

Edgar Filing: SPEEDCOM WIRELESS CORP - Form 10QSB/A

SPEEDCOM WIRELESS CORP  
Form 10QSB/A  
January 02, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB/A/2

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 30, 2001  
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: October 29, 2001 - 10,122,113 common shares, \$.001 par value and 3,835,554 preferred shares, \$.001 par value.

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

SPEEDCOM WIRELESS CORPORATION

FORM 10-QSB FOR THE PERIOD ENDED SEPTEMBER 30, 2001

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

## Edgar Filing: SPEEDCOM WIRELESS CORP - Form 10QSB/A

|   |        |
|---|--------|
| Balance Sheets as of September 30, 2001 (as restated) and<br>December 31, 2000                            | 3      |
| Statements of Operations for the three and nine months ended<br>September 30, 2001 (as restated) and 2000 | 4      |
| Statements of Cash Flows for the nine months ended<br>September 30, 2001 (as restated) and 2000           | 5      |
| Notes to Financial Statements   | 7      |
| <br>Item 2. Management's Discussion and Analysis of Financial Condition<br>and Results of Operations      | <br>14 |
| <br>PART II. OTHER INFORMATION  |        |
| <br>Item 2. Recent Sales of unregistered Securities   | <br>22 |
| <br>Item 4. Submission of Matters to a Vote of Security Holders   | <br>22 |
| <br>Item 6. Exhibits and Reports on Form 8-K  | <br>23 |
| <br>Signatures  | <br>23 |
| <br>Exhibit Index   | <br>23 |

2

### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements

##### SPEEDCOM WIRELESS CORPORATION BALANCE SHEETS

|   | September 30,<br>2001        |
|---|------------------------------|
|   | (unaudited)<br>(as restated) |
| Assets  |                              |
| Current assets:   |                              |
| Cash  | \$ 591,904                   |
| Accounts receivable, net of allowances of \$315,777 and \$296,330 in 2001<br>and 2000, respectively | 1,409,965                    |
| Leases receivable   | 624,768                      |
| Inventories, net  | 1,768,845                    |
| Prepaid expenses and other current assets   | 301,426                      |
| Total current assets  | 4,696,908                    |
| Accounts receivable   | --                           |
| Leases receivable   | 671,795                      |
| Property and equipment, net   | 1,076,043                    |
| Other assets, net   | 347,168                      |
| Investments   | 92,717                       |
| Intellectual property   | 1,352,140                    |
| Total assets  | \$ 8,236,771                 |

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|   |  |              |              |
|---|--|--------------|--------------|
| Liabilities and stockholders' equity  |  |              |              |
| Current liabilities:  |  |              |              |
| Accounts payable  |  | \$ 1,570,092 |              |
| Accrued expenses  |  | 1,228,369    |              |
| Current portion of loans from stockholders  |  | --           |              |
| Current portion of deferred revenue   |  | 81,926       |              |
| Current portion of notes and capital leases payable   |  | 36,809       |              |
|   |  |              | -----        |
| Total current liabilities   |  |              | 2,917,196    |
| Loans from stockholders, net of current portion   |  |              | --           |
| Deferred revenue, net of current portion  |  |              | 17,417       |
| Notes and capital leases payable, net of current portion  |  |              | 23,103       |
|   |  |              | -----        |
| Total liabilities   |  |              | 2,957,716    |
| Stockholders' equity:   |  |              |              |
| Preferred stock, 10,000,000 shares authorized, 3,835,554 and 0 shares issued and outstanding in 2001 and 2000, respectively                         |  |              | 5,455,702    |
| Common stock, \$.001 par value, 30,000,000 shares authorized, 10,005,613 and 9,289,529 shares issued and outstanding in 2001 and 2000, respectively |  |              | 10,005       |
| Additional paid-in capital  |  |              | 21,504,623   |
| Accumulated deficit   |  |              | (21,691,275) |
| Notes receivable - related party  |  |              | --           |
|   |  |              | -----        |
| Total stockholders' equity  |  |              | 5,279,055    |
|   |  |              | -----        |
| Total liabilities and stockholders' equity  |  |              | \$ 8,236,771 |
|   |  |              | =====        |

See accompanying notes.

3

SPEEDCOM WIRELESS CORPORATION  
STATEMENTS OF OPERATIONS  
(unaudited)

|                               | Three months ended September 30, |             | Nine mont |
|-------------------------------|----------------------------------|-------------|-----------|
|                               | 2001                             | 2000        | 2001      |
|                               | -----                            |             | -----     |
|                               | (as restated)                    |             | (as res   |
| Net revenues                  | \$ 2,247,585                     | \$3,182,673 | \$ 10,30  |
| Operating costs and expenses: |                                  |             |           |
| Cost of goods and services    | 1,622,530                        | 1,756,529   | 6,20      |
| Salaries and related          | 1,486,651                        | 719,272     | 4,49      |
| General and administrative    | 767,376                          | 770,365     | 2,84      |
| Selling expenses              | 420,579                          | 319,320     | 1,37      |
| Provision for bad debt        | 529,225                          | 182,821     | 71        |
| Depreciation and amortization | 157,657                          | 31,032      | 41        |

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|   |                 |              |           |
|---|-----------------|--------------|-----------|
| Severance costs   | 531,769         | --           | 53        |
|   | -----           | -----        | -----     |
|   | 5,515,787       | 3,779,339    | 16,58     |
|   | -----           | -----        | -----     |
| Loss from operations  | (3,268,202)     | (596,666)    | (6,28     |
| Other (expense) income:   |                 |              |           |
| Interest expense, net   | (1,375,012)     | (2,216)      | (3,03     |
| Other income, net   | 174,583         | --           | 18        |
|   | -----           | -----        | -----     |
|   | (1,200,429)     | (2,216)      | (2,85     |
| Net loss before extraordinary items   | (4,468,631)     | (598,882)    | (9,13     |
| Extraordinary loss from early extinguishment of debt  | (2,377,008)     | --           | (3,78     |
|   | -----           | -----        | -----     |
| Net loss  | (6,845,639)     | (598,882)    | (12,92    |
| Assumed dividend from beneficial conversion feature   | 3,771,496       | --           | 3,77      |
|   | -----           | -----        | -----     |
| Net loss attributable to common stockholders  | \$ (10,617,135) | \$ (598,882) | \$ (16,69 |
|   | =====           | =====        | =====     |
| Net loss before extraordinary items per common share:   |                 |              |           |
| Basic and diluted   | \$ (0.46)       | \$ (.07)     | \$        |
|   | =====           | =====        | =====     |
| Net loss per common share attributable to common stockholders:  |                 |              |           |
| Basic and diluted   | \$ (1.10)       | \$ (.07)     | \$        |
|   | =====           | =====        | =====     |
| Shares used in computing basic and diluted net loss before extraordinary items per common share and net loss per common share | 9,687,102       | 8,505,279    | 9,53      |
|   | =====           | =====        | =====     |

See accompanying notes.

