

Burst.Com Annual Report
(Formerly known as Instant Video Technologies, Inc.)

For the Fiscal Year ended: December 31, 2002

Delaware

84-1141967

(State or Other Jurisdiction of (I.R.S. Employer Identification Number)
Incorporation or Organization)

613 Fourth Street, Suite 201
Santa Rosa, California 95404

(415) 391-4455

Securities Registered Under Section 12(b) of the Exchange Act: None.

Securities Registered Under Section 12(g) of the Exchange Act: None

Common Stock \$.00001 Par Value

The aggregate market value of the Common Stock held by non-affiliates on December 31, 2002 was approximately \$5,670,443 based on the closing price of the Common Stock as reported on The NASDAQ Over the Counter Bulletin Board for that date.

As of December 31, 2002, there were 22,681,771 shares of the Company's Common Stock outstanding.

BURST.COM, INC.
2002 ANNUAL REPORT
TABLE OF CONTENTS

	Page

Business	3
Property	7
Legal Proceedings	7
Submission of Matters to a Vote of Security Holders.....	8
Market for Registrant's Common Equity and Related Stockholder Matters	8
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Financial Statements and Supplementary Data	11
Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	12
Directors and Executive Officers of the Registrant.....	12
Executive Compensation	13
Security Ownership of Certain Beneficial Owners and Management.....	15

Instant Video(R), Burstware(R), Burstaid(R), Faster-Than-Real-Time(R), Burstware Conductor(R), Burstware Player(R), and Burstware Server(R) are registered trademarks of BURST.COM, INC. All other names are trademarks and/or registered trademarks of their respective owners.

SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, including, among other things:

- * Implementing our business strategy;
- * Maintaining sufficient cash balances to continue in operation;
- * Attracting and retaining customers; obtaining and expanding market acceptance of the products and services we offer;
- * Forecasts of Internet usage and the size and growth of relevant markets;
- * Rapid technological changes in our industry and relevant markets and
- * Competition in our market.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and similar expressions. These statements are based on our current beliefs, expectations and assumptions and are subject to a number of risks and uncertainties. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. A description of risks that could cause our results to vary appears under the caption "Risks and Uncertainties" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report. A more comprehensive description of these risk factors can also be found in our 2001 10K report, which was filed with the S.E.C. and is available on our web site: www.burst.com. These forward-looking statements are made as of the date of this report and we assume no obligation to update them or to explain the reasons why actual results may differ.

THE COMPANY

We are an independent provider of client/server network software and intellectual property for

the delivery of video and audio information over networks. Our office is located in Santa Rosa, California. Our software manages the delivery of video and audio content over a variety of networks; optimizing network efficiency and quality of service. Our Burstware® suite of software products enables companies to transmit video and audio files at Faster-Than-Real-Time® speed, which is accomplished by utilizing available bandwidth capacity in conjunction with data compression to send more video or audio data to users than the players are consuming in real time. This data is stored on the user's machine for playing on demand, thus isolating the user from noise and other network interference. The result is high quality, full-motion video and CD-quality audio to the end-user. Burstware® utilizes various components of our international patent portfolio, including the Faster-Than-Real-Time delivery method.

In January 2000, we changed our name from "Instant Video Technologies, Inc." to "Burst.com, Inc." As of February 2003, our stock trades on the over the counter "Pink Sheets" under the symbol "BRST".

In November 2000, due to insufficient funds and sales to support our organization, we laid off 77 employees out of a total of 95 employees and substantially reduced our sales, marketing and engineering spending. In March 2001, we laid off all but five of the remaining employees. In October 2001, the number of full-time employees was reduced to two: Chief Executive Officer Richard A. Lang, and Vice President, Operations Eric Walters. Since that date, engineering, licensing, legal, accounting and other support services are being procured on an "as-needed" basis from a combination of former employees providing contract services, and outside consulting, legal and accounting firms. In light of our reduced operations and limited working capital, we have changed our mode of conducting business by engaging in a business model that focuses on the licensing of existing versions of Burstware®, with product enhancements provided as needed by outside engineering contractors. We also began discussions with both existing customers and new customers regarding the licensing of both Burstware® and our underlying patent portfolio.

