

SPEEDCOM WIRELESS CORP  
Form 10QSB  
November 12, 2003  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-QSB

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

**FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 30, 2003**

**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 0-21061**

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# SPEEDCOM WIRELESS CORPORATION

**(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

**DELAWARE**  
**(STATE OR OTHER JURISDICTION OF)**

**58-2044990**  
**(I.R.S. EMPLOYER)**

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INCORPORATION OR ORGANIZATION)

IDENTIFICATION NO.)

**7020 PROFESSIONAL PARKWAY EAST**

**SARASOTA, FL 34240**

**(941) 907-2300**

**(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,**

**INCLUDING AREA CODE,**

**OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)**

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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) Yes x No "", and (2) has been subject to such filing requirements for the past 90 days Yes x No "".

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the last practicable date: October 31, 2003  
20,092,022 common shares, \$.001 par value.

Transitional small business disclosure format (check one): Yes "" No x

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**SPEEDCOM WIRELESS CORPORATION**

**FORM 10-QSB FOR THE PERIOD ENDED SEPTEMBER 30, 2003**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SPEEDCOM WIRELESS CORPORATION****BALANCE SHEETS**

|                                                                                                                                                   | September 30,      | December 31,     |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                                                                                   | 2003               | 2002             |
|                                                                                                                                                   | (unaudited)        |                  |
| <b>Assets</b>                                                                                                                                     |                    |                  |
| Current assets:                                                                                                                                   |                    |                  |
| Cash                                                                                                                                              | \$ 182,762         | \$ 346,361       |
| Accounts receivable, net of allowances of \$67,602 and \$162,738 in 2003 and 2002, respectively                                                   | 292,999            | 520,164          |
| Leases receivable                                                                                                                                 | 81,331             | 248,993          |
| Inventories, net                                                                                                                                  | 814,431            | 1,523,734        |
| Prepaid expenses and other current assets                                                                                                         | 16,428             | 53,039           |
|                                                                                                                                                   | <u>1,387,951</u>   | <u>2,692,291</u> |
| Total current assets                                                                                                                              | 1,387,951          | 2,692,291        |
| Leases receivable, net of current portion                                                                                                         | 23,418             |                  |
| Property and equipment, net                                                                                                                       | 342,874            | 625,400          |
| Other assets                                                                                                                                      | 223,120            | 112,117          |
| Intellectual property, net                                                                                                                        | 888,516            | 1,096,125        |
|                                                                                                                                                   | <u>2,865,879</u>   | <u>4,525,933</u> |
| Total assets                                                                                                                                      | \$ 2,865,879       | \$ 4,525,933     |
| <b>Liabilities and stockholders deficit</b>                                                                                                       |                    |                  |
| Current liabilities:                                                                                                                              |                    |                  |
| Accounts payable                                                                                                                                  | \$ 903,825         | \$ 1,135,405     |
| Accrued expenses                                                                                                                                  | 1,174,412          | 930,949          |
| Due to related parties                                                                                                                            | 4,117,470          | 3,106,414        |
| Current portion of deferred revenue                                                                                                               | 24,474             | 20,939           |
| Current portion of notes and capital leases payable                                                                                               | 59,085             | 64,606           |
|                                                                                                                                                   | <u>6,279,266</u>   | <u>5,258,313</u> |
| Total current liabilities                                                                                                                         | 6,279,266          | 5,258,313        |
| Deferred revenue, net of current portion                                                                                                          | 11,731             | 4,626            |
| Notes and capital leases payable, net of current portion                                                                                          | 1,100,000          | 14,100           |
| Stockholders deficit:                                                                                                                             |                    |                  |
| Common stock, \$.001 par value, 250,000,000 shares authorized, 14,490,664 shares issued and outstanding in 2003 and 2002                          | 14,490             | 14,490           |
| Preferred stock, \$.450 stock liquidation value per share, 10,000,000 shares authorized, 3,835,554 shares issued and outstanding in 2003 and 2002 | 5,455,702          | 5,455,702        |
| Additional paid-in capital                                                                                                                        | 17,800,749         | 17,800,749       |
| Accumulated deficit                                                                                                                               | (27,796,059)       | (24,022,047)     |
|                                                                                                                                                   | <u>(4,525,118)</u> | <u>(751,106)</u> |
| Total stockholders deficit                                                                                                                        | (4,525,118)        | (751,106)        |

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|                                             |              |              |
|---------------------------------------------|--------------|--------------|
| Total liabilities and stockholders' deficit | \$ 2,865,879 | \$ 4,525,933 |
|---------------------------------------------|--------------|--------------|

*See accompanying notes.*

**Table of Contents****SPEEDCOM WIRELESS CORPORATION****STATEMENTS OF OPERATIONS****(unaudited)**

|                                                                      | Three months ended |              | Nine months ended |                |
|----------------------------------------------------------------------|--------------------|--------------|-------------------|----------------|
|                                                                      | September 30,      |              | September 30,     |                |
|                                                                      | 2003               | 2002         | 2003              | 2002           |
| Net revenues                                                         | \$ 1,272,908       | \$ 2,368,467 | \$ 3,731,747      | \$ 5,663,044   |
| Cost of goods sold                                                   | 837,005            | 1,298,154    | 2,418,795         | 3,219,074      |
| Gross margin                                                         | 435,903            | 1,070,313    | 1,312,952         | 2,443,970      |
| Operating expenses:                                                  |                    |              |                   |                |
| Salaries and related                                                 | 509,655            | 666,756      | 1,714,323         | 2,385,319      |
| General and administrative                                           | 427,895            | 465,503      | 1,571,383         | 1,858,027      |
| Selling expenses                                                     | 183,091            | 257,054      | 586,037           | 689,644        |
| Provision for bad debt                                               | 28,078             | 19,751       | 74,130            | 378,783        |
| Depreciation and amortization                                        | 175,741            | 175,524      | 540,053           | 527,617        |
| Severance costs                                                      |                    | 125,000      | 90,000            | 679,815        |
|                                                                      | 1,324,460          | 1,709,588    | 4,575,926         | 6,519,205      |
| Loss from operations                                                 | (888,557)          | (639,275)    | (3,262,974)       | (4,075,235)    |
| Other (expense) income:                                              |                    |              |                   |                |
| Interest expense                                                     | (190,775)          | (102,671)    | (493,946)         | (247,099)      |
| Interest income                                                      | 449                | 3,846        | 8,665             | 55,643         |
| Other expense, net                                                   | (22,094)           | (25,576)     | (25,757)          | (65,530)       |
|                                                                      | (212,420)          | (124,401)    | (511,038)         | (256,986)      |
| Net loss                                                             | (1,100,977)        | (763,676)    | (3,774,012)       | (4,332,221)    |
| Cumulative undeclared dividends on preferred stock                   | (251,570)          |              | (251,570)         |                |
| Net loss attributable to common stockholders                         | \$ (1,352,547)     | \$ (763,676) | \$ (4,025,582)    | \$ (4,332,221) |
| Net loss per common share:                                           |                    |              |                   |                |
| Basic and diluted                                                    | \$ (0.09)          | \$ (0.07)    | \$ (0.28)         | \$ (0.40)      |
| Shares used in computing basic and diluted net loss per common share | 14,490,664         | 11,432,691   | 14,490,664        | 10,839,563     |

