan agreement (see Note 6), would also cause the Company's secured term loan agreement to become due and payable. However, management believes they will be able to continue to obtain additional short-term waivers, as necessary, through the remainder of 2001 until they are able to negotiate a long-term waiver or an amendment to the agreement.

Under the provisions of the purchase agreements, Vésper is committed to acquire, over four years, a minimum of $1,070.0 million ($600.0 million for Vésper Northeast and $470.0 million for Vésper São Paulo) of equipment and services. This is subject to the continued availability of financing for those purchases. See Note 12, "Subsequent Events," for the cancellation of these supply agreements.

(5) PROPERTY AND EQUIPMENT

Property and equipment consists of the following (amounts in thousands):

	December 31, 1999	December 31, 2000	September 30, 2001
			(unaudited)
Leasehold improvements	$ 14	$ 329	$ 329
Furniture and office equipment	292	433	342
Computer equipment and software	151	445	424
	457	1,207	1,095
Less — accumulated depreciation	(45)	(219)	(388)
	$ 412	$ 988	$ 707

(6) CONVERTIBLE DEBT

On December 4, 2000, the Company entered into a $200.0 million secured convertible term loan agreement with Qualcomm, which is available until August 31, 2002. As part of this agreement, the Company also has a credit facility of $30.0 million to finance the interest payments on the term loan. The proceeds of this loan are to be used to finance the working capital needs and capital expenditures of Vésper, Vento and for certain Company general corporate expenses. The scheduled maturity date of the term loan is December 19, 2003, however, the Company can prepay the loan in whole or in part at any time. In addition, if there is a change of control, as defined, the Company is required to prepay all outstanding amounts. The loan can be converted at the request of the Lender any time after June 4, 2002 into the Company’s common stock at a price of $8.00 per share plus 18% per annum compounded semi-annually (the “Conversion Price”). The loan bears an interest rate of 18% per annum compounded semi-annually. It may also be entitled to a premium, which is due and payable when the loan is paid. The premium is equal to a certain percentage for time outstanding (seven to 12 months – 35%; 13 to 18 months – 70%; >18 months – 100%) of the product of (i) the principal loan amount multiplied by (ii) the excess of the fair market value of the Company’s common stock on payment date over the Conversion Price divided by the Conversion Price. As of December 31, 2000, the Company had borrowed $18.2 million under the Loan Agreement and had incurred $4.5 million in financing costs. A subsidiary of the Company has pledged its shares of Vésper Northeast and Vésper São Paulo as security under the Loan Agreement. This Loan Agreement contains various default provisions, including cross acceleration provisions in connection with default driven accelerations under Vésper’s various financing agreements (see Note 4), which would cause amounts outstanding under such Loan Agreement to become immediately due and payable. See Note 12, “Subsequent Events,” regarding the subsequent conversion of the Loan Agreement into Series E preferred stock of the Company.

(7) COMMITMENTS AND CONTINGENCIES

Recovery of Investments

Since its inception, the Company’s efforts have been primarily directed towards raising capital and developing and operating its competitive voice, data and Internet communications networks. The Company has made a significant investment in Brazil and Argentina in pre-operating and now operating entities whose primary assets are network facilities under construction and spectrum licenses. The ability of the Company, through the operations of its affiliates and subsidiaries, to recover its current investments and to generate positive cash flow and operating profits is contingent upon a number of factors including, among others, acceptance of, and customer demand for, the services currently offered and expected to be offered and the ability to manage the expansion and development effectively. See Note 12, “Subsequent Events,” for additional information regarding the Company’s investments in Argentina, Uruguay and Brazil.

Recoverability of Licenses

The terms of the Company’s affiliates license agreements contain provisions whereby the operating company must achieve certain levels of network build out. If such commitments are not met, the Company’s affiliates could be subject to fines and, in certain circumstances, the revocation of the applicable licenses.

The Company is currently in compliance with the terms of its licenses, however, compliance with the terms of these licenses and certain regulatory requirements can be difficult to meet. In addition, there can be no assurance that in the future all regulatory requirements will be met or that the Company’s affiliates will not lose any applicable licenses as a result of their failure to meet such requirements. See Note 12, “Subsequent Events,” for a discussion of the sale of VeloCom Argentina and Odecar.