4

SPEEDCOM WIRELESS CORPORATION  
STATEMENTS OF CASH FLOWS  
(unaudited)

|   | Nine Months Ended September 30, |                |
|---|---------------------------------|----------------|
|   | 2001                            | 2000           |
|   | -----                           |                |
|   | (as restated)                   |                |
| Operating activities  |                                 |                |
| Net loss  | \$ (12,924,356)                 | \$ (1,277,582) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                 |                |
| Depreciation and amortization   | 417,054                         | 61,032         |
| Provision for bad debt  | 716,299                         | 207,299        |
| Provision for inventory obsolescence  | 14,768                          | 11,000         |
| Common stock issued for services  | 228,038                         | 5,000          |

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|   |             |             |
|---|-------------|-------------|
| Amortization of original issue discount                       | 2,457,304   | --          |
| Warrants issued for severance costs                           | 124,920     | --          |
| Gain on sale of InstallGuys division                          | (167,771)   | --          |
| Extraordinary charge for early extinguishment of debt         | 3,786,369   | --          |
| Changes in operating assets and liabilities:                  |             |             |
| Restricted cash   | --          | 35,671      |
| Accounts receivable   | (1,050,656) | (1,393,861) |
| Leases receivable   | 13,940      | --          |
| Inventories   | 570,627     | (803,991)   |
| Prepaid expenses and other current assets                     | 346,347     | (273,615)   |
| Intellectual property   | (360,000)   | --          |
| Other assets  | 6,809       | (12,048)    |
| Accounts payable and accrued expenses                         | 199,519     | 324,987     |
| Deferred revenue  | (40,845)    | (5,056)     |
| Net cash used in operating activities                         | (5,661,634) | (3,121,164) |
| Investing activities  |             |             |
| Purchases of equipment  | (446,641)   | (587,266)   |
| Net cash used in investing activities                         | (446,641)   | (587,266)   |
| Financing activities  |             |             |
| Net payments from factor                                      | --          | (111,731)   |
| Net proceeds from sale of stock and warrants                  | 2,291,971   | 4,665,714   |
| Proceeds from loans from stockholders                         | 6,560,000   | (45,639)    |
| Proceeds from issuance of notes and capital leases            | 12,206      | 40,000      |
| Payments of loans from stockholders, notes and capital leases | (2,391,064) | (191,048)   |
| Purchase of treasury stock                                    | --          | (223,510)   |
| Net cash provided by financing activities                     | 6,473,113   | 4,133,786   |
| Net increase in cash  | 364,838     | 425,356     |
| Cash at beginning of period                                   | 227,066     | 108,564     |
| Cash at end of period   | \$ 591,904  | \$ 533,920  |

See accompanying notes.

5

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

Nine Months Ended September 30,  
2001 2000

-----  
(as restated)

Supplemental disclosure of noncash activities

Conversion of accounts receivable to lease receivable \$1,333,000 --

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|   |             |          |
|---|-------------|----------|
| Conversion of accounts payable to notes payable   | \$ 558,442  | --       |
| Conversion of accounts payable to preferred stock | \$ 25,000   | --       |
| Common stock issued for services                  | \$ 228,038  | \$ 5,000 |
| Common stock issued for note                      | --          | \$95,000 |
| Common stock issued for intellectual property     | \$1,149,500 | --       |
| Conversion of debt to common stock                | \$ 40,000   | --       |
| Conversion of debt to preferred stock             | \$3,240,758 | --       |
| Conversion of debt issuance costs to equity       | \$ 163,651  | --       |
| Conversion of accrued interest to preferred stock | \$ 88,764   | --       |

See accompanying notes.

6

SPEEDCOM WIRELESS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(unaudited)

### 1. Business

SPEEDCOM Wireless Corporation (SPEEDCOM or the Company) was incorporated in Florida on March 16, 1994 and reincorporated in Delaware on September 26, 2000. The Company manufactures and installs custom broadband wireless networking equipment for business and residential customers internationally. Through its Wave Wireless Networking division, the Company 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

On September 26, 2000, SPEEDCOM Wireless International Corporation merged with LTI Holdings, Inc. (LTI). The parties renamed the combined company SPEEDCOM Wireless Corporation and continued the business of SPEEDCOM Wireless International Corporation (Old SPEEDCOM).

Since LTI was a non-operating shell company, the merger was treated as a recapitalization of the Company for accounting purposes. As a result, the Company recorded the transaction as the issuance of common stock for the net monetary assets of LTI (principally cash), accompanied by a recapitalization of equity. The Company recorded a net increase in equity of \$1,215,937, which represented the total net assets of LTI. The Company has recorded the transaction to reflect the shares outstanding under the current structure. There has been no change in the basis under which the assets and liabilities of the Company are recorded. Accordingly, except as specifically noted to the contrary, (1) the financial information herein that predates the merger consists of information about Old SPEEDCOM, and (2) all references to SPEEDCOM or the Company refer to Old SPEEDCOM before the merger and to the combined company after the merger. The financial statements presented in this Form 10-QSB reflect the financial position of the remaining legal entity, LTI, which subsequently changed its name to SPEEDCOM Wireless Corporation. All shares, options and warrants issued by SPEEDCOM prior to the merger have been retroactively restated for all periods presented.

The accompanying financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial

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statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules

7

and regulations. The accompanying financial statements should be read in conjunction with the Company's annual financial statements and notes thereto included in the Company's Form 10-KSB.

In the opinion of management, the financial statements reflect all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for those periods presented. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

### 3. Inventories

A summary of inventories at September 30, 2001 and December 31, 2000 is as follows:

|                      | 2001        | 2000        |
|----------------------|-------------|-------------|
|                      | -----       |             |
|                      | (unaudited) |             |
| Component parts      | \$ 824,205  | \$1,156,966 |
| Completed assemblies | 944,640     | 1,231,317   |
|                      | -----       |             |
|                      | \$1,768,845 | \$2,388,283 |
|                      | =====       |             |

### 4. Property and Equipment

A summary of property and equipment at September 30, 2001 and December 31, 2000 is as follows:

|  | 2001        | 2000       |
|--|-------------|------------|
|  | -----       |            |
|  | (unaudited) |            |
| Computer and office equipment                  | \$1,109,456 | \$ 822,006 |
| Automobiles                                    | 26,063      | 51,737     |
| Leasehold improvements                         | 108,213     | 86,207     |
| Furniture and fixtures                         | 159,773     | 135,415    |
| Store and warehouse                            | 83,276      | 101,719    |
| Construction in progress                       | 89,369      | 49,244     |
|  | -----       |            |
|  | 1,576,150   | 1,246,328  |
| Less accumulated depreciation and amortization | (500,107)   | (290,195)  |
|  | -----       |            |
|  | \$1,076,043 | \$ 956,133 |
|  | =====       |            |

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Property and equipment included computer and office equipment of \$67,797 at September 30, 2001 and December 31, 2000 acquired under capital lease arrangements. Depreciation expense amounted to \$259,694 and \$61,032 for the nine months ended September 30, 2001 and 2000, respectively. Depreciation expense amounted to \$92,809 and \$31,032 for the three months ended September 30, 2001 and 2000, respectively. Amortization of assets under capital lease arrangements is included in depreciation expense.

