SPEEDCOM WIRELESS CORP
Form 10KSB
April 15, 2005
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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.)**
7020 Professional Parkway East **Sarasota, FL 34240** **(Address of Principal Executive Offices)**	**(941) 907-2361** **(Issuer s Telephone Number, Including Area Code)**

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

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

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

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

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

The issuer s revenues for the most recent fiscal year ended December 31, 2004 were $0.

The aggregate market value of the common stock held by non-affiliates computed by reference to the $0.02 closing sales price on April 12, 2005 was $2,743,280.

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

The number of shares of the issuer s common stock outstanding as of April 12, 2005 was 137,163,983.

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

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

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SPEEDCOM WIRELESS CORPORATION

FORM 10-KSB FOR THE PERIOD ENDED DECEMBER 31, 2004

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PART I

Item 1. Description of Business

Preliminary Note

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

Company Overview

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

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

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

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

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Business Strategy

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

Products

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

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

Licensed Technology

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

In October 2003, SPEEDCOM acquired software from JDK Technology for $50,000, to be paid over time, which was an enhancement to the PacketHop technology. Prior to the Asset Sale, the value of the software was classified in Intellectual property, net on the balance sheet and was being amortized using the straight-line method over the remaining life of the PacketHop technology.

Sales and Marketing

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

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

Customers

No customer accounted for more than 10% of SPEEDCOM s revenue for the year ended December 31, 2003.

Employees

As of December 31, 2004, SPEEDCOM did not have any employees. SPEEDCOM utilizes consultants to operate the shell business.

Item 2. Description of Property

As of December 31, 2004, SPEEDCOM did not lease or own any property. SPEEDCOM is occupying space in P-Com s facility through the transition period of the Asset Sale and for use by SPEEDCOM s consultants.

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

None.

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. The quotations represent stock prices between dealers and do not include retail mark-up, markdown or commission and may not represent actual transactions.

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2004	High	Low
First Quarter	$ 0.22	$ 0.025
Second Quarter	$ 0.04	$ 0.001
Third Quarter	$ 0.02	$ 0.008
Fourth Quarter	$ 0.03	$ 0.006

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

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

As of April 6, 2005 there were approximately 130 stockholders of record of SPEEDCOM s common stock.

Securities Reserved for Issuance

As of April 6, 2005 the following shares were reserved for issuance of common stock of SPEEDCOM:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights
Stock Purchase Warrants	8,312,826	$ 0.26
Stock Options outstanding	1,161,892	$ 2.65
Total	9,474,748	$ 0.52

Recent Sales of Unregistered Securities

During the year ended December 31, 2004 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.

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In December 2004, SPEEDCOM issued 5,000,000 shares of its common stock in exchange for settlement of leasing obligations valued at $50,000. In December 2004, SPEEDCOM exchanged $65,000 of accounts payable for 6,500,000 shares of its common stock.

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

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

In March 2005, SPEEDCOM issued 8,162,837 shares of its common stock upon conversion of outstanding warrants.

Item 6. Management s Discussion and Analysis

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

Results of Operations

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

	Years Ended December 31,	
	2004	**2003**
Net revenues		100%
Cost of goods sold		66%
Gross margin		34%
Operating expenses:		
Salaries and related		48%
General and administrative		49%

Selling expenses		16%
Provision for bad debt		2%
Depreciation and amortization		15%
Severance costs		4%
		134%
Loss from operations	(100%)	(100)%
Other (expense) income:		
Interest expense		(15)%
Interest income		0%
Loss on marketable securities		
Gain on sale to P-Com		280%
Other income (expense), net		5%
		270%
Net income (loss)		170%
Cumulative undeclared dividends on preferred stock		(20)%
Net income (loss) attributable to common stockholders		150%

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Fiscal 2004 Compared to Fiscal 2003

Net revenues decreased from approximately $4,381,000 for the year ended December 31, 2003 to $0 for the year ended December 31, 2004. This decrease is due to SPEEDCOM selling its operations in December 2003.

Cost of goods sold decreased from approximately $2,911,000 for the year ended December 31, 2003 to $0 for the year ended December 31, 2004. This decrease is due to SPEEDCOM selling its operations in December 2003.

Salaries and related, general and administrative and selling expenses decreased from approximately $4,642,000 for year ended December 30, 2003 to approximately $404,000 the year ended December 31, 2004. This decrease is primarily due to the reduction in personnel and the total elimination of selling and research and development expenses due to SPEEDCOM selling its operations in December 2003.