Lease Commitments

The Company leases its office facilities, site facilities and certain office furniture under non-cancelable operating leases. It also leases certain equipment under capital leases. Future minimum rental payments under such leases are as follows as of December 31, 2000 (amounts in thousands):

	Operating Leases	Capital Leases
2001	$2,284	$ 314
2002	1,589	315
2003	1,236	245
2004	896	—
2005	665	—
Thereafter	53	—
Minimum lease payments	$6,723	874
Interest		(132)
Present value of minimum lease payments		$ 742

Technical Service Agreement

The Company was a party to a technical services agreement with Formus, which is a shareholder of the Company. The agreement was entered into after completion of the transactions described in Note 1 when the Company acquired certain Latin American assets of Formus. The agreement allowed for the Company to use Formus employees with certain technical experience, know-how and knowledge relating to the assets acquired. The agreement was terminated in November 2000.

Vésper Funding Commitments

Under the Shareholder Agreements with Vésper Northeast and Vésper São Paulo, the shareholders agreed to fund their proportionate share (VeloCom's share is 49.4%) of the first stage funding of $340.0 million and $385.0 million, respectively. If a partner fails to meet its pro rata share of this first stage funding, it will be subject to dilution and loss of certain voting rights. The Company has also agreed to make specified equity contributions in connection with the credit facilities signed by Vésper Northeast and Vésper São Paulo (see Note 4). The Company satisfied its funding requirements for Vésper Northeast in January 2001 and as of December 31, 2000, had $45.0 million remaining under the Vésper São Paulo commitment (which was funded during 2001). See Note 12, "Subsequent Events," for a discussion of an amended funding agreement regarding Vésper.

Litigation

In the normal course of business, the Company is subject to, and may become a party to, litigation. In September 2000, the Company entered into a stock purchase agreement with BCI for the purchase of BCI's interest in Vésper. During 2001 the stock purchase agreement terminated. Subsequent to this termination, the Company received a notice from BCI demanding payment of $15.0 million under the terms of the stock purchase agreement. The Company does not believe that it owes the $15.0 million and if BCI takes legal action, the Company intends to contest it vigorously. In connection with the restructuring of Vésper (see Note 12, "Subsequent Events"), BCI released the Company of any obligation to BCI in connection with such claim.

(8) CAPITAL STOCK

See Note 12, "Subsequent Events," regarding the conversion of the Loan Agreement (Note 6) into preferred stock and other recapitalization transactions.

Common Stock

As of December 31, 2000, the Company had authorized 166,046,577 shares of common stock and had issued a total of 11,356,325 shares of common stock, resulting in consideration to the Company totaling approximately $27.3 million. The initial common stock par value was $.01 per share. Effective December 3, 1999, the Company changed the par value to $0.0001. Each share of common stock constitutes one vote at any annual or special meeting, or action by written consent.

Preferred Stock

The Company may issue from time to time shares of preferred stock in one or more series with designations, rights, preferences and limitations established by the Company's Board of Directors. The Company is authorized to issue 105,921,577 shares of $0.0001 par value of preferred stock as of December 31, 2000. The par value on the preferred stock was initially $0.01 per share. Effective December 3, 1999, the Company changed the par value to $0.0001.

During 1999, the Company completed private placements of Series A mandatorily redeemable preferred stock ("Series A preferred stock"). Total gross proceeds to the Company as a result of these private placements were approximately $45.0 million. In addition, the Company issued Series A preferred stock in connection with the transactions described in Note 1 for cash and other assets acquired totaling approximately $47.1 million (see Note 1). The Series A preferred stock votes with, and in the same manner as, the shares of voting common stock of the Company, not as a special class except in respect of certain matters.

On December 6, 1999, the Company entered into a Series B Preferred Stock Purchase Agreement for the sale of 24,219,853 shares of Series B mandatorily redeemable preferred stock ("Series B preferred stock") at $6.00 per share for gross proceeds of $145.2 million. Under the purchase agreement, the sale occurred in four closings. The first closing occurred on December 6, 1999 for total gross proceeds to the Company of $45.9 million for the sale of 7,657,073 shares of the Series B preferred stock. The second closing was January 7, 2000 for total gross proceeds to the Company of $29.3 million for the sale of 4,890,354 shares of the Series B preferred stock. The third closing occurred June 30, 2000 for total gross proceeds to the Company of $35.0 million for the sale of 5,836,219 shares of the Series B preferred stock. The fourth closing occurred September 29, 2000 for total gross proceeds to the Company of $35.0 million for the sale of 5,836,207 shares of the Series B preferred stock.

