SSE TELECOM INC
Form 10-Q
March 08, 2001

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

FORM 10-Q

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

FOR THE QUARTER ENDED DECEMBER 30, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-16473

SSE TELECOM, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-1466297
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

47823 Westinghouse Dr.
Fremont, California 94539
(Address of principal executive office)

Registrant's telephone number, including area code:
(510) 657-7552

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes __X__ No ____

As of February 9, 2000, the following number of shares of each of the issuer's classes of common stock were outstanding: Common Stock 6,032,965

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

SSE Telecom, Inc.

Condensed Consolidated Balance Sheets
(dollars in thousands, except share amounts: unaudited)

	December 30, 2000	September 30, 2000
Assets		
Current Assets:		
Cash and cash equivalents	$ 884	$ 1,075
Short-term investments	--	2,708
Accounts receivable (net of allowances of $231 and $240)	3,005	1,723
Related party accounts receivable	25	7
Inventories	5,058	4,999
Other current assets	167	179
Total current assets	9,139	10,691
Property, equipment and leasehold improvements, at cost		
Equipment	7,488	7,488
Furniture, fixtures and leasehold improvements	4,258	4,322
	11,746	11,810
Less accumulated depreciation and amortization	(10,494)	(10,332)
Property, equipment and leasehold improvements, net	1,252	1,478
Notes receivable from employees	175	205
Total assets	$ 10,566	$ 12,374
Liabilities and Stockholders' Equity		
Current Liabilities:		
Line of credit	$ --	$ 734
Accounts payable	3,102	2,395
Related party accounts payable	126	60
Accrued salaries and employee benefits	683	687
Warranty	794	1,166
Other accrued liabilities	873	222
Current portion of capital lease liability	108	108
Total current liabilities	5,686	5,372
Capital lease liability	58	82
Stockholders' Equity:		
Common stock $.01 par value per share (30,000,000 shares authorized; 6,257,608 and 6,218,877 shares issued)	63	62
Additional paid in capital	13,328	13,279
Treasury stock (at cost, 224,643 shares)	(1,782)	(1,782)
Accumulated deficit	(6,787)	(6,087)
Accumulated other comprehensive income	--	1,448
Total stockholders' equity	4,822	6,920
Total liabilities and stockholders' equity	$ 10,566	$ 12,374

SSE Telecom, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data; unaudited)

	Three Months Ended December 30, 2000	Three Months Ended December 25, 1999
Revenue	$ 3,826	$ 4,871
Cost of revenue	3,165	4,346
Gross profit	661	525
Operating expenses:		
Research and development	1,179	928
Marketing, general and administrative	1,393	1,876
Operating loss	(1,911)	(2,279)
Gain on sale of investments	2,266	1,652
Net interest expense	(57)	(36)
Other income (expense)	(32)	5
Income (loss) before income taxes	266	(658)
Provision for income taxes	966	--
Net loss	$ (700)	$ (658)
Basic and diluted net loss per share	$ (0.12)	$ (0.11)
Shares used in per share calculation - basic and diluted	6,020	5,902

3

SSE Telecom, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands; unaudited)

	Three Months Ended December 30, 2000	Three Months Ended December 25, 1999
Operating Activities:		

Net loss	$ (700)	$ (658)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	231	351
Gain on sale of investments	(2,266)	(1,652)
Interest on factoring of receivables	33	--
Deferred income taxes	966	80
Changes in operating assets and liabilities:		
Accounts receivable	(1,333)	(5)
Inventories	(59)	536
Other current assets	12	(152)
Accounts payable	773	(100)
Other accrued liabilities	276	(445)
Net cash used by operating activities	(2,067)	(2,045)
Investing activities:		
Purchases of equipment	(5)	(8)
Proceeds from sale of investments	2,559	2,000
Net cash provided by investing activities	2,554	1,992
Financing activities:		
Borrowings (payment) under debt obligations	(758)	674
Payments on loans to employees	30	--
Proceeds from issuance of common stock	50	47
Net cash provided (used) by financing activities	(678)	721
Net increase in cash and cash equivalents	(191)	668
Cash and cash equivalents, beginning of period	1,075	3,828
Cash and cash equivalents, end of period	$ 884	$ 4,496

The Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

4

SSE TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, during the first quarter of fiscal 2001 and fiscal 2000 SSE Telecom, Inc. ("SSET" or the "Company") incurred net losses of $700,000 and $658,000, respectively. SSET incurred a net loss of approximately $5.8 million for the fiscal year ended September 30, 2000. Additionally, SSET had an accumulated deficit of approximately $6.8 million at December 30, 2000 and is highly dependent on its ability to obtain sufficient additional financing in order to fund the current and planned operating levels. These factors among others raise substantial doubt about the ability of SSET to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should SSET be unable to continue as a going concern. SSET's continuation as a going concern is dependent upon its ability to obtain additional financing to continue the product development and commercial marketing of its new iP3 products, and ultimately obtain sufficient customer demand to attain profitable operations. Management intends to obtain additional financing or sell certain assets to cover SSET's additional cash flow requirements until it reaches a break-even level of operations. Management is also pursuing the sale of the entire Company. However, no assurance can be given that management will be successful in these efforts.

The unaudited condensed consolidated financial statements included herein contain all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary to fairly state the consolidated financial position, results of operations and cash flows of SSET for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these interim condensed consolidated financial statements and notes thereto be read in conjunction with the audited consolidated financial statements and notes thereto included in SSET's Annual Report on Form 10-K for the fiscal year ended September 30, 2000. Interim results of operations are not necessarily indicative of the results to be expected for the fiscal year ending September 29, 2001.

2. INVESTMENTS

During the quarter ended December 30, 2000, SSET sold its remaining 51,344 shares of Echostar Communications Corporation ("Echostar") class A common stock for a realized gain before income taxes of approximately $2.3 million. The proceeds generated from the sale totaled approximately $2.6 million. In the quarter ended December 25, 1999, SSET sold Echostar class A common stock for a net realized gain before income taxes of approximately $1.7 million.

3. FACTORING OF ACCOUNTS RECEIVABLE

In the first quarter of fiscal 2001, SSET entered into an agreement under which SSET may borrow against qualifying accounts receivable, with recourse, from a financial institution ("Factor") for a financing fee of approximately 1% for each 10 days the account is outstanding. On December 22, 2000, SSET borrowed $625,000 from the Factor in exchange for $500,000 in cash and a Factor holdback receivable of $92,000. Interest expense of $33,000 was recognized on the transaction. The balance of $625,000 owed to the Factor is presented in other accrued liabilities. As of February 9, 2001, $456,000 of the accounts receivable had been collected in cash, $132,000 had been subsituted by SSET in exchange for other accounts receivable, and $37,000 remained uncollected.

4. INVENTORIES

Inventories consist of manufacturing raw materials, work-in process and finished goods. Inventories are valued at the lower of cost or market. Cost is based on a method that approximates actual cost on a first-in, first-out (FIFO) basis. At December 30, 2000 and September 30, 2000 inventories consisted of the following (in thousands):

	December, 30 2000	September 30, 2000
	(in thousands; unaudited)	
Raw materials	$1,951	$2,197
Work-in-process	2,513	2,066
Finished goods	594	736
Total	$5,058	$4,999

5. CREDIT FACILITY

During the first quarter of fiscal 2001, SSET extinguished its liability under its revolving line-of-credit facility. The related Loan and Security Agreement between SSET and the bank has been terminated.

6. PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed using the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of warrants and employee stock options based on the treasury stock method. For both quarters presented, the reported net loss was used in the computation of basic and diluted earnings per share.

For the first quarter of fiscal 2001 and fiscal 2000, potentially dilutive options and warrants to purchase 32,000 and 403,000 shares, respectively, were excluded from the diluted per share calculation as they were antidilutive due to the net losses incurred. For the first quarter of fiscal 2001 and fiscal 2000, options and warrants to acquire 1,071,000 common shares at a weighted-average exercise price of $3.92, and 105,000 common shares at a weighted-average exercise price of $10.25, respectively, were outstanding for which the exercise price exceeded the average fair market value of the common stock for the period.

7. COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss) are as follows:

	Three Months Ended	
	December 30, 2000	December 25, 1999
	(in thousands; unaudited)	
Net loss	$ (700)	$ (658)
Other comprehensive income (loss)	(1,448)	1,458
Total comprehensive income (loss)	$ (2,148)	$ 800

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS

RESULTS OF OPERATIONS

This Report on Form 10-Q includes statements concerning future events and financial performance. Statements which are not purely historical in nature are called "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, many of which can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "plan", "intend", or "continue" or the negative thereof or other variations thereon or comparable terminology.

You should not rely too heavily on these forward-looking statements. There are a number of important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Numerous factors, such as the availability of adequate financing, economic and competitive conditions, incoming order levels, timing of product shipments, product margins, new product development, and reliance on key consumers and international sales could cause actual results to differ from those described in these statements and you should carefully consider these factors in evaluating these forward-looking statements. For a description of these risks see "Risk Factors" below. You should also consult the risk factors listed from time to time in SSET's periodic filings with the SEC. All forward-looking statements included in this document are based on information available to us as of the date of this Report on Form 10-Q, and SSET assumes no obligation to update any such forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. The following discussion of the financial condition and results of operations of SSET should be read in conjunction with the condensed consolidated financial statements and notes thereto.

Overview

Revenue for the first quarter of fiscal 2001 decreased approximately 1.0 million, or 21%, to $3.8 million from $4.9 million in the first quarter of last fiscal year. Revenue for the fourth quarter of fiscal 2000 was $2.8 million. New orders in the first quarter of fiscal 2001 were significantly lower than in the comparable period of last fiscal year and the fourth quarter of fiscal 2000. The decrease in orders from the fourth quarter of fiscal 2000 is primarily due to a decrease in orders for transportable satellite terminals from the U.S. Government. The decrease in orders from the first quarter of last fiscal year occurred across all product lines except iP3. The Company's backlog was approximately $4.6 million, $5.7 million and $3.0 million at December 30, 2000, September 30, 2000 and September 25, 1999. Timing differences from quarter to quarter as to the receipt of large orders and changes in factory production make meaningful quarter to quarter comparisons of backlog difficult.

SSET is continuing its investment in the development of the iP3 satellite Internet gateway product line. In the first quarter of fiscal 2001, SSET recognized revenue of $598,000 from sales of iP3 products to two customers.

SSET's liquidity and capital resources as of December 30, 2000 have decreased in comparison to the end of last fiscal year due to operating losses and to continuing investment in iP3. As a result, as of February 13, 2001, SSET has exhausted substantially all of its currently available capital resources and will be unable to continue operations unless additional liquidity is immediately available. Management intends to obtain additional financing or sell certain assets to cover SSET's additional cash flow requirements until it reaches a break-even level of operations. Management is also pursuing the sale of the entire Company.

Results of Operations for the Three Month Period Ended December 30, 2000 and December 25, 1999

Revenue: Revenue decreased to $3.8 million for the first quarter of fiscal 2001 from $4.9 million for the same period in fiscal 2000. Revenue for the first quarter of fiscal 2001 includes $598,000 from sales of the Company's new iP3 product line. Excluding iP3, decreased revenue results primarily from lower unit volumes across all product lines. Given the financial condition of the Company and the adverse effect this may be having on the willingness of customers to place new orders, management is unable to predict with any degree of certainty what revenue will be for any future quarter.

Gross Profit: Gross profit increased to $661,000, or 17% of sales, in the first quarter of fiscal 2001 compared to $525,000 or 11% of sales for the first quarter of fiscal 2000. Cost of revenue for the first quarter of fiscal 2001 includes a $372,000 benefit relating to a reduction in the liability for estimated warranty expenses. Due primarily to continuing improvements in product quality, SSET has experienced a continuing overall reduction in warranty related returns and expects this trend to continue. Excluding this benefit, the decrease in gross profit from the first quarter of last fiscal year is primarily due to a decrease in unit volume.

