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SPEEDCOM WIRELESS CORP  
Form 10QSB  
May 14, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDING MARCH 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  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 58-2044990  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NO.)  
INCORPORATION OR ORGANIZATION)

7020 PROFESSIONAL PARKWAY EAST  
SARASOTA, FL 34240  
(941) 907-2300

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the last practicable date: April 30, 2002 - 10,601,332 common shares, \$.001 par value.

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

SPEEDCOM WIRELESS CORPORATION  
FORM 10-QSB FOR THE PERIOD ENDED MARCH 31, 2002

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PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements

SPEEDCOM WIRELESS CORPORATION  
BALANCE SHEETS

	March 31, 2002	Dec 2
(unaudited)		
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 185,837	\$
Restricted cash	2,651	
Accounts receivable, net of allowances of \$150,939 and \$213,278 in 2002 and 2001, respectively	924,868	1
Current portion of leases receivable	639,966	
Inventories, net	1,505,650	1
Prepaid expenses and other current assets	124,047	
<b>Total current assets</b>	<b>3,383,019</b>	<b>4</b>
Property and equipment, net	931,939	1
Leases receivable	70,367	
Note receivable - related party	271,045	
Other assets, net	109,168	
Intellectual property, net	1,303,734	1
<b>Total assets</b>	<b>\$ 6,069,272</b>	<b>\$ 8,</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,789,397	\$ 2,
Advance from factor	40,861	
Accrued expenses	982,942	1
Current portion of loans from stockholders	84,363	
Current portion of deferred revenue	39,132	
Current portion of notes and capital leases payable	52,379	

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Total current liabilities	2,989,074	3
Deferred revenue, net of current portion	9,893	
Notes and capital leases payable, net of current portion	31,781	
Stockholders' equity:		
Common stock, \$.001 par value, 30,000,000 shares authorized, 10,601,332 and 10,122,113 shares issued and outstanding in 2002 and 2001, respectively	10,601	
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
Additional paid-in capital	17,770,561	17
Accumulated deficit	(20,198,340)	(18)
Total stockholders' equity	3,038,524	4
Total liabilities and stockholders' equity	\$ 6,069,272	\$ 8

See accompanying notes.

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SPEEDCOM WIRELESS CORPORATION  
STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended March	
	2002	2001
Net revenues	\$ 1,917,505	\$ 4,017,505
Cost of goods and services	1,049,532	2,234,505
Gross margin	867,973	1,782,505
Operating costs and expenses:		
Salaries and related	934,752	1,315,505
General and administrative	686,422	850,505
Selling expenses	253,008	518,505
Provision for bad debt	321,401	1,505
Depreciation and amortization	175,923	107,505
Loss from operations	(1,503,533)	(1,011,505)
Other expense, net:		
Interest expense, net	(26,091)	(160,505)
Other (expense) income, net	(2,496)	2,505
Net loss	\$ (1,532,120)	\$ (1,169,505)
Net loss per share:		
Basic and diluted	\$ (0.15)	\$ (0.11)

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Shares used in computing basic and diluted net loss per share

10,447,815

9,313

See accompanying notes.

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SPEEDCOM WIRELESS CORPORATION  
STATEMENTS OF CASH FLOWS  
(unaudited)

