PMC COMMERCIAL TRUST /TX
Form 10-K
March 15, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(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, 2011

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: 1-13610

PMC COMMERCIAL TRUST

(Exact name of registrant as specified in its charter)

Texas	**75-6446078**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

17950 Preston Road, Suite 600, Dallas, TX 75252	(972) 349-3200
(Address of principal executive offices)	(Registrant s telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common shares of beneficial interest, $.01 par value	NYSE Amex

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). YES ¨ NO x

Indicate by check mark whether the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES ¨ NO x

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), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). YES ¨ NO x

The aggregate market value of common shares held by non-affiliates of the Registrant, based upon the closing sale price of the Common Shares of Beneficial Interest on June 30, 2011 as reported on the NYSE Amex, was approximately $82 million. Common Shares of Beneficial Interest held by each officer and trust manager and by each person who owns 10% or more of the outstanding Common Shares of Beneficial Interest have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 5, 2012, the Registrant had outstanding 10,574,554 Common Shares of Beneficial Interest.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant s Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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PMC COMMERCIAL TRUST

Form 10-K

For the Year Ended December 31, 2011

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Forward-Looking Statements

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future growth of our loans receivable and availability of funds. Such forward-looking statements can be identified by the use of forward-looking terminology such as may, will, expect, intend, believe, anticipate, estimate, or continue, or the negative thereof or other variations or similar words or phrases. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties identified in this Form 10-K, including, without limitation, the risks identified under the caption Item 1A. Risk Factors. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made. We do not undertake to update them to reflect changes that occur after the date they are made, except to the extent required by applicable securities laws.

PART I

Item 1. BUSINESS

INTRODUCTION

PMC Commercial Trust (PMC Commercial and together with its wholly-owned subsidiaries, the Company, our or we) is a real estate investme trust (REIT) organized in 1993 that primarily originates loans to small businesses collateralized by first liens on the real estate of the related business. As a REIT, we seek to maximize shareholder value through long-term growth in dividends paid to our shareholders. We must distribute at least 90% of our REIT taxable income to shareholders to maintain our REIT status. See Tax Status. Our common shares are traded on the NYSE Amex under the symbol PCC.

We generate revenue primarily from the yield and other fees earned on our investments. Our loans are predominantly (93.5% at December 31, 2011) to borrowers in the hospitality industry. Our operations are located in Dallas, Texas and include originating, servicing and selling the government guaranteed portions of certain loans. During the years ended December 31, 2011 and 2010, our total revenues were approximately $16.1 million and $15.5 million, respectively, and our net income was approximately $3.6 million and $4.3 million, respectively. See Item 8. Financial Statements and Supplementary Data.

We originate loans through PMC Commercial and its wholly-owned lending subsidiaries: First Western SBLC, Inc. (First Western), PMC Investment Corporation (PMCIC) and Western Financial Capital Corporation (Western Financial). First Western is licensed as a small business lending company (SBLC) that originates loans through the Small Business Administration s (SBA) 7(a) Guaranteed Loan Program (SBA 7(a) Program). PMCIC and Western Financial are licensed small business investment companies (SBICs).

First Western is a national Preferred Lender, as designated by the SBA, and originates, sells and services small business loans. As a non-bank SBA 7(a) Program lender, First Western is able to originate loans on which a substantial portion of the loan (generally 75% to 85%) is guaranteed as to payment of principal and interest by the SBA. Due to the existence of the SBA guarantee, we are able to originate loans that meet the criteria of the SBA 7(a) Program and have less stringent underwriting criteria than our non-SBA 7(a) Program loan originations. See Lending Activities SBA Programs.

We continue to focus on the origination of SBA 7(a) Program loans which require less capital due to the ability to sell the government guaranteed portion of such loans. We utilize the SBA 7(a) Program to originate small business loans, primarily secured by real estate, and then sell the government guaranteed portion to investors.

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Our ability to generate interest income, as well as other revenue sources, is dependent on economic, regulatory and competitive factors that influence interest rates and loan originations, and our ability to secure financing for our investment activities. The amount of revenue recorded will vary from current levels based on a number of factors including, but not limited to:

- The volume of loans funded;
- The volume of loans which prepay;
- The timing and availability of leverage;
- The amount of non-performing loans;
- Recognition of premium income, if any, on secondary market loan sales depending on the type of sale;
- The interest rate and type of loans originated (whether fixed or variable); and
- The general level of interest rates.