On January 7, 2000, the Company entered into a Follow-On Series B/B-1 Preferred Stock Purchase Agreement for the sale of 15,479,059 shares of Series B preferred stock (a portion of which can be designated Series B-1 preferred stock) at $6.00 per share and 1,967,754 of Series B-1 preferred stock at $6.00 per share resulting in gross proceeds to the Company totaling $104.7 million, the payment of which was received in three closings. The first closing was January 7, 2000 at which time the Company issued 6,755,651 shares of Series B preferred stock and 1,967,754 shares of Series B-1 preferred stock for gross proceeds of $52.3 million. The second closing occurred June 30, 2000 and the third closing occurred September 29, 2000 and each closing was for the sale of 4,361,704 shares of Series B preferred stock for gross proceeds of $26.2 million. On January 8, 2000 the Company completed a Supplemental Series B Preferred Stock Agreement for the sale of 833,333 shares of the Series B preferred stock for $5.0 million. The Series B-1 preferred stock is identical in rights to the Series B preferred stock except for voting and conversion rights. The Series B-1 preferred stock is non-voting and converts into non-voting common stock at the option of the holder. Subsequent to December 31, 2000, the Series B-1 preferred stock was converted into Series B preferred stock.

In connection with the supplemental Series B preferred stock offering, the Company entered into an agreement with a third party to provide marketing assistance in exchange for a warrant to purchase 125,000 shares of the Company's common stock at an exercise price of $8.10 per share. The warrant vests upon achievement of various performance based milestones. In addition, the warrant would also vest 100% as of December 31, 2000 if certain Company affiliates or subsidiaries did not achieve certain operating performance milestones. The accounting for the warrant was dependent upon the conditions under which the warrant would ultimately be earned. As of December 31, 2000, the Company and its affiliates failed to achieve certain operating performance milestones and, therefore, the warrant became fully exercisable. Accordingly, the fair value of the warrant at December 31, 2000 is reflected in additional paid in capital with an offsetting amount netted against the carrying value of the Series B preferred stock.

On April 20, 2000, the Company completed a sale of 5,102,000 shares of its Series C preferred stock for $10.00 per share for total gross cash proceeds of $51.0 million. The Series C preferred stock is identical in rights to the Series B preferred stock as discussed above.

On December 21, 2000, the Company completed a sale of 7,762,500 shares of its Series D preferred stock for $8.00 per share for total gross cash proceeds of $62.1 million. The Series D preferred stock is identical in rights to the Series C and Series B preferred stock except for voting and conversion rights and the fact that it is senior with respect to liquidation rights and dividend preferences.

Holders of preferred stock are entitled to dividends in amounts determined by the Board of Directors. No distributions may be made to holders of common stock until all dividends declared, if any, on the preferred stock have been paid.

In the event of liquidation of the Company, holders of the Series D preferred stock have a preference of $8.00 per share plus all declared but unpaid dividends, if any, over all other stock. Holders of Series C preferred stock have a preference of $10.00 per share plus all declared but unpaid dividends, if any, over the Series A preferred stock and over the holders of common stock. Holders of Series B preferred stock have a preference of $6.00 per share plus all declared but unpaid dividends, if any, over the holders of Series A preferred stock and holders of the common stock. Holders of Series A preferred stock have a preference of $3.00 per share plus all declared but unpaid dividends, if any, over holders of common stock.

Each share of Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock was initially convertible, at the option of the holder, into shares of the Company's common stock at the rate of one share of common stock for each share of Series A preferred stock, one share of common stock for each share of Series B preferred stock, one share of common stock for each share of Series C preferred stock and one share of common stock for each share of Series D preferred stock. The conversion rates for each series are subject to adjustment based on a formula to prevent dilution (the "Anti-dilution Formulas"). Effective December 21, 2000 with the closing of the Series D preferred stock at a rate of $8.00 per share, the anti-dilution protection was enacted on the Series C preferred stock. This resulted in the conversion price on the Series C preferred stock decreasing from $10.00 per share to $9.85 per share. Each share of Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock is automatically convertible into common stock immediately prior to the closing of a public offering of at least $50.0 million in proceeds and at $15.00 per share.

