SPEEDCOM WIRELESS CORP
Form 10KSB
February 11, 2004
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 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

SPEEDCOM Wireless Corporation

(Name of Small Business Issuer in its Charter)

Delaware	**58-2044990**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
7020 Professional Parkway East Sarasota, FL 34240	**(941) 907-2361**
(Address of Principal Executive Offices)	**(Issuer s Telephone Number, Including Area Code)**

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, $0.001 par value	None
Preferred Stock, $0.001 par value	None
Class A Warrants	None

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the issuer s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

The issuer s revenues for the most recent fiscal year ended December 31, 2003 were $4,380,998.

The aggregate market value of the common stock held by non-affiliates computed by reference to the $0.05 closing sales price on February 9, 2004 was $5,683,965.

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act: Yes x No ¨

The number of shares of the issuer s common stock outstanding as of February 9, 2004 was 114,652,626.

The following documents are incorporated by reference: Items 9, 10, 11 and 12 hereof are incorporated by reference from the issuer s Schedule 14C to be filed with the SEC by April 30, 2004.

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

Table of Contents

SPEEDCOM WIRELESS CORPORATION

FORM 10-KSB FOR THE PERIOD ENDED DECEMBER 31, 2003

Index

PART I

Item 1.	Description of Business	3
Item 2.	Description of Property	4
Item 3.	Legal Proceedings	5
Item 4.	Submission of Matters to a Vote of Security Holders	5

PART II

Item 5.	Market for Common Equity and Related Stockholder Matters	5
Item 6.	Management s Discussion and Analysis	6
Item 7.	Financial Statements	
	Balance Sheets as of December 31, 2003 and 2002	14
	Statements of Operations and Comprehensive Income for the years ended December 31, 2003 and 2002	15
	Statements of Changes in Stockholders Equity (Deficit) for the years ended December 31, 2003 and 2002	16
	Statements of Cash Flows for the years ended December 31, 2003 and 2002	17
	Notes to Financial Statements	18
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	32

PART III

Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act	32
Item 10.	Executive Compensation	32
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	32
Item 12.	Certain Relationships and Related Transactions	32
Item 13.	Exhibits List and Reports on Form 8-K	32
Item 14.	Controls and Procedures	33

Signatures	33
Exhibit Index	34

Table of Contents

PART I

Item 1. Description of Business

Preliminary Note

As disclosed in a Form 8-K filed on December 12, 2003 with the Securities and Exchange Commission (SEC), SPEEDCOM Wireless Corporation (SPEEDCOM) sold substantially all of its assets and liabilities (Asset Sale) to P-Com, Inc. (P-Com). At the present time, SPEEDCOM has no operating business and SPEEDCOM s management and Board of Directors are exploring opportunities to effect an acquisition of SPEEDCOM by merger, exchange or issuance of securities or similar business combination. The description of SPEEDCOM s business set forth below provides a discussion of SPEEDCOM s past business and is not meant to describe SPEEDCOM s present operations or planned future operations.

Company Overview

SPEEDCOM is a Delaware corporation. Prior to the Asset Sale, SPEEDCOM manufactured, configured and delivered a variety of broadband fixed-wireless products, including its award winning SPEEDLAN family of wireless Ethernet bridges and routers. Internet service providers, telecommunications carriers and other service providers, and private organizations in the United States of America and more than 80 foreign countries worldwide, use SPEEDCOM s products to provide broadband last-mile wireless connectivity in various point-to-point and point-to-multipoint configurations at speeds up to 155 Megabits per second and distances up to 25 miles.

SPEEDCOM operated in a single dominant operating segment, as that term is defined in Statements on Financial Accounting Standards (SFAS) No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE.

SPEEDCOM sold its wireless broadband products in domestic and international markets through both an indirect channel of distributors, resellers and Original Equipment Manufacturers and a direct sales force. SPEEDCOM sold its products in over 80 countries, with international sales amounting to approximately 58% and 46% of SPEEDCOM s total 2003 and 2002 revenues, respectively. The following table reflects revenues by geographic area:

Geographic Area	2003	2002
North America	42%	54%
Africa	8%	14%
Asia and the Pacific Rim	17%	11%
Latin America	5%	8%
European Union	9%	5%
Other Foreign Areas	19%	8%

Business Strategy

As discussed elsewhere in this report, because of the Asset Sale, SPEEDCOM has no operating business and SPEEDCOM s management and Board of Directors have been focusing their efforts on exploring business combination opportunities. The Board has determined to maintain SPEEDCOM as a public shell corporation, which will seek suitable business combination opportunities. The Board believes that a business combination with an operating company has the potential to create a greater value for SPEEDCOM s stockholders than a liquidation or similar distribution.