*See accompanying notes.*



**Table of Contents****SPEEDCOM WIRELESS CORPORATION****STATEMENTS OF CASH FLOWS****(unaudited)**

|                                                                             | <b>Nine Months Ended</b> |                |
|-----------------------------------------------------------------------------|--------------------------|----------------|
|                                                                             | <b>September 30,</b>     |                |
|                                                                             | <b>2003</b>              | <b>2002</b>    |
| <b>Operating activities</b>                                                 |                          |                |
| Net loss                                                                    | \$ (3,774,012)           | \$ (4,332,221) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                          |                |
| Depreciation and amortization                                               | 540,053                  | 527,617        |
| Provision for bad debt                                                      | 74,130                   | 378,783        |
| Write off of notes receivable related party                                 |                          | 274,965        |
| Provision for inventory obsolescence                                        |                          | 178,224        |
| Common stock issued for services                                            |                          | 97,359         |
| Changes in operating assets and liabilities:                                |                          |                |
| Restricted cash                                                             |                          | 42,724         |
| Accounts receivable                                                         | 153,035                  | 1,260,952      |
| Leases receivable                                                           | 144,244                  | 883,945        |
| Inventories                                                                 | 709,303                  | 320,558        |
| Prepaid expenses and other current assets                                   | 36,611                   | 69,104         |
| Other assets                                                                | (111,003)                | 9,987          |
| Accounts payable and accrued expenses                                       | 11,883                   | (1,635,779)    |
| Deferred revenue                                                            | 10,640                   | (54,211)       |
| Net cash used in operating activities                                       | (2,205,116)              | (1,977,993)    |
| <b>Investing activities</b>                                                 |                          |                |
| Purchases of equipment                                                      | (60,138)                 | (9,939)        |
| Proceeds from disposals of equipment                                        | 10,220                   | 7,626          |
| Net cash used in investing activities                                       | (49,918)                 | (2,313)        |
| <b>Financing activities</b>                                                 |                          |                |
| Net payments to factor                                                      |                          | (298,676)      |
| Proceeds from loans from related parties                                    | 1,015,000                | 2,438,000      |
| Payments of loans from related parties                                      | (3,944)                  | (102,147)      |
| Proceeds from issuance of notes                                             | 1,100,000                |                |
| Payments of notes and capital leases                                        | (19,621)                 | (61,737)       |
| Proceeds from issuance of common stock and warrants                         |                          | 4,428          |
| Net cash provided by financing activities                                   | 2,091,435                | 1,979,868      |
| Net decrease in cash                                                        | (163,599)                | (438)          |
| Cash at beginning of period                                                 | 346,361                  | 273,614        |
| Cash at end of period                                                       | \$ 182,762               | \$ 273,176     |

**Supplemental disclosure of noncash investing and financing activities**



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|                                                              |    |        |
|--------------------------------------------------------------|----|--------|
| Common stock issued for services                             | \$ | 97,359 |
| Conversion of accounts payable to loans from related parties | \$ | 44,363 |
| Conversion of accounts payable to notes payable              | \$ | 74,903 |

*See accompanying notes.*

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**SPEEDCOM WIRELESS CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**(unaudited)**

**1. Business**

SPEEDCOM Wireless Corporation (SPEEDCOM) was incorporated in Florida on March 16, 1994 and reincorporated in Delaware on September 26, 2000. SPEEDCOM manufactures, configures and delivers custom broadband wireless networking equipment, including the SPEEDLAN family of wireless Ethernet bridges and routers, for business and residential customers internationally. Internet service providers, telecommunications service providers and private organizations in over 80 countries use SPEEDCOM products to provide last-mile wireless connectivity between multiple buildings at speeds up to 155 megabits per second and distances up to 25 miles.

**2. Basis of Presentation**

The accompanying financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. The accompanying financial statements should be read in conjunction with SPEEDCOM's annual financial statements and notes thereto included in SPEEDCOM's Form 10-KSB.

In the opinion of management, the financial statements reflect all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for those periods presented. Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

**3. Recent Accounting Pronouncements**

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The statement amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This statement is designed to improve financial reporting such that contracts with comparable characteristics are accounted for similarly. The statement, which is generally effective for contracts entered into or modified after June 30, 2003, is not anticipated to have a significant effect on SPEEDCOM's financial position or results of operations.

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In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for how

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an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. SPEEDCOM currently has no such financial instruments outstanding or under consideration and therefore adoption of this standard currently has no financial reporting implications.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Valuable Interest Entities*. This interpretation clarifies rules relating to consolidation where entities are controlled by means other than a majority voting interest and instances in which equity investors do not bear the residual economic risks. This interpretation was originally effective immediately for variable interest entities created after January 31, 2003 and for interim periods beginning after June 15, 2003 for interests acquired prior to February 1, 2003. However, the FASB is reviewing certain provisions of the standard and has deferred the effective date for public companies to periods ending after December 15, 2003. SPEEDCOM currently has no ownership in variable interest entities and therefore adoption of this standard currently has no financial reporting implications.

## **4. Going Concern and Management's Plans**

The accompanying financial statements are prepared on a going-concern basis, which assumes that SPEEDCOM will realize its assets and discharge its liabilities in the normal course of business. As reflected in the accompanying financial statements, SPEEDCOM incurred operating losses of approximately \$3,263,000 and \$4,075,000 and negative cash flows from operations of approximately \$2,205,000 and \$1,978,000 for the nine months ended September 30, 2003 and 2002, respectively and had a working capital deficit of approximately \$4,891,000 as of September 30, 2003. In addition, SPEEDCOM's cash flows from operations for the remainder of 2003 are currently projected to be insufficient to finance projected operations, without funding from other sources. These conditions raise substantial doubt as to the ability of SPEEDCOM to continue its normal business operations as a going concern.

Management's plans to sustain SPEEDCOM's operations include augmenting revenue opportunities, curtailing operating expenses as a percentage of revenue and raising additional capital from external sources. During the nine months ended September 30, 2003, management effectively lowered its operating expenses by approximately \$1,943,000 over amounts incurred during the nine months ended September 30, 2002. SPEEDCOM borrowed \$1,015,000 during the nine months ended September 30, 2003, at a 15% interest rate, due December 31, 2003. SPEEDCOM also borrowed \$1,100,000 from P-Com, Inc. (P-Com) during the nine months ended September 30, 2003 through convertible promissory notes, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the notes. These notes are due March 21, 2005 (\$400,000), July 17, 2005 (\$300,000), August 8, 2005 (\$200,000), September 8, 2005 (\$50,000), September 16, 2005 (\$50,000), September 24, 2005 (\$50,000) and September 30, 2005 (\$50,000). In addition, SPEEDCOM borrowed \$230,000 from P-Com in October 2003 through two convertible promissory notes, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the notes, due October 14, 2005.

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(\$130,000) and October 22, 2005 (\$100,000), respectively. While management is actively addressing multiple sources of capital, there can be no assurance that SPEEDCOM will generate adequate cash from these and similar sources during the remainder of 2003 and 2004. The financial statements do not include any adjustments that may arise as a result of this uncertainty.

During the nine months ended September 30, 2003, SPEEDCOM entered into a definitive agreement with P-Com to sell its operating assets and certain liabilities. Under the terms of the agreement, P-Com will acquire SPEEDCOM's operating assets and business relationships in exchange for approximately 67,500,000 shares of P-Com common stock and the assumption of certain liabilities of SPEEDCOM. P-Com will assume approximately \$3,000,000 in debt that will include at least a 36-month maturity following the closing and is expected to be convertible into shares of P-Com common stock at approximately \$0.20 per share. The transaction is expected to close as soon as possible following stockholder approval of the asset purchase and an increase in the number of authorized shares of P-Com common stock. Following closing, SPEEDCOM's immediate plans will be to reduce significantly its monthly overhead so as to best preserve its available cash while developing revenue generating opportunities. SPEEDCOM will continue to spend limited amounts on salaries, insurance, rent, communications and other normal general and administrative expenses. Assuming the asset purchase agreement becomes effective, SPEEDCOM management intends to seek and evaluate numerous operating businesses for investment.

### **5. Leases Receivable**

At September 30, 2003, leases receivable represent sales-type leases with two customers, resulting from the configuration, assembly and delivery of wireless communications products. During the nine months ended September 30, 2002, SPEEDCOM restructured one of the current leases receivable, previously recorded at approximately \$1,290,000, into a lease receivable with approximately \$336,000 due immediately, five payments of \$50,000 due over a five month period and a balloon payment of approximately \$328,000 due in August 2002. As a result of this restructuring, SPEEDCOM recorded a provision for bad debt of approximately \$395,000 for the nine months ended September 30, 2002. This lease was restructured in August 2002 and again in March 2003, extending the payment schedule through May 2003 and December 2003, respectively. There are no further credit allowances considered by management to be necessary for these transactions.

### **6. Inventories**

A summary of inventories, net at September 30, 2003 and December 31, 2002 is as follows:

|                      | <b>2003</b>       | <b>2002</b>         |
|----------------------|-------------------|---------------------|
| Component parts      | \$ 371,931        | \$ 800,485          |
| Completed assemblies | 442,500           | 723,249             |
|                      | <b>\$ 814,431</b> | <b>\$ 1,523,734</b> |

**Table of Contents****7. Intellectual Property**

In January 2001, SPEEDCOM acquired worldwide rights to PacketHop, a wireless routing software developed by SRI International (SRI). Under the terms of the agreement, SPEEDCOM obtained rights to SRI's PacketHop technology in the fixed wireless infrastructure market for certain specific frequencies below 6 gigahertz. SRI received \$360,000 in cash and a total of 325,000 shares of common stock of SPEEDCOM that was issued in four tranches. Each tranche was measured on the specific date that the stock was issued. As of September 30, 2003, the \$360,000 in cash and the value of the shares at the date of grant less amortization are classified in intellectual property, net on the balance sheet and are being amortized using the straight-line method over the six-year term of the agreement.