The Company is obligated to redeem: (1) 33 1/3% of the then-outstanding shares of Series A preferred stock, the Series B preferred stock, Series C preferred stock and Series D preferred stock on January 26, 2005, (2) 50% of the then-outstanding shares of Series A preferred stock, the Series B preferred stock, Series C preferred stock and Series D preferred stock on January 26, 2006, and (3) all remaining shares of Series A preferred stock, the Series B preferred stock, Series C preferred stock and Series D preferred stock on January 26, 2007. The redemption price for the Series A preferred stock is $3.00 per share as of December 31, 2000. The redemption price for the Series B preferred stock is $6.00 per share as of December 31, 2000. The redemption price for the Series C preferred stock is $10.00 per share as of December 31, 2000. The redemption price for the Series D preferred stock is $8.00 per share as of December 31, 2000. All holders of the preferred stock have the option to reject such redemption.

(9) STOCK OPTIONS

The Company maintains a stock option plan (the "Plan") which provides for the grant of stock options, restricted stock awards and other stock grants to directors, employees, and consultants to purchase common stock of the Company. The Plan allows for 12,000,000 options available for grant. Under the Plan, stock options are granted at an exercise price not less than the fair market value of the common stock on the date of the grant, as determined by the Company's Board of Directors.

The following is a summary of stock option transactions:

	Shares	Weighted-Average Exercise Price
Outstanding at April 29, 1998	—	$ —
Granted	1,110,000	1.37
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 1998	1,110,000	1.37
Granted	3,067,500	3.01
Exercised	—	—
Forfeited	(2,500)	3.00
Outstanding at December 31, 1999	4,175,000	2.57
Granted	3,289,500	7.13
Exercised	(72,499)	2.89
Forfeited	(219,501)	2.81
Outstanding at December 31, 2000	7,172,500	$ 4.65

At December 31, 2000, there were 4,827,500 options available for grant under the Plan. Outstanding options typically vest over four years and expire ten years from the date of grant. The weighted-average grant date fair value during 1999 and 2000 was $0.59 and $1.38 per option, respectively. All options granted during 1999 and 2000 were granted with an exercise price equal to the fair value of common stock.

The following table summarizes information about exercisable stock options at December 31, 1999 and 2000:

	Weighted-Average Exercise Price	Options Exercisable
December 31, 1999	$ 1.96	541,188
December 31, 2000	$ 3.44	2,194,666

The status of total stock options outstanding and exercisable under the Plan as of December 31, 2000 are as follows:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$1.00	780,000	7.70	$ 1.00	435,729	$ 1.00
$2.25-$3.00	3,118,000	8.37	$ 2.79	1,169,750	$ 2.77
$6.00	2,272,000	9.11	$ 6.00	504,896	$ 6.00
$8.00	250,000	9.86	$ 8.00	5,208	$ 8.00
$10.00	752,500	9.54	$10.00	79,083	$10.00
	7,172,500	8.91	$ 4.65	2,194,666	$ 3.44

Fair values of employee options are estimated on the date of grant using the Black-Scholes single-option pricing model. The fair value of each option granted to employees was estimated on the date of grant using the following weighted-average assumptions:

	December 31,	
	1999	2000
Estimated dividends	None	None
Risk-free interest rate	4.25%-6.08%	5.42%-6.71%
Expected life	6 years	6 years
Expected volatility	0%	0%

The Company applies APB 25 in accounting for its stock compensation plan, and accordingly no compensation expense has been recognized in the financial statements for fixed plan options granted to employees at or above fair value.

Had the Company recognized compensation cost for options granted to employees based on the fair value of the options granted as of the grant date as prescribed by Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation” (“SFAS No. 123”), net loss attributable to common stock would have increased to the pro forma amounts indicated below (amounts in thousands except per share data):

	April 29, 1998 (Inception) to December 31, 1998	For the Year Ended December 31, 1999	For the Year Ended December 31, 2000
	Net Loss	Net Loss	Net Loss
As reported	$ (844)	$ (31,374)	$ (275,337)
Pro forma	$ (854)	$ (31,572)	$ (277,304)

(10) INCOME TAXES

In general a U.S. corporation may claim a foreign tax credit against its federal income tax expense for foreign income taxes paid or accrued. Because the Company must calculate its foreign tax credit separately for dividends received from each foreign corporation in which the Company owns 10.0% to 50.0% of the voting stock, and because of certain other limitations, the Company’s ability to claim a foreign tax credit may be limited, particularly with respect to dividends paid out of earnings subject to a high rate of foreign income tax.