INDUSTRY BACKGROUND

In recent years, several related technologies have converged to enable the distribution of video and audio content over electronic communications networks. As network bandwidth, data storage, processing power, and compression technologies have become increasingly available, the demand for high quality video and audio over the Internet, as well as over intranet and extranet networks, has expanded rapidly. The result of such developments has been the transition of the Internet from a static, text-oriented network to an interactive environment filled with graphical and audio-visual content.

Distributing audio-visual content over the Internet, or within an intranet, offers certain advantages and capabilities not generally available through traditional media, including consumer targeting and interactive responsiveness.

MARKET OPPORTUNITY

We believe that our intellectual property and primary software product, Burstware, will be attractive to any company that wishes to deliver digital media over electronic networks at a quality level high enough to justify charging end users, content providers or advertisers. As a result, our business model involves developing strategies that will enable us to successfully enforce our intellectual property and receive what we believe will be substantial licensing revenues as a result, although there can be no assurance that this will be the case.

THE BURST SOLUTION

With our patented Burstware® technology, we provide a server-based intelligent network management system delivering "Faster-Than-Real-Time®" content across a variety of networks. Our software is designed to work equally well with content created using any data compression/decompression (CODEC) methodology. The Java-script Burstware® solution ensures a consistent, high-quality experience over multiple platforms through optimization of network resources and superior isolation of clients from network disturbances.

The intelligent Burstware network resource management features enable multiple end user applications as well. With the capacity to deliver data in a clear, efficient and cost-effective manner, the Burstware solution creates a high-quality audio-visual experience for the end-user and enables powerful business-to-business, business-to-customer and business-to-employee communication. Burstware also gives producers, aggregators and developers the ability to reach new markets with virtually unlimited access to vast libraries of content. With these various applications, Burstware's network delivery mechanism is ideally suited for numerous industries including news, entertainment, retail and advertising as well as local, state and federal governments and agencies.

BUSINESS OF THE COMPANY

Overview

We are a provider and licensor of Burstware software and intellectual property for use within commercial, multimedia, and interactive networks, including the Internet. We also intend to continue the expansion of the number of patents contained within our patent portfolio and develop additional enhancements to Burstware that may be requested by customers and as funds permit.

Strategy

Burst.com's goal is to see its "faster-than-real-time" or "Burst" digital media delivery technology integrated in the broadband-centered media-on-demand industry. We view "faster-than-real time" technology as essential to the successful deployment of commercially viable media-on-

demand systems, which we believe will require the quality of service and network efficiencies that such technology provides. We will pursue this goal by upgrading and licensing our proprietary software, Burstware, to companies that require our technology solution in order to achieve commercially viable market solutions.

We plan to enforce our patent rights and to build our patent licensing revenue to the extent we are successful in the enforcement of our patent rights. We also plan to continue the licensing of our Burstware media delivery solution to value added resellers, set-top box manufacturers and developers of media-on-demand systems, among others, given our financial limitations. However, we are not pursuing additional financing at this time.

Competition

We compete in markets that are rapidly evolving and intensely competitive. We have experienced and expect to continue to experience increasing competition from current and potential competitors, many of which have significantly greater financial, technical, marketing and other resources.

Sales and Marketing

While we pursue Burstware software and patent licensing arrangements, we will continue to support our value added resellers and software customers on an as-needed basis, using outside engineering consultants, while pursuing new customers, as finances permit. Our target market is comprised of large companies involved in the enablement or direct sales and/or manufacture of digital media-on-demand solutions. In addition, potential customers include businesses or other end-users that desire to send, receive or effectively manage high-quality video and audio content over their own networks or to outside customers through the Internet. Applications include corporate communications, education, advertising, entertainment and broadcasting.

We currently market to our customers through direct sales, but intend to retain outside sales representatives and additional value added resellers. The internal sales organization consists of one outside individual providing services on a commission basis, our CEO and our VP of Operations, as required.