A summary of intellectual property balances at September 30, 2003 and December 31, 2002 is as follows:

|                               | <u>2003</u>       | <u>2002</u>         |
|-------------------------------|-------------------|---------------------|
| Intellectual property         | \$ 1,599,500      | \$ 1,599,500        |
| Less accumulated amortization | (710,984)         | (503,375)           |
|                               | <u>\$ 888,516</u> | <u>\$ 1,096,125</u> |

Supplemental amortization information for intellectual property is as follows:

|                                                                 |                   |
|-----------------------------------------------------------------|-------------------|
| Amortization expense:                                           |                   |
| Nine Months ended September 30, 2003                            | \$ 207,609        |
|                                                                 | <u>          </u> |
| Year ended December 31, 2002                                    | \$ 276,812        |
|                                                                 | <u>          </u> |
| Year ended December 31, 2001                                    | \$ 226,563        |
|                                                                 | <u>          </u> |
| Estimate future amortization expense for the periods indicated: |                   |
| Three months ended December 31, 2003                            | \$ 69,203         |
|                                                                 | <u>          </u> |
| Year ended December 31, 2004                                    | \$ 276,812        |
|                                                                 | <u>          </u> |
| Year ended December 31, 2005                                    | \$ 276,812        |
|                                                                 | <u>          </u> |
| Year ended December 31, 2006                                    | \$ 265,689        |
|                                                                 | <u>          </u> |

**8. Accrued Expenses**

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A summary of accrued expenses at September 30, 2003 and December 31, 2002 is as follows:

|                     | 2003                | 2002              |
|---------------------|---------------------|-------------------|
| Accrued payroll     | \$ 144,117          | \$ 164,589        |
| Accrued commissions | 17,143              | 48,184            |
| Severance costs     | 276,878             | 345,103           |
| Accrued interest    | 685,377             | 228,677           |
| Other               | 50,897              | 144,396           |
|                     | <u>\$ 1,174,412</u> | <u>\$ 930,949</u> |

**Table of Contents****9. Related Party Transactions***Due to Related Parties*

In March 2002, SPEEDCOM issued three promissory notes to each of SPEEDCOM's then current outside board members for \$14,738, \$13,875 and \$15,750, respectively. Each note bears an interest rate of 14% and carries an additional 2% penalty on outstanding principal not paid by April 15, 2002. \$33,863 of these notes has been paid as of September 30, 2003.

During the year ended December 31, 2002 and the nine months ended September 30, 2003, SPEEDCOM borrowed an aggregate \$2,928,000 and \$1,015,000, respectively under secured promissory notes from institutional investors who are shareholders. All tangible and intangible assets of SPEEDCOM secure the notes. The notes bear an interest rate of 15% and are payable December 31, 2003. Prepayment is permitted under the secured promissory notes with a 50% premium on the outstanding principal amount.

As a stipulation of the preferred stock financing received in August 2001, SPEEDCOM was required to file and obtain SEC acceptance of a registration statement within a specified period of time or incur penalties. As a result of obtaining acceptance from the SEC nineteen days late, SPEEDCOM incurred a penalty of \$163,970, payable to the preferred stockholders. The penalty was accrued during 2001 and is included in due to related parties at September 30, 2003 and December 31, 2002.

*Related Party Interest Expense*

Interest expense recorded during the three months ended September 30, 2003 and 2002 related to related party notes, loans and other balances amounted to approximately \$152,000 and \$80,000, respectively. Interest expense recorded during the nine months ended September 30, 2003 and 2002 related to related party notes, loans and other balances amounted to approximately \$424,000 and \$117,000, respectively.

**10. Notes and Capital Leases Payable**

A summary of notes and capital leases payable at September 30, 2003 and December 31, 2002 is as follows:

|                                             | 2003             | 2002          |
|---------------------------------------------|------------------|---------------|
| 12% convertible note <sup>(a)</sup>         | \$ 40,000        | \$ 40,000     |
| Convertible promissory notes <sup>(b)</sup> | 1,100,000        |               |
| Capital lease obligations                   | 19,085           | 38,706        |
|                                             | <u>1,159,085</u> | <u>78,706</u> |
| Less current portion                        | (59,085)         | (64,606)      |



|  |                     |                  |
|--|---------------------|------------------|
|  | <u>\$ 1,100,000</u> | <u>\$ 14,100</u> |
|--|---------------------|------------------|

- (a) In January 2002, SPEEDCOM entered into a financial relations and consultant contract whereby the consulting firm will receive a \$10,000 convertible note with a 12% coupon rate each month. This contract was cancelled in May 2002. The notes are convertible at any time at \$1.125 per common share. As of September 30, 2003, the note holder possesses rights to convert the notes to 45,000 shares of restricted common stock.

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- (b) SPEEDCOM borrowed \$1,100,000 from P-Com during the nine months ended September 30, 2003 through convertible promissory notes, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the notes. These notes are due March 21, 2005 (\$400,000), July 17, 2005 (\$300,000), August 8, 2005 (\$200,000), September 8, 2005 (\$50,000), September 16, 2005 (\$50,000), September 24, 2005 (\$50,000) and September 30, 2005 (\$50,000). These notes are convertible at \$0.12 per common share.

**11. Customer Concentrations**

*Revenue*

Although SPEEDCOM serves a large and varied group of customers, two customers accounted for 12% and 19% of SPEEDCOM's revenue for the three months ended September 30, 2002. No customer accounted for more than 10% of SPEEDCOM's revenue for the nine months ended September 30, 2002 or for the three and nine months ended September 30, 2003.

*Accounts Receivable*

No customer accounted for 10% or more of SPEEDCOM's gross accounts receivable as of September 30, 2003 or as of December 31, 2002.

SPEEDCOM intends to continue to attempt to diversify and expand its customer base with its current limited resources and maintain overhead costs at low levels.

**Table of Contents****12. Stock Based Compensation**

The following table reflects supplemental financial information related to stock-based employee compensation, as required by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*:

|                                                                                                                                                                                | Three Months Ended |              | Nine Months Ended |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------|-------------------|----------------|
|                                                                                                                                                                                | September 30,      |              | September 30,     |                |
|                                                                                                                                                                                | 2003               | 2002         | 2003              | 2002           |
| Stock-based employee compensation costs used in the determination of net loss, as reported                                                                                     |                    |              |                   | \$ (97,359)    |
| Net loss, as reported                                                                                                                                                          | \$ (1,100,977)     | \$ (763,676) | \$ (3,774,012)    | \$ (4,332,221) |
| Stock-based employee compensation costs that would have been included in the determination of net loss if the fair value method (Statement 123) had been applied to all awards | (28,237)           | (58,507)     | (84,711)          | (175,521)      |
| Unaudited pro forma net loss, as if the fair value method had been applied to all awards                                                                                       | \$ (1,129,214)     | \$ (822,183) | \$ (3,858,723)    | \$ (4,507,742) |
| Loss per share, as reported                                                                                                                                                    | \$ (0.08)          | \$ (0.07)    | \$ (0.26)         | \$ (0.40)      |
| Unaudited pro forma loss per share, as if the fair value method had been applied to all awards                                                                                 | \$ (0.08)          | \$ (0.07)    | \$ (0.27)         | \$ (0.42)      |

**13. Severance Costs**

During the nine months ended September 30, 2003, SPEEDCOM recorded severance costs of \$90,000 in accordance with the separation agreement between SPEEDCOM and its former Vice President of Marketing and Product Development. The costs include severance pay to be paid over future periods.

During the nine months ended September 30, 2002, SPEEDCOM recorded severance costs of approximately \$680,000 in accordance with the separation agreements, as amended, between SPEEDCOM and its former Chief Executive Officer and Chief Operating Officer. The costs include severance pay and other employee benefits and the write off of notes receivable-related party, as described below. During 2001, SPEEDCOM sold its InstallGuys division to SPEEDCOM's then Chief Executive Officer. In return, SPEEDCOM received two 6% secured promissory notes totaling approximately \$211,000. In October 2001, SPEEDCOM loaned InstallGuys an additional \$50,000 at 6% interest. As a stipulation to the separation agreement, as amended, between SPEEDCOM and its former Chief Executive Officer, SPEEDCOM forgave all indebtedness owed by InstallGuys. Consequently, SPEEDCOM charged the notes receivable-related party to severance expense during the nine months ended September 30, 2002.

