

SPEEDCOM WIRELESS CORP
Form 10KSB
April 14, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2002

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
(State or Other Jurisdiction
of Incorporation or Organization)

58-2044990
(I.R.S. Employer
Identification No.)

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7020 Professional Parkway East, Sarasota, FL 34240
(Address of Principal Executive Offices)

(941) 907-2300
(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:

<u>Title of Each Class:</u>	<u>Name of Each Exchange on Which Registered:</u>
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 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.

The issuer's revenues for the most recent fiscal year ended December 31, 2002 were \$7,676,327.

The aggregate market value of the common stock held by non-affiliates computed by reference to the \$0.04 closing sales price on March 14, 2003 was \$579,026.

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 No

The number of shares of the issuer's common stock outstanding as of March 14, 2003 was 14,490,664.

The following documents are incorporated by reference: Items 9, 10, 11 and 12 hereof are incorporated by reference from the issuer's proxy statement to be filed with the SEC by April 30, 2003.

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

SPEEDCOM WIRELESS CORPORATION

FORM 10-KSB

For the Period Ended December 31, 2002

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PART I
Item 1. Description of Business*Company Overview*

SPEEDCOM Wireless Corporation (SPEEDCOM) is a Delaware corporation. SPEEDCOM manufactures, configures and delivers 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's products provide high-performance broadband fixed wireless solutions specifically designed for building-to-building local area network connectivity and wireless Internet distribution.

SPEEDCOM's wireless products are designed to meet the backbone and last-mile needs of two distinct market sectors: the service provider market and the enterprise market. The service provider market is comprised of various Internet service providers and telecommunication carriers, which provide fixed wireless broadband Internet connectivity to business and residential customers. The enterprise market is comprised of corporations, schools, universities, governments and the military, which need wireless campus-wide private data networks. In both cases, SPEEDCOM's wireless broadband products provide the user with lower cost of ownership and significantly reduced installation time compared to alternative wired solutions. Service providers and enterprise customers alike choose SPEEDCOM solutions based on their reputation for reliability, performance, service and value.

SPEEDCOM operates 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. Also see Note 17 to the accompanying financial statements.

SPEEDCOM sells 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 sells its products in over 80 countries, with international sales amounting to approximately 46% and 53% of SPEEDCOM's total 2002 and 2001 revenues, respectively. The following table reflects revenues by geographic area:

<u>Geographic Area</u>	<u>2002</u>	<u>2001</u>
North America	54%	47%
Africa	14%	12%
Asia and the Pacific Rim	11%	15%
Latin America	8%	16%
European Union	5%	3%
Other Foreign Areas	8%	7%

Industry Overview

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The fixed wireless broadband market is at an early stage of development and is rapidly evolving. The outdoor fixed wireless broadband market is made up of two distinct sectors: the enterprise market, which is comprised of corporations, schools, universities, the military, and other similar private customers who use SPEEDCOM products and services to establish site-wide wireless networks; and the service provider market, which is comprised of Internet service providers and telecommunication carriers. These companies use SPEEDCOM's products as integral components of their high performance backbone and/or last-mile networks that carry high-speed Internet, voice, video, and data technologies to their business and residential customers.

Fixed wireless networks use licensed, unlicensed or a combination of licensed and unlicensed radio frequencies to provide network access for both data and voice applications. SPEEDCOM's wireless broadband network products are designed to run principally on unlicensed radio frequencies, often referred to as public bands, that do not require a license with the Federal Communications Commission (FCC) (the 2.4 Gigahertz Frequency and the 5.7 Gigahertz Frequency are unlicensed frequencies used by SPEEDCOM's products). In the public bands, the industry has adopted standards for use of unlicensed frequencies and attempts to create compatibility among vendors, which is called the IEEE (Institute of Electrical and Electronics Engineers) 802.11b specification. However, this standard, which is more appropriate for indoor or short-range wireless connectivity, sacrifices speed and cost for compatibility and mobility. Because speed, range, and cost are most often more important to the users of fixed wireless equipment, SPEEDCOM offers a suite of products that do not strictly adhere to IEEE 802.11b and instead use slightly modified specifications that are specifically designed for outdoor fixed-wireless connectivity.

Also in the public band, frequency interference is a significant engineering concern. Currently, fixed wireless users can choose between two radio frequency technologies that are designed to minimize the risk of interference, known as Direct Sequence Spread Spectrum and Frequency Hopping Spread Spectrum. SPEEDCOM products generally use Direct Sequence Spread Spectrum, which provides for greater data throughput, longer range and less interference than SPEEDCOM's customers require in their network products.

Although there are many standards and frequencies that companies can adhere to or utilize, the core technology employed in SPEEDCOM's products is flexible enough to address the needs of both the licensed and unlicensed bands as well as the various types of transmission methods.