Operating Expenses: Research and development expenses increased to $1.2 million, or 31% of sales, for the first quarter of fiscal 2001 from $928,000, or 19% of sales, for the first quarter of fiscal 2000. The increase was due to higher average headcount and expenses for contract workers and consulting expenses. Marketing, general and administrative expenses decreased to $1.4 million, or 36% of sales, in the first quarter of fiscal 2001 as compared to $1.9 million, or 39% of sales, for the same period in fiscal 2000. Marketing, general and administrative expenses were reduced significantly in the first quarter of fiscal 2001 largely in response to the Company's lack of liquidity. Discretionary spending for trade shows, outside consultants and professionals, travel and other expenses has been reduced. To a lesser extent, payroll related expenditures have also decreased.

Net Interest Expense: Net interest expense was $57,000 in the first quarter of fiscal 2001. During the same period of last fiscal year, net interest expense was $36,000. The increase is primarily due to the borrowing against accounts receivable.

Gain on Sale of Investments: During the first quarter of fiscal 2001 SSET sold its remaining 51,344 shares of Echostar common stock for a gain of approximately $2.3 million. In the first quarter of fiscal 2000, the Company realized a gain of approximately $1.7 million from the sale of Echostar common stock.

Provision for Income Taxes: For the first quarter of fiscal 2001, an income tax provision of $966,000 was provided on pretax income of $266,000. The provision resulted from an increase in the tax valuation allowance in order to fully reserve the net deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

At December 30, 2000, SSET had working capital of $3.5 million, including $884,000 in cash and cash equivalents, compared with working capital of $5.3 million, including cash and cash equivalents of $1.1 million at September 30, 2000.

Net cash used by operating activities was $2.1 million during the first quarter of fiscal 2001 as compared to net cash used of $2.0 million in the same period of fiscal 2000. Cash used by operating activities was principally due to operating losses and an increase in net assets related to operating activities, partially offset by noncash charges.

SSET's investing activities provided $2.6 million during the first quarter of fiscal 2001 as compared to cash provided of $2.0 million during the same period in fiscal 2000. During the first quarter of fiscal 2001, $2.6 million was realized from the sale of Echostar common stock compared with $2.0 million in the first quarter of fiscal 2000.

The Company's financing activities used $678,000 during the first quarter of fiscal 2001 as compared to net cash provided of $721,000 during the first quarter of fiscal 2000. In the first quarter of fiscal 2001, cash was used primarily to extinguish SSET's liability under the line-of-credit facility. In the first quarter of fiscal 2000, cash was provided primarily by borrowing's under the line-of-credit facility.

At December 30, 2000, SSET's principal sources of liquidity consisted of $884,000 in cash and accounts receivable qualifying for factoring. While SSET has borrowed against $1.3 million additional receivables for cash in the amount of $1.0 million subsequent to quarter end, the Company's ability to factor significant additional receivables is limited. Management currently estimates that SSET will exhaust all of its capital resources by the end of February 2001. SSET

expects to continue to incur quarterly losses until such time, if ever, that iP3 products are shipping in significant volume at acceptable gross margins. Accordingly, the Company has an immediate need for liquidity and will need significant additional funding in order to continue operations for the remainder of fiscal 2001. Management is currently pursuing various financing alternatives and the potential sale of part or all of the business. However, there can be no assurance that additional funding will be available, or if available, will be on reasonable terms. Further, any funding may be materially dilutive to our shareholders.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities Exchange Commission ("SEC") released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Subsequently, the SEC released SAB 101A, which delayed the implementation date of SAB 101 for registrants with fiscal years that begin between December 16, 1999 and March 15, 2000. SSET is required to be in conformity with the provisions of SAB 101, as amended by SAB 101A, no later than the fourth fiscal quarter of the fiscal year ending September 29, 2001 and does not expect a material effect on its financial position, results of operations or cash flows as a result of SAB 101.