8

### 5. Accrued Expenses

A summary of accrued expenses at September 30, 2001 and December 31, 2000 is as follows:

|                     | 2001        | 2000      |
|---------------------|-------------|-----------|
|                     | -----       |           |
|                     | (unaudited) |           |
| Accrued payroll     | \$ 261,868  | \$287,252 |
| Accrued commissions | 46,104      | 109,052   |
| Severance costs     | 431,129     | --        |
| Other               | 489,268     | 304,511   |
|                     | -----       |           |
|                     | \$1,228,369 | \$700,815 |
|                     | =====       |           |

### 6. Loans from Stockholders

SPEEDCOM issued a \$250,000 promissory note to the Company's former President in December 2000. The note had an interest rate of the greater of 12% or DLJ's standard margin rate plus 1.5%. The note was payable in December 2001 or at the closing of an equity offering by the Company of at least \$5,000,000, whichever was earlier. The Company concurrently granted a total of 25,000 warrants with a \$3.60 strike price in connection with this note. The proportionate fair value of the warrants amounted to \$62,500 and has been recorded as an addition to paid-in capital and as an original issue discount reducing the carrying value of the note. The discount was being amortized to interest expense over the life of the note. The loan was not convertible into preferred stock per the original loan agreement. On August 23, 2001, this loan was converted to 111,111 shares of preferred stock, 88,889 Series A Warrants and 132,111 Series B Warrants. The Series A Warrants were valued at \$93,333. The Series B Warrants vest contingent upon certain performance factors and was valued at \$84,551. The difference in the carrying value on the promissory note as compared to the combined fair value of the warrants and preferred stock is recorded as an extraordinary loss from the early extinguishment of debt.

The Company issued a \$252,000 non-interest bearing promissory note in December 2000, with beneficial conversion features. The note was due in December 2001, payable in cash or 70,000 shares of common stock, at the holder's option. The 70,000 shares had a fair value of \$115,500 more than the face value of the note based on the per-share value at the date of the note. This amount has been recorded as an addition to paid-in capital and as an original issue discount reducing the carrying value of the note. The discount was being amortized to interest expense over the life of the note. On August 23, 2001, this loan was converted to 112,000 shares of preferred stock, 89,600 Series A Warrants and



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133,168 Series B Warrants. The Series A Warrants were valued at \$51,096 based on the proportionate fair value of the warrants at the date of the conversion. The Series B Warrants vest contingent upon certain performance factors and was valued at \$85,227. The unamortized portion of the original issue discount on the promissory note is less the fair value of the warrants and preferred stock fully recorded to interest expense.

In December 2000, the Company issued a \$200,000 non-interest bearing promissory note, with beneficial conversion features. The note was due in January 2002, payable in cash or 50,000

9

shares of common stock, at the holder's option. The 50,000 shares had a fair value of \$37,500 more than the face value of the note based on the per-share value at the date of the note. This amount has been recorded as an addition to paid-in capital and as an original issue discount reducing the carrying value of the note. The discount was being amortized to interest expense over the life of the note. On June 29, 2001, this loan, along with a \$25,000 trade payable, was converted to 100,000 shares of redeemable preferred stock, 75,000 Series A Warrants and 100,000 Series B Warrants. The Series A Warrants were valued at \$90,000 based on the fair value of the warrants at the date of the conversion. The Series B Warrants vest contingent upon certain performance factors and were valued at \$49,000. The unamortized portion of the original issue discount on the promissory note is fully recorded to interest expense. On August 23, 2001, the redeemable preferred stock was exchanged for 100,000 shares of preferred stock, 80,000 Series A Warrants and 118,900 Series B Warrants. The Series A Warrants were valued at \$45,622 based on the proportionate fair value of the warrants at the date of the conversion. The Series B Warrants vest contingent upon certain performance factors and are valued at \$76,095.

Also in December 2000, the Company issued a \$10,800 non-interest bearing promissory note with beneficial conversion features. The note was due in December 2001, payable in cash or 3,000 shares of common stock, at the holder's option. The 3,000 shares had a fair value of \$4,950 more than the face value of the note based on the per-share value at the date of the note. This amount has been recorded as an addition to paid-in capital and as an original issue discount reducing the carrying value of the note. The discount was being amortized to interest expense over the life of the note. On August 23, 2001, this loan was converted to 4,800 shares of preferred stock, 3,840 Series A Warrants and 5,708 Series B Warrants. The Series A Warrants were valued at \$2,190 based on the fair value of the warrants at the date of the conversion. The Series B Warrants vest contingent upon certain performance factors and are valued at \$3,653. The unamortized portion of the original issue discount on the promissory note is fully recorded to interest expense.

During January 2000, the Company issued a 10% convertible subordinated promissory note for \$40,000, due for payment in January 2003. The note was convertible into 10,000 shares of common stock at any time during its term. The note was subordinate to all other debt instruments. The \$40,000 note and accrued interest was converted in January 2001.

In April 2001, SPEEDCOM borrowed \$3,000,000 from an institutional investor. The loan was due in April 2002 and had an interest rate of 9% for the first 90 days and 12% thereafter. This loan is convertible at the option of the investor into debt or equity securities at a conversion price equal to 110% of the outstanding principal amount. As part of the transaction, SPEEDCOM issued warrants to

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acquire 333,333 shares of SPEEDCOM common stock at \$5.00 per share. The 333,333 warrants had a fair value of \$930,000 more than the face value of the note based on the per-share value at the date of the note. Additionally, this loan has beneficial conversion features based on the value of the warrants and the ability to convert to other securities at 110% of the principal amount. The value of this beneficial conversion feature of \$1,230,000 is combined with the \$930,000 yielding a total of \$2,160,000 that has been recorded as an addition to paid-in capital and as an original issue discount reducing the carrying value of the note. The debt discount was being amortized to interest expense over the life of the note. Additional warrants were issuable contingent upon the date on which the loan was repaid. The holder of the loan had certain rights of first refusal on subsequent financings. Interest was due under the loan in quarterly installments with principal payable in total at the maturity date of the loan. On June 29, 2001, the Company permitted \$1,000,000 of this loan plus accrued interest to be converted to 497,812 shares of redeemable preferred stock, 373,359 Series