We do not believe that there is any significant seasonality that would affect sales of our products or services. As of December 31, 2002, there was no backlog of unfilled orders for our products.

Patents and Trademarks

Our business is highly dependent on our patent portfolio. We have nine issued U.S. patents. The early patents describe a broad class of systems that allow a user to view, edit, store video

information and send and receive the data associated with that video information over networks in less time than is normally required to view or listen to the content. The later patents describe derivative inventions.

We have two European patents (including a number of European countries) that incorporate the subject matter of the first six U.S. patents, three Australian patents, two South Korean patents, one Japanese patent, two Indian patents, and one Canadian patent. We currently have a number of additional domestic and international patents pending.

In addition to protecting the Burstware(R) product offerings, our patents have broader application as various market applications appear, and our potential to license our intellectual property expands into additional vertical market segments.

We view our portfolio as a critical component in gaining relationships with strategic partners. Potential licensees include companies such as server and client manufacturers, bandwidth providers, content aggregators, copyright owners, and other hardware manufacturers.

Our plan is to establish the value of our patent portfolio through successful enforcement of our patent portfolio, and subsequently to seek licensing revenues from any companies who seek to utilize our patented technology in their products or services. We have assembled a matrix of potential licensing candidates whose goods and/or services we believe will require them to license our technology in order to avoid being in violation of our patents.

We have registered the trademarks "INSTANT VIDEO®, BURSTWARE®, BURSTWARE®, BURSTWARE CONDUCTOR®, BURSTWARE PLAYER®, and BURSTWARE SERVER®," in the United States, as well as in certain countries in Europe and Asia.

PROPERTY.

We presently occupy approximately 450 square feet of office space at 613 Fourth Street, Suite 201, Santa Rosa, California, under a lease that expires at the end of March 2004, with the option to extend to an additional one-year term. The lease provides for rent of \$975 per month. We believe that our current facility is suitable and sufficient to accommodate our operating needs for the foreseeable future.

LEGAL PROCEEDINGS.

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

Carr-Ferrell, LLP.

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

1. Microsoft's newly announced "Corona" product (now known as WMP9) uses technologies and trade secrets misappropriated from Burst.com and is in violation of several U.S. patents issued to Burst.

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

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

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

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

We are not aware of any material legal proceedings pending or threatened against us.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

On December 31, 2002 our common stock was traded on the Nasdaq OTCBB (Over The Counter Bulletin Board under the symbol "BRST" (prior to January, 2001, our common stock had been traded on the Nasdaq Small Cap Market).

In January 2002, the company elected to “De-Register” its stock under S.E.C. Rule 15c211. The company’s common stock continues to trade on the “Pink Sheets” under the trading symbol “BRST.”

The following table sets forth the closing high and low bid prices of the Common Stock for the periods indicated. These prices are believed to be representative inter-dealer quotations, without retail markup, markdown or commissions, and may not represent prices at which actual transactions occurred.

2002	Bid	
-----	-----	
1st Quarter	\$.065	\$.021
2nd Quarter	\$.190	\$.025
3rd Quarter	\$.250	\$.140
4th Quarter	\$.290	\$.180

2001	Bid	
-----	-----	
1st Quarter	\$1.190	\$0.188
2nd Quarter	\$0.500	\$0.130
3rd Quarter	\$0.190	\$0.035
4th Quarter	\$0.080	\$0.035

The number of holders of record of the Company's \$.00001 par value Common Stock at December 31, 2002, was approximately 285. The closing bid price of our stock was \$0.25 at December 31, 2002.

DIVIDENDS

No dividends have been paid with respect to our stock, or are anticipated. Although holders of common stock are entitled to receive dividends, if and when, declared by our Board of Directors, it is anticipated that any and all future earnings for the foreseeable future will be retained, consistent with the Board of Director’s historical policy, to fund operations and any necessary capital improvements.