The majority of our loans (81% at December 31, 2011) have variable rates of interest. As a result, during periods of declining interest rates, our interest income is subject to interest rate risk. See Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

Generally, in order to fund new loans, we need to borrow funds or sell loans. Since 2006, our working capital was primarily provided through credit facilities and principal payments (including prepayments) on loans receivable. Prior to 2006, our primary source of long-term funds was structured loan sale transactions and the issuance of junior subordinated notes. At the current time, there is a limited market for structured loan sale transactions (more commonly known as securitizations) and there is no market for the issuance of trust preferred securities (junior subordinated notes). We cannot anticipate when, or if, these markets will be available to us. Until these markets become available or alternative debt and/or equity structures become available, our ability to grow is limited. Due to (1) the lack of a market for our type of securitization and the prospect that this market may never recover to its prior form or may return with costs or structures that we may not be able to accept and (2) limits on the amounts of capital available through credit or warehouse facilities, we continue to focus our lending activities on originating loans under the SBA 7(a) Program.

LENDING ACTIVITIES

Overview

We are a national lender that primarily originates loans to small businesses, principally in the limited service hospitality industry. In addition to first liens on the real estate of the related business, our loans are typically personally guaranteed by the principals of the entities obligated on the loans.

We identify loan origination opportunities through personal contacts, internet referrals, attendance at trade shows and meetings, direct mailings, advertisements in trade publications and other marketing methods. We also generate loans through referrals from real estate and loan brokers, franchise representatives, existing borrowers, lawyers and accountants. Payments are sometimes made to non-affiliated individuals who assist in generating loan applications, with such payments generally not exceeding 1% of the principal amount of the originated loan.

Limited Service Hospitality Industry

Our outstanding loans are generally collateralized by first liens on limited service hospitality properties and are typically for owner-operated facilities operating under national franchises, including, among others, Comfort Inn, Days Inn, Holiday Inn Express, Ramada and Best Western. We believe that franchise operations offer attractive lending opportunities because such businesses generally employ proven business concepts, have national reservation systems and advertising, consistent product quality, are screened and monitored by franchisors and generally have a higher rate of success when compared to other independently operated hospitality businesses.

Loan Originations and Underwriting

We believe that we successfully compete in certain sectors of the commercial real estate finance market, primarily the limited service hospitality sector, due to our diligent underwriting which is benefitted by our understanding of our borrowers businesses and our responsive customer service.

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We consider traditional underwriting criteria such as:

- The underlying cash flow of the owner-operator;
- The components, value and replacement cost of the borrower s collateral (primarily real estate);
- The industry and competitive environment in which the borrower operates;
- The financial strength of the guarantors;
- Analysis of local market conditions;
- The ease with which the collateral can be liquidated;
- The existence of any secondary repayment sources;
- Evaluation of the property operator; and
- The existence of a franchise relationship.

Upon receipt of a completed loan application, our credit department conducts: (1) a detailed analysis of the potential loan, which typically includes a third-party licensed appraisal and a valuation by our credit department of the property that will collateralize the loan to ensure compliance with loan-to-value percentages, (2) a site inspection for real estate collateralized loans, (3) a review of the borrower s business experience, (4) a review of the borrower s credit history, and (5) an analysis of the borrower s debt-service-coverage, debt-to-equity and other applicable ratios. We also utilize local market economic information to the extent available.

We believe that our typical non-SBA 7(a) Program loan is distinguished from those of some of our competitors by the following characteristics:

- *Substantial down payments are required*. We usually require an initial down payment of not less than 20% of the total cost of the project being financed. Our experience has shown that the likelihood of full repayment of a loan increases if the owner/operator is required to make an initial and substantial financial commitment to the project being financed.
- *Cash outs are typically not permitted*. Generally, we will not make a loan in an amount greater than the lesser of 80% of either the replacement cost or current appraised value of the property which is collateral for the loan. For example, a hotel property may have been originally constructed for a cost of $2.0 million, with the owner/operator initially borrowing $1.6 million of that amount. At the time of the borrower s loan refinancing request, the property securing the loan is appraised at $4.0 million. Some of our competitors might loan from 70% to 90% or more of the new appraised value of the property and permit the owner/operator to receive a cash distribution from the proceeds. Generally, we would not permit this type of cash-out distribution.

The obligor is personally liable for the loan. We typically require the principals of the borrower to personally guarantee the loan.

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Interest Rates

Interest rates on our loans receivable, net, were as follows:

	At December 31,					
	2011			2010		
	Loans Receivable, net		Weighted Average Interest	Loans Receivable, net		Weighted Average Interest
	Amount	%	Rate	Amount	%	Rate
	(Dollars in thousands)					
Variable-rate - LIBOR	$ 132,596	56.6%	4.4%	$ 125,606	53.9%	4.2%
Variable-rate - prime	57,338	24.4%	5.8%	44,349	19.0%	5.7%
Fixed-rate	44,493	19.0%	9.2%	63,263	27.1%	9.1%
Total	$ 234,427	100.0%	5.6%	$ 233,218	100.0%	5.8%

Our variable-rate loans generally require monthly payments of principal and interest, reset on a quarterly basis, to amortize the principal over the remaining life of the loan. Fixed-rate loans generally require level monthly payments of principal and interest calculated to amortize the principal over the remaining life of the loan.