	Three Months Ended M	2002	2001
	-----	-----	-----
Operating activities			
Net loss	\$	(1,532,120)	\$ (1,166,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization		175,923	103,401
Provision for bad debt		321,401	1,000
Provision for inventory obsolescence		12,909	1,000
Common stock issued for services		67,509	1,000
Amortization of original issue discount on debt		--	9,000
Changes in operating assets and liabilities:			
Restricted cash		40,073	1,000
Accounts receivable		1,037,639	(76,000)
Leases receivable		478,425	(4,000)
Inventories		306,675	49,000
Prepaid expenses and other current assets		22,546	9,000
Intellectual property		--	(21,000)
Other assets		12,936	(12,000)
Accounts payable and accrued expenses		(686,306)	(6,000)
Deferred revenue		(39,403)	1,000
		-----	-----
Net cash provided by (used in) operating activities		218,207	(1,566,000)
Investing activities			
Purchases of equipment		(4,101)	(19,000)
		-----	-----
Net cash used in investing activities		(4,101)	(19,000)
Financing activities			
Net payments to factor		(257,815)	1,770,000
Proceeds from loans from and warrants issued to stockholders		--	1,770,000
Payments of loans from stockholders		(36,000)	1,770,000
Payments of notes and capital leases		(8,268)	(14,000)
Proceeds from sale of common stock and warrants		200	9,000
		-----	-----
Net cash (used in) provided by financing activities		(301,883)	1,726,000
		-----	-----
Net decrease in cash		(87,777)	(3,000)
Cash at beginning of period		273,614	22,000
		-----	-----
Cash at end of period	\$	185,837	\$ 19,000

See accompanying notes.

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SPEEDCOM WIRELESS CORPORATION  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 (unaudited)

	Three Months Ended March 3	
	2002	2001
	-----	
Supplemental disclosure of noncash investing and financing activities		
Conversion of accounts receivable to lease receivable	--	\$ 1,333,000
Conversion of accounts payable to notes payable	\$ 20,000	\$ 558,442
Conversion of accounts payable to loans from stockholders	\$ 44,363	--
Common stock to be issued for software license	--	\$ 650,000
Common stock issued for services	\$ 67,509	--
Conversion of debt to equity	--	\$ 40,000

See accompanying notes.

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SPEEDCOM WIRELESS CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 MARCH 31, 2002  
 (unaudited)

1. Business

SPEEDCOM Wireless Corporation (SPEEDCOM) was incorporated in Florida on March 16, 1994 and reincorporated in Delaware on September 26, 2000. SPEEDCOM manufactures and installs custom broadband wireless networking equipment for business and residential customers internationally. Through its Wave Wireless Networking division, SPEEDCOM manufactures a variety of broadband wireless products, including the SPEEDLAN family of wireless Ethernet bridges and routers. Internet service providers, telephone company operators and private organizations in over 60 countries use SPEEDCOM products to provide "last-mile" wireless connectivity between multiple buildings at speeds up to 155 Megabits per second and distances up to 25 miles. SPEEDCOM Wireless Corporation is an ISO 9001 registered company.

2 Basis of Presentation

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

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In the opinion of management, the financial statements reflect all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for those periods presented. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

### 3. Liquidity and Management's Plans

Projected cash flows from SPEEDCOM's current operations are not sufficient to finance SPEEDCOM's current and projected working capital requirements. SPEEDCOM will have to obtain additional capital to execute its business plan for 2002. In April 2002, SPEEDCOM borrowed \$750,000 from three institutional investors, which was used for current operations. In May 2002, SPEEDCOM borrowed an additional \$250,000 from three institutional investors, which was used for current operations. SPEEDCOM will seek additional capital to fund the growth of its business, develop next generation products and to take advantage of opportunities that may arise. This additional capital could come from the sale of common or preferred stock, or from additional borrowings. There can be no assurance that such financing will be available on acceptable terms, if at all. If SPEEDCOM is unable to secure significant additional financing, SPEEDCOM will have to further downsize its business or explore other alternatives. The

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financial statements do not include any adjustments that might arise as a result of this uncertainty.

### 4. Inventories

A summary of inventories at March 31, 2002 and December 31, 2001 is as follows:

	2002 (unaudited)	2001
Component parts	\$ 764,247	\$ 596,985
Completed assemblies	615,043	1,081,568
Completed assemblies consigned to others	126,360	146,681
	<u>\$ 1,505,650</u>	<u>\$1,825,234</u>

### 5. Intellectual Property

A summary of intellectual property at March 31, 2002 and December 31, 2001 is as follows:

	2002 (unaudited)	2001
Intellectual property	\$ 1,599,500	\$1,599,500
Less accumulated amortization	(295,766)	(226,563)
	<u>\$ 1,303,734</u>	<u>\$1,372,937</u>