The market for SPEEDCOM's products is very competitive, and it is expected that competition will increase in the future, both with respect to the products SPEEDCOM currently offers, and those that it may develop in the future. Within the wireless industry, business is intensely competitive and is characterized by rapid technological change, frequent introduction of new products and evolving industry standards. Management believes that SPEEDCOM's principal competitive advantages in the fixed wireless broadband market include:

expertise and familiarity with unlicensed 2.4 Gigahertz spread spectrum technology, wireless data communication protocols and broadband technology;

product performance, features, functionality and reliability;

price/performance characteristics;

timeliness of new product introductions;

adoption of emerging industry standards;

customer service and support;

size and scope of distribution network; and

brand name.

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Within the fixed wireless broadband equipment industry, the primary competitors are Airspan, Motorola, Proxim, Nokia, Aironet (part of Cisco Systems) and Alvarion. SPEEDCOM also experiences competition from a number of smaller companies that provide wireless data communication products. In addition, SPEEDCOM competes with offerings from local telephone companies and public telephone and telegraph operators around the world. These offerings typically consist of a data connection a customer leases from the local telephone operator, typically as part of a multi-year contract for services. SPEEDCOM's products offer several advantages over telephone company based offerings: competitive performance, no recurring monthly payments, and return-on-investment often in less than six months. Because some telephone company based offerings can be used at distances greater than SPEEDCOM's products, the two types of solutions may also act as a complimentary solution for a customer. While some telephone company offerings have the advantage of being able to connect

buildings at distances greater than can be done using wireless products, the two types of connections are not mutually exclusive and can be used in combination to connect remote buildings.

Business Strategy

SPEEDCOM's current strategy is to continue providing a complete line of wireless broadband products to sell to Internet service providers and private data network users. SPEEDCOM intends to accomplish this strategy primarily through its existing product line and the internal development of new products and services. SPEEDCOM also intends to promote the wider use of its products by establishing strategic relationships with partners who can reach additional segments of the market. Finally, SPEEDCOM may seek to merge with one or more companies which complement SPEEDCOM's product offerings in order to facilitate growth. SPEEDCOM's management may, from time to time, undertake other relevant and timely strategies that are considered appropriate to advance SPEEDCOM's growth and viability.

Products

SPEEDCOM offers a complete line of wireless broadband equipment. SPEEDCOM's high performance wireless bridge/router systems connect existing enterprise local area networks for point-to-point and point-to-multi-point, campus area, or metropolitan area networks. Within the current product line, SPEEDCOM offers eight SPEEDLAN products, which use unlicensed radio frequencies to communicate at 11 Megabits per second at distances up to 25 miles, and two licensed microwave products, which use licensed radio frequencies to communicate at 52 or 155 Megabits per second at distances up to ten miles. Because the performance and distance a particular product is capable of reaching varies depending on the end-user's network configuration, topography, and other engineering variables, these network performance values may vary from application to application. SPEEDCOM derives revenue to a lesser extent from wireless equipment installation and field support services, which are contracted with its resellers and directly with end-users. These services include radio frequency site survey and path analysis, equipment installation and on site trouble shooting of problems during operation of the equipment.

SPEEDCOM is developing additional SPEEDLAN products with smaller size, greater functionality and greater ease of use for new markets. Currently, SPEEDCOM is developing a next generation of fixed wireless broadband products, which are to be based on the 802.11a and/or 802.16 standards, operating in the 5.7 Gigahertz band. We expect that the new products will deliver throughput at rates up to 54 Megabits per second, nearly five times as fast as today's SPEEDLAN products. SPEEDCOM will utilize its own proprietary board design and software, utilizing many off the shelf radio components available from one of several manufacturers of 54 Megabits per second radio chip sets (currently being developed).

SPEEDCOM's research and development expenses during the fiscal years ended December 31, 2002 and 2001 were \$256,170 and \$424,299, 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. 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 December 31, 2002, 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

refined version of the PacketHop technology provides the mesh capabilities in SPEEDCOM's 9000 series products.

Suppliers

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. SPEEDCOM has experienced delays and shortages in the supply of components in the past and could experience delays and shortages in the future. SPEEDCOM generally does not maintain a significant inventory of components and does not have many long-term supply contracts with its suppliers. As a result, there is a significant risk that SPEEDCOM may not have access to materials to meet its customers' requirements. SPEEDCOM, on an on-going basis, searches for alternative vendors or analyzes whether in-house manufacturing would be more cost beneficial. In the event that a single supplier became unavailable, and another supplier could not be identified that manufactured the same product, SPEEDCOM would attempt to use an alternative product in the assembly or redesign the finished product.

Government Regulation

The use of radio frequencies in the United States of America is subject to regulation by the FCC. Current FCC regulations permit license-free operation in certain bands in the radio spectrum. SPEEDCOM's spread spectrum wireless products are intended for operation in principally the unlicensed spectrum, primarily in the 2.4-2.4835 Gigahertz frequency bands. Operation in these frequency bands is governed by rules set forth in Part 15 of the FCC regulations governing Radio Frequency Usage. Part 15 rules are designed to minimize the probability of interference to other users of the same unlicensed spectrum. In the event that there is interference between Part 15 users, a higher priority, or incumbent user can require the other user to curtail transmissions that create interference.