10

A Warrants and 497,812 Series B Warrants. The Series A Warrants were valued at \$448,030 based on the fair value of the warrants at the date of the conversion utilizing the Black-Scholes pricing model. The Series B Warrants vest contingent upon certain performance factors and were valued at \$243,928. On August 23, 2001, the redeemable preferred stock was exchanged for 497,812 shares of preferred stock, 398,225 Series A Warrants and 591,898 Series B Warrants. On August 23, 2001, the remaining \$2,000,000 of this loan plus accrued interest was converted to 1,011,756 shares of preferred stock, 809,506 Series A Warrants and 1,203,104 Series B Warrants. The Series A Warrants were valued at \$461,638 based on the fair value of the warrants at the date of the conversion. The Series B Warrants vest contingent upon certain performance factors and were valued at \$769,987.

SPEEDCOM issued a 9% \$40,000 promissory note to the Company's Vice President of Sales in May 2001. The note and interest were paid in August 2001.

In June 2001, SPEEDCOM issued a \$250,000 promissory note to the Company's former President. The note had an interest rate of 10% and was payable in April 2002. The Company concurrently granted a total of 73,333 warrants with a \$3.25 strike price in connection with this note. The proportionate fair value of the warrants amounted to \$92,500 and has been recorded as an addition to paid-in capital and as an original issue discount reducing the carrying value of the note. The loan was not convertible into preferred stock per the original loan agreement. On June 29, 2001, this loan plus accrued interest was converted to 111,667 shares of redeemable preferred stock, 83,751 Series A Warrants and 111,667 Series B Warrants. The Series A Warrants were valued at \$169,177. The Series B Warrants vest contingent upon certain performance factors and were valued at \$54,717. The difference in the carrying value on the promissory note as compared to the combined fair value of the warrants and preferred stock is recorded as an extraordinary loss from the early extinguishment of debt. On August 23, 2001, the redeemable preferred stock was exchanged for 111,667 shares of preferred stock, 89,334 Series A Warrants and 132,773 Series B Warrants.

In June 2001, SPEEDCOM borrowed \$1,500,000 from three institutional investors. The loan had an interest rate of 10% and was payable in April 2002. The Company concurrently granted a total of 440,000 warrants with a \$3.25 strike price in connection with this loan. The proportionate fair value of the warrants amounted to \$555,000 and has been recorded as an addition to paid-in capital and as an

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original issue discount reducing the carrying value of the loan. The loan was not convertible into preferred stock per the original loan agreement. On June 29, 2001, \$550,000 of this loan was converted to 245,667 shares of redeemable preferred stock, 184,251 Series A Warrants and 245,667 Series B Warrants. The Series A Warrants were valued at \$372,187. The Series B Warrants vest contingent upon certain performance factors and were valued at \$120,377. The difference in the carrying value related to the converted portion of this loan as compared to the combined fair value of the warrants and preferred stock is recorded as an extraordinary loss from the early extinguishment of debt. On August 23,

11

2001, the redeemable preferred stock was exchanged for 245,667 shares of preferred stock, 196,550 Series A Warrants and 292,096 Series B Warrants. On August 23, 2001, the remainder of this loan plus accrued interest was converted to 430,785 shares of preferred stock, 344,529 Series A Warrants and 512,056 Series B Warrants. The Series A Warrants were valued at \$196,475. The Series B Warrants vest contingent upon certain performance factors and were valued at \$327,716. The difference in the carrying value related to this loan as compared to the combined fair value of the warrants and preferred stock as compared to the combined fair value of the warrants and preferred stock is recorded as an extraordinary loss from the early extinguishment of debt.

SPEEDCOM recorded a loss from the early extinguishment of debt related to some of the conversions discussed above. When the nonconvertible loans originated, value was allocated to the warrants based on the Black-Scholes pricing model. This value was being amortized over the maturity of the loan. When the loan was converted to preferred stock, Series A Warrants and Series B Warrants the difference in the carrying value as compared to the combined fair value of the warrants and preferred stock as compared to the combined fair value of the warrants and preferred stock was immediately expensed to loss from the early extinguishment of debt.

### 7. Notes and Capital Leases Payable

A summary of notes and capital leases payable at September 30, 2001 and December 31, 2000 is as follows:

|   | 2001                 | 2000      |
|---|----------------------|-----------|
|   | -----<br>(unaudited) |           |
| 10.5% bank note payable in monthly installments through June 2003, secured by equipment and inventories | \$ 35,770            | \$ 46,631 |
| 8% automobile loan payable in monthly installments through January 2003, secured by equipment           | 6,174                | 29,460    |
| Capital lease obligations   | 17,968               | 34,104    |
|   | -----                |           |
|   | 59,912               | 110,195   |
| Less current portion  | (36,809)             | (52,901)  |
|   | -----                |           |
|   | \$ 23,103            | \$ 57,294 |
|   | =====                |           |

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### 8. Preferred Stock

On June 29, 2001, SPEEDCOM converted loans, accrued interest and trade payables of \$2,149,075 to 955,146 shares of \$.001 par value preferred stock, 716,361 Series A Warrants and 955,146 Series B Warrants. The Series A Warrants were valued based on the proportionate fair value of the warrants at the date of the conversion. The Series B Warrants vest contingent upon certain performance factors. The Series B Warrants vest (i) fully if SPEEDCOM does not achieve positive EBITDA in the fourth quarter of 2001, (ii) partially if SPEEDCOM achieves positive EBITDA in the fourth quarter of 2001, but less than \$100,000, and (iii) fully if SPEEDCOM has less than \$4,500,000 of revenue in the fourth quarter of 2001. The Company has estimated the Series B Warrants to have a value of \$468,022, based on the results of the Black-Scholes pricing model, reduced by one-half due to the uncertainty of whether the warrants will be fully or partially exercisable, or not exercisable at all. Each of the Series A Warrants is convertible into .75 shares of common stock and each of the Series B Warrants is convertible into one share of common stock. This preferred stock was only redeemable upon the occurrence of a Triggering Event as defined in the agreement, which is generally a sale, merger or reorganization of the Company, failure of the Company to maintain an effective Registration Statement related to the redeemable preferred stock or failure to have the Company's common stock listed on certain exchanges.