In January 2001, SPEEDCOM acquired worldwide rights for six years to PacketHop(TM), a wireless routing software developed by SRI International (SRI). Under the terms of the agreement, SPEEDCOM obtains rights to SRI's PacketHop(TM)

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technology in the fixed wireless infrastructure market for the primary frequencies below 6 GHz. Per the agreement, SRI International received 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 on. As of March 31, 2002, the value of these shares at the date of grant is classified in Intellectual property on the balance sheet. SPEEDCOM also has paid \$360,000 in cash, included in Intellectual property on the balance sheet, which is being amortized over six years. Per the terms of the agreement, SRI may terminate the exclusive period (18 months) by providing written notice of such termination unless by such time SPEEDCOM has successfully closed a liquid event where SRI had the opportunity to obtain net proceeds of at least \$5,000,000. Due to the fact that such an event has not occurred, it is expected that SPEEDCOM will lose its exclusive rights to PacketHop(TM) in July 2002, but will retain its perpetual license agreement. SPEEDCOM has evaluated this long-lived asset for impairment by comparing the discounted expected future cash flows to its carrying amount. The undiscounted expected future cash flows are more than the carrying value of the asset, so an impairment loss has not been recognized.

### 6. Accrued Expenses

A summary of accrued expenses at March 31, 2002 and December 31, 2001 is as follows:

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	2002 (unaudited)	2001
Accrued payroll	\$ 190,599	\$ 170,419
Accrued commissions	130,762	71,179
Severance costs	217,499	256,826
Registration statement late filing fee	163,970	163,970
Other	280,112	393,746
	\$ 982,942	\$ 1,056,140

### 7. Related Party Transactions

#### Note Receivable-Related Party

During 2001, SPEEDCOM sold its InstallGuys division to SPEEDCOM's Chief Executive Officer. In return, SPEEDCOM received two 6% secured promissory notes totaling \$211,295. In October, SPEEDCOM loaned InstallGuys an additional \$50,000 at 6% interest. The notes and interest are due in August 2004.

#### Loans from Stockholders

SPEEDCOM issued an 18% \$50,000 promissory note to SPEEDCOM's Vice President of Sales in December 2001. The note is due May 15, 2002 and is secured by property of SPEEDCOM. During February 2002, \$10,000 of this loan was repaid. During April 2002, \$20,000 of this loan was repaid.

SPEEDCOM also issued an 18% \$106,000 promissory note to an investor in December 2001 that was due December 28, 2001. SPEEDCOM paid \$80,000 of this note in December 2001. In January 2002, SPEEDCOM paid the remaining \$26,000 balance on the note and accrued interest.

In March 2002, SPEEDCOM issued three promissory notes to each of SPEEDCOM's outside Board members for \$14,738, \$13,875 and \$15,750, respectively. Each note

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bears an interest rate of 14% and carries an additional 2% penalty on outstanding principle not paid by April 15, 2002. \$11,000 of these notes was paid in April 2002. The remaining principle of the notes, interest and penalties has not been repaid.

### 8. Notes and Capital Leases Payable

A summary of notes and capital leases payable at March 31, 2002 and December 31, 2001 is as follows:

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	2002 (unaudited)	2001
8% automobile loan payable in monthly installments through January 2003, secured by equipment	\$ 3,918	\$ 5,
12% convertible note	20,000	
Capital lease obligations	60,242	67,
	84,160	72,
Less current portion	(52,379)	(33,
	\$ 31,781	\$ 39,

In January 2002, SPEEDCOM entered into a financial relations and consultant contract whereby the consultant will receive each month a \$10,000 convertible note with a 12% coupon rate. The notes are convertible at any time at \$1.125 per share. As of March 31, 2002, the note holders possess rights to convert the notes to 22,500 shares of restricted common stock. This contract was cancelled in May 2002.