Table of Contents

Products

SPEEDCOM offered a complete line of wireless broadband equipment. SPEEDCOM s high performance wireless bridge/router systems connected existing enterprise local area networks for point-to-point and point-to- multi-point, campus area, or metropolitan area networks. Within the product line, SPEEDCOM offered eight SPEEDLAN products, which used unlicensed radio frequencies to communicate at 11 Megabits per second at distances up to 25 miles, and two licensed microwave products, which used licensed radio frequencies to communicate at 52 or 155 Megabits per second at distances up to ten miles.

SPEEDCOM s research and development expenses during the fiscal years ended December 31, 2003 and 2002 were approximately $270,000 and $256,000 respectively.

Licensed Technology

In January 2001, SPEEDCOM acquired worldwide rights to PacketHop, a wireless routing software developed by SRI International (SRI) for aggregate consideration of $1,599,500. SRI received $360,000 in cash and a total of 325,000 shares of common stock of SPEEDCOM that was issued in four tranches. Prior to the Asset Sale, the $360,000 in cash and the value of the shares at the date of grant less amortization were classified in Intellectual property, net on the balance sheet, and were being amortized using the straight-line method over the six year term of the agreement.

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. Prior to the Asset Sale, the value of the software was classified in Intellectual property, net on the balance sheet and was being amortized using the straight-line method over the remaining life of the PacketHop technology.

Sales and Marketing

Sales were generated through two primary means: direct sales to our larger strategic end customers and indirect sales through a distributor network consisting of telecommunications specialists who sold SPEEDCOM s products to a local or regional customer base, as well as provided post installation service, if any.

SPEEDCOM recognized revenue for financial reporting purposes upon shipment of the products to the customer, including when a distributor was involved in the transaction. Customers could exchange or return merchandise within 30 days if the product was found to be non-functional upon delivery. SPEEDCOM accrued a provision for estimated returns, based upon its actual historical return experience, concurrent with revenue recognition. SPEEDCOM also derived revenue from extended maintenance agreements, for periods of one to three years. Revenue on extended maintenance agreements was deferred and recognized on a straight-line basis over the term of the agreement.

Customers

No customer accounted for more than 10% of SPEEDCOM s revenue for the years ended December 31, 2003 or 2002. In addition, no customer accounted for more than 10% of SPEEDCOM s gross accounts receivable as of December 31, 2002.

Employees

As of December 31, 2003, SPEEDCOM did not have any employees. SPEEDCOM utilizes consultants to operate the shell business.

Item 2. Description of Property

As of December 31, 2003, SPEEDCOM did not lease or own any property. SPEEDCOM is occupying space in P-Com s facility through the transition period of the Asset Sale and for use by SPEEDCOM s consultants.

4

Table of Contents

Item 3. Legal Proceedings

We are engaged from time to time in legal proceedings, none of which are expected to have a material effect on our business.

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

The following proposals were 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.

	For	Against	Abstained
Proposal 1	12,532,988	81,664	21,500
Proposal 2	13,832,493	2,349,097	17,635
Proposal 3	13,886,744	2,310,246	2,235

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Common Stock Information

The following table sets forth the quarterly high and low per share closing sales price of SPEEDCOM s common stock for the periods shown, as quoted on the NASDAQ SmallCap Market until August 2002, and as quoted on the OTC Bulletin Board thereafter. (SPEEDCOM was delisted from the NASDAQ SmallCap Market in August 2002). The quotations represent stock prices between dealers and do not include retail mark-up, markdown or commission and may not represent actual transactions.

2003	**High**	**Low**
First Quarter	$ 0.06	$ 0.02
Second Quarter	$ 0.09	$ 0.03
Third Quarter	$ 0.13	$ 0.05
Fourth Quarter	$ 0.08	$ 0.04

2002	**High**	**Low**
First Quarter	$ 0.94	$ 0.42
Second Quarter	$ 0.69	$ 0.11
Third Quarter	$ 0.19	$ 0.02
Fourth Quarter	$ 0.07	$ 0.04

Dividends have not been declared or paid during any periods presented.