As previously mentioned, SPEEDCOM's spread spectrum wireless products are intended for operation in the principally unlicensed spectrum. In the unlikely event that the FCC suspended or curtailed the use of these unlicensed frequencies, SPEEDCOM would not be able to sell its products in the United States of America in their present form.

SPEEDCOM's products are also subject to regulatory requirements in various international markets and, therefore, SPEEDCOM closely monitors the development of spread spectrum regulations in certain countries in which SPEEDCOM's products are sold and that represent potential future markets. Some countries require safety and electromagnetic compatibility testing in order for SPEEDCOM to sell its products. Management of SPEEDCOM believes that it has maintained compliance with all international regulatory standards.

Sales and Marketing

Sales are 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 sell SPEEDCOM's products to a local or regional customer base, as well as provide post installation service, if any.

SPEEDCOM currently employs 24 salespeople, technical support and system engineers who sell to certain end users (primarily Internet service providers and larger private data network clients). The sales force is also responsible for maintaining the distributor network sales channel. SPEEDCOM currently has over 350 distributors and other dealers.

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Indirect sales (i.e., sales to dealers/value added resellers) have historically been SPEEDCOM's main source of revenue. SPEEDCOM will continue to support this business channel, expanding both domestically and internationally. Telemarketing, supported by sales engineers for design services, provides the primary sales engines, augmented, in part, by a direct sales team to reach large corporate and institutional accounts as well as telecommunication carriers and Internet service providers.

SPEEDCOM recognizes revenue for financial reporting purposes upon shipment of the products to the customer, including when a distributor is involved in the transaction. Customers may exchange or return merchandise within 30 days if the product is found to be non-functional upon delivery. SPEEDCOM accrues a provision for estimated returns, based upon its actual historical return experience, concurrent with revenue recognition. SPEEDCOM also derives revenue from extended maintenance agreements, for periods of one to three years. Revenue on extended maintenance agreements is 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, 2002 or December 31, 2001. In addition, no customer accounted for more than 10% of SPEEDCOM's gross accounts receivable as of December 31, 2002. One customer accounted for 97% of SPEEDCOM's lease receivable as of December 31, 2002. Two customers accounted for 31% of SPEEDCOM's gross accounts receivable as of December 31, 2001. 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. A material curtailment of purchases by one or more significant customers of SPEEDCOM could have a material adverse effect on SPEEDCOM's business, financial condition, and results of operations.

Employees

SPEEDCOM currently has approximately 60 full-time employees. None of SPEEDCOM's employees are represented by a labor union and SPEEDCOM believes that its relations with its employees are good.

Item 2. Description of Property

As of December 31, 2002, SPEEDCOM leased approximately 40,000 square feet of office and light industrial space in Sarasota, Florida, which included 8,000 square feet of manufacturing capacity, under a lease with a remaining term of approximately 12 years. SPEEDCOM's rent, including maintenance, was approximately \$59,000 per month for this facility. SPEEDCOM also leases offices in Barcelona, Sao Paulo, Singapore and Shanghai.

In February 2003, SPEEDCOM renegotiated the lease for the Sarasota property, reducing the square footage leased from approximately 40,000 to approximately 17,000, and reducing the monthly rent from approximately \$59,000 per month to approximately \$25,000 per month. As consideration for this lease modification, SPEEDCOM will pay to the landlord \$100,000 for the lease modification and up to \$150,000 for building modifications in order to convert the building from single tenant occupancy to multi-tenant occupancy. In March 2003, SPEEDCOM also began leasing 8,000 square feet in Sarasota, Florida from a landlord unaffiliated with its current landlord. This space will serve as SPEEDCOM's new manufacturing facility. The rent for this facility will be approximately \$4,500 per month.

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

This item is inapplicable, as there were no matters submitted to a vote of SPEEDCOM's security holders during the fourth quarter of 2002.

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 OTC Bulletin Board until February 2001, as quoted on the NASDAQ SmallCap Market until August 2002, and as quoted on the OTC Bulletin Board thereafter. (SPEEDCOM was listed on the NASDAQ SmallCap Market in February 2001 and 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.

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
2001	High	Low
First Quarter	\$ 9.13	\$ 3.44
Second Quarter	\$ 5.25	\$ 2.00
Third Quarter	\$ 2.70	\$ 0.92
Fourth Quarter	\$ 1.35	\$ 0.43

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

As of March 14, 2003, there were approximately 1,200 stockholders of record of SPEEDCOM's common stock (which amount does not include the number of stockholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one stockholder).

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be	Weighted-average	Number of securities
	issued upon exercise of	exercise price of	remaining available for
	outstanding options,		future issuance under

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	<u>warrants and rights (a)</u>	outstanding options, warrants and rights	<u>equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders	2,050,396	\$ 2.28	949,604
Equity compensation plans not approved by security holders	904,480	\$ 2.21	
Total	2,954,876	\$ 2.26	949,604

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

<u>Number of Options</u>	<u>Grant Date</u>	<u>Expiration Date</u>	<u>Exercise Price</u>
16,044	3/19/94	6/30/03	\$2.62
6,876	7/5/96	6/30/03	\$2.62
6,668	4/25/98	6/30/03	\$2.62
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, 2002 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.