Generally, the Company’s ability to claim a foreign tax credit is limited to the amount of U.S. taxes the Company pays with respect to its foreign source income. In calculating its foreign source income, the Company is required to allocate interest expense and overhead incurred in the U.S. between its U.S. and foreign activities. Accordingly, to the extent U.S. borrowings are used to finance equity contributions to its foreign subsidiaries, the Company’s ability to claim a foreign tax credit may be significantly reduced. These limitations and the inability of the Company to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a higher effective tax rate on the Company’s earnings.

The Company is subject to U.S. federal and state income taxes but has incurred no liability for such taxes due to losses it has incurred since inception. At December 31, 2000, the Company had net operating loss carryforwards for U.S. federal income tax purposes of approximately $31.0 million, which will expire through the year 2015. These carryforwards are available to offset future taxable income. In addition, the Company had foreign net operating loss carryforwards of approximately $4.8 million.

The net deferred tax assets and liabilities are comprised of the following (amounts in thousands):

	As of December 31,	
	1999	2000
Deferred Tax Assets:		
Company's U.S. tax net operating loss carryforwards	$ 983	$ 11,781
Net operating loss carryforwards from consolidated foreign subsidiaries	1,825	1,820
Other	21	21
	2,829	13,622
Less: valuation allowance	(2,829)	(13,622)
Net deferred tax assets	—	—
Deferred Tax Liabilities:		
Discontinued operations	(12,535)	(12,065)
Net deferred tax liabilities	$(12,535)	$(12,065)

The gross deferred tax assets as of December 31, 1999 and 2000 have been reduced by valuation allowances because management was not able to conclude that it is more likely than not that future taxable income will be sufficient to realize the gross deferred tax assets.

On September 27, 1999, a net deferred tax liability of $12.5 million was recorded in connection with the acquisition of the Company's interest in VeloCom Argentina (see Note 1). This net deferred tax liability resulted from the temporary difference between the book and tax basis of the value of VeloCom Argentina's license. As described in Note 12, "Subsequent Events," these deferred taxes relate to discontinued operations and are included in the net loss on disposal in the accompanying statement of operations for the nine month period ended September 30, 2001.

The reconciliation of income taxes computed at the U.S. federal statutory rate to the income tax provision (benefit) is as follows (amounts in thousands):

	April 29, 1998 (Inception) to December 31, 1998	For the year Ended December 31, 1999	For the year Ended December 31, 2000
Expected income tax benefit at the U.S. federal statutory rate of 35%	$ (270)	$ (10,981)	$ (96,368)
Tax effect of permanent and other differences:			
State benefit, net of federal effect	—	(969)	(8,260)
Other expenses	—	377	584
Share in results of affiliated companies	—	9,014	93,006
Adjustment to prior year foreign net operating loss	—	—	245
Increase in valuation allowance	270	2,559	10,793
Total income tax benefit	$ —	$ —	$ —

The Company and its subsidiaries maintain a presence in many countries. Many of these countries maintain tax regimes that differ significantly from the system of income taxation used in the U.S., such as a value added tax system. The Company has accounted for the effect of foreign taxes based on what is reasonably expected to apply to the Company and subsidiaries based on tax laws currently in effect and/or reasonable interpretations of these laws. Because some foreign jurisdictions do not have systems of taxation that are as well established as the system of income taxation used in the U.S. or tax regimes used in other major industrialized countries, it may be difficult to anticipate how foreign jurisdictions will tax current and future operations of the Company and its subsidiaries.

(11) SEGMENT INFORMATION

SFAS No. 131 established standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial reports issued to shareholders. In accordance with the provisions of SFAS No. 131, the Company has determined that its reportable segments are its strategic business units in various countries in Latin America and the corporate unit that oversees all operations.