Industry Concentration

The distribution of our loans receivable by industry was as follows at December 31, 2011:

	Number of Loans	Cost (1)	% of Total Cost
		(Dollars in thousands)	
Hotels and motels	240	$ 220,896	93.5%
Convenience stores/service stations	16	8,740	3.7%
Services	18	1,549	0.7%
Restaurants	23	661	0.3%
Retail	6	397	0.2%
Other	21	3,872	1.6%
	324	$ 236,115	100.0%

(1) Loan portfolio outstanding before loan loss reserves and deferred commitment fees.

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Loan Portfolio Statistics

Information on our loans receivable was as follows:

	At December 31,	
	September 30, 2011	September 30, 2010
	(Dollars in thousands)	
Principal outstanding (1)	$ 236,115	$ 234,867
Weighted average interest rate	5.6%	5.8%
Average yield (2)	5.8%	5.8%
Weighted average contractual maturity in years	15.0	14.9
Hospitality industry concentration	93.5%	93.8%
Texas concentration (3)	18.1%	19.5%

(1) Loans receivable outstanding before loan loss reserves and deferred commitment fees.

(2) The calculation of average yield divides our interest income, prepayment fees and other loan related fees, adjusted by the provision for loan losses, by the weighted average loans receivable outstanding.

(3) No other state concentrations greater than or equal to 10% existed at December 31, 2011 or 2010.

Loans Funded

The following table is a breakdown of loans funded during the years indicated:

			Years Ended December 31,		
	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
			(In thousands)		
Commercial mortgage loans	$ 4,680	$ 4,908	$ 2,425	$ 19,739	$ 28,416
SBA 7(a) Program loans	33,672	33,532	28,010	10,971	2,888
SBA 504 Program loans (1)				3,877	2,452
Total loans funded	$ 38,352	$ 38,440	$ 30,435	$ 34,587	$ 33,756

(1) Represents second mortgages originated through the SBA 504 Program which were repaid by certified development companies.

Secondary Market Loan Sales

Our SBA 7(a) subsidiary sells loans pursuant to the SBA 7(a) Program. The SBA guaranteed portions of these loans are sold in legal sale transactions to either dealers in government guaranteed loans or institutional investors (Secondary Market Loan Sales) as the loans are fully funded. These government guaranteed portions of loans may be sold for (1) a cash premium and the minimum 1% required servicing spread, (2) significant future servicing spread and no cash premium or (3) future servicing spread and a cash premium of 10% (hybrid loan sales). Prior to January 1, 2010, all of these types of transactions were recorded as sales (*i.e.,* we recorded premium income) for accounting purposes. Effective January 1, 2010, due to a change in accounting rules, we were required to permanently treat certain of the proceeds received from these legally sold portions of loans (those loans sold solely for future servicing spread and those loans sold for a cash premium of 10% and future servicing spread) as secured borrowings (debt) for the life of the loan and 100% of the loan is included in our loans receivable. We can no longer record premium income on these types of sales. Cash premiums collected on hybrid loan sales are deferred and reflected as a liability on our consolidated balance sheet and amortized as a reduction to interest expense over the life of the loan. Deferred cash premiums at December 31, 2011 were $2.4 million.

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SBA Programs

General

We utilize programs established by the SBA to generate loan origination opportunities and provide us with a funding source as follows:

- We have an SBLC that originates loans through the SBA 7(a) Program;
- We have participated as a private lender in the SBA 504 Program which allowed us to originate first mortgage loans with lower loan-to-value ratios;
- We have two licensed SBICs regulated under the Small Business Investment Act of 1958, as amended. Our SBICs use long-term funds provided by the SBA, together with their own capital, to provide long-term collateralized loans to eligible small businesses, as defined under SBA regulations.

Our regulated SBA subsidiaries are periodically examined and audited by the SBA to determine compliance with SBA regulations.

SBA 7(a) Program

Under the SBA 7(a) Program, the SBA typically guarantees 75% of qualified loans over $150,000. While the eligibility requirements of the SBA 7(a) Program vary by the industry of the borrower and other factors, the general eligibility requirements include, but are not limited to: (1) gross sales of the borrower cannot exceed size standards set by the SBA (*i.e.,* $7.0 million for limited service hospitality properties) or alternatively average net income cannot exceed $5 million for the most recent two fiscal years, (2) liquid assets of the borrower and affiliates cannot exceed specified limits, (3) tangible net worth of the borrower must be less than $15 million, (4) the borrower must be a U.S. citizen and (5) the maximum aggregate SBA loan guarantees to a borrower cannot exceed $3.75 million. Maximum maturities for SBA 7(a) Program loans are 25 years for real estate and between seven and 10 years for the purchase of machinery, furniture, fixtures and/or equipment. In order to operate as an SBLC, a licensee is required to maintain a minimum regulatory capital (as defined by SBA regulations) of the greater of (1) 10% of its outstanding loans receivable and other investments or (2) $1.0 million, and is subject to certain other regulatory restrictions such as change in control provisions. See Item 1A. Risk Factors.