On August 23, 2001, SPEEDCOM converted the (i) 955,146 shares of

12

redeemable preferred stock, (ii) 716,361 Series A Warrants and (iii) 955,146 Series B Warrants that were issued on June 29, 2001 and (iv) loans to shareholders of \$3,462,800 in exchange for (i) 2,625,598 shares of preferred stock, (ii) 2,100,473 Series A Warrants, and (iii) 3,121,814 Series B Warrants. This conversion was due to the Company's commitment to the holders of preferred stock and warrants issued in June 2001 that if the Company issues similar instruments at more favorable terms, the Company will adjust the terms of the securities issued in June 2001 in response to this commitment based on a conversion ratio of two shares of common stock for each share of preferred stock rather than the ratio of one-to-one in the preferred stock issued in June 2001. The Company has recorded an assumed dividend of \$2,292,350, which equals the increase in the intrinsic value of the preferred stock based on the incremental number of shares of common stock (955,146) that may be obtained on conversion of the preferred stock into common stock valued at the price per share (\$2.40) on June 29, 2001. There was no difference in the fair value of Series A and B warrants issued in August 2001 compared to the fair value of the Series A and B warrants issued in June 2001.

Concurrently on August 23, 2001, SPEEDCOM issued (i) 1,209,956 shares of preferred stock, (ii) 967,975 Series A Warrants and (iii) 1,438,667 Series B Warrants for \$2,397,010 in cash net of stock issuance costs. The Series A Warrants were valued at their proportionate value of \$481,587 and the Series B Warrants were recorded at their proportionate value of \$436,277 as additions to Additional Paid in Capital. Additionally, the preferred stock has a beneficial conversion feature valued at \$1,479,146 based on the value of the warrants and the ability to convert the preferred stock to two shares of common stock. This amount is recorded as an assumed dividend from beneficial conversion feature because the preferred stock was convertible when issued.

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

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accrue dividends, beginning August 23, 2003, to be paid upon conversion at the rate of 14% per year times the \$2.25 per share liquidation preference. The conversion ratio is subject to adjustment to 2.25 shares of common stock for each share of common stock if a change of control transaction is not signed or announced or closed by specified dates ending on March 31, 2002. The liquidation preference will increase to \$3.38 (\$4.50 if paid in stock) if a change of control agreement is not announced by February 23, 2002 and closed by April 23, 2002. The liquidation preference will increase to \$3.04 (\$3.83 if paid in stock) if a change of control agreement is announced by February 23, 2002 and closed by April 23, 2002. In addition, the terms of the Series B convertible preferred stock provide for mandatory conversion, automatically, without any action on the part of the holder, if (1) at least 12 months after the date of issuance of the Series B convertible preferred stock, the closing bid price of the common stock exceeds \$2.25 for a period of twenty consecutive trading days, and (2) the underlying common stock is registered under the Securities Act of 1933.

Under the anti-dilution provisions of the preferred stock, if the Company 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 the Series A and Series B Warrants issued in August 2001, (1) the exercise price will be lowered to equal the purchase price, conversion price or warrant or option exercise price for any common stock or common stock 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 the Series A Warrants and \$0.01 in the case of the 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 of an issued security (other 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.

The Company may recognize an additional assumed dividend when these contingencies regarding the conversion ratio are revalued.

### 9. Shareholder's Equity

In January 2001, SPEEDCOM acquired worldwide rights to PacketHop(TM), a revolutionary wireless routing software developed by SRI International (SRI). PacketHop(TM) overcomes the traditional need for a direct line of sight between a base station and an end user's location. Under the terms of the agreement, SPEEDCOM obtains worldwide rights to SRI's PacketHop(TM) technology in the fixed wireless infrastructure market for the primary frequencies below 6 GHz. Per the agreement, SRI International is entitled to receive a total of 325,000 shares of common stock of SPEEDCOM to be issued in four tranches. Each tranche is measured on the specific date that the stock is issued on. The first tranche was due on signing the agreement. The three remaining tranches are due on achievement of certain performance criteria. The first tranche was granted in January for 100,000 shares at \$6.50 per share. The second tranche was granted in April for 75,000 shares at \$4.30 per share. The third tranche was granted in July for 75,000 shares at \$2.36 per share. The fourth tranche was granted in October for 75,000 shares at \$1.20 per share. As of September 30, 2001, the value of these shares at the date of grant was included in Intellectual Property

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in the balance sheet. SPEEDCOM also has paid \$360,000 in cash, included in Intellectual Property in the balance sheet, which is being amortized over six years (the term of the agreement barring default). For the three and nine months ended September 30, 2001, \$64,848 and \$157,360 have been amortized of the Intellectual Property, respectively. The final pilot utilizing the PacketHop(TM) technology software in combination with the new hardware is scheduled for the first quarter of 2002.

### 10. Bad Debt Expense

In the fourth quarter of 2000 and in the first and second quarters of 2001, SPEEDCOM sold its SPEEDLAN product line for a total of \$573,612 to a large Korean based company (Korean Customer). One of the major clients of SPEEDCOM's customer declared bankruptcy earlier in the year 2001, which had a significant financial impact on the Korean Customer. The inventory that was sold to the Korean Customer is in the possession of a principal of that company. SPEEDCOM is retaining an attorney to issue legal letters, apply to the courts to capture the inventory and to gain access to the inventory for assessment. It is unclear if SPEEDCOM will be successful in its efforts. Accordingly, SPEEDCOM has written off \$228,000 of the receivable and has fully reserved for \$227,647, which represents the remaining unpaid balance.

### 11. Severance Costs

In the third quarter of 2001, SPEEDCOM recorded severance costs of \$531,769, reflecting employee termination costs relating to staff reductions. The staff reductions include 20

13

employees (2 at the executive management level) and are expected to be completed in the third and fourth quarters of 2001. The costs include severance pay and other employee benefits, including amounts to be paid over future periods. As of September 30, 2001, SPEEDCOM has paid approximately \$100,640 of the total \$531,769 charged to expense.

### 12. Sale of Assets

During the third quarter of 2001, SPEEDCOM sold the InstallGuys division of the Company. In return, SPEEDCOM received two 6% secured promissory notes totaling \$211,295. SPEEDCOM recorded a gain on the sale of \$167,771. The notes and interest are due in August 2004.

## 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 growth and future operating results; developments in markets and strategic 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 factors that could cause actual results to differ materially from these statements.