Depreciation and amortization expense decreased from approximately $660,000 for the year ended December 31, 2003 to $0 for the year ended December 31, 2004 due to SPEEDCOM selling all of its operations in December 2003.

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

Interest expense decreased from approximately $653,000 for the year ended December 31, 2003 to approximately $3,000 for the year ended December 31, 2004. This decrease is due to the conversion of all notes and amounts due to related parties into shares of SPEEDCOM common stock during the fourth quarter of 2003 and the first quarter of 2004.

Realized loss on marketable securities amounted to approximately $4,476,000 for the year ended December 31, 2004. This loss is due to the market price decline of P-Com common stock from $0.15 from the date of the asset sale to $0.08 on the date of the dividend distribution and an average of $0.07 on the various dates of sale of P-Com common stock made by SPEEDCOM in order to generate cash for the remaining overhead expenses of the company.

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Other (expense) income, net increased from approximately ($238,000) for the nine months ended September 30 year ended December 31, 2003 to approximately $302,000 for year ended December 31,2004 primarily due to the conversion of approximately $1,809,000 of accounts payable, notes payable and accrued interest into 15,072,933 shares of SPEEDCOM common stock utilizing a conversion rate of $0.12, which was higher than the market price of SPEEDCOM s common stock on the conversion dates, resulting in gains of approximately $239,000. Other income also increased due to the write off of disputed trade payables of approximately $72,000.

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

Taxes

At December 31, 2004, SPEEDCOM had net operating loss carryforwards (NOLs) for federal income tax purposes of approximately $22,000,000. The NOLs expire at various dates through the year 2024. 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.

SPEEDCOM utilized net tax operating loss carry forwards to offset regular Federal and State taxable income for the year ended December 31, 2003. The net tax asset associated with the net operating loss carry forwards had been fully reserved in previous reporting periods and, accordingly, there were no income taxes for the year ended December 31, 2003. For purposes of Federal Alternative Minimum Taxes (AMT), the utilization of AMT net operating loss carry forwards is generally limited to ninety percent of AMT taxable income. However, at the time of filing, SPEEDCOM intended to qualify the sale to P-Com as a tax-free reorganization under Internal Revenue Code Section 368(a)(1)(C). Certain future actions by management may disqualify SPEEDCOM s ability to effect this exemption. If any such disqualifying actions are taken in future reporting periods, it is reasonably possible that SPEEDCOM may incur an AMT of approximately $130,000. While management is currently reviewing all actions available to SPEEDCOM, no such actions that would disqualify the P-Com transaction as a tax-free reorganization are currently probable.

Taxes

At December 31, 2004, SPEEDCOM had net operating loss carryforwards (NOLs) for federal income tax purposes of approximately $22,000,000. The NOLs expire at various dates through the year 2024. 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.

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Liquidity and Capital Resources

SPEEDCOM s financial statements are prepared on a going-concern basis, which assumes that SPEEDCOM will realize its assets and discharge its liabilities in the normal course of business. However, SPEEDCOM has no operations and its cash flows for 2005 are currently projected to be insufficient to discharge its remaining liabilities, without funding from other sources. These conditions raise substantial doubt as to the ability of SPEEDCOM to continue as a going concern.

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

During the year ended December 31, 2004, SPEEDCOM used approximately $152,000 of cash for operating activities. This was primarily due to SPEEDCOM s operating loss that amounted to approximately $3,742,690 for the year ended December 31, 2004 and gain on conversion of accounts payable, accrued expenses and notes into common stock, partially offset by and the loss on marketable securities of approximately $4,476,000 for the year ended December 31, 2004. Cash provided by investing activities amounted to approximately $158,000 for the year ended December 31, 2004. SPEEDCOM does not have any commitments for capital expenditures or leasing commitments in the future. As of December 31, 2004, SPEEDCOM had cash of approximately $5,600. Between January and March 2005, certain investors of SPEEDCOM have advanced SPEEDCOM funds in the amount of $61,000 exchange for loans.. In January 2005, $21,339 of accounts payable was converted to equity.