### 9. Stockholders' Equity

#### Common Stock

In January 2002, 459,219 shares were issued as a result of a repricing provision that applied to 83,000 shares of common stock issued on October 30, 2000 for a price of \$7.35 per share, or a total of \$610,050. Additional shares were issued based on a reset price, which is the weighted average closing price of SPEEDCOM common stock for the first ten trading days of January 2002; provided that the reset price is not less than \$1.1251 or more than \$1.19. Because the average price of SPEEDCOM's common stock during the first ten trading days of 2002 was below the \$1.1251 reset floor, the total number of shares, as adjusted after repricing, was determined by dividing \$610,050 by such floor.

Also in January 2002, 20,000 options were exercised at \$0.01 per share for 20,000 shares of common stock.

#### Employee Stock-Based Compensation

In February 2002, SPEEDCOM issued stock options to employees for the purchase of 750,100 common shares at \$0.60 per share. The Company recorded \$67,500 in



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stock-based compensation expense in relation to these options during the three months ended March 31, 2002. These options vest upon the achievement during 2002 of certain revenue milestones or in full in one year from the issuance. The revenue milestone had not been met as of March 31, 2002. These options vest upon a change of control transaction with the ability to exercise the options for up to one year after vesting. Upon a change of control and if the one year performance period has not expired, the employee may surrender the performance options for cash payment at the calculated change of control common share transaction value for payment within 30 days by the surviving company.

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### Preferred Stock

Each share of preferred stock issued in August 2001 is convertible at any time into two shares of common stock, subject to anti-dilution protection, and will accrue dividends, beginning August 23, 2003, to be paid upon conversion at the rate of 14% per year times the \$3.38 per share liquidation preference. The liquidation preference increased from \$2.25 to \$3.38 (\$4.50 if paid in stock) because a change of control agreement was not announced by February 23, 2002 and closed by April 23, 2002.

### 10. Customer Concentrations

Although SPEEDCOM serves a large and varied group of customers, two customers accounted for 11% and 17% of SPEEDCOM's revenue for the three months ended March 31, 2002, respectively. One customer accounted for 14% of SPEEDCOM's revenue for the three months ended March 31, 2001. In addition, four customers accounted for 51% of SPEEDCOM's gross accounts receivable as of March 31, 2002. SPEEDCOM intends to continue to attempt to diversify and expand its customer base with its current limited resources and maintain overhead costs at low levels.

### 11. Lease Restructuring

During the three months ended March 31, 2002, SPEEDCOM converted two of its leases receivable, recorded at approximately \$1,290,000, into a new lease receivable with approximately \$336,000 due immediately, five payments of \$50,000 due over a five month period and a balloon payment of approximately \$328,000 due in August 2002. As a result of this restructuring of the lease, SPEEDCOM recorded a provision for bad debt of approximately \$395,000 for the three months ending March 31, 2002.

### 12. Subsequent Event

In April 2002, SPEEDCOM borrowed \$750,000 from three institutional investors. In May 2002, SPEEDCOM borrowed an additional \$250,000 from three institutional investors. The loans bear an interest rate of 15% and are payable at the earlier of (i) ninety days following the execution of a definitive agreement with respect to a bona fide merger, stock sale or sale of all or substantially all of the SPEEDCOM's assets or (ii) July 31, 2002. As a stipulation to these loans, the term of all outstanding Series B Warrants of SPEEDCOM dated August 23, 2001 was extended to July 31, 2002.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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growth and future operating results; developments in markets and strategic

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focus; new products and services and product technologies and future economic, business and regulatory conditions. Such forward-looking statements are generally accompanied by the words such as "plan", "estimate", "expect", "believe", "should", "would", "could", "anticipate", "may" and other words that convey uncertainty of future events or 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.

### Overview

SPEEDCOM is a multi-national company based in Sarasota, Florida. SPEEDCOM employs approximately 70 people. Through its Wave Wireless Networking division, SPEEDCOM manufactures a variety of broadband wireless products, including its SPEEDLAN family of wireless ethernet bridges and routers. Internet service providers, telephone company operators and private organizations in more than 60 countries use SPEEDCOM products to provide "last-mile" wireless connectivity between multiple buildings at speeds up to 155 Megabits per second and distances up to 25 miles.