RECENT SALES OF UNREGISTERED SECURITIES

1. In May of 2002, the company issued the following warrants, having a term of seven years, securities in conjunction with the loans made to the Company:

- (a) Warrants to purchase 133,333 shares of common stock at an exercise price of \$.30/share, issued to an individual investor in conjunction with a \$40,000 loan to the Company.
- (b) Warrants to purchase 100,000 shares of common stock at an exercise price of \$.30/share, issued to an individual investor in conjunction with a \$30,000 loan to the Company.
- (c) Warrants to purchase 200,000 shares of common stock at an exercise price of \$.30/share, issued to an individual investor in conjunction with a \$60,000 loan to the Company.
- (d) Warrants to purchase 200,000 shares of common stock at an exercise price of \$.30/share, issued to an individual investor in conjunction with a \$60,000 loan to the Company.
- (e) Warrants to purchase 100,000 shares of common stock at an exercise price of \$.30/share, issued to an individual investor in conjunction with a \$100,000 loan to the Company.
- (f) Warrants to purchase 200,000 shares of common stock at an exercise price of \$.30/share, issued to an individual investor in conjunction with a \$60,000 loan to the Company.

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

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

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

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

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

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

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

9. On October 14, 2002, the company completed a round of private equity financing in which it sold 2,252,252 shares of its common stock to a group of private investors at a price of \$.333/share. In conjunction with this transaction, the company also issued a total of 1,126,126 warrants to purchase its common stock at a price of \$.75/share. The company raised a total of \$845,000 in this transaction.

10. As of December 31, 2002, 2,206,535 new Warrants had been issued to two groups of previous warrant holders under original warrant re-price commitments. 1,877,685 of these were issued at an exercise price of \$3.60/share. The balance of 328,850 was issued at an exercise price of \$4.19/share.

11. Under the same reprice provision described above (#10), 4,823,997 warrants originally issued in January 2000 at an original exercise price of \$5.00 were repriced at a new exercise price of \$3.60/share. Additionally, 857,633 warrants originally priced at \$5.83 were repriced at a new exercise price of \$4.19/share.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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

We are an independent provider of client/server network software and intellectual property for the delivery of video and audio information over networks. Our principal executive offices are located in Santa Rosa, California.

In October 2002, we completed a successful new equity financing. A small number of private individuals invested \$845,000 into the company. Investors purchased shares of our common stock at \$.333 per share. For every 2 shares purchased they received one warrant to purchase an additional share of stock at \$.75. Immediately upon raising these funds, we repaid \$120,000 of short-term debts that we had previously incurred and that were due at that time.

Our 2002 revenue, in the amount of \$ 191,950.00 is derived from fees for software licenses and

from the licensing of our intellectual property. Our monthly operating expenses are currently less than \$40,000 per month.

As of March 15, 2003, we had approximately \$570,000.00 cash on hand, which we believe will enable us to sustain our current operations into 2004, without the benefit of revenues. We are pursuing licensing revenues; however, there can be no assurance our efforts will be successful. Our success will depend, in large part, on our ability to protect the intellectual property that we have developed through patents, trademarks, trade secrets, copyrights, licenses and other intellectual property rights.

We plan to enforce our intellectual property rights as resources permit. We have already filed an anti-trust and patent infringement lawsuit against software giant Microsoft. The case is currently scheduled to be ready for trial at the beginning of 2004. Our attorneys are being retained under a 100% contingency agreement, including all costs. While we pursue this litigation, we will continue to engage in discussions with potential licensees of our Burstware® media delivery software and intellectual property, and attempt to license our technology. There can be no assurance that we will be successful in our litigation against Microsoft, or in our attempts to license our technology or to protect our intellectual property rights.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Our independent auditors for fiscal year 2002 were Sterck Enfield & O'Neill, of San Francisco, CA. There were no disagreements with our auditors over any items.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officer, key employee and directors and their ages as of December 31, 2002, are as follows:

Name	Age	Position
------	-----	----------

Richard A. Lang	49	Chairman, President, Chief Executive Officer and Chief Financial Officer
Eric H. Walters	46	Vice President, Operations
Brian Murphy (2)	47	Director
Barry L. Ritholtz	41	Director