SBIC Program

We originate loans to small businesses through our SBICs. According to SBA regulations, SBICs may make long-term loans to small businesses and invest in the equity securities of such businesses. Under SBA regulations, eligible small businesses include those that have a net worth not exceeding $18 million and have average annual fully taxable net income not exceeding $6 million for the most recent two fiscal years. To the extent approved, an SBIC can issue debentures whose principal and interest is guaranteed to be paid to the debt holder in the event of non-payment by the SBIC. As a result, the debentures costs of funds are usually lower compared to alternative fixed-rate sources of funds available to us.

SBA 504 Program

The SBA 504 Program assists small businesses in obtaining subordinated, long-term financing by guaranteeing debentures available through certified development companies (CDCs) for the purpose of acquiring land, building, machinery and equipment and for modernizing, renovating or restoring existing facilities and sites. A typical finance structure for an SBA 504 Program project would include a first mortgage covering 50% of the project cost from a private lender, a second mortgage obtained from a CDC covering up to 40% of the project cost and a contribution of at least 10% of the project cost by the principals of the small businesses being assisted. We typically require at least a 20% contribution of the equity in a project by our borrowers. The SBA does not guarantee the first mortgage. Although the total sizes of projects utilizing the SBA 504 Program are unlimited, currently the maximum amount of subordinated debt in any individual project is generally $5 million (or $5.5 million for certain projects). Typical project costs range in size from $1 million to $6 million. Our SBA 504 Program has been inactive since the beginning of 2008 due to our limited liquidity.

TAX STATUS

PMC Commercial has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). As a REIT, PMC Commercial is generally not subject to Federal income tax (including any applicable alternative minimum tax) to the extent that it distributes at least 90% of its REIT taxable income to shareholders. Certain of PMC Commercial s subsidiaries, including First Western and PMCIC, have elected to be treated as taxable REIT subsidiaries; thus, their earnings are subject to U.S. Federal income tax. To the extent PMC Commercial s taxable REIT subsidiaries retain their earnings and profits, these earnings and profits will be unavailable for distribution to our shareholders.

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PMC Commercial may, however, be subject to certain Federal excise taxes and state and local taxes on its income and property. If PMC Commercial fails to qualify as a REIT in any taxable year, it will be subject to Federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for four subsequent taxable years. REITs are subject to a number of organizational and operational requirements under the Code. See Item 1A. Risk Factors REIT Related Risks for additional tax status information.

EMPLOYEES

We employed 33 individuals including marketing professionals, investment professionals, operations professionals and administrative staff as of December 31, 2011. We have employment agreements with our executive officers. Our operations are centralized in Dallas, Texas. We believe the relationship with our employees is good.

COMPETITION

When originating loans we compete with other specialty commercial lenders, banks, broker dealers, other REITs, savings and loan associations, insurance companies and other entities that originatIGN="left" COLOR="#ffffff">

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, 2004	2003	Inception to Date from entering Development Stage January 1, 2004 to 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		(1,838)	
Net cash used in operating activities	(232,355)	(2,735,501)	(232,355)
Investing activities			
Cash transferred to buyer in connection with sale of business		(126,866)	
Purchases of equipment		(60,138)	
Proceeds from disposals of equipment		10,220	
Proceeds from sale of marketable securities	157,869		157,869
Net cash used in investing activities	157,869	(176,784)	157,869
Financing activities			
Proceeds from loans from related parties	80,000	1,015,000	80,000
Payments of loans from related parties		(3,944)	
Proceeds from issuance of notes		1,580,000	
Payments of notes and capital leases		(25,032)	
Net cash provided by financing activities	80,000	2,566,024	80,000
Net (decrease) increase in cash	5,514	(346,261)	5,514

Cash at beginning of period	100	346,361	100
Cash at end of period	$ 5,614	$ 100	$ 5,614

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)

(Continued)

	Years ended December 31,	
	2004	**2003**
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 3,040	$ 16,338
Conversion of accounts payable, notes payable and accrued expenses into common stock	$ 639,121	
Conversion of accounts payable and notes payable due related parties including accrued interest into common stock	$ 1,448,601	$ 1,072,163
Settlement of lease dispute through issuance of common stock	$ 50,000	
In-kind dividends distributed	$ 4,891,589	
Sale of business in exchange for common stock of buyer recorded at market value	$	$ 9,525,000

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

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

1. Business

SPEEDCOM was incorporated in Florida on March 16, 1994 and reincorporated in Delaware on September 26, 2000 (SPEEDCOM or the Company). Prior to the sale discussed in Note 2 below, SPEEDCOM manufactured, configured and delivered custom broadband wireless networking equipment, including the SPEEDLAN family of wireless Ethernet bridges and routers, for business and residential customers internationally. Subsequent to the sale, SPEEDCOM is a non-operating public shell company.