In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS 133," which delayed the effective date of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which will be effective for

SSET's fiscal year 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivatives fair value be recognized in earnings unless specific hedge accounting criteria are met. SSET has not entered into derivative contracts and does not have near term plans to enter into derivative contracts, accordingly the adoption of SFAS No. 133 and SFAS No. 137 did not have a material effect on its financial statements.

In March 2000, the FASB issued Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation - an interpretation of APB No. 25." Interpretation No. 44 is effective after July 1,2000. The Interpretation clarifies the application of Opinion 25 for various issues, specifically: the definition of an employee, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. SSET does not anticipate that the adoption of Interpretation No. 44 will have a material impact on our financial position or results of operations.

RISK FACTORS

SSET's business faces significant risks. If any of the events described in the following risks actually occurs, SSET's business, financial condition and results of operations could be materially and adversely affected. These risks should be read in conjunction with the other information set forth in this report. The risks and uncertainties described below are not the only ones facing SSET. Additional risks and uncertainties not presently known to management, or those currently considered immaterial, may also harm SSET. Particular factors that may affect future financial results are:

History of Losses and Failure to Achieve Profitability; Immediate Need for Additional Financing

As of December 30, 2000, SSET had only approximately $598,000 of revenue derived from the iP3 platform and had an accumulated deficit of $6.8 million. SSET's future results of operations will be highly dependent on further enhancements to the design and development of iP3, and to successful introduction, marketing and manufacture of this platform. Due to the need to establish the iP3 platform, SSET expects to incur increasing sales and marketing, product development and administrative expenses. As a result, SSET will continue to incur significant losses for at least the next several quarters and will be required to raise additional capital. SSET has exhausted substantially all of its currently available capital resources. There can be no assurance that additional financing will be available, or if available, will be on reasonable terms. Further, any financing may be materially dilutive to the stockholders. SSET is

also pursuing the sale of certain assets and, potentially, the entire Company. If SSET is unable to obtain additional liquidity a timely basis, SSET will be required to reduce or even terminate its operations.

Market Acceptance of Products

The market for SSET's products is subject to technological change, new product introductions and continued market acceptance. Current competitors or new market entrants may develop new products with features that could cause a significant decline in sales, price reductions or loss of market acceptance of SSET's existing and future products. SSET's success will depend, among other factors, upon its ability to enhance its existing products and to introduce new products on a timely basis. In particular, SSET's future results of operations will be highly dependent on further enhancements to the design and development of iP3, and to successful introduction, marketing and manufacture of this platform. To date, SSET has made only limited commercial shipments of these products. This product line may require additional development work, enhancement, testing or further refinement before it can be made commercially successful. If iP3 has performance, reliability, quality or other shortcomings, then the product could fail to achieve market acceptance. The failure by SSET's new or existing products to achieve or enjoy market acceptance for any reason could cause SSET to experience reduced orders, higher manufacturing costs, delays in collecting accounts receivable and additional warranty and service expenses, which in each case could have a material adverse effect on SSET's reputation and financial performance.

Emerging Market For Internet-Over-Satellite Communications

Since approximately the second half of fiscal 1999, SSET has shifted emphasis away from its previous RF transceiver and modem products to the development and marketing of satellite Internet transport products and applications. The market for satellite Internet transport communications products is only beginning to emerge. SSET's future success will be largely dependent on the demand for satellite Internet transport communications products in general, and upon SSET's ability to develop and introduce new products and technologies that meet customer requirements. SSET faces challenges in demonstrating the value of its satellite Internet transport products. If SSET is unable to successfully educate potential customers as to the value of, and thereby obtain broad market acceptance for, its products, it will continue to rely primarily on selling existing products to its base of existing customers, which will significantly limit any opportunity for profitability or growth. To the extent that a specific method other than SSET's is adopted as the standard for implementing Internet-over-satellite communications, sales of SSET's planned products in that market segment would be adversely impacted, which would have a material adverse effect on SSET's business. In addition, the commercial success of SSET's Internet-over-satellite communications products will depend, in part, upon a robust commercial industry and infrastructure for providing access to public switched networks, such as the Internet. The infrastructure or complementary products necessary to make these networks into viable commercial marketplaces may not be fully developed, and once developed, these networks may not become viable commercial marketplaces.