The Company believes that proportionate financial data for its investment in Vésper facilitates the understanding and assessment of its results. Therefore, "Revenue," "EBITDA" (defined below) and "Net Loss" for the Vésper segment is presented on a proportionate basis. Proportionate results reflect the relative weight of the Company's ownership in Vésper. In addition, the Company believes earnings before interest, taxes, depreciation, amortization and other ("EBITDA") is an important indicator of the operating performance of its businesses. The computation of "EBITDA" also excludes share in losses of affiliates. Adjustments made to "Revenue," "EBITDA" and "Net Loss" to arrive at proportionate results are reversed in the row labeled "Eliminations and Adjustments," in conformance with SFAS No. 131 so that in total, "Revenue," "EBITDA" and "Net Loss" reflect consolidated results. The balance sheet data reflects consolidated results. Segment financial information is as follows as of and for the year ended December 31, 1999 and 2000 (1998 is not included as it is not considered meaningful because the Company only existed as the corporate group with no operations) and the nine months ended September 30, 2000 and 2001 (unaudited) (amounts in thousands):

1999:	Revenue	EBITDA*	Net Loss	Total Assets
Vésper	$ —	$ (33,294)	$ (27,522)	$ —
Corporate and Other	—	(6,301)	(5,358)	108,658
Eliminations and Adjustments	—	33,294	3,801	—
Total	$ —	$ (6,301)	$ (29,079)	$ 108,658

2000:	Revenue	EBITDA*	Net Loss	Total Assets
Vésper	$ 35,134	$ (130,798)	$ (239,576)	$ —
Corporate and Other	—	(11,259)	(12,681)	158,148
Eliminations and Adjustments	(35,134)	130,798	—	—
Total	$ —	$ (11,259)	$ (252,257)	$ 158,148

September 30, 2000 (Unaudited):	Revenue	EBITDA*	Net Loss	Total Assets
Vésper	$ 23,538	$ (97,865)	$ (159,017)	$ —
Corporate and Other	—	(6,960)	(4,523)	178,449
Eliminations and Adjustments	(23,538)	97,865	—	—
Total	$ —	$ (6,960)	$ (163,540)	$ 178,449

September 30, 2001 (Unaudited):	Revenue	EBITDA*	Net Loss	Total Assets
Vésper	$ 54,889	$ (117,961)	$ (384,154)	$ —
Corporate and Other	—	(8,991)	(32,414)	65,909
Eliminations and Adjustments	(54,889)	117,961	185,671	—
Total	$ —	$ (8,991)	$ (230,897)	$ 65,909

* EBITDA should not be considered an alternative to operating or net income as an indicator of performance of the Company's businesses, or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with GAAP.

** The Elimination and Adjustment for the net loss is primarily made up of the suspended losses (see Note 2, "Investments in Affiliates") and due to the increase in the Company's ownership interest throughout 2001.

(12) SUBSEQUENT EVENTS TO ORIGINAL DATE OF AUDITORS' REPORT

Vésper. Subsequent to December 31, 2000, the Company was notified by BCI (a 34.4% shareholder of Vésper) that for strategic business reasons, BCI would no longer fund Vésper. On March 21, 2001, the Company and the other shareholders (including BCI) in Vésper reached an agreement which would allow the Company to continue funding Vésper using an agreed upon dilution schedule for the next $120.0 million contributed to Vésper beginning March 1, 2001. Due to the Company funding all equity capital needs of Vésper, the Company's ownership interest in Vésper temporarily increased to 53.81%.

During February 2001, the board of Vésper revised its business plan for 2001 and approved a series of actions, to be implemented as soon as possible, which included, among other things:

- Reorganization of the lines of businesses into two distinct lines servicing corporate clients and residential clients;
- Development of new product and services plans to meet the needs of its clients base and accelerate investments on data transmission;
- Reduction of costs and incremental expenses at levels compatible with the present corporate structure. The restructuring actions included, among others, a better integration between Vésper Northeast and Vésper São Paulo, which was implemented during the first quarter of 2001. The Company believes that those restructuring actions will result in significant cost reductions going forward.

Investment plans have also been revised and Vésper will continue investing in its network and service offerings. According to the revised plan, costs related to these investments will be financed by their respective suppliers and capital contributions by the Vésper shareholders.