On January 1, 2004, the Company entered into a Development Stage Enterprise, due to the sale of its assets as discussed in Note 2 below. The company plans to operate as a Development Stage Enterprise until it is able to merge with another partner and will be able to assume operations of the partner.

2. P-Com Transaction and Management s Plans

On December 10, 2003, SPEEDCOM sold its operating assets (having a historical cost of approximately $2,590,000) and transferred substantially all of its operating liabilities (having a carrying value of approximately $5,250,000) to P-Com in exchange for 63,500,000 shares of P-Com common stock, having a market value of $9,525,000 on the date the transaction was closed, plus a note receivable of $75,000. Prior to the sale, P-Com had advanced $1,580,000 in cash to SPEEDCOM of which $1,180,000 was included in the gain on sale and $400,000 was converted into 3,333,333 shares of SPEEDCOM s common stock. The sale resulted in a gain of approximately $12,260,000 that was recognized in the period of sale. Following the sale, SPEEDCOM has no operations.

The accompanying financial statements are prepared on a going-concern basis, which assumes that SPEEDCOM will realize its assets and discharge its liabilities in the normal course of business. However, SPEEDCOM has no operations and its projected 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.

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

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3. Summary of Significant Accounting Policies

Revenue Recognition

SPEEDCOM derived its revenue from short-term (generally two to four weeks in duration) arrangements with customers to configure, assemble, and deliver wireless communications products. SPEEDCOM recognized revenue upon shipment of the products to the customer. Customers could exchange or return merchandise within 30 days if the product is 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. Shipping costs billed to customers were included in revenue; the related shipping costs were included in cost of goods sold.

Concentrations

Credit Risk: Financial instruments that are exposed to credit risk, as defined by SFAS No. 107, DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, consisted principally of accounts receivable and leases receivable. These accounts were highly concentrated among foreign companies and companies in the telecommunications sector. Credit was extended to these customers based on management s evaluation of the individual customer s financial condition and generally collateral was not required. SPEEDCOM generally required prepayments or letters of credit from foreign customers to facilitate currency exchange and minimize credit risk.

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

Suppliers: Many of the key hardware and software components necessary for the assembly of SPEEDCOM s products were only available from a single supplier or from a limited number of suppliers. SPEEDCOM had experienced delays and shortages in the supply of components in the past. SPEEDCOM generally did not maintain a significant inventory of components and did not have many long-term supply contracts with its suppliers.

Cash and Equivalents

The Company considers instruments having an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Marketable Securities

SPEEDCOM accounts for marketable securities in accordance with SFAS No. 115 ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES.

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

NOTES TO FINANCIAL STATEMENTS

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SPEEDCOM determines the proper classification of all marketable securities as held-to-maturity, available-for-sale, or trading at the time of purchase, and re-evaluates such classification as of each balance sheet date. Marketable securities at December 31, 2003 consisted of 63,500,000 shares of common stock of P-Com that were classified on that date as available-for-sale, and as a result were reported at fair value. Unrealized gains and losses were reported as a component of accumulated other comprehensive income (loss) in stockholders equity.

Impairments of Long-lived Assets

SPEEDCOM reviewed long-lived assets to be held and used, consisting of property and equipment and intellectual property, for impairment whenever events or changes in circumstances indicated the asset may be impaired. In the event that the impairment indicators, including market or industry conditions or financial conditions, were identified, SPEEDCOM determined whether impairments were present by comparing the net book value of long-lived assets to projected undiscounted cash flows at the lowest discernable level for which cash flow information can be projected. In the event that undiscounted cash flows were insufficient to recover the net carrying value over the remaining useful lives, impairment charges were calculated and recorded in the period first estimable using discounted cash flows or other fair value information. During the periods presented, there were no material impairment charges.

Financial Instruments

SPEEDCOM s significant financial instruments include cash, accounts receivable, investment in marketable securities, accounts payable and notes payable. SPEEDCOM believes that the carrying values of financial instruments in the accompanying balance sheets approximate their respective fair values.

Income Taxes

SPEEDCOM follows the liability method of accounting for income taxes in accordance with SFAS No. 109, ACCOUNTING FOR INCOME TAXES (SFAS 109). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to affect taxable income. Valuation allowances against the carrying value of net deferred tax assets are recorded when management determines that recoverability of such amounts is not reasonably assured.

Comprehensive Income (Loss)

Under SFAS 130, REPORTING COMPREHENSIVE INCOME (SFAS 130), SPEEDCOM is required to display comprehensive income and its components as part of our financial statements. The measurement and presentation of net income did not change. Comprehensive income comprises net income and other comprehensive income. Other comprehensive income includes

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

certain changes in equity of SPEEDCOM that are excluded from net income. Specifically, SFAS 130 requires unrealized gains and losses on SPEEDCOM s available for sale investments, that were reported in stockholder s equity, to be included in accumulated other comprehensive income.