As of February 9, 2004 there were approximately 1,400 stockholders of record of SPEEDCOM s common stock.

Table of Contents

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	287,000	$ 0.89	2,713,000
Equity compensation plans not approved by security holders	874,892	$ 3.23	
Total	1,161,892	$ 2.65	2,713,000

Individual options granted through equity compensation plans not approved by security holders include the following:

Number of Options	Grant Date	Expiration Date	Exercise Price
103,140	10/1/99	9/27/06	$ 2.62
331,092	12/7/99	9/20/06	$ 2.62
240,660	9/1/00	9/27/06	$ 3.49
200,000	5/9/01	9/27/06	$ 4.25

Recent Sales of Unregistered Securities

During the year ended December 31, 2003 SPEEDCOM sold the following securities, which were not registered under the Securities Act. The purchases and sales were exempt pursuant to Section 4(2) of the Securities Act (and/or Regulation D promulgated thereunder) as transactions by an issuer not involving a public offering, where the purchasers represented their intention to acquire the securities for investment only, not with a view to distribution, and received or had access to adequate information about the registrant.

In October 2003, SPEEDCOM exchanged $570,000 of notes payable that were due December 31, 2003, plus accrued interest of $102,163, for 5,601,358 shares of SPEEDCOM common stock.

In December 2003, SPEEDCOM exchanged $400,000 of notes due to P-Com, for 3,333,333 shares of SPEEDCOM common stock.

Additionally, in January and February 2004, SPEEDCOM exchanged $1,720,140 of due to related parties, accrued expenses, notes payable and accounts payable for 14,334,505 shares of SPEEDCOM common stock.

In February 2004, SPEEDCOM exchanged all of its 3,835,554 shares of preferred stock, dividends and registration penalty for 76,868,961 shares of SPEEDCOM common stock.

Item 6. 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 e outcomes. These forward-looking statements and other statements made elsewhere in this report are made in reliance on the Private Securities Litigation

Table of Contents

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 and comprehensive income for the periods indicated.

	Years Ended December 31,	
	2003	**2002**
Net revenues	100%	100%
Cost of goods sold	66%	59%
Gross margin	34%	41%
Operating expenses:		
Salaries and related	48%	39%
General and administrative	49%	31%
Selling expenses	16%	13%
Provision for bad debt	2%	6%
Depreciation and amortization	15%	9%
Severance costs	4%	8%
	134%	106%
Loss from operations	(100)%	(65)%
Other (expense) income:		
Interest expense	(15)%	(5)%
Interest income	0%	1%
Gain on sale to P-Com	280%	
Other income (expense), net	5%	(1)%
	270%	(5)%
Net income (loss)	170%	(70)%
Cumulative undeclared dividends on preferred stock	(20)%	
Net income (loss) attributable to common stockholders	150%	(70)%

Fiscal 2003 Compared to Fiscal 2002

On December 10, 2003, SPEEDCOM sold its operating assets and transferred substantially all of its operating liabilities to P-Com. Following this sale, SPEEDCOM is no longer in the business of manufacturing or selling broadband fixed wireless telecommunications equipment and has no operations. Accordingly, the following discussion and analysis of operations is not indicative of future operations or performance.

Net revenues decreased 43% from approximately $7,676,000 for the year ended December 31, 2002 to approximately $4,381,000 for the year ended December 31, 2003. This decrease was largely due to price reductions by SPEEDCOM and the continuing depressed telecommunications market, resulting in 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 58% of revenues for the year ended December 31, 2003 as compared to 46% of revenues the year ended December 31, 2002.

Table of Contents

Cost of goods sold decreased 35% from approximately $4,502,000 for the year ended December 31, 2002 to approximately $2,911,000 for the year ended December 31, 2003, due to decreases in SPEEDCOM s revenues. In addition, gross margin as a percentage of sales decreased seven percentage points from 41% for the year ended December 31, 2002 to 34% for the year ended December 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 $6,372,000 for the year ended December 31, 2002 to approximately $4,962,000 for the year ended December 31, 2003. This decrease was primarily due to a decrease in salaries and related expenses of approximately $922,000 associated with decreased headcount (58 at December 31, 2002 decreased throughout the year to 0 at December 31, 2003) and a decrease in selling expenses of approximately of $314,000 primarily related to decreased commissions due to lower sales. Following the sale to P-Com, SPEEDCOM will continue to incur general and administrative costs at a much curtailed amount than incurred historically.