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### Overview

SPEEDCOM is a multi-national company based in Sarasota, Florida. The Company employs approximately 75 people as of September 30, 2001. 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 the Company's Statements of Operations for the periods indicated.

|   | Three Months<br>Ended September 30, |       | Nine<br>Months<br>Ended |
|---|-------------------------------------|-------|-------------------------|
|   | 2001                                | 2000  | 2001                    |
| Net revenues  | 100%                                | 100%  | 100%                    |
| Operating costs and expenses:                           |                                     |       |                         |
| Cost of goods and services                              | 72%                                 | 55%   | 60%                     |
| Salaries and related                                    | 66%                                 | 23%   | 44%                     |
| General and administrative                              | 34%                                 | 24%   | 28%                     |
| Selling expenses  | 19%                                 | 10%   | 13%                     |
| Provision for bad debt                                  | 24%                                 | 6%    | 7%                      |
| Depreciation and<br>amortization                        | 7%                                  | 1%    | 4%                      |
| Severance costs   | 24%                                 | 0%    | 5%                      |
|   | 246%                                | 119%  | 161%                    |
| Loss from operations                                    | (146)%                              | (19)% | (61)%                   |
| Other (expense) income:                                 |                                     |       |                         |
| Interest expense, net                                   | (61)%                               | 0%    | (28)%                   |
| Other income, net                                       | 8%                                  | 0%    | 2%                      |
|   | (53)%                               | 0%    | (26)%                   |
| Net loss before extraordinary<br>items                  | (199)%                              | (19)% | (89)%                   |
| Extraordinary loss from early<br>extinguishment of debt | (106)%                              | --    | (37)%                   |
|   | (305)%                              | (19)% | (126)%                  |
| Net loss  | (305)%                              | (19)% | (126)%                  |
| Assumed dividend from<br>beneficial conversion feature  | 168%                                | --    | 36%                     |
|   | (473)%                              | (19)% | (162)%                  |
| Net loss attributable to<br>common stockholders         | (473)%                              | (19)% | (162)%                  |

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Nine Months Ended September 30, 2001 and September 30, 2000

Net revenues increased 43% from approximately \$7,184,000 in the nine months ended September 30, 2000 to approximately \$10,300,000 in the nine months ended September 30, 2001. This increase was due to SPEEDCOM executing its business plan of expanding the business in a growing market for broadband wireless in 2001. Cost of goods and services increased 60% from approximately \$3,886,000 for the nine months ended September 30, 2000 to approximately \$6,205,000 for the nine months ended September 30, 2001, due primarily to increases in the Company's revenues, increased sales through distribution channels, which have a lower margin than direct sales and certain purchasing inefficiencies due to lower cash balances associated with delays in completing financings for the Company. Revenues from customers in foreign geographic areas increased to 50% of revenues for the nine months ended September 30,

15

2001 as compared to 41% of revenues the nine months ended September 30, 2000. The percentage of sales that are from international customers is expected remain stable throughout the year ended December 31, 2001.

Salaries and related, general and administrative and selling expenses increased by 102% from approximately \$4,310,000 for the nine months ended September 30, 2000 to approximately \$8,712,000 for the nine months ended September 30, 2001. This increase was primarily due to an increase in salaries and related expenses of approximately \$2,064,000 related to the hiring of additional management in the fourth quarter of 2000 and the first quarter of 2001, spending on investor relations of approximately \$295,000, increased spending on marketing and promotion, such as attendance at industry trade shows of approximately \$101,000, and engineering related to the PacketHop(TM) product of approximately \$290,000 and other one time expenses as described below. Additionally, SPEEDCOM incurred substantially higher professional fees for legal and accounting services due to the fact that the Company was a public entity in the first nine months of 2001 and a private entity for the majority of the first nine months in 2000 and because of the complex debt and equity financings completed by the Company in the first nine months of 2001. As discussed above, SPEEDCOM incurred one-time charges in the first nine months of 2001 related to the termination of investor relations contracts of approximately \$281,000 and investment banking charges of approximately \$306,000. Excluding such charges, total salaries and related, general and administrative and selling expenses would have been approximately \$8,125,000 for the nine months ended September 30, 2001.

Bad debt expense increased for the nine months ended September 2001 primarily due to the partial write off and setting up a reserve for the remainder of a Korean receivable. In the fourth quarter of 2000 and in the first and second quarters of 2001, SPEEDCOM sold its SPEEDLAN product for a total of \$573,612 to a large Korean based company (Korean Customer). One of the major clients of SPEEDCOM's customer declared bankruptcy earlier in the year 2001, which had a significant financial impact on the Korean Customer. Accordingly, SPEEDCOM incurred a significant increase in bad debt expense for the period.

In the third quarter of 2001, SPEEDCOM recorded a severance charge of \$531,769, reflecting employee termination costs relating to staff reductions. The staff reductions include 20 employees (2 at the executive management level) and are expected to be completed in the third and fourth quarters of 2001. The costs include severance pay and other employee benefits, including amounts paid over



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future periods.

Net interest expense increased from approximately \$10,000 for the nine months ended September 30, 2000 to approximately \$2,856,000 for the nine months ended September 30, 2001. This increase was due to the addition of notes payable and loans from stockholders during the fourth quarter of 2000 and the first nine months of 2001.

During the nine months ended September 30, 2001, SPEEDCOM sold the InstallGuys division of the Company. Revenue from the InstallGuys division accounted for less than 3% of total SPEEDCOM revenues for the nine months ended September 2001. The sale of the division is not expected to have a material effect on the operations or liquidity of SPEEDCOM.

Net loss increased from approximately \$1,278,000, or \$.16 per share, in the nine months ended September 30, 2000 to approximately \$12,924,000, or \$1.36 per share, in the nine months ended September 30, 2001, as a result of the foregoing factors.

As discussed in Note 8 of the Notes to the Financial Statements, the Company issued preferred stock, Series A Warrants and Series B Warrants for cash. The preferred stock has a beneficial conversion feature valued at \$3,771,496 based on the value of the warrants and the ability to convert the preferred stock to two shares of common stock. The amount is recorded as an assumed dividend in the quarter ended September 30, 2001 because the preferred stock was convertible when issued.

On August 23, 2001, SPEEDCOM converted (i) 955,146 shares of redeemable preferred stock, (ii) 716,361 Series A Warrants and (iii) 955,146 Series B Warrants that were issued on June 29, 2001 for (i) 955,146 shares of preferred stock, (ii) 764,109 Series A Warrants and (iii) 1,135,667 Series B Warrants. The preferred stock issued on August 23, 2001 has a conversion ratio of two shares of common stock for each share of preferred stock rather than the ratio of one-to-one in the preferred stock issued in June 2001. The Company has recorded an assumed dividend of \$2,292,350 which is the value of the incremental number of common shares issuable upon conversion of the preferred stock based on the price per share of common stock of \$2.40 at the commitment date of June 29, 2001. The preferred stock conversion ratio may be further increased in the future as discussed in Note 8 of the notes to the financial statements, which would result in additional assumed dividends.