**14. Dividend Arrearages**

Beginning August 23, 2003, SPEEDCOM's preferred stockholders are entitled to cumulative dividends at the rate of 14% per year times the \$3.38 (\$4.50 if paid in stock) per share liquidation preference. The cumulative, undeclared dividend in arrearage that the preferred stockholders are entitled to as of September 30, 2003 is \$251,570, assuming a stock payout. No record date has been established for the dividend by SPEEDCOM's Board of Directors.

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### **15. Anti dilution Effects**

Under the anti-dilution provisions of our preferred stock, if SPEEDCOM issues common stock or common stock equivalents at a purchase price, conversion price, or warrant or option exercise price that is less than the lesser of the current preferred stock conversion price of \$1.125 per share or the current market price, the conversion price of the preferred stock will be reduced using a customary weighted average basis formula. Under the anti-dilution provisions of 7,160,810 (as adjusted) warrants issued in August 2001, (1) the exercise price will be lowered to equal the purchase price, conversion price, or warrant or option exercise price for any common stock or common stock equivalent issued (other than to employees) at a purchase price, conversion price, or warrant or option exercise price less than the current per share exercise price of the applicable warrants (\$0.12 in the case of Series A Warrants), and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced. Alternatively, (1) the exercise price will be reduced by the percentage by which the purchase price, conversion price, or warrant or option exercise price of any issued security (others than to employees) is less than the current market price of the common stock, and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced, if this formula results in a lower exercise price than the adjustment described in the preceding sentence. Similar anti-dilution provisions apply to outstanding warrants to acquire 1,002,026 shares of our common stock (as adjusted) at an exercise price of \$0.12 per share and \$1,100,000 of P-Com convertible notes at an exercise price of \$0.12.

Effective with the issuance of the convertible notes discussed in Note 10, the conversion prices of SPEEDCOM's warrants was decreased to \$0.12, resulting in common shares of 8,162,836 issuable under these securities, if currently converted or exercised.

### **16. Subsequent Events**

In October 2003, SPEEDCOM borrowed \$230,000 from P-Com through two convertible promissory notes, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the notes, due October 14, 2005 (\$130,000) and October 22, 2005, (\$100,000), respectively. These notes are convertible at \$0.12 per common share.

In October 2003, SPEEDCOM converted \$570,000 of notes payable that were due December 31, 2003, plus accrued interest of \$102,163, into 5,601,358 shares of SPEEDCOM common stock utilizing a conversion rate of \$0.12. SPEEDCOM recorded a gain on this conversion of approximately \$336,000.

In October 2003, SPEEDCOM acquired software from JDK Technology for \$50,000, to be paid over time, which was an enhancement to the PacketHop technology. The value of the software was classified in intellectual property and is being amortized using the straight-line method over the remaining life of the PacketHop technology.

**Table of Contents****Item 2. Management's Discussion and Analysis**

The discussion in this document contains trend analysis and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, such as statements concerning growth and future operating results; developments in markets and strategic focus; new products and product technologies; and future economic, business and regulatory conditions. Such forward-looking statements are generally accompanied by words such as plan, estimate, expect, believe, should, would, could, anticipate, may and other words that convey uncertainty of future outcomes. These forward-looking statements and other statements made elsewhere in this report are made in reliance on the Private Securities Litigation Reform Act of 1995. The section below entitled "Certain Factors That May Affect Future Results, Financial Condition and Market Price of Securities" sets forth material factors that could cause actual results to differ materially from these statements.

*Results of Operations*

The following table sets forth the percentage of net revenues represented by certain items in SPEEDCOM's statements of operations for the periods indicated.

|                                                    | Three Months Ended |       | Nine Months Ended |       |
|----------------------------------------------------|--------------------|-------|-------------------|-------|
|                                                    | September 30,      |       | September 30,     |       |
|                                                    | 2003               | 2002  | 2003              | 2002  |
| Net revenues                                       | 100%               | 100%  | 100%              | 100%  |
| Cost of goods sold                                 | 66%                | 55%   | 65%               | 57%   |
| Gross margin                                       | 34%                | 45%   | 35%               | 43%   |
| Operating expenses:                                |                    |       |                   |       |
| Salaries and related                               | 40%                | 28%   | 46%               | 42%   |
| General and administrative                         | 34%                | 20%   | 42%               | 33%   |
| Selling expenses                                   | 14%                | 11%   | 16%               | 12%   |
| Provision for bad debt                             | 2%                 | 1%    | 2%                | 7%    |
| Depreciation and amortization                      | 14%                | 7%    | 14%               | 9%    |
| Severance costs                                    | 0%                 | 5%    | 2%                | 12%   |
|                                                    | 104%               | 72%   | 122%              | 115%  |
| Loss from operations                               | (70)%              | (27)% | (87)%             | (72)% |
| Other (expense) income:                            |                    |       |                   |       |
| Interest expense                                   | (15)%              | (4)%  | (13)%             | (4)%  |
| Interest income                                    | 0%                 | 0%    | 0%                | 1%    |
| Other expense, net                                 | (1)%               | (1)%  | (1)%              | (1)%  |
|                                                    | (16)%              | (5)%  | (14)%             | (4)%  |
| Net loss                                           | (86)%              | (32)% | (101)%            | (76)% |
| Cumulative undeclared dividends on preferred stock | (20)%              |       | (7)%              |       |
| Net loss attributable to common stockholders       | (106)%             | (32)% | (108)%            | (76)% |

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*Nine Months Ended September 30, 2003 and September 30, 2002*

Net revenues decreased 34% from approximately \$5,663,000 for the nine months ended September 30, 2002 to approximately \$3,732,000 for the nine months ended September 30, 2003. This decrease was due to price reductions by SPEEDCOM and unexpected delays in spending decisions by both potential and current customers during 2003 as compared to 2002. These factors, combined with the challenging economic environment in both the United States of America and overseas, contributed to disappointing results. Revenues from customers in foreign geographic areas increased to 56% of revenues for the nine months ended September 30, 2003 as compared to 48% of revenues the nine months ended September 30, 2002. The percentage of sales from international customers is expected to decrease slightly during the remainder of the year ended December 31, 2003.

Cost of goods sold decreased 25% from approximately \$3,219,000 for the nine months ended September 30, 2002 to approximately \$2,419,000 for the nine months ended September 30, 2003, due to decreases in SPEEDCOM's revenues. In addition, gross margin as a percentage of sales decreased eight percentage points from 43% for the nine months ended September 30, 2002 to 35% for the nine months ended September 30, 2003 as a result of price reductions by SPEEDCOM and lower cost absorption of fixed costs due to decreased revenue.

Salaries and related, general and administrative and selling expenses decreased by 22% from approximately \$4,933,000 for the nine months ended September 30, 2002 to approximately \$3,872,000 for the nine months ended September 30, 2003. This decrease was primarily due to a decrease in salaries and related expenses of approximately \$671,000 associated with decreased headcount (57 at September 30, 2002 versus 47 at September 30, 2003) and a decrease in general and administrative expenses of approximately of \$287,000 related to decreased accounting, legal and investor relations expenses.

Provision for bad debt decreased 80% from approximately \$379,000 during the nine months ended September 30, 2002 to approximately \$74,000 for the nine months ended September 30, 2003. During the nine months ended September 30, 2002, SPEEDCOM converted two of its leases receivable, recorded at approximately \$1,290,000, into a new lease receivable with approximately \$336,000, which was due and collected immediately, five payments of \$50,000 due over a five-month period and a balloon payment of approximately \$328,000 due in August 2002. As a result of this restructuring of the leases, SPEEDCOM recorded a provision for bad debt of approximately \$395,000 for the nine months ended September 30, 2002.

During the nine months ended September 30, 2003, SPEEDCOM recorded severance costs of \$90,000 in accordance with the separation agreement between SPEEDCOM and its former Vice President of Marketing and Product Development. The costs include severance pay to be paid over future periods.

During the nine months ended September 30, 2002, SPEEDCOM recorded severance costs of approximately \$680,000 in accordance with the separation agreements, as amended, between SPEEDCOM and its former Chief Executive Officer and Chief Operating Officer. The costs



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include severance pay and other employee benefits and the write off of notes receivable-related party, as described below. During 2001, SPEEDCOM sold its InstallGuys division to SPEEDCOM's then Chief Executive Officer. In return, SPEEDCOM received two 6% secured promissory notes totaling approximately \$211,000. In October 2001, SPEEDCOM loaned InstallGuys an additional \$50,000 at 6% interest. As a stipulation to the separation agreement, as amended, between SPEEDCOM and its former Chief Executive Officer, SPEEDCOM forgave all indebtedness owed by InstallGuys. Consequently, SPEEDCOM charged the notes receivable-related party to severance expense during the nine months ended September 30, 2002.