Potential Fluctuations in Quarterly Operating Results

SSET's operating results have fluctuated in the past and may fluctuate in the future as a result of a number of factors, including market acceptance of SSET's product line of STAR satellite transceivers, high data rate modems and iP3 satellite Internet gateway products, delays in the delivery of SSET's products, delays in the closing of sales, performance of SSET's suppliers, new product introductions, such as iP3, and product enhancements by SSET or its competitors, the prices of SSET's or its competitors products, the mix of products sold, manufacturing costs, the level of warranty claims and changes in general economic conditions. In addition, competitive pressure on pricing in a given quarter could adversely affect SSET's operating results for such period, and such price pressure over an extended period could materially adversely affect SSET's long-term profitability. SSET expects that the gross margin for existing products will continue to be under pressure to decline due to price reductions as well as continuing competitive price pressure in the satellite telecommunication equipment market. SSET's ability to maintain or increase net revenues and gross margin will depend upon its ability to increase unit sales volumes, reduce manufacturing costs and introduce new products or product enhancements. SSET typically ships a substantial amount of its products near the end of each quarter. Accordingly, SSET's net revenues for any particular quarter cannot be predicted with any degree of accuracy. In addition, SSET has, in the past, experienced delays with shipping its products which has caused its revenues and net income to fluctuate significantly from anticipated levels and from quarter to quarter. Due to all of the foregoing factors, it is likely that SSET's future operating results will be below the expectations of public market analysts and investors. In such event, the price of SSET's common stock may decrease significantly.

Product Concentration

Sales of SSET's STAR transceivers accounted for approximately 48% of net revenues in fiscal 2000. SSET anticipates that its STAR transceivers will continue to account for a substantial portion of its net revenues during fiscal 2001. Any factor adversely affecting the demand or supply for the STAR transceiver product line could materially adversely affect SSET's business and financial performance.

Limited Number of Principal Customers

Sales of SSET's products are concentrated in a small number of customers. For fiscal 2000, the largest five customers accounted for 45% of sales. SSET expects that revenues from a relatively small number of customers will continue to account for a significant portion of revenue through fiscal 2001. There can be no assurance that SSET will realize equivalent sales from its top customers in the future. The loss of any existing customer or a significant reduction in the level of sales to any existing customer could have a material adverse effect on SSET's business, financial condition and results of operations.

Dependence on Suppliers

SSET's manufacturing operations are highly dependent upon the timely delivery of quality components, subassemblies, assemblies and other equipment by outside suppliers. From time to time SSET has experienced delivery delays from key suppliers which impacted sales. In addition, as has been experienced in the past, certain vendor-supplied materials may have quality issues, which could impact sales and increase customer support costs. There can be no assurance that SSET will not experience material supply problems or component issues in the future.

Competition

The market for satellite telecommunication equipment is highly competitive and subject to rapid technological change. SSET competes with a number of companies that manufacture components of satellite earth station systems similar to those manufactured by SSET. Certain of these companies have substantially greater financial resources and production, marketing, engineering and other capabilities than SSET with which to develop, manufacture, market and sell their products. SSET believes that its ability to compete successfully will depend on a number of factors both within and outside its control, including price, quality, delivery, product performance and features, timing of new product introductions by SSET and customer service and support. SSET expects its competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved performance characteristics. New product introductions by existing competitors and the entry of new competitors into the satellite telecommunication equipment market have in the past and may in the future cause SSET to reduce the prices of its products. SSET expects this increased competitive pressure to lead to intensified price-based competition, resulting in lower prices and may result in lower gross margins which would adversely affect SSET's business, financial condition and results of operations.