Vésper Restructuring. On November 9, 2001, the Company, BCI, Qualcomm, and the Vésper vendors entered into a Subscription and Shareholder Agreement (the "Shareholders Agreement") for Vésper Holding, Ltd. Vésper Holding, Ltd., under the terms of the Shareholders Agreement and the Restructuring Agreement (as defined below), owns, directly or indirectly, all of the shares of Vésper. Effective November 13, 2001, Vésper entered into a restructuring agreement (the "Restructuring Agreement") between itself, its shareholders and its vendors. The restructuring resulted in a reduction of over $1 billion in debt on Vésper's balance sheet. The Vésper vendors were paid approximately $135 million in exchange for the cancellation of all amounts owing under the credit agreements and warrants to purchase 6.8% of Vésper Holding, Ltd. Also, under the terms of the Restructuring Agreement, approximately $346.3 million in new equity is to be contributed to Vésper (approximately $60.3 million of which had been funded prior to closing, approximately $135.0 million of which was funded at closing and approximately $151.0 million of which is committed (by Qualcomm) to Vésper Holding, Ltd. on an as needed basis). The Company had funded to Vésper approximately $26.9 million prior to closing and funded approximately $53.1 million to Vésper Holding, Ltd. at closing. The Company does not expect to, and is not committed to, fund any additional amounts into Vésper or Vésper Holding, Ltd. After completion of the restructuring and according to the terms of the Shareholders Agreement, in which the existing shareholders of Vésper exchanged all shares in Vésper into shares in Vésper Holding, Ltd., the Company has a 24.63% ownership interest in Vésper Holding, Ltd. This ownership interest could be diluted to 21.72% if the vendors exercise warrants received in the restructuring. Also, the Company's ownership percentage could be diluted further if management exercises stock options and an additional $20.0 million may be invested directly into Vésper Holding, Ltd. by the Company's shareholders at the shareholders' option.

In connection with the Vésper restructuring, the supply agreements were terminated as a condition precedent to the closing of the restructuring. Thus, Vésper is no longer committed to acquire the total of $1,070.0 million of equipment and services as originally required under the vendor agreements.

In connection with the Vésper restructuring, the company's ownership interest in Vento was contributed to Vésper for nominal consideration. As such, the Company has written off its investment in Vento as of September 30, 2001 given the asset has no value.

Sale of VeloCom Argentina and Odecar S.A. Subsequent to December 31, 2000, the Company made a strategic business decision to engage in, and began, discussions with a number of parties regarding a potential sale, joint venture or reorganization of VeloCom Argentina. As of December 31, 2000, no impairment was deemed necessary. Due to the collapse of negotiations with strategic investors, the Company recognized an impairment on VeloCom Argentina's assets prior to September 30, 2001 totaling approximately $25.2 million. On October 11, 2001 the Company sold VeloCom Argentina for $1 to an unrelated third party. The Company sold its 85% owned subsidiary Odecar S.A. to the same group on December 5, 2001 for a three-year $240,000 note receivable. The Company had recognized an impairment with respect to its investment in Odecar S.A. of $1.8 million at September 30, 2001. The 24 equal principal payments are due beginning in January 2003. The note bears interest at 10% on the unpaid principal balance and is due the first of every month. The Company has reflected VeloCom Argentina and Odecar S.A.'s results of operations and net assets as discontinued operations, in accordance with APB Opinion No. 30 " Reporting the Results of Operations- Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," and Emerging Issues Task Force Issue No. 95-18, "Accounting and Reporting for Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements" for all periods presented in the accompanying financial statements.

Operating results and financial position of the discontinued operations are summarized below. The results for 1999 reflect the activity from October 1 to December 31, 1999 as VeloCom Argentina was acquired September 27, 1999.

	December 31, 1999	December 31, 2000	September 30, 2001
			(unaudited)
Current assets	$ 836	$ 1,902	$ 1,230
Non-current assets	48,043	75,134	28,980
Total assets	$ 48,879	$ 77,036	$ 30,210
Current liabilities	$ 7,720	$ 30,026	$ 29,834
Non-current liabilities (deferred taxes)	12,535	12,065	—
Stockholders' equity	28,624	34,945	376
Total liabilities and stockholders' equity	$ 48,879	$ 77,036	$ 30,210

	For the Period From Inception to December 31, 1999	For the Year Ended December 31, 2000	For the Nine Months Ended September 30, 2001
			(unaudited)
Revenue	$ —	$ 2,113	$ 4,081
Operating expenses	—	(9,653)	(8,244)
Selling, general and administrative expense	(2,010)	(10,426)	(6,076)
Depreciation and amortization expense	(303)	(4,542)	(6,271)
Other	18	(572)	(408)
Net Loss	$ (2,295)	$ (23,080)	$ (16,918)