1. During 2002, 4,560,481 Series B \$0.01 Warrants were exercised for 3,849,957 shares of common stock. These securities were issued to 14 investors, all of which are accredited investors on the dates indicated below.

<u>Number of Shares</u>	<u>Date</u>
11,049	6/17/02
247,225	6/21/02
570,000	8/26/02
600,000	8/28/02
108,992	9/9/02
422,758	9/12/02
22,649	9/17/02
113,713	9/25/02
42,277	10/16/02
555,143	11/1/02
1,156,151	12/26/02

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 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.

	Fiscal Year Ended December 31,	
	2002	2001
Net revenues	100%	100%
Cost of goods sold	59%	59%
Gross margin	41%	41%
Operating costs and expenses:		
Salaries and related	39%	37%
General and administrative	31%	23%
Selling expenses	13%	12%
Provision for bad debt	6%	6%
Depreciation and amortization	9%	4%
Severance costs	8%	4%
	106%	86%
Loss from operations	(65)%	(45)%
Other expense:		
Interest expense, net	(4)%	(21)%
Other expense, net	(1)%	(2)%
	(5)%	(23)%
Net loss before extraordinary items	(70)%	(68)%
Extraordinary loss from early extinguishment of debt		(26)%
Net loss	(70)%	(94)%
Assumed dividend from beneficial conversion feature of preferred stock		(37)%
Net loss attributable to common stockholders	(70)%	(131)%

Fiscal 2002 Compared to Fiscal 2001

Net revenues decreased 47% from approximately \$14,460,000 for the year ended December 31, 2001 to approximately \$7,676,000 for the year ended December 31, 2002. This decrease was due to unexpected delays in spending decisions by both potential and current customers during 2002 as compared to 2001. This factor, 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 decreased to 46% of revenues for the year ended December 31, 2002 as compared to 53% of revenues the year ended December 31, 2001. The percentage of sales from international customers is expected to remain relatively constant during the year ended December 31, 2003.

Cost of goods sold decreased 47% from approximately \$8,567,000 for the year ended December 31, 2001 to approximately \$4,502,000 for the year ended December 31, 2002, due to decreases in SPEEDCOM's revenues. However, as a result of managing product costs and maintaining pricing levels, gross margin as a percentage of sales increased slightly to 41.3% during the year ended 2002, compared to 40.7% during the year ended December 31, 2001.

Salaries and related, general and administrative and selling expenses decreased by 39% from approximately \$10,458,000 for the year ended December 31, 2001 to approximately \$6,372,000 for the year ended December 31, 2002. This decrease was primarily due to a decrease in salaries and related expenses of approximately \$2,369,000 related to decreased headcount, a decrease in general and administrative expenses of

approximately \$1,029,000 related to reduced spending on professional services, travel, investor relations, and consultants, partially offset by increases in rent expense, and a decrease in selling expenses of approximately \$688,000 related primarily to reduced trade show participation.

Provision for bad debts decreased 52% from approximately \$873,000 during the year ended December 31, 2001 to approximately \$420,000 for the year ended December 31, 2002. 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.

In the fourth quarter of 2000 and in the first and second quarters of 2001, SPEEDCOM sold products from its SPEEDLAN product line for approximately \$574,000 to a large Korean based company (Korean Customer). One of the major clients of SPEEDCOM's customer declared bankruptcy early in 2001, which had a significant financial impact on the Korean Customer. SPEEDCOM recorded a provision for bad debt of approximately \$456,000 during the year ended December 31, 2001 related to the remaining balance of the receivable. Excluding these two significant unusual items in each of the years, provisions for bad debts decreased 94% from approximately \$417,000 for the year ended December 31, 2001 to approximately \$25,000 during the year ended December 31, 2002. The decrease is a result of significantly lower accounts receivable balances at 2002 compared to 2001 plus the use of letters of credit and other instruments that had the effect of minimizing credit risk in 2002.

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 its former Chief Operating Officer. The costs include severance pay and other employee benefits, including amounts to be paid over future periods and the write off of Notes receivable-related party, as discussed below. During 2001, SPEEDCOM sold its InstallGuys division to SPEEDCOM's former Chief Executive Officer. In return, SPEEDCOM received two 6% secured promissory notes in the aggregate principal amount of approximately \$211,000. In October 2001, SPEEDCOM loaned InstallGuys an additional \$50,000 at 6% interest. The notes and interest were due in August 2004. 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 year ended December 31, 2002.

During the year ended December 31, 2001, SPEEDCOM recorded severance costs of approximately \$532,000, reflecting employee termination costs relating to staff reductions. The staff reductions included 20 employees (two at the executive management level) and were completed in the third and fourth quarters of 2001. The costs include severance pay and other employee benefits, including amounts to be paid over future periods. SPEEDCOM is currently in default on the two executive management severance agreement payment plans.