Attraction and Retention of Qualified Personnel

SSET's manufacturing and development capabilities are highly dependent upon hiring and retaining the required technical personnel. In particular, SSET will need to hire additional qualified engineering and other employees in order to continue the timely development of its iP3 product line. SSET competes for such personnel with other companies, government entities and organizations. From time to time SSET has experienced difficulties in recruiting and retaining key qualified personnel which impacted operations. SSET may experience personnel resource problems in the future.

Lengthy Sales Cycle

Sales of SSET's products often involve, or are integral components of, significant capital commitments by customers, with the attendant delays frequently associated with large capital expenditures. For these and other reasons, the sales cycle associated with SSET's products is often lengthy and subject to a number of significant risks over which SSET has little or no control. SSET is often required to ship products shortly after it receives orders and, consequently, order backlog at the beginning of any period has in the past represented only a small portion of that period's expected revenue. As a result, product revenue in any period is substantially dependent on orders booked and shipped in that period. SSET typically plans its production and inventory levels based on internal forecasts of customer demand,

11

which are highly unpredictable and can fluctuate substantially. If revenue falls significantly below anticipated levels, as it has at times in the past, SSET's financial condition and results of operations would be materially and adversely affected. In addition, SSET's operating expenses are based on anticipated revenue levels and a high percentage of SSET's expenses are generally fixed in the short term. Based on these factors, a small fluctuation in the timing of sales can cause operating results to vary significantly from period to period. It is likely that SSET's future operating results will be below the expectations of public market analysts and investors. In such an event, or in the event that adverse conditions prevail or are perceived to prevail generally or with respect to SSET's business, the price of SSET's common stock would likely be materially adversely affected.

Risks Associated with International Sales

SSET plans to continue to expand its foreign sales channels and to enter additional international markets, both of which will require significant management attention and financial resources. International sales are subject to a number of risks, including unexpected changes in regulatory requirements, export control laws, tariffs and other trade barriers, political and economic instability in foreign markets, difficulties in the staffing, management and integration of foreign operations, longer payment cycles, greater difficulty in collecting accounts receivable, currency fluctuations and potentially adverse tax consequences. Since SSET's foreign sales are denominated in U.S. dollars, SSET's products become less price competitive in countries in which local currencies decline in value relative to the U.S. dollar. The uncertainties of monetary exchange values have caused, and may in the future cause, some foreign customers to delay new orders or delay payment for existing orders. The long-term impact of such devaluation, including any possible effect on the business outlook in other developing countries, cannot be predicted. SSET's ability to compete successfully in foreign countries is dependent in part on SSET's ability to obtain and retain reliable and experienced in-country distributors and other strategic partners. SSET does not have long-term relationships with any of its value added resellers and distributors and, therefore, has no assurance of a continuing relationship within a given market.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

SSET is exposed to a variety of risks, including changes in interest rates affecting the return on its investments and foreign currency fluctuations. The Company has established policies and procedures to manage its exposure to fluctuations in interest rates and foreign currency exchanged.

SSET maintains any excess funds in money market and Certificate of Deposit accounts at banks. The Company's exposure to market risk due to fluctuations in interest rates relates primarily to its interest earnings on its cash deposits. These securities are subject to interest rate risk inasmuch as their fair value will fall if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from the levels prevailing at December 30, 2000, the fair value of the portfolio would not decline by a material amount. In addition, interest rate fluctuations may affect the buying patterns of the Company's customers. The Company does not use derivative financial instruments to mitigate risks.

Although SSET transacts business in various foreign countries, settlement amounts are based on U.S. currency. However, the indirect effects of significant foreign currency fluctuations could have a material adverse effect on the Company's business, financial condition and results of operations. For example, international demand for the Company's products is affected by foreign currency exchange rates. In addition, interest rate fluctuations may affect the buying patterns of the Company's customers.

PART II - OTHER INFORMATION

None.

12

SIGNATURES

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

Dated: February 13, 2001

SSE TELECOM, INC.

By: /s/ Leon F. Blachowicz

Leon F. Blachowicz,
Chief Executive Officer

By: /s/ James J. Commendatore

James J. Commendatore,
Chief Financial Officer