Stock Based Compensation

SPEEDCOM accounts for employee stock-based compensation using the intrinsic method in accordance with Accounting Principles Board No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. Accordingly, in cases where exercise prices for stock option grants equal or exceed the trading market value of the stock at the date of grant, SPEEDCOM recognizes no compensation expense. In cases where exercise prices are less than the fair value of the stock at the date of grant, compensation is recognized over the period of performance or the vesting period. SPEEDCOM accounts for non-employee stock-based compensation using the trading market price for common stock and the Black-Scholes valuation model for stock options and warrants, in accordance with SFAS No. 123, ACCOUNTING FOR STOCK BASED COMPENSATION (SFAS No. 123).

The following table reflects supplemental financial information related to stock-based employee compensation, as required by SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION TRANSITION AND DISCLOSURE.

	2004	**2003**
Stock-based employee compensation costs used in the determination of net income (loss) attributable to common stockholders, as reported		
Income (loss) attributable to common stockholders, as reported	$ (3,742,690)	$ 6,589,853
Stock-based employee compensation costs that would have been included in the determination of net income (loss) if the fair value method (SFAS No. 123) had been applied to all awards		
Unaudited pro forma net income (loss) attributable to common stockholders, as if the fair value method had been applied to all awards	$ (3,742,690)	$ 6,589,853
Net income (loss) attributable to common stockholders per common share, as reported	$ (0.05)	$ 0.42
	$ (0.05)	$ 0.42

Unaudited pro forma net income (loss) attributable to common stockholders per common share, as if the fair value method had been applied to all awards		

Advertising Costs

SPEEDCOM s policy was to expense advertising costs as incurred. During the year ended December 31, 2003, SPEEDCOM incurred approximately $56,000 in advertising expenses. Such amounts are included in selling expenses.

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Research and Development Costs

SPEEDCOM s policy was to expense all research and development expenses as incurred. Research and development expenses during the year ended December 31, 2003 totaled approximately $270,000. Such amounts are included in general and administrative expenses.

Net Income (Loss) Per Share

SPEEDCOM has applied the provisions of SFAS No. 128, EARNINGS PER SHARE, which establishes standards for computing and presenting earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net earnings (loss) by the weighted average number of shares outstanding for the period. The calculation of diluted earnings per share includes the effect of dilutive common stock equivalents. No dilutive common stock equivalents existed in any year presented.

Use Of Estimates

The preparation of financial statements in conformity 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. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 153, EXCHANGES OF NONMONETARY ASSETS AN AMENDMENT OF APB NO. 29 ACCOUNTING FOR NONMONETARY TRANSACTONS, which is based on the opinion that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception of nonmonetary assets whose results are not expected to significantly change the future cash flows of the entity. The adoption of SFAS No. 153 is not expected to have any material impact on the Company s financial statements.

In December 2004, the FASB revised its SFAS No. 123 (SFAS No. 123R), SHARE-BASED PAYMENTS. The revision establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, particularly transactions in which an entity obtains employee services in share-based payment transactions. The revised statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is to be recognized over the period during which the employee is required to provide service in exchange for the award. The provisions of the revised statement are effective for financial statements issued for the first interim or annual reporting period beginning after June 15, 2005, with early adoption encouraged. The Company is currently evaluating the methodology for adoption on the impending effective date.

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SPEEDCOM WIRELESS CORPORATION,

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

4. Accrued Expenses

A summary of accrued expenses at December 31, 2004 and 2003 is as follows:

	2004	2003
Accrued interest		1,790
Other	5,000	7,662
	$ 5,000	$ 9,452

5. Related Party Transactions

Due to Related Parties

During the year ended December 31, 2004, certain of SPEEDCOM s shareholders had loaned the Company $80,000. The Company plans to repay these outstanding obligations through the issuance of common stock.

During the year ended December 31, 2003, SPEEDCOM borrowed an aggregate of $2,928,000, under secured promissory notes from institutional investors who are shareholders. All tangible and intangible assets of SPEEDCOM secured the notes. The notes outstanding at December 31, 2003, had an interest rate of 15% and were payable December 31, 2003. Prepayment was permitted under the secured promissory notes with a 50% premium on the outstanding principal amount. In October 2003, SPEEDCOM converted $570,000 of the notes payable that were due December 31, 2003, plus accrued interest of $102,163, into 5,601,358 shares of SPEEDCOM common stock, which resulted in a gain of approximately $336,000. Due to the related party nature of this exchange, the gain was recorded as a component of paid-in capital in the accompanying financial statements. As part of the Asset Sale described in Note 2, P-Com assumed an additional $3,000,000 of these promissory notes. In December 2003, the maturity of the remaining $373,000 of debt was extended to June 30, 2004. 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. In January 2004, SPEEDCOM converted the remaining $996,092 into 8,300,768 shares of SPEEDCOM common stock resulting in a gain of approximately $664,000. The gain has been recorded as other income for the year ended December 31, 2004.