### Results of Operations

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

	Three Months Ended March 31,	
	2002	2001
Net revenues	100%	100%
Cost of goods and services	55%	56%
<b>Gross margin</b>	<b>45%</b>	<b>44%</b>
<b>Operating costs and expenses:</b>		
Salaries and related	49%	32%
General and administrative	36%	21%
Selling expenses	13%	13%
Provision for bad debt	17%	0%
Depreciation and amortization	9%	3%
	124%	69%
<b>Loss from operations</b>	<b>(79)%</b>	<b>(25)%</b>
<b>Other expense, net:</b>		
Interest expense, net	(1)%	(4)%
Other (expense) income, net	(0)%	0%
	(1)%	(4)%
<b>Net loss</b>	<b>(80)%</b>	<b>(29)%</b>

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Three Months Ended March 31, 2002 and March 31, 2001

Net revenues decreased 52% from approximately \$4,017,000 in the three months ended March 31, 2001 to approximately \$1,918,000 in the three months ended March 31, 2002. This decrease was due to unexpected delays in spending decisions by both potential and current customers during the first quarter. This factor, combined with the challenging economic environment in both the United States and overseas, contributed to disappointing results. SPEEDCOM believes that a unique focus on offering a complete spectrum of fixed wireless products and its strength in key international markets will enable SPEEDCOM to endure these difficult economic times. Cost of goods and services decreased 53% from approximately \$2,234,000 for the three months ended March 31, 2001 to approximately \$1,050,000 for the three months ended March 31, 2002, due primarily to decreases in SPEEDCOM's revenues. Revenues from customers in foreign geographic areas increased to 64% of revenues for the three months ended March 31, 2002 as compared to 45% of revenues the three months ended March 31, 2001. The percentage of sales that are from international customers is expected to increase slightly during the year ended December 31, 2002.

Salaries and related, general and administrative and selling expenses decreased by 30% from approximately \$2,685,000 for the three months ended March 31, 2001 to approximately \$1,874,000 for the three months ended March 31, 2002. This decrease was primarily due to a decrease in salaries and related expenses of approximately \$381,000 related to decreased average headcount, a decrease in general and administrative expenses of approximately \$165,000 related to reduced spending on travel, investor relations and consultancy fees, partially offset by increases in rent expense, and a decrease in selling expenses of approximately \$266,000 related primarily to reduced trade show participation.

During the three months ended March 31, 2002, SPEEDCOM converted two of its leases receivable, recorded at approximately \$1,290,000, into a new lease receivable with approximately \$336,000 due immediately, five payments of \$50,000 due over a five month period and a balloon payment of approximately \$328,000 due in August 2002. As a result of this restructuring of the lease, SPEEDCOM recorded a provision for bad debt of approximately \$395,000 for the three months ending March 31, 2002.

Net interest expense decreased from approximately \$161,000 for the three months ended March 31, 2001 to approximately \$26,000 for the three months ended March 31, 2002. This decrease was due to the addition of notes payable and loans from stockholders during the fourth quarter of 2000 and the first quarter of 2001 that were converted to preferred stock during 2001.

Net loss increased 31% from approximately \$1,170,000, or \$.13 per share, in the three months ended March 31, 2001 to approximately \$1,532,000, or \$.15 per share, in the three months ended March 31, 2002, as a result of the foregoing factors.

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Taxes

At March 31, 2002, SPEEDCOM had net operating loss carryforwards (NOLs) for

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federal income tax purposes of approximately \$11,500,000. The NOLs expire at various dates through the year 2021. Utilization of SPEEDCOM's net operating loss may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such annual limitation could result in the expiration of the net operating loss before utilization.

### Liquidity and Capital Resources

During the three months ended March 31, 2002, SPEEDCOM's operating activities provided approximately \$218,000 of cash. This was primarily due to decreases in accounts receivable, leases receivable and inventory partially offset by its net loss for the period and decreases in accounts payable and accrued expenses. SPEEDCOM purchased approximately \$4,000 of fixed assets during the three months ending March 31, 2002 as compared to approximately \$194,000 during the same period in 2001. SPEEDCOM does not have any material commitments for capital expenditures in the future. SPEEDCOM used approximately \$302,000 primarily through payments to factored accounts receivable and payments on loans from stockholders. As of March 31, 2002, SPEEDCOM had cash of approximately \$186,000.