Three Months Ended September 30, 2001 and September 30, 2000

Net revenues decreased 29% from approximately \$3,183,000 in the three months ended September 30, 2000 to approximately \$2,248,000 in the three months ended September 30, 2001. This decrease was due to an economic slowdown during the three months ended September 30, 2001, which delayed shipments to, and reduced orders received from customers. SPEEDCOM does not expect this trend to continue past the fourth quarter of 2001. Cost of goods and services decreased 8% from approximately \$1,757,000 for the three months ended September 30, 2000 to approximately \$1,623,000 for the three months ended September 30, 2001, due primarily to decreases in the Company's revenues, partially offset by

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increased sales through distribution channels which have a lower margin than direct sales and certain purchasing inefficiencies due to lower cash balances associated with delays in completing financings for the Company. Revenues from customers in foreign geographic areas decreased to 49% of revenues for the three months ended September 30, 2001 as compared to 59% of revenues the three months ended September 30, 2000. The percentage of sales that are from international customers is expected to remain stable throughout the year ended December 31, 2001.

Salaries and related, general and administrative and selling expenses increased by 48% from approximately \$1,809,000 for the three months ended September 30, 2000 to approximately \$2,675,000 for the three months ended September 30, 2001. This increase was primarily due to an increase in salaries and related expenses of approximately \$767,000 related to the hiring of additional management in the fourth quarter of 2000 and the first quarter of 2001. Salaries and related, general and administrative and selling expenses are expected to decrease in the fourth quarter of 2001 due to employee terminations and the Company operating in a capital constrained position, which will limit expenditures.

Bad debt expense increased for the three months ended September 2001 primarily due to the partial write off and setting up a reserve for the remainder of a Korean receivable. In the fourth quarter of 2000 and in the first and second quarters of 2001, SPEEDCOM sold its SPEEDLAN product for a total of \$573,612 to a large Korean based company (Korean Customer). One of the major clients of SPEEDCOM's customer declared bankruptcy earlier in the year 2001, which had a significant financial impact on the Korean Customer. Accordingly, SPEEDCOM incurred a significant increase in bad debt expense for the period.

In the third quarter of 2001, SPEEDCOM recorded a severance charge of \$531,769, reflecting employee termination costs relating to staff reductions. The staff reductions include 20 employees (2 at the executive management level) and are expected to be completed in the third and fourth quarters of 2001. The costs include severance pay and other employee benefits, including amounts paid over future periods.

Net interest expense increased from approximately \$2,000 for the three months ended September 30, 2000 to approximately \$1,375,000 for the three months ended September 30, 2001. This increase was due to the addition of notes payable and loans from stockholders during the fourth quarter of 2000 and the first nine months of 2001.

During the three months ended September 30, 2001, SPEEDCOM sold the InstallGuys division of the Company. Revenue from the InstallGuys division accounted for less than 3% of total SPEEDCOM revenues for the three months ended September 30, 2001. The sale of the division is not expected to have a material effect on the operations or liquidity of SPEEDCOM.

Net loss increased from approximately \$599,000, or \$.07 per share, in the three months ended September 30, 2000 to approximately \$6,846,000 or \$.71 per share, in the three months ended September 30, 2001, as a result of the foregoing factors.

As discussed in Note 8 of the Notes to the Financial Statements, the Company issued preferred stock, Series A Warrants and Series B Warrants for cash. The preferred stock has a beneficial conversion feature valued at \$3,771,496 based on the value of the warrants and the ability to convert the preferred stock to

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two shares of common stock. The amount is recorded as an assumed dividend in the quarter ended September 30, 2001 because the preferred stock was convertible when issued.

On August 23, 2001, SPEEDCOM converted (i) 995,146 shares of redeemable preferred stock, (ii) 716,361 Series A Warrants and (iii) 955,146 Series B Warrants that were issued on June 29, 2001 for (i) 995,146 shares of preferred stock, (ii) 764,109 Series A Warrants and (iii) 1,135,667 Series B Warrants. The preferred stock issued on August 23, 2001 has a conversion ratio of two shares of common stock for each share of preferred stock rather than the ratio of one-to-one in the preferred stock issued in June 2001. The Company has recorded an assumed dividend of \$2,292,350 which is the value of the incremental number of common shares issuable upon conversion of the preferred stock based on the price per share of common stock of \$2.40 at the commitment date of June 29, 2001. The preferred stock conversion ratio may be further increased in the future as discussed in Note 8 of the notes to the financial statements, which would result in additional assumed dividends.

### Taxes

At September 30, 2001, SPEEDCOM had net operating loss carryforwards (NOLs) for federal income tax purposes of approximately \$4,400,000. The NOLs expire at various dates through the year 2020.

### Liquidity and Capital Resources

During the nine months ended September 30, 2001, SPEEDCOM used approximately \$5,662,000 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 \$447,000 of fixed assets during the nine months ending September 30, 2001 as compared to approximately \$587,000 during the same period in 2000. SPEEDCOM does not have any material commitments for capital expenditures in the future. To fund this growth in assets and sales, SPEEDCOM raised approximately \$6,473,000 primarily through the issuance of promissory notes and loans from stockholders and the conversion of these notes and loans to preferred stock. As of September 30, 2001, SPEEDCOM had cash of approximately \$592,000.

17

During the nine months ended September 30, 2000, SPEEDCOM used approximately \$3,121,000 for its operating activities. This was primarily due to increases in accounts receivable (due to increases in sales) and its net loss for the period. SPEEDCOM purchased approximately \$587,000 of fixed assets during the nine months ending September 30, 2000 as compared to approximately \$69,000 during the same period in 1999, a 746% increase. To fund this growth in assets and sales, SPEEDCOM raised approximately \$4,666,000 through the issuance of common stock and warrants, through private investments and the reverse merger with LTI, as described in footnote 2 to the financial statements. As of September 30, 2000, SPEEDCOM had cash of approximately \$534,000.

The Company believes that its current cash resources, from operating sources and investors, are sufficient to maintain its business for the remainder of 2001. However, the Company 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

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of common or preferred stock, the exercise of outstanding warrants, or from borrowings. Any material acquisitions of complementary businesses, products or technologies could also require additional equity or debt financing. There can be no assurance that such financing will be available on acceptable terms, if at all. Projected cash flows from our current operations are not sufficient to finance our current and projected working capital requirements. We need to raise additional financing in order to continue to pursue our business plan in 2002. If we are unable to secure significant additional financing, we will have to further downsize our business or explore other alternatives.

### 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.

In order to take advantage of possible opportunities in 2001 and to execute our business plan for 2002, we may 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, estimated to be \$1,000,000 minimum, we may not have sufficient funding to purchase necessary goods and services to execute our business plan. SPEEDCOM's 2002 business plan includes 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 business plan. 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.

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

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sustainable. Prospects must be evaluated due to the risks encountered by a company in the early stages of marketing new products or services, particularly in light of the uncertainties relating to the new and evolving markets in which we operate. There can be no assurance that we will succeed in addressing any or all of these risks, and 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 including, for example, products based on infra-red technology or laser technology and systems that utilize existing telephone wires (such as DSL) or cables within a building as a wired network backbone or satellite systems outside of buildings.