As a stipulation of the preferred stock financing received in August 2001, SPEEDCOM was required to file and obtain SEC acceptance of a registration statement within a specified period of time or incur penalties. As a result of obtaining acceptance from the SEC nineteen days late, SPEEDCOM incurred a penalty of $163,970, payable to the preferred stockholders. The penalty was accrued during 2001 and is included in due to related parties at December 31, 2003 and 2002. In February 2004, SPEEDCOM converted all of its 3,835,554 shares of preferred stock, dividends and registration penalty due to the preferred stockholders into 76,868,961 shares of SPEEDCOM common stock.

SPEEDCOM WIRELESS CORPORATION,

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

In January 2002, SPEEDCOM entered into a financial relations and consultant contract whereby the consulting firm will receive a $10,000 convertible note each month. This contract was cancelled in May 2002. The notes are convertible at any time at $1.125 per common share. As of December 31, 2003, the note holder possesses rights to convert the notes to 35,556 shares of restricted common stock. SPEEDCOM s Chief Financial Officer is the Managing Director of the consulting firm. During January 2004, SPEEDCOM converted the $40,000 convertible note, plus $75,000 of trade payables due to the consulting firm, into 958,333 shares of SPEEDCOM common stock. SPEEDCOM recorded a gain of approximately $77,000 in connection with this conversion, which will be recorded in the period of the exchange. In addition, in accordance with generally accepted accounting principles, SPEEDCOM has recorded an assumed dividend of approximately $211,000 in the period of the exchange which equals the increase in the intrinsic value of the convertible note based on the incremental number of shares of common stock (297,778) that may be obtained on conversion of the convertible note into common stock valued at the price per share ($0.71) on January 25, 2002, the original date of the note.

As of December 31, 2003, SPEEDCOM had accrued severance expense and related interest of $248,539 outstanding related to the separation agreements between SPEEDCOM and its former President and Chief Financial Officer. In January 2004, SPEEDCOM converted $204,999 of accrued severance costs and $43,540 of accrued interest into 2,086,075 shares of SPEEDCOM common stock. The shares were valued at the date of issuance using SPEEDCOM s trading market price, which resulted in a gain of approximately $155,000. The gain will be recorded in the period of the exchange.

Related Party Interest Expense

Interest expense recorded during the years ended December 31, 2004 and 2003 related to related party notes, loans and other balances amounted to approximately $3,040 and $518,000, respectively.

6. Notes and Capital Leases Payable

A summary of notes and capital leases payable at December 31, 2004 and 2003 is as follows:

	2004	2003
Notes Payable (a)	$	$ 12,177
Capital lease obligations		
		12,177

Less current portion		12,177
	$	$

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

During the year ended December 31, 2003, SPEEDCOM borrowed an aggregate of $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 and included in the gain on the sale to P-Com. In December 2003, P-Com converted the $400,000 of notes payable into 3,333,333 shares of SPEEDCOM common stock, which resulted in a gain of approximately $267,000.

7. Income Taxes

SPEEDCOM utilized net tax operating loss carry forwards to offset regular Federal and State taxable income for the year ended December 31, 2004. The net tax asset associated with the net operating loss carry forwards had been fully reserved in previous reporting periods and, accordingly, there are no income taxes for the year ended December 31, 2004. 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 intends 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.

A reconciliation of the differences between the effective income tax rate and the statutory federal tax rate follows:

	2004	2003
Tax expense (benefit) at U.S. statutory rate	34.00%	34.00%
State taxes, net of federal benefit		3.63
Change in valuation allowance	(34.05)	(37.68)
Other	0.05	0.05
	0.00%	0.00%

Significant components of deferred tax assets and liabilities are as follows:

	2004	2003

Deferred tax assets:		
Net operating loss carryforwards	7,495,131	$ 5,693,093
Accounts receivable		
Intangible assets		
Deferred revenue		
Accrued expenses	5,000	77,141
Other		
Gross deferred tax assets	7,500,131	5,770,234
Less: valuation allowance	(7,500,131)	(5,770,234)
Net deferred tax asset	$	$

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

NOTES TO FINANCIAL STATEMENTS

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Accounting principles generally accepted in the United States of America require a valuation allowance be recorded to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, management has determined that a valuation allowance is necessary at December 31, 2004 and 2003 to fully offset the deferred tax asset.

At December 31, 2004, net operating losses available to be carried forward for federal income tax purposes are approximately $22,000,000 expiring in various amounts from 2015 through 2024. Utilization of SPEEDCOM s net operating losses 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.

8. Stockholders Equity

Common Stock, Common Stock Warrants and Employee Stock Options

Non-employee Common Stock Warrants:

As of December 31, 2004 and 2003, SPEEDCOM had the following warrants outstanding to purchase common stock of SPEEDCOM:

Number of Warrants	Expiration Date	Exercise Price
7,160,810	8/23/2006	$ 0.12
1,002,026	6/11/2006	$ 0.12
150,000	3/31/2006	$ 6.00

These matters relate to common stock issuances and common stock warrant activity during the year ended December 31, 2004:

Between January and December 2004, SPEEDCOM converted $1,646,106 of amounts due to related parties, certain accrued expenses, notes payable and certain accounts payable into 21,572,933 shares of SPEEDCOM common stock. These transactions resulted in aggregate gains of approximately $1,157,187.