During the year ended December 31, 2003, SPEEDCOM borrowed an aggregate $2,928,000 from institutional investors who are shareholders. The loans had an interest rate of 15% and were payable December 31, 2003 (the maturity date was extended to June 30, 2004 subsequent to issuance). In October 2003, $570,000 of these notes, plus accrued interest was converted into 5,601,358 shares of SPEECOM common stock. As part of the Asset Sale to P-Com, $3,000,000 of these notes was assumed by P-Com, leaving a balance due of $373,000, plus accrued interest. On December 31, 2003, SPEEDCOM converted the $373,000, plus accrued interest of $623,092, into three new notes, totaling $996,092 utilizing the same terms as the previous $373,000 notes. Also during the year ended December 31, 2003, SPEEDCOM borrowed $1,580,000 from P-Com. The loans had an interest rate of 10% for the first six months and 13% for the remainder of the term of the notes. These notes were due March 21, 2005 ($400,000), July 17, 2005 ($300,000), August 8, 2005 ($200,000), September 8, 2005 ($50,000), September 16, 2005 ($50,000), September 24, 2005 ($50,000), September 30, 2005 ($50,000), October 14, 2005 ($130,000), October 22, 2005 ($100,000), November 4, 2005 ($100,000), November 21, 2005 ($100,000) and December 5, 2005 ($50,000). These notes were convertible at $0.12 per common share. As part of the Asset Sale to P-Com, all but $400,000 of these notes and accrued interest was forgiven. In December 2003, P-Com exchanged the $400,000 of notes payable for 3,333,333 shares of SPEEDCOM common stock.

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Critical Accounting Policies

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

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

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

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

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addition, we deferred revenue associated with long-term customer maintenance contracts. The value of these contracts was recognized on a straight-line basis over the length of the customer contract.

Commitments and Off Balance Sheet Instruments

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

During 2003, SPEEDCOM entered into several payment plan agreements with vendors that set up monthly commitments by SPEEDCOM to pay off balances that were past due. The majority of these payment plan agreements were assumed by P-Com. SPEEDCOM s terms with most of its vendors are net 30. SPEEDCOM and P-Com are currently engaged in legal proceedings related to some of the defaults discussed above. None of these proceedings are expected to have a material effect on SPEEDCOM s business.

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

Our common stock price is volatile.

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

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

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

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is reduced, if this formula results in a lower exercise price than the adjustment described in the preceding sentence. Similar anti-dilution provisions apply to outstanding warrants to acquire 1,002,026 shares of our common stock (as adjusted) at an exercise price of $0.12 per share. In March 2005, 8,162,837 warrants were converted into a like number of shares of SPEEDCOM s common stock.

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

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

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Item 7. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

SPEEDCOM Wireless Corporation

We have audited the accompanying balance sheet of SPEEDCOM WIRELESS CORPORATION (A Development Stage Company) as of December 31, 2004, and the related statements of operations, 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. The financial statements of SPEEDCOM WIRELESS CORPORATION as of December 31, 2003, were audited by other auditors whose report dated February 2, 2004, expressed an unqualified opinion on those statements and included an explanatory paragraph describing a going concern.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2004, and the results of its operations and its cash flows for the year ended, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

De Leon & Company, P.A.

Pembroke Pines, Florida

April 1, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

SPEEDCOM Wireless Corporation

We have audited the accompanying balance sheet of SPEEDCOM Wireless Corporation as of December 31, 2003 and the related statements of operations and comprehensive income, changes in stockholders equity (deficit) 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 audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPEEDCOM Wireless Corporation at December 31, 2003, and 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 negative cash flows from operations. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plans with respect to these conditions are also discussed in Note 2. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

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

Tampa, Florida

February 2, 2004

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SPEEDCOM WIRELESS CORPORATION

BALANCE SHEETS

(A Development Stage Enterprise)

	December 31,	
	2004	**2003**
Assets		
Current assets:		
Cash	$ 5,614	$ 100
Marketable securities		8,890,000
Prepaid expenses and other current assets		75,000
Total current assets	5,614	8,965,100
Total assets	$ 5,614	$ 8,965,100
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 107,568	$ 624,992
Accrued expenses	5,000	9,452
Due to related parties	80,000	1,448,601
Current portion of notes and capital leases payable		12,177
Total current liabilities	192,568	2,095,222
Commitments and contingencies (Note 11)		
Stockholders equity (deficit):		
Common stock, $.001 par value, 500,000,000 and 250,000,000 shares authorized, 126,867,129 and 23,425.355 shares issued and outstanding in 2004 and 2003, respectively	126,867	23,425
Preferred stock, $4.50 stock liquidation value per share, 10,000,000 shares authorized, 3,835,554 shares issued and outstanding in 2004 and 2003		5,455,702
Additional paid-in capital	24,892,017	18,597,310
Accumulated deficit	(16,571,559)	(16,571,559)
Deficit accumulated during the development stage	(8,634,279)	
Accumulated other comprehensive loss		(635,000)
Total stockholders equity (deficit)	(186,954)	6,869,878
Total liabilities and stockholders equity (deficit)	$ 5,614	$ 8,965,100

The accompanying notes are an integral part of these financial statements.