Interest expense decreased from approximately \$3,173,000 for the year ended December 31, 2001 to approximately \$396,000 for the year ended December 31, 2002. This decrease was due to notes payable and loans from stockholders that were converted to preferred stock during 2001. The conversion of the loans to preferred stock triggered substantial interest expense related to the unamortized portion of the discount on the convertible loans. Interest income decreased from approximately \$111,000 for the year ended December 31, 2001 to approximately \$64,000 for the year ended December 31, 2002 as a result of fewer leasing agreements.

SPEEDCOM recorded an extraordinary loss from the early extinguishment of debt related to the conversions of loans and debt to preferred stock and warrants during 2001 of approximately \$3,786,000. When the nonconvertible loans originated, value was allocated to warrants based on the Black-Scholes pricing model. This value was being amortized over the maturity of the loans. When the loans were converted to preferred stock,

Series A Warrants and Series B Warrants, the difference in the carrying value as compared to the combined fair value of the warrants and preferred stock was immediately expensed to loss from the early extinguishment of debt.

Net loss attributable to common stockholders decreased 72% from approximately \$18,944,000, or \$1.96 per share, in 2001 to approximately \$5,356,000, or \$0.47 per share, in 2002 as a result of the foregoing factors.

During 2001, SPEEDCOM converted (i) redeemable preferred stock, (ii) Series A Warrants, (iii) Series B Warrants that were issued in June 2001, and (iv) loans to stockholders in exchange for (i) preferred stock, (ii) Series A Warrants, and (ii) Series B Warrants. This conversion was due to SPEEDCOM's commitment to the holders of its redeemable preferred stock and warrants issued in June 2001 that if SPEEDCOM issued similar instruments at more favorable terms, SPEEDCOM would adjust the terms of the securities issued in June 2001 to be equal to the more favorable terms. As such, the conversion ratio was changed to two shares of common stock for each share of preferred stock rather than the ratio of one share of common stock for each share of preferred stock applicable to the preferred stock issued in June 2001. SPEEDCOM has recorded an assumed dividend of approximately \$2,292,000, which equals the increase in the intrinsic value of the preferred stock based on the incremental number of shares of common stock that may be obtained on conversion of the preferred stock into common stock valued at the price per share on the date of issuance.

Also in 2001, SPEEDCOM issued (i) preferred stock, (ii) Series A Warrants, and (iii) Series B Warrants for approximately \$2,397,000 in cash, net of stock issuance costs. The preferred stock has a beneficial conversion feature valued at approximately \$1,479,000 based on the value of the warrants and the ability to convert the preferred stock to two shares of common stock. This amount is recorded as an assumed dividend from beneficial conversion feature because the preferred stock was convertible when issued.

The terms of the preferred stock provide that if SPEEDCOM has not executed a definitive agreement with respect to a bona fide merger, stock sale or sale of all or substantially all of SPEEDCOM's assets which would result in a change of control of SPEEDCOM prior to December 28, 2001, the conversion price shall be adjusted so that each share of preferred stock shall convert into 2.25 shares of common stock. Because SPEEDCOM did not meet these terms, the conversion price of the preferred stock was adjusted so that each share of preferred stock shall convert into 2.25 shares of common stock. During the year ended December 31, 2001, SPEEDCOM recorded an assumed dividend from beneficial conversion feature of approximately \$1,502,000, which equals the increase in the intrinsic value of the preferred stock based on the incremental number of shares of common stock that may be obtained on conversion of the preferred stock into common stock valued at the price per share on the issuance dates.

Taxes

At December 31, 2002, 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

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. As reflected in the accompanying financial statements, SPEEDCOM incurred operating losses of approximately \$4,953,000 and \$6,603,000 and negative cash flows from operations of approximately \$2,368,000 and \$6,142,000 for the years

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ended December 31, 2002 and 2001, respectively. In addition, SPEEDCOM's cash flows from operations for the year ended December 31, 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 year ended December 31, 2002, management effectively lowered its operating expenses by approximately \$4,369,000 over amounts incurred during the year ended December 31, 2001. In addition, during the years ended December 31, 2002 and 2001, respectively, management raised cash of \$2,928,000 and \$6,769,000 from loans from stockholders, of which approximately \$6,027,000 was eventually converted to equity. In addition, during 2001, SPEEDCOM generated approximately \$2,010,000 from the sale of preferred stock and warrants and approximately \$299,000 from accounts receivable factoring arrangements. 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 2003. The financial statements do not include any adjustments that may arise as a result of this uncertainty. SPEEDCOM was able to borrow \$340,000 in January 2003, at a 15% interest rate, due December 31, 2003. SPEEDCOM was also able to borrow \$400,000 in March 2003 through a convertible promissory note, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the note, due March 21, 2005.

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 decreases in 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 does not have any material commitments for capital expenditures in the future. 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.