Interest expense increased from approximately \$247,000 for the nine months ended September 30, 2002 to approximately \$494,000 for the nine months ended September 30, 2003. This increase was due to the addition of notes payable and loans from related parties during 2002 and 2003 of \$5,043,000. Interest income decreased from approximately \$56,000 for the nine months ended September 30, 2002 to approximately \$9,000 for the nine months ended September 30, 2003 as a result of fewer leasing agreements.

Net loss decreased 13% from approximately \$4,332,000, or \$0.40 per share, in the nine months ended September 30, 2002 to approximately \$3,774,000, or \$0.26 per share, in the nine months ended September 30, 2003 as a result of the foregoing factors.

Beginning August 23, 2003, SPEEDCOM's preferred stock holders are entitled to dividends to be paid on conversion at the rate of 14% per year times the \$3.38 (\$4.50 if paid in stock) per share liquidation preference. The dividend that the preferred stock holders are entitled to for the nine months ending September 30, 2003 is \$251,570, assuming a stock payout.

### *Three Months Ended September 30, 2003 and September 30, 2002*

Net revenues decreased 46% from approximately \$2,368,000 for the three months ended September 30, 2002 to approximately \$1,273,000 for the three months ended September 30, 2003. This decrease was due to price reductions by SPEEDCOM and unexpected delays in spending decisions by both potential and current customers during 2003 as compared to 2002. These factors, combined with the challenging economic environment in both the United States of America and overseas, contributed to disappointing results. Revenues from customers in foreign geographic areas increased to 50% of revenues for the three months ended September 30, 2003 as compared to 44% of revenues the three months ended September 30, 2002. The percentage of sales from international customers is expected to remain flat during the remainder of the year ended December 31, 2003.

Cost of goods sold decreased 36% from approximately \$1,298,000 for the three months ended September 30, 2002 to approximately \$837,000 for the three months ended September 30, 2003, due to decreases in SPEEDCOM's revenues. In addition, gross margin as a percentage of sales decreased eleven percentage points from 45% for the three months ended September 30, 2002 to 34% for the three months ended September 30, 2003 as a result of price reductions by SPEEDCOM and lower cost absorption of fixed costs due to decreased revenue.

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Salaries and related, general and administrative and selling expenses decreased by 19% from approximately \$1,389,000 for the three months ended September 30, 2002 to approximately \$1,121,000 for the three months ended September 30, 2003. This decrease was primarily due to a decrease in salaries and related expenses of approximately \$157,000 associated with decreased headcount (57 at September 30, 2002 versus 47 at September 30, 2003).

During the three months ended September 30, 2002, SPEEDCOM recorded severance costs of \$125,000 in accordance with the separation agreement between SPEEDCOM and its former Chief Operating Officer. The costs include severance pay, including amounts to be paid over future periods.

Interest expense increased from approximately \$103,000 for the three months ended September 30, 2002 to approximately \$191,000 for the three months ended September 30, 2003. This increase was due to the addition of notes payable and loans from related parties during 2002 and 2003 of \$5,043,000. Interest income decreased from approximately \$4,000 for the three months ended September 30, 2002 to approximately \$1,000 for the three months ended September 30, 2003 as a result of fewer leasing agreements.

Net loss increased 44% from approximately \$764,000, or \$0.07 per share, in the three months ended September 30, 2002 to approximately \$1,101,000, or \$0.08 per share, in the three months ended September 30, 2003 as a result of the foregoing factors.

Beginning August 23, 2003, SPEEDCOM's preferred stock holders are entitled to dividends to be paid on conversion at the rate of 14% per year times the \$3.38 (\$4.50 if paid in stock) per share liquidation preference. The dividend that the preferred stock holders are entitled to for the three months ending September 30, 2003 is \$251,570, assuming a stock payout.

## *Taxes*

At September 30, 2003, SPEEDCOM had net operating loss carryforwards (NOLs) for federal income tax purposes of approximately \$21,618,000. The NOLs expire at various dates through the year 2022. Utilization of SPEEDCOM's net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitation could result in the expiration of the net operating loss before utilization.

## *Liquidity and Capital Resources*

During the nine months ended September 30, 2003, SPEEDCOM used approximately \$2,205,000 of cash for operating activities. This was primarily due to SPEEDCOM's net loss for the period and increases in other assets partially offset by decreases in inventory, accounts receivable and leases receivable. SPEEDCOM purchased approximately \$60,000 of fixed assets during the nine months ended September 30, 2003 as compared to approximately \$10,000 during the same period in 2002. SPEEDCOM does not have any material commitments for capital expenditures in the future. SPEEDCOM received approximately \$2,091,000 from its financing

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activities through proceeds from related party and third party loans. As of September 30, 2003, SPEEDCOM had cash of approximately \$183,000.

During the nine months ended September 30, 2003, SPEEDCOM borrowed an aggregate \$1,015,000 from institutional investors who are shareholders. The loans bear an interest rate of 15% and are payable December 31, 2003. Also during the nine months ended September 30, 2003, SPEEDCOM borrowed \$1,100,000 from P-Com. The loans bear an interest rate of 10% for the first six months and 13% for the remainder of the term of the note. These notes are due March 21, 2005 (\$400,000), July 17, 2005 (\$300,000), August 8, 2005 (\$200,000), September 8, 2005 (\$50,000), September 16, 2005 (\$50,000), September 24, 2005 (\$50,000) and September 30, 2005 (\$50,000). These notes are convertible at \$0.12, per common share.

During the nine months ended September 30, 2002, SPEEDCOM used approximately \$1,978,000 of cash for operating activities. This was primarily due to SPEEDCOM's net loss for the period and decreases in accounts payable and accrued expenses partially offset by decreases in accounts receivable, leases receivable and inventories. SPEEDCOM purchased approximately \$10,000 of fixed assets during the nine months ended September 30, 2002 as compared to approximately \$447,000 during the same period in 2001. SPEEDCOM does not have any material commitments for capital expenditures in the future. SPEEDCOM received approximately \$1,980,000 from its financing activities primarily through proceeds from shareholder loans, partially offset by payments to factored accounts receivable. As of September 30, 2002, SPEEDCOM had cash of approximately \$273,000.

Projected cash flows from SPEEDCOM's current operations are not sufficient to finance SPEEDCOM's current and projected working capital requirements. It is essential that SPEEDCOM obtain additional capital to execute its business plan for the remainder of 2003 and 2004. SPEEDCOM will seek additional capital to fund working capital deficits, develop next generation products and to take advantage of opportunities that may arise. This additional capital could come from the sale of common or preferred stock, from borrowings, or from a strategic transaction such as a merger. There can be no assurance that such financing will be available on acceptable terms, if at all. If SPEEDCOM is unable to secure significant additional financing, SPEEDCOM will have to further downsize its business or explore other alternatives. The financial statements do not include any adjustments that might arise as a result of this uncertainty.

Management's plans to sustain SPEEDCOM's operations include augmenting revenue opportunities, curtailing operating expenses as a percentage of revenue and raising additional capital from external sources, as discussed above. During the nine months ended September 30, 2003, management effectively lowered its operating expenses by approximately \$1,943,000 over amounts incurred during the nine months ended September 30, 2002. In addition, during the nine months ended September 30, 2003 management raised cash of \$2,115,000 from loans from related parties and third party investors, of which approximately \$1,100,000 (borrowed from P-Com) is eventually convertible to equity. While management is actively addressing multiple sources of capital, there can be no assurance that SPEEDCOM will generate adequate cash from these and similar sources during the remainder of 2003 and 2004.

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### *Commitments and Off Balance Sheet Instruments*

SPEEDCOM's only material commitments involve leases for office and manufacturing facilities and computer and office equipment under operating leases. Rental expense under all operating leases amounted to approximately \$403,000 and \$607,000 for the nine months ended September 30, 2003 and 2002, respectively.

During 2002 and 2003, SPEEDCOM entered into several payment plan agreements with vendors that set up monthly commitments by SPEEDCOM to pay off balances that were past due. SPEEDCOM is currently in default on several of these payment obligations. SPEEDCOM's terms with most of its suppliers and other vendors are net 30. In many cases, SPEEDCOM is past due with these suppliers and vendors. SPEEDCOM is currently engaged in legal proceedings related to some of the defaults discussed above. None of these proceedings are expected to have a material effect on SPEEDCOM's business.