The following sets forth biographical information as to the business experience of each Executive Officer and Director of the Company for the year ended December 31, 2002:

Richard A. Lang is our Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer. From September 1997 through the end of May 2000 he served as President and from September 1997 through September 2000 he served as Chief Executive Officer. From January 31, 1997 through August 1997, Mr. Lang served as one of our directors. Mr. Lang served as our Chairman of the Board and Treasurer until January 31, 1997. He had served as Chairman of the Board, Chief Executive Officer and Treasurer from December 1993 to September 1995 and as a Director since August 1992. He has been a Director of our subsidiary, Explore Technology, Inc., since February 1990, and served as its President from February 1990 to August 1992. Mr. Lang has presided over the development of our patent portfolio. He is the inventor of record for the bulk of our Intellectual Property. Mr. Lang was also a co-founder of Go-Video, Inc., Scottsdale, Arizona and co-inventor of Go-Video's patented dual-deck VCRs. Mr. Lang received his A.A. degree in Communications and Foreign Language from Scottsdale Community College in 1973. Starting April 1, 2001, Mr. Lang has again become Chief Executive Officer as a result of the resignation of Douglas Glen.

Brian Murphy has been one of our directors since January 1997. He is a partner in O.J. Kilkenny & Company, Chartered Accountants specializing in the entertainment industry with offices in London, England and Dublin, Ireland. The firm provides a wide range of services to their clients, consisting of major international entertainment artists, covering all areas of financial management and audit and accountancy advise. Mr. Murphy is involved at the executive level with a number of companies in the media and entertainment business, particularly in the field of digital post-production, film and television. Mr. Murphy received a Bachelors Degree in Commerce from Dublin University, and became a fellow of the Institute of Chartered Accountants in Ireland, England and Wales. Mr. Murphy became one of our directors as representative of Draysec Finance Limited, one of our principal stockholders.

Barry L. Ritholtz has been one of our directors since March 8, 2002. Since August 2002, he has been Chief Market Strategist for Maxim Group of New York. Mr. Ritholtz is responsible for writing the firm's twice-weekly Market Commentary for the firm's brokers, portfolio managers and clients. Prior that he was the Market Strategist for Weatherly Securities, which has since merged with Ehrenkrantz King Nussbaum, a brokerage firm and investment bank headquartered in Garden

City, New York. He also develops and maintains the Model Portfolio used as the basis of managed monies by private banking portfolio managers. Mr. Ritholtz has served as research editor for Mac Today, a desktop publishing magazine and frequently publishes articles on finance and technology issues. He has been a contributor to CBS Marketwatch and his perspective on the markets have been quoted by various media, including Dow Jones, Good Morning Silicon Valley, thestreet.com and the San Jose Mercury News and the Wall Street Journal. Mr. Ritholtz is also the founder of W3 Ventures, Ltd., a technology strategy and consulting firm. From January 2000 to February 2001, he was Investment Strategist for Auerbach, Pollack & Richardson, a New York investment bank, and from October 1998 to January 2000, he was Investment Strategist for Trautman Kramer, a New York investment bank. From January 1996 to February 1998, Mr. Ritholtz was a securities trader for A.J. Michaels, a West Islip and New York securities broker. Mr. Ritholtz received a Bachelor of Arts Degree in Political Science from State University of New York at Stony Brook and a Juris Doctorate (cum laude) from the Benjamin N. Cardozo School of Law.

Eric H. Walters, a key employee, has served as our Vice President of Operations since October 2001, where he is responsible for our administrative operations as well as intellectual property management. From March 2000 to October 2001, Mr. Walters served as the manager of our Intellectual Property Department. From March 1999 to March 2000, he was our Manager of Inside Sales. Mr. Walters has been associated with us since our formation in 1990. He held the position of Director of Corporate Communications during 1991 and 1992. Prior to joining us in 1990 and again in 1999, Mr. Walters worked at Intel Corporation in Press Relations for the Digital Imaging and Video Division. Mr. Walters is the co-inventor of record for several of our patents.