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SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(A Development Stage Enterprise)

	Years Ended December 31,		Inception to Date from entering Development Stage January 1, 2004 to
	2004	2003	December 31, 2004
Net revenues	$	$ 4,380,998	$
Cost of goods sold		2,910,657	
Gross margin		1,470,341	
Operating expenses:			
Salaries and related		2,085,415	
General and administrative	484,084	2,172,650	484,084
Selling expenses		703,896	
Provision for bad debt		83,944	
Depreciation and amortization		659,541	
Severance costs		170,000	
	484,084	5,875,446	484,084
Loss from operations	(484,084)	(4,405,105)	(484,084)
Other (expense) income:			
Interest expense	(3,040)	(653,064)	(3,040)
Interest income	17	10,706	17
Gain on sale to P-Com		12,259,875	
Gain on extinguishment of debt	1,250,351		1,250,351
Loss on marketable securities	(4,475,542)		(4,475,542)
Other income (expense), net	(30,392)	238,076	(30,392)
	(3,258,606)	11,855,593	(3,258,606)
Net income (loss)	(3,742,690)	7,450,488	(3,742,690)
Cumulative undeclared dividends on preferred stock		(860,635)	
Income (loss) attributable to common stockholders	$ (3,742,690)	$ 6,589,853	$ (3,742,690)
Income (loss) per common share:			
Basic and diluted	$ (0.04)	$ 0.42	

Shares used in computing basic and diluted income (loss) per common share	107,883,587	15,622,610
Comprehensive income (loss):		
Net income (loss)	$ (3,742,690)	$ 7,450,488
Unrealized loss on marketable securities		(635,000)
Comprehensive income (loss)	$ (3,742,690)	$ 6,815,488

The accompanying notes are an integral part of these financial statements.

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SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT)

(A Development Stage Enterprise)

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Deficit accumulated through development stage 1/1/04 to 12/31/04	Comprehensive Loss	Total
Balance at December 31, 2002	14,490,664	$ 14,490	3,835,554	$ 5,455,702	$ 17,800,749	$ (24,022,047)			$ (751,106)
Issuance of common stock for extinguishment of related party notes (see gain below)	5,601,358	5,602			330,480				336,082
Issuance of common stock for conversion of note payable	3,333,333	3,333			130,000				133,333
Unrealized losses on marketable securities								(635,000)	(635,000)
Gain on exchange of debt of a related party					336,081				336,081
Net income						7,450,488			7,450,488
Balance at December 31, 2003	23,425,355	$ 23,425	3,835,554	$ 5,455,702	$ 18,597,310	$ (16,571,559)		$ (635,000)	$ 6,869,878
Conversion of preferred stock, dividends and registration penalty to common stock	76,868,961	76,869	(3,835,554)	(5,455,702)	5,542,802				163,969
In-kind dividends distributed							(4,891,589)		(4,891,589)
Conversion of amounts due to related parties, accrued	21,572,933	21,573			706,905				728,478

expenses, notes payable and accounts payable to common stock									
Issuance of common stock as settlement of lease obligation	5,000,000	5,000			45,000				50,000
Change in comprehensive loss								635,000	635,000
Net loss							(3,742,690)		(3,742,690)
Balance at September 30, 2004	126,867,249	$ 126,867	$	$	$ 24,892,017	$ (16,571,559)	$ (8,634,279)	$	$ (186,954)

The accompanying notes are an integral part of these financial statements.

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SPEEDCOM WIRELESS CORPORATION

STATEMENTS OF CASH FLOWS

(A Development Stage Enterprise)

	Years ended December 31,		Inception to Date from entering Development Stage January 1, 2004 to
	2004	2003	December 31, 2004
Operating activities			
Net income (loss)	$ (3,742,690)	$ 7,450,488	$ (3,742,690)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization		659,541	
Gain on sale of business		(12,259,875)	
Gain on conversion of notes to common stock		(266,667)	
Provision for bad debts		83,944	
Loss on marketable securities	4,475,542		4,475,542
Conversion inducement expense	11,911		11,911
Gain on conversion of accounts payable, accrued expenses and notes into common stock	(1,250,351)		(1,250,351)
Changes in operating assets and liabilities:			
Accounts receivable		239,157	
Leases receivable		248,993	
Inventories		703,227	
Prepaid expenses and other current assets	65,205	(9,512)	65,205
Other assets		(109,303)	
Accounts payable and accrued expenses	208,028	526,344	208,028
Deferred revenue			