In addition, SPEEDCOM is in default on two severance agreements entered into during 2000.

SPEEDCOM also has two employment contracts, which guarantee that if a change of control occurs, the employee may elect to resign from SPEEDCOM and receive a lump sum payment of six months salary. In 2002, a change of control, as defined in the agreements, did occur. However, there has not been any indication that the employees covered under the employment contracts are considering resigning from SPEEDCOM.

SPEEDCOM has entered into an asset purchase agreement to sell substantially all of its assets and liabilities to P-Com for approximately 67,500,000 shares of P-Com common stock. As a stipulation to this agreement, SPEEDCOM would be required to pay to P-Com \$500,000 if SPEEDCOM terminated the asset purchase agreement under certain circumstances, such as a breach of the agreement or if SPEEDCOM's board of directors approved an alternative proposal to the P-Com asset purchase agreement. SPEEDCOM believes that the probability of these circumstances occurring is remote.

### *Recent Accounting Pronouncements*

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The statement amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This statement is designed to improve financial reporting such that contracts with comparable characteristics are accounted for similarly. The statement, which is generally effective for contracts entered into or modified after June 30, 2003, is not anticipated to have a significant effect on SPEEDCOM's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both

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liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. SPEEDCOM currently has no such financial instruments outstanding or under consideration and therefore adoption of this standard currently has no financial reporting implications.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Valuable Interest Entities*. This interpretation clarifies rules relating to consolidation where entities are controlled by means other than a majority voting interest and instances in which equity investors do not bear the residual economic risks. This interpretation was originally effective immediately for variable interest entities created after January 31, 2003 and for interim periods beginning after June 15, 2003 for interests acquired prior to February 1, 2003. However, the FASB is reviewing certain provisions of the standard and has deferred the effective date for public companies to periods ending after December 15, 2003. SPEEDCOM currently has no ownership in variable interest entities and therefore adoption of this standard currently has no financial reporting implications.

### *Certain Factors That May Affect Future Results, Financial Condition and Market Price of Securities*

#### **If we do not raise additional capital, we will not be able to fulfill our business plan or continue as a going concern.**

It is essential that we obtain additional financing by the end of 2003 to continue operating as a going concern. This additional capital could come from the sale of common or preferred stock, from borrowings, or from a strategic transaction such as a merger. There can be no assurance, however, that we will be successful in obtaining the additional capital we require.

If we are unsuccessful in raising that capital we may not have sufficient funding to purchase necessary goods and services to execute our business plan. SPEEDCOM's 2003 and 2004 business plans include products that have initial lead times for component parts that are longer than older product lines and that require deposits upfront. SPEEDCOM will need to raise additional capital to fund these longer lead times for purchasing inventory in order to execute its 2003 and 2004 business plans.

If this capital is not obtained, additional changes in SPEEDCOM's cost structure could be required, such as employee terminations. In addition, our failure to obtain additional capital could result in our being unable to continue as a going concern.

#### **SPEEDCOM has a history of losses and may never achieve or sustain profitability.**

SPEEDCOM has incurred significant losses since its inception, and expects to continue to incur net losses through at least the third quarter of 2004. Although SPEEDCOM intends to decrease operating expenses as a percentage of revenue, our revenues may not grow or even continue at

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their current level. If revenues do not rapidly increase or if expenses increase at a greater pace than revenues, SPEEDCOM will never become profitable.

### **SPEEDCOM has entered into an agreement to sell substantially all of its assets and liabilities to P-Com.**

SPEEDCOM signed an asset purchase agreement with P-Com, dated June 16, 2003. The agreement proposes that P-Com acquire substantially all of the assets and liabilities of SPEEDCOM for approximately 67,500,000 shares of P-Com common stock. SPEEDCOM has and will continue to incur significant non-recoverable expenses in its efforts to complete the transaction, whether or not the transaction is completed.

If the asset purchase agreement between SPEEDCOM and P-Com is consummated, SPEEDCOM shareholders will continue to own shares of SPEEDCOM common stock. SPEEDCOM, as a company, will primarily have only one asset, and investment in P-Com, plus some cash and/or receivables up to a maximum of \$200,000 and certain liabilities not assumed by P-Com. SPEEDCOM will have the option to sell shares of P-Com common stock only after P-Com has completed a registration of the shares.

### **We may not be able to compete successfully in the fixed wireless broadband market in view of rapid technological change and the resources required to deal with technological change.**

The fixed wireless broadband market is at an early stage of development and is rapidly evolving. The markets for our products and the technologies utilized in the industry in which we operate evolve rapidly and depend on key technologies, including wireless local area networks, wireless packet data, modem and radio technologies. As is typical for a new and rapidly evolving industry, demand and market acceptance for recently introduced wireless networking products and services are subject to a high level of uncertainty. Market acceptance of particular products cannot be predicted; however, it is likely that new products will not be generally accepted unless they operate at higher speeds and are sold at lower prices. While the number of businesses recognizing the value of wireless solutions is increasing, we do not know whether sufficient demand for our products will emerge and become sustainable. Prospects must be evaluated due to the risks encountered by a company in the early stages of marketing new products or services, particularly in light of the uncertainties relating to the new and evolving markets in which we operate. There can be no assurance that we will succeed in addressing any or all of these risks, and our failure to do so would reduce demand for SPEEDCOM's products.

We could encounter future competition from larger wireless, computer and networking equipment companies. We could also encounter additional future competition from companies that offer products that replace or are alternatives to radio frequency wireless solutions. These products include, for example, products based on infra-red technology, systems that utilize existing telephone wires or cables within a building as a wired network backbone and satellite systems outside of buildings.

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Major changes could render products and technologies obsolete or subject to intense competition from alternative products or technologies or by improvements in existing products or technologies. For example, Internet access and wireless local loop equipment markets may stop growing as a result of the development of alternative technologies, such as fiber optic, coaxial cable or satellite systems. Also, new or enhanced products developed by other companies may be technologically incompatible with SPEEDCOM's products and render our products obsolete.

Many of SPEEDCOM's current and potential competitors have significantly greater financial, marketing, technical and other resources and, as a result, may be able to respond more quickly to new or emerging technologies or standards and to changes in customer requirements, or to devote greater resources to the development, promotion, and sale of products or to deliver competitive products at a lower end user price. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of SPEEDCOM's existing and prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. Increased competition could result in price reductions, reduced operating margins and loss of market share by SPEEDCOM.

### **SPEEDCOM's reliance on limited sources of wireless and computer components could result in delayed product shipment and higher costs and could damage customer relationships.**

Many of the key hardware and software components necessary for the assembly of SPEEDCOM's products are only available from a single supplier or from a limited number of suppliers. Our reliance on sole or limited source suppliers involves several risks, including:

suppliers could increase component prices significantly, without advance notice;

suppliers could discontinue or delay delivery of product components for reasons such as inventory shortages, new product offerings, increased cost of materials, destruction of manufacturing facilities, labor disputes and bankruptcy; and

in order to compensate for potential component shortages or discontinuance, in the future we may hold more inventory than is immediately required, resulting in increased inventory costs.

If our suppliers are unable to deliver or ration components to us, we could experience interruptions and delays in manufacturing and sales, which could result in the cancellation of orders for products or the need to modify products. This may cause substantial delays in product shipments, increased manufacturing costs and increased product prices. Further, we may not be able to develop alternative sources for these components in a timely way, if at all, and may not be able to modify our products to accommodate alternative components. These factors could damage our relationships with current and prospective customers over a period lasting longer than any underlying shortage or discontinuance.

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### **Indirect distribution channels may result in increased costs and lower margins.**

To increase revenues, we utilize distribution partners. SPEEDCOM has invested significant resources to develop these indirect channels. These efforts may not generate the revenues necessary to offset such investments. We may be dependent upon the acceptance of our products by distributors and their active marketing and sales efforts relating to our products. The distributors to whom we sell products are independent and are not obligated to deal with SPEEDCOM exclusively. Because SPEEDCOM does not generally fulfill orders by end users of its products sold through distributors, SPEEDCOM will be dependent upon the ability of distributors to accurately forecast demand and maintain appropriate levels of inventory. Management expects that SPEEDCOM's distributors will also sell competing products. These distributors may not continue, or may not give a high priority to, marketing and supporting our products. This and other channel conflicts could result in diminished sales through the indirect channels. Additionally, because lower prices are typically charged on sales made through indirect channels, increased indirect sales could adversely affect the average selling prices and result in lower gross margins. SPEEDCOM may modify the number of distribution partners that it utilizes in the future.