During the three months ended March 31, 2001, SPEEDCOM used approximately \$1,562,000 of cash for its operating activities. This was primarily due to increases in accounts receivable (due to increases in sales) and the net loss for the period. SPEEDCOM purchased approximately \$194,000 of fixed assets during the three months ending March 31, 2001 as compared to approximately \$167,000 during the same period in 2000. To fund this growth in assets and sales, SPEEDCOM raised approximately \$1,770,000 through the issuance of loans from and warrants issued to stockholders.

In April 2002, SPEEDCOM borrowed \$750,000 from three institutional investors, which was used for current operations. In May 2002, SPEEDCOM borrowed an additional \$250,000 from three institutional investors, which was used for current operations. The loans bear an interest rate of 15% and are payable at the earlier of (i) ninety days following the execution of a definitive agreement with respect to a bona fide merger, stock sale or sale of all or substantially all of SPEEDCOM's assets or (ii) July 31, 2002. As a stipulation to these loans, the term of all outstanding Series B Warrants of SPEEDCOM dated August 23, 2001 was extended to July 31, 2002.

Projected cash flows from SPEEDCOM's current operations are not sufficient to finance SPEEDCOM's current and projected working capital requirements. SPEEDCOM believes that it will have to seek additional capital to execute its business plan for 2002. SPEEDCOM will seek additional capital to fund the growth of its business, develop next generation products and to take advantage of opportunities that may arise. This additional capital could come from the sale of common or preferred stock, or from borrowings. There can be no assurance that such financing will be available on acceptable terms, if at all. If SPEEDCOM is unable to secure significant

additional financing, SPEEDCOM will have to further downsize its business or explore other alternatives. The financial statements do not include any adjustments that might arise as a result of this uncertainty.

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

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

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In order to take advantage of possible opportunities in 2002 and to execute our business plan for 2002 and 2003, we need to raise additional financial capital. This additional capital could come from the sale of common or preferred stock, the exercise of outstanding warrants, from borrowings, customer deposits, or from a strategic transaction such as a merger. 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 2002 and 2003 business plans include next generation products which will have initial lead times for acquiring inventory that are much longer than current ones and that may require deposits upfront. SPEEDCOM will need to raise additional capital to fund these longer lead times for purchasing inventory in order to execute its 2002 and 2003 business plans. If this capital is not obtained, additional changes in SPEEDCOM's cost structure and capital expenditures could be required, such as employee terminations and delays in the introductions of the next generation of products or SPEEDCOM may be unable to continue as a going concern.

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 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. SPEEDCOM is developing a series of next generation products, which incorporates the PacketHop(TM) licensed technology from SRI. Delays in developing these products could have a negative effect on our future competitiveness as the industry is constantly changing as new technologies are developed.

The fixed wireless broadband market is at an early stage of development and is rapidly evolving. 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

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addressing any or all of these risks, and the 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

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local loop equipment markets may stop growing, whether 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.

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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 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 lasting longer than any underlying shortage or discontinuance.

Expanding indirect distribution channels may result in increased costs and lower margins.

To increase revenues, we believe that we must increase the number of our distribution partners. Management's strategy includes an effort to reach a greater number of end users through indirect channels. SPEEDCOM is currently investing, and plans to continue to invest, significant resources to develop these indirect channels. These efforts may not generate the revenues necessary to offset such investments. We will be dependent upon the acceptance of our

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products by distributors and their active marketing and sales efforts relating to our products. The distributors to whom we sell products are independent and are not obligated to deal with SPEEDCOM exclusively. Because SPEEDCOM does not generally fulfill orders by end users of its products sold through distributors, SPEEDCOM will be dependent upon the ability of distributors to accurately forecast demand and maintain appropriate levels of inventory. Management expects that SPEEDCOM's distributors will also sell competing products. These distributors may not continue, or may not give a high priority to, marketing and supporting our products. This and other channel conflicts could result in diminished sales through the indirect channels. Additionally, because lower prices are typically charged on sales made through indirect channels, increased indirect sales could adversely affect the average selling prices and result in lower gross margins.