Provision for bad debt decreased 80% from approximately $420,000 during the year ended December 31, 2002 to approximately $84,000 for the year ended December 31, 2003. During the year ended December 31, 2002, SPEEDCOM converted two of its leases receivable, recorded at approximately $1,290,000, into a new lease receivable with approximately $336,000, 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 year ended December 31, 2002.

During the year ended December 31, 2003, SPEEDCOM recorded severance costs of $170,000 in accordance with the separation agreements between SPEEDCOM and its former Vice President of Marketing and Product Development, its former Vice President of Finance and Accounting and its former Director of International Sales. The costs include severance pay to be paid over future periods.

During the year ended December 31, 2002, SPEEDCOM recorded severance costs of approximately $630,000 in accordance with the separation agreements, as amended, between SPEEDCOM and its former Chief Executive Officer and Chief Operating Officer. The costs include severance pay and other employee benefits and the write off of notes receivable-related party.

Interest expense increased from approximately $396,000 for the year ended December 31, 2002 to approximately $653,000 for the year ended December 31, 2003. This increase was due to the addition of notes payable and loans from related parties during 2002 and 2003 of $5,523,000. Interest income decreased from approximately $64,000 for the year ended December 31, 2002 to approximately $11,000 for the year ended December 31, 2003 as a result of fewer leasing agreements.

In December 2003, SPEEDCOM completed the sale of all of its operating assets to P-Com in exchange for 63,500,000 shares of P-Com common stock and P-Com s assumption of approximately $5,250,000 of liabilities. SPEEDCOM recorded a gain of approximately $12,260,000 in connection with this sale.

Other income (expense), net increased from approximately ($71,000) for the year ended December 31, 2002 to approximately $238,000 for the year ended December 31, 2003 primarily due to the conversion of approximately $1,072,000 of notes payable, due to related parties and accrued interest into 8,934,691 shares of SPEEDCOM common stock utilizing a conversion rate of $0.12, which was higher than the market price of SPEEDCOM s common stock on the conversion dates. A portion of these gains, amounting to approximately $336,000 was recorded as a component of paid-in capital due to the related party nature.

Beginning August 23, 2003, SPEEDCOM s preferred stockholders 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 stockholders are entitled to for the year ending December 31, 2003 is

Table of Contents

approximately $861,000, assuming a stock payout. In February 2004, SPEEDCOM converted all of its 3,835,554 shares of preferred stock, dividends and registration penalty due to the preferred stockholders into 76,868,961 shares of SPEEDCOM common stock at a conversion rate of $0.12.

Net income (loss) per common share increased from approximately ($5,356,000), or ($0.47) per common share, for the year ended December 31, 2002 to approximately $6,590,000, or $0.42 per common share, for the year ended December 31, 2003 as a result of the foregoing factors.

SPEEDCOM recorded an unrealized loss on its investment of $635,000 on 63,500,000 shares of P-Com stock based on the decline in market value from $0.15 per share on the date of the Asset Sale to $0.14 as of December 31, 2003.

Taxes

At December 31, 2003, SPEEDCOM had net operating loss carryforwards (NOLs) for federal income tax purposes of approximately $15,000,000. The NOLs expire at various dates through the year 2023. 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

SPEEDCOM s 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. However, SPEEDCOM s cash flows for 2004 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 as a going concern.

Management s plans for this uncertainty include curtailing expenses and raising additional capital from external sources. Management may also liquidate some of the P-Com common stock, although a substantial portion of the P-Com common stock will be distributed to stockholders. In addition, management intends to use their best efforts to continue as a separate public entity and identify a merger candidate. There can be no assurance that management will be successful in these plans. Accordingly, the accompanying financial statements do no include any adjustments that may arise from the uncertainty surrounding SPEEDCOM s ability to continue as a going concern.