### **Our international operations and sales involve significant risks that could reduce sales and increase expenses.**

We anticipate that revenues from customers outside North America will continue to account for a significant portion of our total revenues for the foreseeable future. Expansion of international operations has required, and will continue to require, significant management attention and resources. In addition, we remain heavily dependent on distributors to market, sell and support our products internationally. International operations are subject to additional risks, including the following:

difficulties of staffing and managing foreign operations due to time differences, language barriers and staffing constraints in the foreign sales offices;

longer customer payment cycles and greater difficulties in collecting accounts receivable increase the amount of time that we have to fund our purchase of the inventory sold;

unexpected changes in regulatory requirements, exchange rates, trading policies, tariffs and other barriers could increase our costs;

uncertainties of laws and enforcement relating to the protection of intellectual property could allow competitors to infringe on our technology;

limits on the ability to sue and enforce a judgment for accounts receivable increase the risk of bad debt expense;

potential adverse tax consequences could create additional expense; and

political and economic instability in certain foreign countries could limit our sales in those regions.



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### **Our common stock price is volatile.**

Our common stock and the stock market in general have experienced significant price and volume fluctuations in recent years, and the market prices of technology companies have been highly volatile. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If such litigation were initiated against SPEEDCOM, that could result in substantial costs and divert management's attention.

### **Our common stock was delisted from the NASDAQ SmallCap Market, which may make it more difficult to sell shares of our common stock.**

Effective August 22, 2002, our common stock was delisted from the NASDAQ SmallCap Market, and currently trades on the OTC Bulletin Board. The OTC Bulletin Board is a less liquid market than the NASDAQ SmallCap Market. As a result, our shares may be more difficult to sell because potentially smaller quantities of shares could be bought and sold, transactions could be delayed and security analyst and news coverage of our company may be reduced. These factors could result in lower prices and larger spreads in the bid and ask prices for our shares.

### **We are obligated to issue a substantial number of shares of our common stock upon conversion of preferred stock, convertible notes and exercise of warrants that are outstanding.**

If the holders of our preferred stock and warrants or convertible notes elect to convert their preferred stock, exercise their warrants or convert their notes in order to sell the underlying shares of common stock, it will substantially increase the number of shares of our common stock outstanding. The exercise or conversion of a substantial number of SPEEDCOM's convertible securities may depress the market price of the common stock and will decrease the relative voting power of existing common stockholders. Should a significant number of SPEEDCOM's convertible securities be exercised or converted, the resulting increase in the amount of our common stock in the public market could have a substantial dilutive effect on SPEEDCOM's outstanding common stock. Public resales of our common stock following the exercise or conversion of the securities may depress the prevailing market price of our common stock.

Under the anti-dilution provisions of our preferred stock, if SPEEDCOM issues common stock or common stock equivalents at a purchase price, conversion price, or warrant or option exercise price that is less than the lesser of the current preferred stock conversion price of \$1.125 per share or the current market price, the conversion price of the preferred stock will be reduced using a customary weighted average basis formula. Under the anti-dilution provisions of 7,160,810 (as adjusted) warrants issued in August 2001, (1) the exercise price will be lowered to equal the purchase price, conversion price, or warrant or option exercise price for any common stock or common stock equivalent issued (other than to employees) at a purchase price, conversion price, or warrant or option exercise price less than the current per share exercise price of the applicable warrants (\$0.12 in the case of Series A Warrants), and (2) the number of

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warrants will be increased by the same percentage as the percentage by which the exercise price is reduced. Alternatively, (1) the exercise price will be reduced by the percentage by which the purchase price, conversion price, or warrant or option exercise price of any issued security (others than to employees) is less than the current market price of the common stock, and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced, if this formula results in a lower exercise price than the adjustment described in the preceding sentence. Similar anti-dilution provisions apply to outstanding warrants to acquire 1,002,026 shares of our common stock (as adjusted) at an exercise price of \$0.12 per share and \$1,100,000 of P-Com convertible notes at an exercise price of \$0.12.

**Our concentrated ownership structure means that our controlling stockholders could control the outcome of any stockholder vote.**

If the holders of our preferred stock elect to convert their preferred stock and exercise their warrants to shares of common stock, it will decrease the relative voting power of existing common stockholders and the preferred stockholders will control a majority of our common stock. In such event, the former preferred stockholders, in their capacity as common stockholders, would be in a position to control our company. Therefore, certain corporate actions, which the board of directors may deem advisable for the stockholders of SPEEDCOM as a whole, may not be approved by the common stockholders if submitted to a vote, unless the former preferred stock holders, in their capacity as common stockholders, approve the action.

**SPEEDCOM is subject to extensive and unpredictable government regulation, which could make our products obsolete, raise our development costs and create opportunities for other competitors.**

SPEEDCOM is subject to various Federal Communications Commission (FCC) rules and regulations in the United States of America and to other government regulations abroad. There can be no assurance that new FCC regulations will not be promulgated or that existing regulations outside of the United States of America would not adversely affect international marketing of SPEEDCOM's products.

Regulatory changes, including changes in the allocation of available frequency spectrums, could significantly impact operations by restricting development efforts, rendering current products obsolete or increasing the opportunity for additional competition. In September 1993 and in February 1995, the FCC allocated additional spectrums for personal communications services. In January 1997, the FCC authorized 300 MHz of additional unlicensed frequencies in the 5 gigahertz frequency range. In 2000, the FCC modified the rules for frequency hopping spread spectrum radios to allow greater power utilization in certain circumstances. These changes in the allocation of available frequency spectrums could create opportunities for other wireless networking products and services or shift the competitive balance between SPEEDCOM and its competitors.

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### **Item 3. Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, SPEEDCOM carried out an evaluation of the effectiveness of the design and operation of SPEEDCOM's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of SPEEDCOM's management, including SPEEDCOM's Chief Financial Officer, who concluded that SPEEDCOM's disclosure controls and procedures are effective. There have been no significant changes in SPEEDCOM's internal controls or in other factors, which could significantly affect internal controls subsequent to the date SPEEDCOM carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in SPEEDCOM's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in SPEEDCOM's reports filed under the Exchange Act is accumulated and communicated to management, including SPEEDCOM's Chief Financial Officer, to allow timely decisions regarding required disclosure.

## **PART II. OTHER INFORMATION**

### **Item 2. Recent Sales of Unregistered Securities**

In October 2003, SPEEDCOM converted \$570,000 of notes payable that were due December 31, 2003, plus accrued interest of \$102,163, into 5,601,358 shares of SPEEDCOM common stock utilizing a conversion rate of \$0.12.

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

The following proposals will be voted upon at SPEEDCOM's special shareholder meeting on December 2, 2003.

1. To adopt and approve the Asset Purchase Agreement, dated June 16, 2003, between SPEEDCOM and P-Com, and to approve the Acquisition whereby P-Com will acquire substantially all of the assets of SPEEDCOM and assume certain liabilities of SPEEDCOM.
2. To adopt an amendment to SPEEDCOM's certificate of incorporation to increase the number of authorized shares of common stock from 250,000,000 to 500,000,000 shares.
3. To grant SPEEDCOM's management the discretionary authority to adjourn the special meeting to a date or dates not later than December 31, 2003, if necessary to enable SPEEDCOM's board of directors to solicit additional proxies in favor of any of the proposals listed above.

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

(a) Exhibits

The exhibits in the accompanying exhibit index are filed as part of this quarterly report on Form 10-QSB.

(b) Reports on Form 8-K

Form 8-K was filed on October 27, 2003, regarding SPEEDCOM's conversion of notes payable, plus accrued interest, into 5,601,358 shares of SPEEDCOM common stock.

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.