EXECUTIVE COMPENSATION AND OTHER MATTERS.

Summary of Compensation. The following table sets forth all compensation earned or paid for services rendered to us in all capacities by our Chief Executive Officer for the fiscal year ended December 31, 2002. No other executive officer earned more than \$100,000 in salary and bonus for the fiscal year ended December 31, 2002.

Summary Compensation Table

Name and Principal Position	Annual Compensation			Long-Term Compensation
	Year	Salary	Bonus Underlying Options (#)	Securities All Other Compensation(\$)

Richard A. Lang, Chairman of the Board President and Chief Executive Officer	2002	\$120,000		\$ 8,700 (2)
	2001	120,000	\$ 7,500	17,400 (1)
	2000	330,616	269,594	12,000 (2)

(1) Represents monthly auto allowance payments made to Mr. Lang in the amount of \$2,400 and 15,000 shares of common stock of Eagle Wireless International, Inc. transferred by us to Mr. Lang in lieu of salary with an aggregate fair market value of \$15,000.

(2) Represents monthly auto allowance payments made to Mr. Lang.

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

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to beneficial ownership of our common stock by each person who beneficially owns more than 5% of our common stock; each of our executive officers; each of our Directors; and all executive officers and directors as a group.

Except as otherwise noted, the address of each 5% stockholder listed in the table is c/o Burst.com, Inc., 613 Fourth Street, Suite 201, Santa Rosa, California 95494. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. To our knowledge, except under

applicable community property laws or as otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned. The applicable percentage of ownership for each stockholder is based on 22,681,771 shares of common stock outstanding on December 31, 2002 together with applicable options and warrants for that stockholder. Shares of common stock issuable upon exercise of options and other rights beneficially owned are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights, but are not deemed outstanding for computing the percentage ownership of any other person.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Outstanding

5% Stockholders		

Draysec Finance Limited	2,041,678 (1)	8.80%
Gordon Rock	11,903,648 (2)	38.32%
SBC Venture Capital Corporation	2,044,116 (3)	8.56%
Chelsey Capital	1,811,679 (4)	7.64%
Eagle Wireless International, Inc.	1,500,000 (5)	6.20%
Special Situations Funds	1,389,239 (6)	5.77%
John Lyddon	1,652,732 (7)	7.17%
Executive Officers and Directors		

Richard A. Lang	3,132,528 (8)	12.58%
Brian Murphy	2,045,033 (9)	8.91%
Barry L. Ritholtz	200,000 (10)	*
All executive officers and directors as a group (5 persons)	5,377,561	21.20%

* Represents less than a one (1) percent interest

(1) Includes 1,525,769 shares held, options to purchase 200,000 shares and warrants to purchase 46,109 shares of our common stock. Also includes options to purchase 269,800 shares of our common stock held by Brian Murphy, who represents Draysec Finance on our Board of Directors.

(2) Includes 1,608,065 shares of our common stock held by Mr. Rock; 1,916,413 shares held by

Mercer Management Inc., options to purchase 500,000 shares held by Mr. Rock, and warrants to purchase 7,879,170 shares of our common stock held by Mercer Management, Inc.

- (3) Includes 857,633 shares of our common stock and a warrant to purchase 1,186,483 shares of our common stock.
- (4) Includes 769,750 shares of our common stock and warrants to purchase 1,041,929 shares of our common stock.
- (5) Represents 1,500,000 shares of our common stock.
- (6) Represents warrants to purchase 1,389,239 shares of our common stock owned by Special Situations Fund III. L.P., Special Situations Private Equity Fund, L.P., Special Situations Cayman Fund, L.P. and Special Situations Technology Fund, L.P. Such shares are deemed beneficially owned by Austin W. Marxe and David M. Greenhouse, who serve as executive officers of the investments advisors of such funds.
- (7) Includes 450,150 shares and 75,075 warrants held by the Dorothy Stauffer Lyddon Irrevocable Living Trust; 307,949 shares held by the Dorothy S Lyddon Trust; and 524,871 shares and 294,687 warrants held by John Lyddon.
- (8) Includes 897,346 shares of our common stock in the name of the Lisa Walters and Richard Lang Revocable Trust, options to purchase 2,113,182 shares of our common stock held by Richard Lang, and options to purchase 122,000 shares of our common stock held by Lisa Walters, Mr. Lang's spouse.
- (9) Includes 1,771,878 shares of our common stock held beneficially by Draysec Finance and options to purchase 273,155 shares of our common stock held by Mr. Murphy.
- (10) Represents options to purchase 200,000 shares of our common stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Since January 1, 2002, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$60,000 and in which any director, executive officer or holder of more than 5% of our common stock, or an immediate family member of any of the foregoing, had or will have a direct or indirect interest other than compensation arrangements that are described in Executive Compensation and Other Matters, above, and the transactions described below.