Exchange Agreement. On October 19, 2001, the Company entered into an exchange agreement (the "Exchange Agreement") with Qualcomm, the holder of all of the outstanding indebtedness of the Company under the Loan Agreement (Note 6). Per the Exchange Agreement, the amount of indebtedness totaled $174.8 million. This amount was the balance due at August 3, 2001, when the Company and Qualcomm signed a memorandum of understanding (the "MOU"), which amended the terms of the Loan Agreement to terminate the accrual of interest and fees after August 3, 2001. The MOU was effective until the restructuring of Vésper. If a successful restructuring of Vésper had not occurred, the MOU would have been terminated and the Company would have owed Qualcomm the additional interest and fees associated with the Loan Agreement. Thus, the Company continued to accrue interest and fees on the Loan Agreement until the date it was terminated. The Company will recognize a gain of approximately $140.8 million on the exchange for financial reporting purposes. Qualcomm also held 2.5 million shares of the Company's Series B preferred stock. Under the terms of the Exchange Agreement, Qualcomm forgave $118.7 million of amounts owed under the Loan Agreement and then exchanged the remaining amount of the loan, $56.1 million, and the 2.5 million shares of Series B preferred stock for 590.1 million shares of a newly-issued Series E preferred stock of the Company. This represents, in the aggregate, 49.9% of the outstanding capital stock of the Company on an as-converted basis. The Loan Agreement was terminated with the signing of the Exchange Agreement. The Exchange Agreement was subject to approval from the Federal Trade Commission, the approval of which was received on November 29, 2001.

As a result of the forgiveness of a portion of the Qualcomm convertible loan and the exchange of the remaining balance outstanding under the Qualcomm convertible loan for Series E preferred stock of the Company, the Company will realize an approximately $118.7 million gain on cancellation of indebtedness for tax purposes. Because the Company was insolvent as defined in Section 108(d)(3) of the US Internal Revenue Code at the date of cancellation, such gains were not required to be recognized in taxable income. Instead, such gains will first be offset by existing net operating loss carryforwards. The remainder will reduce the Company's tax basis in other long-term assets or investments in its subsidiaries (and equity affiliates) and is not expected to result in taxes currently payable.

Series E Preferred Stock. In connection with the Exchange Agreement, the Company created a newly-issued series of preferred stock, Series E. In the event of any dividend and distribution, the amounts will be divided as follows: a) holders of the Series E preferred stock will receive 100% of the first $56.1 million, b) then the holders of the Series A, Series B, Series C and Series D preferred stock (the "Series Preferred Stock") will receive 100% of the next $56.3 million, c) then, the holders of the Series E preferred and the Series Preferred Stock will receive amounts equal to their respective ownership percentages on an as converted basis until the Series E preferred shareholders have received total distributions of $189.8 million, d) then, holders of the Series Preferred Stock will receive 100% of all distributions until the Series Preferred Stock holders have received total distributions $284.8 million, and e) thereafter, the holders of the Series E preferred and the Series Preferred Stock will receive amounts equal to their respective ownership percentage on an as converted basis.

The redemption dates were amended for the Series Preferred Stock as follows: the Company is obligated to redeem: (1) 33 1/3% of the then-outstanding shares of Series A preferred stock, the Series B preferred stock, Series C preferred stock and Series D preferred stock on January 26, 2008, (2) 50% of the then-outstanding shares of Series A preferred stock, the Series B preferred stock, Series C preferred stock and Series D preferred stock on January 26, 2009, and (3) all remaining shares of Series A preferred stock, the Series B preferred stock, Series C preferred stock and Series D preferred stock on January 26, 2010.

The preferred stock is convertible into shares of common stock based upon the conversion price multiplied by the number of shares being converted. As a result of the issuance of the Series E preferred stock and the resulting application of the Anti-dilution Formulas, the Series A conversion price shall be $0.693025, the Series B conversion price shall be $1.126818, the Series C conversion price shall be $1.683770 and the Series D conversion price shall be $0.303052.

Liquidity and Capital Resources. As a result of the restructuring discussed above, the Company has no committed or planned funding obligations with respect to its subsidiaries or affiliates. Thus, the Company believes its remaining cash is sufficient to fund its expected future corporate overhead expenses through at least early 2003.