SPEEDCOM Wireless Corporation

/s/ MARK SCHAFTLEIN

Chief Financial Officer

November 11, 2003

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**Mark Schaftlein**

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### **Exhibit Index**

| <b>Number</b> | <b>Description</b>                                                                                                               |
|---------------|----------------------------------------------------------------------------------------------------------------------------------|
| 2             | Plan of acquisition, reorganization, arrangement, liquidation, or succession.                                                    |
| 2.1(9)        | Asset Purchase Agreement between SPEEDCOM Wireless Corporation and P-Com, Inc.                                                   |
| 3             | Articles of incorporation and bylaws.                                                                                            |
| 3.1(6)        | Amended and Restated Certificate of Incorporation of SPEEDCOM Wireless Corporation.                                              |
| 3.2(1)        | Amended and Restated Bylaws of SPEEDCOM Wireless Corporation.                                                                    |
| 4             | Instruments defining the rights of securities holders, including indentures.                                                     |
| 4.8(2)        | Warrant No. W-1 to Purchase 146,667 Shares of Common Stock issued to S.A.C. Capital Associates, LLC.                             |
| 4.9(2)        | Warrant No. W-2 to Purchase 73,333 Shares of Common Stock issued to SDS Merchant Fund, L.P.                                      |
| 4.10(2)       | Warrant No. W-3 to Purchase 220,000 Shares of Common Stock issued to Oscar Private Equity Investments, L.P.                      |
| 4.11(2)       | Warrant No. W-4 to Purchase 73,333 Shares of Common Stock issued to Bruce Sanguinetti.                                           |
| 4.12(3)       | Purchase Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined.            |
| 4.13(3)       | Registration Rights Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined. |
| 4.14(3)       | Form of Series A Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001.                                                 |
| 4.15(3)       | Form of Series B Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001.                                                 |
| 4.16(3)       | Settlement Agreement between SPEEDCOM Wireless Corporation and I.W. Miller Group, Inc. dated June 25, 2001.                      |
| 4.17(4)       | Secured Promissory Note dated April 26, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund, LLC.                     |
| 4.18(4)       | Secured Promissory Note dated May 7, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund, LLC.                        |
| 4.19(4)       | Secured Promissory Note dated April 26, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.        |
| 4.20(4)       | Secured Promissory Note dated May 7, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.           |
| 4.21(4)       | Secured Promissory Note dated April 26, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy International LTD.             |
| 4.22(4)       | Secured Promissory Note dated May 7, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy International LTD.                |
| 4.23(4)       | Letter Loan Agreement dated April 26, 2002.                                                                                      |
| 4.24(4)       | Security Agreement dated April 26, 2002.                                                                                         |
| 4.25(4)       | Letter Agreement dated April 26, 2002.                                                                                           |
| 4.26(4)       | Agreement to Vote Shares dated April 26, 2002.                                                                                   |
| 4.27(5)       | Secured Promissory Note dated June 10, 2002 between SPEEDCOM Wireless Corporation and SDS Merchant Fund, L.P.                    |
| 4.28(5)       | Secured Promissory Note dated June 11, 2002 between SPEEDCOM Wireless Corporation and SDS Merchant Fund, L.P.                    |
| 4.29(5)       | Secured Promissory Note dated June 12, 2002 between SPEEDCOM Wireless Corporation and SDS Merchant Fund, L.P.                    |
| 4.30(5)       | Secured Promissory Note dated June 25, 2002 between SPEEDCOM Wireless Corporation and DMG International LTD.                     |

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|---------|-------------------------------------------------------------------------------------------------------------------------------|
| 4.31(5) | Secured Promissory Note dated June 25, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund LLC.                    |
| 4.32(5) | Secured Promissory Note dated June 25, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.      |
| 4.33(5) | Letter Loan Agreement dated June 10, 2002.                                                                                    |
| 4.34(5) | Security Agreement dated June 10, 2002.                                                                                       |
| 4.35(6) | Secured Promissory Note dated August 8, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund LLC.                   |
| 4.36(6) | Secured Promissory Note dated August 8, 2002 between SPEEDCOM Wireless Corporation and DMG International LTD.                 |
| 4.37(6) | Secured Promissory Note dated August 8, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.     |
| 4.38(6) | Letter Loan Agreement dated August 8, 2002.                                                                                   |
| 4.39(6) | Security Agreement dated August 8, 2002.                                                                                      |
| 4.40(6) | Secured Promissory Note dated September 18, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund LLC.               |
| 4.41(6) | Secured Promissory Note dated September 18, 2002 between SPEEDCOM Wireless Corporation and DMG International LTD.             |
| 4.42(6) | Secured Promissory Note dated September 18, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC. |
| 4.43(6) | Letter Loan Agreement dated September 18, 2002.                                                                               |
| 4.44(6) | Security Agreement dated September 18, 2002.                                                                                  |
| 4.45(7) | Secured Promissory Note dated November 11, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund LLC.                |
| 4.46(7) | Secured Promissory Note dated November 11, 2002 between SPEEDCOM Wireless Corporation and DMG International LTD.              |
| 4.47(7) | Secured Promissory Note dated November 11, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.  |
| 4.48(7) | Letter Loan Agreement dated November 11, 2002.                                                                                |
| 4.49(7) | Security Agreement dated November 11, 2002.                                                                                   |
| 4.50(7) | Secured Promissory Note dated December 24, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Fund LLC.                |
| 4.51(7) | Secured Promissory Note dated December 24, 2002 between SPEEDCOM Wireless Corporation and DMG International LTD.              |
| 4.52(7) | Secured Promissory Note dated December 24, 2002 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.  |
| 4.53(7) | Letter Loan Agreement dated December 24, 2002.                                                                                |
| 4.54(7) | Security Agreement dated December 24, 2002.                                                                                   |
| 4.55(7) | Secured Promissory Note dated January 31, 2003 between SPEEDCOM Wireless Corporation and DMG Legacy Fund LLC.                 |
| 4.56(7) | Secured Promissory Note dated January 31, 2003 between SPEEDCOM Wireless Corporation and DMG International LTD.               |
| 4.57(7) | Secured Promissory Note dated January 31, 2003 between SPEEDCOM Wireless Corporation and DMG Legacy Institutional Fund LLC.   |
| 4.58(7) | Letter Loan Agreement dated January 31, 2003.                                                                                 |
| 4.59(7) | Security Agreement dated January 31, 2003.                                                                                    |
| 4.60(7) | Note Purchase Agreement dated March 26, 2003.                                                                                 |
| 4.61(7) | Convertible Promissory Note dated March 26, 2003.                                                                             |
| 4.62(8) | Letter Loan Agreement dated April 14, 2003.                                                                                   |
| 4.63(8) | Security Agreement dated April 14, 2003.                                                                                      |
| 4.64(8) | Secured Promissory Note dated April 14, 2003 between SPEEDCOM Wireless Corporation and SDS Merchant Fund L.P.                 |
| 4.65(8) | Letter Loan Agreement dated April 29, 2003.                                                                                   |
| 4.66(8) | Security Agreement dated April 29, 2003.                                                                                      |

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|----------|-----------------------------------------------------------------------------------------------------------------------------------|
| 4.67(8)  | Secured Promissory Note dated April 29, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Institutional Fund LLC. |
| 4.68(8)  | Secured Promissory Note dated April 29, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy International LTD.      |
| 4.69(10) | Letter Loan Agreement dated May 15, 2003.                                                                                         |
| 4.70(10) | Security Agreement dated May 15, 2003.                                                                                            |
| 4.71(10) | Secured Promissory Note dated May 15, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Institutional Fund LLC.   |
| 4.72(10) | Secured Promissory Note dated May 15, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy International LTD.        |
| 4.73(10) | Secured Promissory Note dated May 15, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Fund LLC.                 |
| 4.74(10) | Letter Loan Agreement dated June 16, 2003.                                                                                        |
| 4.75(10) | Security Agreement dated June 16, 2003.                                                                                           |
| 4.76(10) | Secured Promissory Note dated June 16, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Institutional Fund LLC.  |
| 4.77(10) | Secured Promissory Note dated June 16, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy International LTD.       |
| 4.78(10) | Secured Promissory Note dated June 16, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Fund LLC.                |
| 31.1     | Certification pursuant to Sarbanes-Oxley Section 302.                                                                             |
| 32.1     | Certification pursuant to 18 U.S.C. Section 1350.                                                                                 |

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- (1) Incorporated by reference to the Form 10-QSB filed May 14, 2001.
- (2) Incorporated by reference to the Form 8-K filed July 2, 2001.
- (3) Incorporated by reference to the Form S-3 filed September 18, 2001.
- (4) Incorporated by reference to the Form 10-QSB filed May 14, 2002.
- (5) Incorporated by reference to the Form 10-QSB filed August 8, 2002.
- (6) Incorporated by reference to the Form 10-QSB filed November 5, 2002.
- (7) Incorporated by reference to the Form 10-KSB filed April 14, 2003.
- (8) Incorporated by reference to the Form 10-QSB filed May 15, 2003.
- (9) Incorporated by reference to the Form 8-K filed June 17, 2003.
- (10) Incorporated by reference to the Form 10-QSB filed August 11, 2003.