During the year ended December 31, 2002, SPEEDCOM borrowed an aggregate \$2,928,000 from three institutional investors who are shareholders. As a stipulation to these loans, the term of all outstanding Series B Warrants of SPEEDCOM dated August 23, 2001 was extended to October 14, 2002. In October 2002, the Board of Directors extended the term of these Series B Warrants to December 28, 2002. All Series B Warrants were exercised before their December 28, 2002 expiration date. The loans bear an interest rate of 15% and are payable December 31, 2003.

During the year ended December 31, 2001, SPEEDCOM used approximately \$6,142,000 of cash for its operating activities. This was primarily due to increases in accounts receivable and its net loss for the period, partially offset by the extraordinary charge related to the early conversion of debt and amortization of discounts related to that debt. SPEEDCOM purchased approximately \$493,000 of fixed assets during the year ending December 31, 2001. SPEEDCOM does not have any material commitments for capital expenditures in the future. To fund this growth in assets and sales, SPEEDCOM raised approximately \$8,779,000 primarily through the issuance of promissory notes and loans from stockholders and the conversion of these notes and loans to preferred stock. As of December 31, 2001, SPEEDCOM had cash of approximately \$274,000.

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:

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

Allowances for Doubtful Accounts: Allowances for doubtful accounts receivable are maintained based on historical payment patterns, aging of accounts receivable, and actual write-off history. Allowances are also maintained for future sales returns and allowances based on an analysis of recent trends of product returns.

Impairment of Long-Lived Assets: In assessing the recoverability of SPEEDCOM's long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

Inventory Reserves: SPEEDCOM's inventories are valued at the lower of cost or market. Under certain market conditions, estimates and judgments regarding the valuation of inventory are employed by management to value inventory properly.

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. Rent expense under operating leases, amounted to \$801,835 and \$547,054 for the years ended December 31, 2002 and 2001, respectively. Future noncancellable lease payments under operating leases for each year ended December 31 are as follows: 2003 \$760,480; 2004 \$733,895; 2005 \$719,543; 2006 \$705,018; 2007 \$704,760 and thereafter \$6,166,650.

During 2002, 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 some of these payment obligations.

SPEEDCOM also has three 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 month's salary, in the case of two contracts and 12 month's salary, in the case of one contract. 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.

Recent Accounting Pronouncements

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SFAS No. 148, ACCOUNTING FOR STOCK BASED COMPENSATION TRANSITION AND DISCLOSURE (SFAS No. 148):

During December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148. SFAS No. 148 establishes standards for two alternative methods of transition to the fair value method of accounting for stock-based employee compensation under SFAS No. 123, ACCOUNTING FOR STOCK BASED

COMPENSATION (SFAS No. 123). SFAS No. 148 also amends and augments the disclosure provisions of SFAS No. 123 and the Accounting Principles Board (APB) No. 28, INTERIM FINANCIAL REPORTING to require disclosure in the summary of significant accounting policies for all companies the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The transition standards and disclosure requirements of SFAS No. 148 are effective for fiscal years and interim periods ending after December 15, 2002.

SFAS No. 148 does not require SPEEDCOM to transition from the intrinsic approach provided in APB No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES (APB No. 25). In addition, SPEEDCOM does not currently plan to transition to the fair value approach in SFAS No. 123. However, SPEEDCOM has adopted the additional disclosure requirements of SFAS No. 148 in this annual report.

FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (Interpretation 45):

During November 2002, the FASB issued Interpretation 45. Under Interpretation 45 guarantees, contracts and indemnification agreements are required to be initially recorded at fair value. Current practice provides for the recognition of a liability only when a loss is probable and reasonably estimable, as those terms are defined under SFAS No. 5, ACCOUNTING FOR CONTINGENCIES. In addition, Interpretation 45 requires significant new disclosures for all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. The initial recognition and measurement provisions of Interpretation 45 are applicable on a prospective basis to guarantees, contracts or indemnification agreements issued or modified after December 31, 2002.

SPEEDCOM currently has no guarantees, contracts or indemnification agreements that would require fair value treatment under the new standard.

SFAS No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES (SFAS No. 146):

During July 2002, the FASB issued SFAS No. 146. SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING) (EITF 94-3). SFAS No. 146 requires the recognition of a liability for costs associated with exit or disposal activities when the liability is actually incurred. Under EITF 94-3, such costs were generally recognized in the period in which an entity committed to an exit plan or plan of disposal. While both standards covered costs associated with one-time termination benefits (e.g. severance pay or stay-bonus arrangements), SFAS No. 146 provides standards that provide for the timing of recognition of these types of benefits. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002.

Management's plans with respect to the continuation of SPEEDCOM are described in Note 2. While there is currently no specific plans to exit activities as part of these plans, any such activity would require the application of SFAS No. 146. During 2002, SPEEDCOM incurred severance costs as described in Note 16. While SPEEDCOM's accounting for the severance cost followed EITF 94-3, there would have been no material difference had SFAS No. 146 been in effect.