Transactions with Gordon Rock

In November and December 2000 and during 2001, Gordon Rock, one of our principal stockholders and a director from April 2001 to July 2001, loaned us an aggregate amount of \$1,270,000 evidenced by our secured promissory notes at an interest rate of 9% per annum with respect to \$1,210,000 of such debt and at an interest rate of prime plus 2% with respect to \$60,000 of such debt. The aggregate principal amount of \$1,210,000 plus accrued interest was due and payable on November 21, 2002 (the due date was extended to this date pursuant to the lender creditor agreement discussed below), \$30,000 of principal plus accrued interest is due and payable on November 17, 2004 and the remaining \$30,000 of principal plus accrued interest is due and payable on December 12, 2004.

Mr. Rock loaned to us an additional \$60,000 in February 2002, evidenced by our secured promissory note at an interest rate of prime plus 2% and due and payable along with accrued interest on February 14, 2005. On April 1, 2002 Rock loaned \$60,000 at prime plus 2%, which is due with interest on April 1, 2005. 200,000 warrants were issued with this loan, exercisable at \$.30/sh. On April 25, 2002 Rock loaned an additional \$100,000 at prime plus 2%, due April 25, 2005. 100,000 warrants exercisable at \$.30/sh were issued with this loan. Prior to their expiration, Mr. Rock extended the expiration on notes totaling \$1,210,000 from November 21, 2002 to January 15, 2005. 1,000,000 warrants, exercisable at \$.75/sh were granted for this extension. Such loan, as well as the prior loans to the Company by Mr. Rock discussed above, are secured by a security interest in all of our assets. As additional consideration for such loans, we issued to Mr. Rock warrants to purchase an aggregate of 5,833,332 shares of our common stock at exercise prices ranging from \$.15 to \$.30 per share (previously issued warrants at exercise prices in excess of \$.30 per share were amended to reduce the exercise price to \$.30 per share). In connection with such debt financing, we also entered into a lender creditor agreement with Mr. Rock in November 2001 that provided for the extension of the due date of \$1,270,000 of secured notes to November 21, 2002, as indicated above. In consideration for such extension, we agreed that so long as any portion of such debt remained outstanding, we would not, without the written consent of Mr. Rock, (i) incur any new indebtedness or expense in excess of \$2,500, subject to certain exceptions, (ii) issue any additional securities, (iii) sell or license any assets except in the ordinary course of business, (iv) commence any litigation except as required by applicable law; (v) merge or otherwise effect a reorganization, or (vi) amend our certificate of incorporation or bylaws. During 2000, we issued a 6% convertible note payable to Mercer Management, an affiliate of Mr. Rock. The note was convertible into a new series of our preferred stock at a per share conversion price of Five Dollars (\$5.00) at the option of the note holder. In conjunction with the issuance of the warrants discussed above, the convertibility feature of this note was removed and the interest rate was changed from 6% to 9%.

BURST.COM, INC.

Dated: April 14, 2003

By /s/ Richard A. Lang

Richard A. Lang
Chairman, Chief Executive Officer and Chief Financial Officer

BURST.COM, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2002 and 2001

(With Independent Auditors' Reports Thereon)

INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Burst.com, Inc. and Subsidiaries
Santa Rosa, California