Major changes could render products and technologies obsolete or subject to intense competition from alternative products or technologies or by improvements in existing products or technologies. For example, Internet access and wireless local loop equipment markets may stop growing, 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

19

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

If our suppliers are unable to deliver or ration components to us, we could

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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 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 or to purchase any specified amount of products. 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 has significantly expanded its operations in recent years, and anticipates that further expansion will be required to address potential growth in the customer base and market opportunities. This expansion has placed, and 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 and planned 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.

20

We may also be unable to manage further growth in our multiple relationships with original equipment manufacturers, distributors and other third parties.

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

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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.

We have incurred significant losses since our inception. SPEEDCOM intends to decrease its operating expenses in an attempt to achieve profitability in the fourth quarter of 2001, however revenues may not grow or even continue at their current level. If revenues do not rapidly increase or if we are not able to decrease expenses, we 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.

21

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.

A majority of SPEEDCOM's common stock is currently controlled by Michael W. McKinney and Barbara McKinney (the McKinneys). 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 the McKinneys 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.

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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.

### PART II. OTHER INFORMATION

#### Item 2. RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended September 30, 2001, the Company 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.

41,000 shares of common stock, (40,000 on 8/2/01 and 1,000 on 8/2/01) were issued for services. These securities were issued to 2 investors, all of which were accredited investors.

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

None.

22

#### 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.

#### 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      January 2, 2002  
-----      Officer and Director  
Michael W. McKinney



## Exhibit Index

| Number   | Description  |
|----------|--|
| -----    | -----  |
| 2.1(1)   | Asset Purchase Agreement between Packaging Atlanta Corporation and Laminating Technologies Inc. dated April 26, 1999   |
| 2.2      | Agreement and Plan of Merger by and between SPEEDCOM Wireless International Corporation and LTI Holdings, Inc., dated as of August 4, 2000 (included as Appendix A to the proxy statement/prospectus filed as part of Form S-4 Registration Statement (File No. 333-43098) and incorporated herein by reference) |
| 3.1(8)   | Amended and Restated Certificate of Incorporation of SPEEDCOM Wireless Corporation, as amended   |
| 3.2(4)   | Amended and Restated Bylaws  |
| 3.3(6)   | Amended and Restated Bylaws of SPEEDCOM Wireless Corporation   |
| 4.1(2)   | Form of Bridge Note  |
| 4.2(2)   | Form of Warrant Agreement  |
| 4.3(2)   | Form of Underwriter's Unit Purchase Option   |
| 4.4(6)   | Purchase Agreement, dated April 13, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined therein  |
| 4.5(6)   | Registration Rights Agreement, dated April 13, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined   |
| 4.6(6)   | Form of Warrant of SPEEDCOM Wireless Corporation, dated April 13, 2001   |
| 4.7(7)   | Note and Warrant Purchase Agreement by and among SPEEDCOM Wireless Corporation, S.A.C. Capital Associates, LLC, SDS Merchant Fund, L.P., Oscar Private Equity Investments, L.P. and Bruce Sanguinetti  |
| 4.8(7)   | Promissory Note for \$500,000 issued to S.A.C. Capital Associates, LLC   |
| 4.9(7)   | Promissory Note for \$250,000 issued to SDS Merchant Fund, L.P.  |
| 4.10(7)  | Promissory Note for \$750,000 issued to Oscar Private Equity Investments, L.P.   |
| 4.11(7)  | Promissory Note for \$250,000 issued to Bruce Sanguinetti  |
| 4.12(7)  | Warrant No. W-1 to Purchase 146,667 Shares of Common Stock issued to S.A.C. Capital Associates, LLC  |
| 4.13(7)  | Warrant No. W-2 to Purchase 73,333 Shares of Common Stock issued to SDS Merchant Fund,   |
| 4.14(7)  | Warrant No. W-3 to Purchase 220,000 Shares of Common Stock issued to Oscar Private Equity Investments, L.P.  |
| 4.15(7)  | Warrant No. W-4 to Purchase 73,333 Shares of Common Stock issued to Bruce Sanguinetti  |
| 4.16(8)  | Purchase Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined herein  |
| 4.17(8)  | Registration Rights Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, defined herein  |
| 4.18(8)  | Form of Series A Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001  |
| 4.19(8)  | Form of Series B Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001  |
| 4.20(8)  | Settlement Agreement between SPEEDCOM Wireless Corporation and I.W. Miller Group, Inc. dated June 25, 2001   |
| 10.1(3)  | Registration Rights Agreement between the registrant and Michael E. Noonan   |
| 10.2(2)* | Amended and Restated 1996 Stock Option Plan  |
| 10.3(2)* | Form of Indemnification Agreement  |
| 10.4(4)* | Executive Employment Agreement between SPEEDCOM Wireless International Corporation and Jay O. Wright   |
| 10.5(4)* | Executive Employment Agreement between SPEEDCOM Wireless   |

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- International Corporation and Bruce Sanguinetti
- 10.6(4)\* Executive Employment Agreement between SPEEDCOM Wireless International Corporation and Michael McKinney
- 10.7(4)\* Non-Qualified Stock Option Agreement
- 10.8(4)\* Non-Qualified Stock Option Plan
- 10.9(9) Promissory Note for \$250,000 issued to Bruce Sanguinetti dated December 6, 2000.
- 10.10(9) Promissory Note for \$40,000 issued to Bill Davis dated May 11, 2001.
- 10.11(9) Lease Agreement between SPEECOM Wireless Corporation and Lakewood Ranch Properties, LLC.
- 10.12(9) Intellectual Property License Agreement between SPEEDCOM Wireless Corporation and SRI International
- 16.1(5) Letter on change of certifying accountant
- 23.1(5) Consent of Independent Certified Public Accountants
- 24.1(8) Powers of Attorney

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- (1) Incorporated by reference to the registrant's Definitive Proxy Statement dated May 27, 1999.
- (2) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (File No. 333-6711) filed with the SEC on June 24, 1996.
- (3) Incorporated by reference to Amendment No. 1 to the registrant's Registration Statement on Form SB-2 (File No. 333-6711) filed with the SEC on July 31, 1996.
- (4) Incorporated by reference to the Form 8-K filed October 11, 2000.
- (5) Incorporated by reference to the Form 10-KSB filed April 17, 2001.
- (6) Incorporated by reference to the Form 10-QSB filed May 14, 2001.
- (7) Incorporated by reference to the Form 8-K filed July 2, 2001.
- (8) Incorporated by reference to the Form S-3 filed September 18, 2001.
- (9) Incorporated by reference to the Form 10-QSB filed November 14, 2001.

\* Management contract or compensatory plan.