Growth may divert management resources from current operations.

SPEEDCOM anticipates that expansion will be required to address potential growth in the customer base and market opportunities. Future expansion is expected to place a significant strain on our management, technical, operational, administrative and financial resources. SPEEDCOM will need to effectively manage any expansion, which could divert attention and resources from current operations. The expansion may be inadequate to support future operations. We may be unable to attract, retain, motivate and manage required personnel, including finance, administrative and operations staff, or to successfully identify, manage and exploit existing and potential market opportunities because of inadequate staffing. We may also be unable to manage growth in our multiple relationships with original equipment manufacturers, distributors and other third parties.

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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 Latin America could limit our sales in that region.

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

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SPEEDCOM has incurred significant losses since its inception, and expects to continue to incur net losses through at least the first half of 2002. SPEEDCOM intends to increase its operating expenses, however 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.

Our common stock price is volatile.

Our stock and the NASDAQ stock market in general have experienced significant price and volume fluctuations in recent months 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. Such litigation could result in substantial costs and diversion of management's attention.

If our common stock is delisted from the NASDAQ SmallCap Market, it may be more difficult to sell shares of our common stock.

Our common stock is currently listed on the NASDAQ SmallCap Market. On April 30, 2002, the closing sale price of our common stock was \$0.30 per share. We have been warned that certain standards for continued listing on the NASDAQ SmallCap Market have not been met

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relating to our share price. NASDAQ has issued a warning letter giving a 180 day grace period to SPEEDCOM to regain compliance. Delisting from the NASDAQ SmallCap Market could result in a less liquid market for our common stock than would otherwise exist. 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 preferred stock securityholders 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 SPEEDCOM's shares of 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 stock securityholders. Should a significant number of SPEEDCOM's convertible securities be exercised or converted, the resulting increase in the amount of the 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 the 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,



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(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 equivalents 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 \$0.01 in the case of Series B 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 warrants to acquire 513,333 shares at an exercise price of \$2.50 per share.

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Our manufacturing capabilities are limited and could prevent us from keeping up with customer demand.

SPEEDCOM has no experience in large-scale manufacturing. If our customers were to place orders substantially greater than current levels, SPEEDCOM's present manufacturing abilities may not be adequate to meet such demand. There can be no assurance that we will be able to contract additional manufacturing personnel on a timely basis.

Our concentrated ownership structure means that our two controlling shareholders can control the outcome of any shareholder vote.

Michael W. McKinney and Barbara McKinney currently control a majority of SPEEDCOM's common stock. Therefore, certain corporate actions, which the Board of Directors may deem advisable for the shareholders of SPEEDCOM as a whole, such as a business combination, may not be approved by the common shareholders if submitted to a vote, unless Michael W. McKinney and Barbara McKinney approve the potential transaction.

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 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 would not adversely affect international marketing of SPEEDCOM's products.

Regulatory changes, including changes in the allocation of available frequency spectrum, 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 spectrum 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 spectrum could create opportunities for other wireless networking products and services or shift the competitive balance between SPEEDCOM and its competitors.

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### PART II. OTHER INFORMATION

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

During the three months ended March 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

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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. 459,219 shares of common stock (January 30, 2002) were issued as part of a repricing agreement. These securities were issued to 3 accredited investors.

In addition, during the three months ended March 31, 2002, a former employee of SPEEDCOM exercised options to purchase 20,000 shares of common stock for \$.01 per share. These purchases and sales were exempt pursuant to Rule 701 promulgated under the Securities Act.

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

The following proposals are described in the Notice and Proxy Statement filed by SPEEDCOM with the SEC on February 4, 2002:

Proposal 1: To approve SPEEDCOM's issuance of common stock upon the conversion of Series B convertible preferred stock and the exercise of related warrants sold to selected institutional and accredited investors in a private offering.