During the year ended December 31, 2003, SPEEDCOM used approximately $2,736,000 of cash for operating activities. This was primarily due to SPEEDCOM s operating loss that amounted to approximately $4,405,000 for the year ended December 31, 2003 (approximately $4,953,000 for the year ended December 31, 2002). During January 2004, SPEEDCOM converted $1,720,140 of amounts due to related parties, certain accrued expenses, notes payable and certain accounts payable into 14,334,505 shares of SPEEDCOM common stock which will have a positive impact on cash flows during the first quarter of 2004. Cash used in investing activities amounted to approximately $177,000 for the year ended December 31, 2003 (approximately $19,000 for the year ended December 31, 2002). Cash of approximately $127,000 was transferred to P-Com in connection with the Asset Sale. In addition, prior to the sale, SPEEDCOM had used approximately $60,000 to purchase equipment. SPEEDCOM does not have any commitments for capital expenditures or leasing commitments in the future.

SPEEDCOM received 63,500,000 shares of P-Com common stock in connection with the sale of the business. Such shares are carried on SPEEDCOM s financial statements at fair value ($8,890,000 as of December 31, 2003). Management s plans include the liquidation of a small portion of these shares to generate cash for operating purposes. Rather, the substantial amount of marketable securities is intended for distribution to SPEEDCOM s stockholders.

Table of Contents

SPEEDCOM received approximately $2,566,000 from its financing activities primarily through proceeds from related party and third party loans. Substantially all amounts received from financing activities in 2003 have or will be settled by non-cash means.

During the years ended December 31, 2003 and 2002, SPEEDCOM borrowed an aggregate $3,943,000 from institutional investors who are shareholders. The loans had an interest rate of 15% and were payable December 31, 2003 (the maturity date was extended to June 30, 2004 subsequent to issuance). In October 2003, $570,000 of these notes, plus accrued interest was converted into 5,601,358 shares of SPEECOM common stock. As part of the Asset Sale to P-Com, $3,000,000 of these notes was assumed by P-Com, leaving a balance due of $373,000, plus accrued interest. On December 31, 2003, SPEEDCOM converted the $373,000, plus accrued interest of $623,092, into three new notes, totaling $996,092 utilizing the same terms as the previous $373,000 notes. Also during the year ended December 31, 2003, SPEEDCOM borrowed $1,580,000 from P-Com. The loans had an interest rate of 10% for the first six months and 13% for the remainder of the term of the notes. These notes were 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), September 30, 2005 ($50,000), October 14, 2005 ($130,000), October 22, 2005 ($100,000), November 4, 2005 ($100,000), November 21, 2005 ($100,000) and December 5, 2005 ($50,000). These notes were convertible at $0.12 per common share. As part of the Asset Sale to P-Com, all but $400,000 of these notes and accrued interest was forgiven. In December 2003, P-Com exchanged the $400,000 of notes payable for 3,333,333 shares of SPEEDCOM common stock.

During the year ended December 31, 2002, SPEEDCOM used approximately $2,368,000 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 decreased accounts receivable and leases receivable. SPEEDCOM purchased approximately $26,000 of fixed assets during the year ended December 31, 2002 as compared to approximately $493,000 during the same period in 2001. SPEEDCOM received approximately $2,459,000 from its financing activities primarily through proceeds from stockholder loans, partially offset by net payments on factored accounts receivable. As of December 31, 2002, SPEEDCOM had cash of approximately $346,000.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We evaluate our estimates and judgments on an on-going basis. We base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following accounting policies are the most critical to us, in that they are important to the portrayal of our financial statements and they require our most difficult, subjective or complex judgments in the preparation of our financial statements:

Valuation of Marketable Securities: We value our investment in P-Com common stock in accordance with SFAS No. 105, DISCLOSURE OF INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK. We record all investments at fair value or amounts that approximate fair value. Where available, we use prices from independent sources such as listed market prices or broker or dealer price quotations. For investments in illiquid and privately held securities that do not have readily determinable fair values, we estimate the value of the securities based on available information. However, even where the value of a security is derived from an independent market price or broker or dealer quote, some assumptions may be required to determine the fair value. For example, we generally assume that the size of positions in securities that we hold would not be large enough to affect the quoted price of the securities when sold, and that any such sale would happen in an orderly manner. However, these assumptions may be incorrect and the actual value realized on sale could differ from the current carrying value.