SFAS No. 145 Rescission of SFAS No. 4, 44 and 64, Amendment of SFAS No. 13 and TECHNICAL CORRECTIONS (SFAS 145):

During April 2002, the FASB issued SFAS No. 145. SFAS No. 145 rescinds SFAS No. 4, REPORTING GAINS AND LOSSES FROM EXTINGUISHMENTS OF DEBT (SFAS No. 4), which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of

related income tax effect. As a result of the rescission of SFAS No. 4, the classification of gain and losses arising from debt extinguishments requires consideration of the criteria for extraordinary accounting treatment provided in APB No. 30, REPORTING THE RESULTS OF OPERATIONS. In the absence of SFAS No. 4, debt extinguishments that are not unusual in nature and infrequent in occurrence would be treated as a component of net income or loss from continuing operations. SFAS No. 145 is effective for financial statements issued for fiscal years beginning after May 15, 2002.

During the year ended December 31, 2001, SPEEDCOM properly recorded a loss on the early extinguishments of debt of approximately \$3,786,000 as an extraordinary item on the statement of operations. In the absence of SFAS No. 4, caused by SFAS No. 145, such transaction would not have met the criteria for extraordinary treatment. Management has elected not to early adopt SFAS No. 145 in connection with its current annual report, which is permissible under the standard. Had management early adopted the standard, the loss on early extinguishments recognized in 2001 would have been reclassified as other expense in the accompanying financial statements.

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

Our auditors included a going concern uncertainty emphasis paragraph in their report on our financial statements for the year ended December 31, 2002. The rationale for the inclusion of this qualification is set forth in Note 2 to our audited financial statements, which provides as follows:

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 \$4,953,000 and \$6,603,000 and negative cash flows from operations of approximately \$2,368,000 and \$6,142,000 for the years ended December 31, 2002 and 2001, respectively. In addition, SPEEDCOM's cash flows from operations for the year ended December 31, 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 year ended December 31, 2002, management effectively lowered its operating expenses by approximately \$4,369,000 over amounts incurred during the year ended December 31, 2001. In addition, during the years ended December 31, 2002 and 2001, respectively, management raised cash of \$2,928,000 and \$6,769,000 from loans from stockholders, of which approximately \$6,027,000 was eventually converted to equity. In addition, during 2001, SPEEDCOM generated approximately \$2,010,000 from the sale of preferred stock and warrants and approximately \$299,000 from accounts receivable factoring arrangements. 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 2003. The financial statements do not include any adjustments that may arise as a result of this uncertainty. SPEEDCOM was able to borrow \$340,000 in January 2003, at a 15% interest rate, due December 31, 2003. SPEEDCOM was also able to borrow \$400,000 in March 2003 through a convertible promissory note, at a 10% interest rate for the first six months and a 13% interest rate for the remainder of the term of the note, due March 21, 2005.

It is essential that we obtain additional financing by the end of the second quarter 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 2003. Although SPEEDCOM intends to decrease operating expenses as a percentage of revenue, our revenues may not grow or even continue at their current level. If revenues do not rapidly increase or if expenses increase at a greater pace than revenues, SPEEDCOM will never become profitable.

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, products based on laser technology, systems that utilize existing telephone wires or cables within a building as a wired network backbone, and satellite systems outside of buildings.

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.

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

To increase revenues, we have increased the number of our 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 accurately to 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.

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 and exercise of warrants that are outstanding.

If the holders of our preferred stock and warrants elect to convert their preferred stock and 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 current preferred stock conversion price of \$1.125 per share, the conversion price of the preferred stock will be reduced using a customary weighted average basis formula. Under the anti-dilution provisions of 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 (\$2.50 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 513,333 shares of our common stock at an exercise price of \$2.50 per share.

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

Michael W. McKinney and Barbara McKinney currently control a substantial portion of SPEEDCOM's common stock. 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 Michael W. McKinney or Barbara McKinney approve the action.

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.

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 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.

Item 7. Financial Statements

Report of Certified Public Accountants

Board of Directors

SPEEDCOM Wireless Corporation

We have audited the accompanying balance sheet of SPEEDCOM Wireless Corporation as of December 31, 2002 and the related statements of operations, changes in stockholders' (deficit) equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2002, and the results of its operations and its cash flows for the year 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, negative cash flows from operations and has negative working capital and a stockholders' deficit at December 31, 2002. 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

January 31, 2003

Report of Independent Certified Public Accountants

Board of Directors

SPEEDCOM Wireless Corporation

We have audited the accompanying balance sheet of SPEEDCOM Wireless Corporation as of December 31, 2001 and the related statements of operations, changes in stockholders' equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2001, and the results of its operations and its cash flows for the year 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 has negative cash flows from operations. At the present time, the Company is seeking additional debt or equity funding but has no commitments in place. These conditions raise substantial doubt about the Company's ability to continue as a going concern. 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/ ERNST & YOUNG LLP