Proposal 2: To approve an increase in the number of authorized shares of our common stock from 30 million to 60 million shares, in order, among other things, to provide sufficient authorized shares to cover the conversion of the Series B convertible preferred stock and the exercise of the related warrants.

	For	Against	Abstained
Proposal 1	6,704,934	66,557	1,353
Proposal 2	6,685,782	86,779	283

The following proposals are described in the Notice and Proxy Statement filed by SPEEDCOM with the SEC on April 19, 2002:

Proposal 1: Election of one Director to the Board

Proposal 2: Approve the appointment of Ernst & Young LLP as SPEEDCOM's independent certified public accountants for the year ended December 31, 2002

Based upon the results of the voting for Proposal 2 and the recommendation of

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SPEEDCOM's Board of Directors, Proposal 3 was voted upon at the annual meeting of shareholders held on May 6, 2002:

Proposal 3: To approve the appointment of Aidman, Piser & Company as SPEEDCOM's independent certified public accountants for the year ended December 31, 2002

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	For	Against	Abstained
Proposal 1	2,845,370	5,585,750	--
Proposal 2	2,811,405	5,618,515	1,200
Proposal 3	8,431,120	--	--

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

The exhibits in the accompanying Exhibit Index are filed as part of this Quarterly Report on Form 10-QSB.

#### (b) Reports on Form 8-K

Form 8-K was filed on March 15, 2002 regarding the resignation of two Directors and the appointment of two Directors to SPEEDCOM's Board of Directors.

Form 8-K was filed April 25, 2002 regarding the change in SPEEDCOM's certifying accountant.

### Signatures

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

SPEEDCOM Wireless Corporation

/s/ Michael W. McKinney      Chairman, Chief Executive      May 14, 2002

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Michael W. McKinney      Officer and Director

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### Exhibit Index

Number    Description

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- 3.1(3) Amended and Restated Certificate of Incorporation of SPEEDCOM Wireless Corporation
- 3.2(1) Amended and Restated Bylaws of SPEEDCOM Wireless Corporation
- 4.8(2) Warrant No. W-1 to Purchase 146,667 Shares of Common Stock issued to S.A.C. Capital Asso
- 4.9(2) Warrant No. W-2 to Purchase 73,333 Shares of Common Stock issued to SDS Merchant Fund, L
- 4.10(2) Warrant No. W-3 to Purchase 220,000 Shares of Common Stock issued to Oscar Private Equit
- 4.11(2) Warrant No. W-4 to Purchase 73,333 Shares of Common Stock issued to Bruce Sanguinetti
- 4.12(3) Purchase Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation an
- 4.13(3) Registration Rights Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Cor  
as defined
- 4.14(3) Form of Series A Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001
- 4.15(3) Form of Series B Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001
- 4.16(3) Settlement Agreement between SPEEDCOM Wireless Corporation and I.W. Miller Group, Inc. d
- 4.17 Secured Promissory Note dated April 26, 2002 between SPEEDCOM Wireless Corporation and D
- 4.18 Secured Promissory Note dated May 7, 2002 between SPEEDCOM Wireless Corporation and DMG
- 4.19 Secured Promissory Note dated April 26, 2002 between SPEEDCOM Wireless Corporation and D
- 4.20 Secured Promissory Note dated May 7, 2002 between SPEEDCOM Wireless Corporation and DMG
- 4.21 Secured Promissory Note dated April 26, 2002 between SPEEDCOM Wireless Corporation and D
- 4.22 Secured Promissory Note dated May 7, 2002 between SPEEDCOM Wireless Corporation and DMG
- 4.23 Letter Loan Agreement dated April 26, 2002
- 4.24 Security Agreement dated April 26, 2002
- 4.25 Letter Agreement dated April 26, 2002
- 4.26 Agreement to Vote Shares dated April 26, 2002
- 24.1(3) Powers of Attorney

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- (1) Incorporated by reference to the Form 10-QSB filed May 14, 2001.
  - (2) Incorporated by reference to the Form 8-K filed July 2, 2001.
  - (3) Incorporated by reference to the Form S-3 filed September 18, 2001.