Table of Contents

We evaluate our investments for other-than-temporary decline in value on a periodic basis. This may exist when the fair value of an investment security has been below the current value for an extended period of time. As most of our investments are carried at fair value, if an other-than-temporary decline in value is determined to exist, the unrealized investment loss recorded net of tax in accumulated other comprehensive income is realized as a charge to net income (loss), in the period in which the other-than-temporary decline in value is determined. While we believe that we have accurately estimated the amount of other-than-temporary decline in value in our portfolio, different assumptions could result in changes to the recorded amounts in our financial statements.

Revenue Recognition: We recognized revenue on our wireless communications products in accordance with SEC Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. Under these guidelines, we deferred revenue recognition on transactions if any of the following existed: persuasive evidence of an arrangement did not exist, title had not transferred, product payment was contingent upon performance of installation or service obligations, the price was not fixed or determinable, or payment was not reasonably assured. We accrued a provision for estimated returns concurrent with revenue recognition. In addition, we deferred revenue associated with long-term customer maintenance contracts. The value of these contracts was recognized on a straight-line basis over the length of the customer contract.

Commitments and Off Balance Sheet Instruments

Rent expense under operating leases, amounted to approximately $639,000 and $802,000 for the years ended December 31, 2003 and 2002, respectively. SPEEDCOM does not have any future noncancellable lease payments under operating leases. All of SPEEDCOM s leases were assumed by P-Com per the Asset Sale.

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. The majority of these payment plan agreements were assumed by P-Com. SPEEDCOM s terms with most of its vendors are net 30. SPEEDCOM and P-Com are 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, as of December 31, 2003, SPEEDCOM was in default on two severance agreements entered into during 2000. During January 2004, SPEEDCOM issued shares of common stock in satisfaction of both of these severance agreements.

Recent Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board (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 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. The statement is not anticipated to have a significant effect on SPEEDCOM s financial position or results of operations.

In December 2003, the FASB issued FASB Interpretation No. 46 (REVISED), 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

Table of Contents

the residual economic risks. 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

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.

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

If the holders of our preferred stock and warrants elect to convert their preferred stock or exercise their warrants 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 warrants (as adjusted) 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.

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.

Table of Contents

Item 7. Financial Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

SPEEDCOM Wireless Corporation

We have audited the accompanying balance sheets of SPEEDCOM Wireless Corporation as of December 31, 2003 and 2002 and the related statements of operations and comprehensive income, changes in stockholders equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPEEDCOM Wireless Corporation at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that SPEEDCOM Wireless Corporation will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses and negative cash flows from operations. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plans with respect to these conditions are also discussed in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Aidman, Piser & Company, P.A.

Tampa, Florida

February 2, 2004, except for Note 17, as to which

the date is February 9, 2004

13

Table of Contents

SPEEDCOM WIRELESS CORPORATION

BALANCE SHEETS

	December 31,	
	2003	**2002**
Assets		
Current assets:		
Cash	$ 100	$ 346,361
Accounts receivable, net of allowances of $162,738 in 2002		520,164
Marketable securities	8,890,000	
Leases receivable		248,993
Inventories, net		1,523,734
Prepaid expenses and other current assets	75,000	53,039
Total current assets	8,965,100	2,692,291
Property and equipment, net		625,400
Other assets		112,117
Intellectual property, net		1,096,125
Total assets	$ 8,965,100	$ 4,525,933
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 624,992	$ 1,135,405
Accrued expenses	9,452	360,476
Due to related parties	1,448,601	3,702,443
Current portion of deferred revenue		20,939
Current portion of notes and capital leases payable	12,177	39,050
Total current liabilities	2,095,222	5,258,313
Deferred revenue, net of current portion		4,626
Notes and capital leases payable, net of current portion		14,100
Commitments and contingencies (Note 11)		
Stockholders equity (deficit):		
Common stock, $.001 par value, 500,000,000 and 250,000,000 shares authorized, 23,425,355 and 14,490,664 shares issued and outstanding in 2003 and 2002, respectively	23,425	14,490
Preferred stock, $4.50 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	18,597,310	17,800,749
Accumulated deficit	(16,571,559)	(24,022,047)
Accumulated other comprehensive loss	(635,000)	
Total stockholders equity (deficit)	6,869,878	(751,106)
Total liabilities and stockholders equity (deficit)	$ 8,965,100	$ 4,525,933

See accompanying notes.