Tampa, Florida

March 22, 2002

SPEEDCOM WIRELESS CORPORATION

BALANCE SHEETS

	December 31,	
	2002	2001
ASSETS		
Current assets:		
Cash	\$ 346,361	\$ 273,614
Restricted cash		42,724
Accounts receivable, net of allowances of \$162,738 and \$231,278 in 2002 and 2001, respectively	520,164	1,883,533
Current portion of leases receivable	248,993	778,030
Inventories, net of reserves of \$233,636 and \$67,091 in 2002 and 2001, respectively	1,523,734	1,825,234
Prepaid expenses and other current assets	53,039	146,593
Total current assets	2,692,291	4,949,728
Property and equipment, net	625,400	1,034,558
Leases receivable, net of current portion		811,103
Notes receivable related party		267,126
Other assets	112,117	122,104
Intellectual property, net	1,096,125	1,372,937
Total assets	\$ 4,525,933	\$ 8,557,556
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	\$ 1,135,405	\$ 2,455,803
Advance from factor		298,676
Accrued expenses	930,949	892,170
Due to related parties	3,106,414	239,970
Current portion of deferred revenue	20,939	74,911
Current portion of notes and capital leases payable	64,606	33,174
Total current liabilities	5,258,313	3,994,704
Deferred revenue, net of current portion	4,626	13,517
Notes and capital leases payable, net of current portion	14,100	39,254
Stockholders' (deficit) equity:		
Common stock, \$.001 par value, 250,000,000 shares authorized, 14,490,664 and 10,122,113 shares issued and outstanding in 2002 and 2001, respectively	14,490	10,122
Preferred stock, \$4.50 stock liquidation value per share, 10,000,000 shares authorized, 3,835,554 and 3,835,554 shares issued and outstanding in 2002 and 2001, respectively	5,455,702	5,455,702
Additional paid-in capital	17,800,749	17,710,477
Accumulated deficit	(24,022,047)	(18,666,220)
Total stockholders' (deficit) equity	(751,106)	4,510,081
Total liabilities and stockholders' (deficit) equity	\$ 4,525,933	\$ 8,557,556

See accompanying notes.

SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2002	2001
Net revenues	\$ 7,676,327	\$ 14,459,762
Cost of goods sold	4,502,460	8,566,689
Gross margin	3,173,867	5,893,073
Operating costs and expenses:		
Salaries and related	3,007,659	5,376,486
General and administrative	2,347,006	3,375,607
Selling expenses	1,017,760	1,705,715
Provision for bad debt	419,585	873,363
Depreciation and amortization	704,795	632,960
Severance costs	629,814	531,769
	8,126,619	12,495,900
Loss from operations	(4,952,752)	(6,602,827)
Other income (expense):		
Interest expense	(395,676)	(3,173,099)
Interest income	63,646	110,885
Other expense, net	(71,045)	(219,387)
	(403,075)	(3,281,601)
Loss before extraordinary items	(5,355,827)	(9,884,428)
Extraordinary loss from early extinguishment of debt		(3,786,369)
Net loss	(5,355,827)	(13,670,797)
Assumed dividend from beneficial conversion feature of preferred stock		(5,273,515)
Net loss attributable to common stockholders	\$ (5,355,827)	\$ (18,944,312)
Net loss per common share before extraordinary item (net of assumed dividend):		
Basic and diluted	\$ (0.47)	\$ (1.57)
Extraordinary loss per common share:		
Basic and diluted		\$ (0.39)
Net loss per common share attributable to common stockholders:		
Basic and diluted	\$ (0.47)	\$ (1.96)
Shares used in computing basic and diluted net loss per common share before extraordinary items and net loss per common share	11,431,626	9,678,400

See accompanying notes.

SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS (DEFICIT) EQUITY

	Common		Preferred	Preferred	Additional			
	Stock	Common	Stock	Stock	Paid-in	Accumulated	Note	
	Shares	Stock	Shares	Amount	Capital	Deficit	Receivable	Total
		Amount						
Balance at January 1, 2001	9,289,529	\$ 9,289		\$	\$ 7,889,817	\$ (4,995,423)	\$ (75,000)	\$ 2,828,683
Exercise of stock options	81,449	81			109,534			109,615
Services rendered and payment collected on note							75,000	75,000
Issuance of warrants					1,630,500			1,630,500
Issuance of preferred stock and warrants for cash			1,209,956	1,479,146	530,588			2,009,734
Issuance of preferred stock and warrants in exchange for debt			2,625,598	3,976,556	11,110,744			15,087,300
Issuance of warrants for services					302,070			302,070
Issuance of common stock for extinguishment of note	12,635	13			44,087			44,100
Issuance of common stock for intellectual property	325,000	325			1,239,175			1,239,500
Issuance of common stock and warrants for services	413,500	414			127,477			127,891
Assumed dividend from beneficial conversion feature of preferred stock					(5,273,515)			(5,273,515)
Net loss						(13,670,797)		(13,670,797)
Balance at December 31, 2001	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)	\$	