Table of Contents

SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,	
	2003	**2002**
Net revenues	$ 4,380,998	$ 7,676,327
Cost of goods sold	2,910,657	4,502,460
Gross margin	1,470,341	3,173,867
Operating expenses:		
Salaries and related	2,085,415	3,007,659
General and administrative	2,172,650	2,347,006
Selling expenses	703,896	1,017,760
Provision for bad debt	83,944	419,585
Depreciation and amortization	659,541	704,795
Severance costs	170,000	629,814
	5,875,446	8,126,619
Loss from operations	(4,405,105)	(4,952,752)
Other (expense) income:		
Interest expense	(653,064)	(395,676)
Interest income	10,706	63,646
Gain on sale to P-Com	12,259,875	
Other income (expense), net	238,076	(71,045)
	11,855,593	(403,075)
Net income (loss)	7,450,488	(5,355,827)
Cumulative undeclared dividends on preferred stock	(860,635)	
Income (loss) attributable to common stockholders	$ 6,589,853	$ (5,355,827)
Net income (loss) per common share:		
Basic and diluted	$ 0.42	$ (0.47)
Shares used in computing basic and diluted net income (loss) per common share	15,622,610	11,431,626
Comprehensive income (loss):		
Net income (loss)	$ 7,450,488	$ (5,355,827)
Unrealized loss on marketable securities	(635,000)	
Comprehensive income (loss)	$ 6,815,488	$ (5,355,827)

See accompanying notes.

Table of Contents

SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Total
Balance at January 1, 2002	10,122,113	$ 10,122	3,835,554	$ 5,455,702	$ 17,710,477	$ (18,666,220)		$ 4,510,081
Issuance of common stock in connection with the exercise of Series B Warrants	3,849,957	3,850			378			4,228
Employee stock-based compensation					97,359			97,359
Exercise of stock options	59,375	59			141			200
Issuance of common stock for repricing agreement	459,219	459			(459)			
Stock issuance and registration costs					(7,147)			(7,147)
Net loss						(5,355,827)		(5,355,827)
Balance at December 31, 2002	14,490,664	14,490	3,835,554	5,455,702	17,800,749	(24,022,047)		(751,106)
Issuance of common stock for extinguishment of related party notes (see gain below)	5,601,358	5,602			330,480			336,082
Issuance of common stock for conversion of note payable	3,333,333	3,333			130,000			133,333
Unrealized losses on marketable securities							(635,000)	(635,000)
Gain on exchange of debt of a related party					336,081			336,081
Net income						7,450,488		7,450,488
Balance at December 31, 2003	23,425,355	$ 23,425	3,835,554	$ 5,455,702	$ 18,597,310	$ (16,571,559)	$ (635,000)	$ 6,869,878

See accompanying notes.

Table of Contents

SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2003	**2002**
Operating activities		
Net income (loss)	$ 7,450,488	$ (5,355,827)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	659,541	704,795
Gain on sale of business	(12,259,875)	
Gain on conversion of notes to common stock	(266,667)	
Provision for bad debt	83,944	419,585
Write off of notes receivable related party		274,965
Provision for inventory obsolescence		166,545
Common stock issued for services		97,359
Changes in operating assets and liabilities:		
Restricted cash		42,724
Accounts receivable	239,157	1,604,842
Leases receivable	248,993	939,765
Inventories	703,227	134,955
Prepaid expenses and other current assets	(9,512)	93,554
Other assets	(109,303)	9,987
Accounts payable and accrued expenses	526,344	(1,438,022)
Deferred revenue	(1,838)	(62,863)
Net cash used in operating activities	(2,735,501)	(2,367,636)
Investing activities		
Cash transferred to buyer in connection with sale of business	(126,866)	
Purchases of equipment	(60,138)	(26,451)
Proceeds from disposals of equipment	10,220	7,626
Net cash used in investing activities	(176,784)	(18,825)
Financing activities		
Net payments to factor		(298,676)
Proceeds from loans from related parties	1,015,000	2,928,000
Payments of loans from related parties	(3,944)	(105,919)
Proceeds from issuance of notes	1,580,000	
Payments of notes and capital leases	(25,032)	(68,625)
Proceeds from issuance of common stock and warrants		4,428