During February 2004, all of SPEEDCOM s preferred stockholders exchanged their 3,835,554 shares of preferred stock, dividends and registration penalty for 76,868,961 shares of SPEEDCOM common stock (valued at trading market prices). This transaction resulted in aggregate gains of approximately $2,161,000 that is recorded in the period of exchange as a component of paid-in-capital due to the related party nature of the exchange.

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SPEEDCOM WIRELESS CORPORATION,

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During March 2004, SPEEDCOM distributed 61,144,856 shares of P-Com common stock to SPEEDCOM common shareholders as a form of dividend. The per share trading market price of the common stock of P-Com on the distribution date was $0.08. The distribution was recorded at the fair value of the shares distributed based upon the trading market price.

In December 2004, SPEEDCOM issued 5,000,000 shares of common stock as settlement of a lease dispute.

These matters relate to common stock issuances and common stock warrant activity during the year ended December 31, 2003:

Effective with the issuance of the convertible notes to P-Com discussed in Note 10, the conversion prices of SPEEDCOM s warrants that expire August 23, 2006 and June 11, 2006 was decreased to $0.12, resulting in common shares of 8,162,836 issuable under these securities, if currently converted or exercised.

In October 2003, SPEEDCOM converted $570,000 of notes payable that were due December 31, 2003, plus accrued interest of $102,163, into 5,601,358 shares of SPEEDCOM common stock utilizing a conversion rate of $0.12. SPEEDCOM recorded a gain on this conversion of approximately $336,000.

In December 2003, SPEEDCOM converted $400,000 of notes payable due to P-Com, into 3,333,333 shares of SPEEDCOM common stock utilizing a conversion rate of $0.12. SPEEDCOM recorded a gain on this conversion of approximately $267,000.

At December 31, 2004 and 2003, SPEEDCOM had 3,000,000 shares of common stock reserved for issuance under employee incentive stock bonus, purchase or option plans. One plan, initiated in July 1998, reserved 2,000,000 shares, and another plan, initiated in September 2000, reserved 1,000,000 shares. Additional options of 874,892 are outstanding outside these two plans to former executive officers. All full time employees were eligible for both plans. Plan options have a term of 5 years and vest 25% annually on the employee s anniversary date over a four-year period. As of December 31, 2004 there were 2,713,000 shares unissued under both plans.

Employee stock option activity was as follows during the years ended December 31, 2004 and 2003:

	2004	2003

	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding				
Beginning of year	1,161,892	$ 2.65	2,954,876	$ 2.28
Granted at market price				
Exercised				
Expired or cancelled			(1,792,984)	2.03
Outstanding end of year	1,161,892	$ 2.65	1,161,892	$ 2.65
Exercisable as of December 31	1,161,892	$ 2.65	1,161,892	$ 2.65

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SPEEDCOM WIRELESS CORPORATION,

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The range of exercise prices of outstanding options at December 31, 2004 is $0.26 through $3.23. The weighted average remaining contractual life of the options as of December 31, 2004 and 2003 is 1.7 and 2.8 years, respectively.

Pro forma information regarding SPEEDCOM s stock option grants is presented in Note 3. The fair market value for these options was estimated at the date of grant using the Black-Scholes option-pricing model. In order to calculate the fair value, the following assumptions were made: the expected dividend payment rate used was zero, the expected option life used was five years, the volatility used was 1.26 and the risk free interest rate was assumed to be 2.96%. Because the options have a four-year vesting period, the pro forma effect shown is not reflective of the reported net earnings or losses in future years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period.

Antidilution Provisions

Under the anti-dilution provisions of our preferred stock, if SPEEDCOM issues common stock or common stock equivalents at a purchase price, conversion price, or warrant or option exercise price that is less than the lesser of the current preferred stock conversion price of $1.125 per share or the current market price, the conversion price of the preferred stock will be reduced using a customary weighted average basis formula. In February 2004, SPEEDCOM converted all of its 3,835,554 shares of preferred stock, dividends and registration penalty due to the preferred stockholders into 76,868,961 shares of SPEEDCOM common stock.

Under the anti-dilution provisions of 7,160,810 (as adjusted) warrants issued in August 2001, (1) the exercise price will be lowered to equal the purchase price, conversion price, or warrant or option exercise price for any common stock or common stock equivalent issued (other than to employees) at a purchase price, conversion price, or warrant or option exercise price less than the current per share exercise price of the applicable warrants ($0.12 in the case of Series A Warrants), and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced. Alternatively, (1) the exercise price will be reduced by the percentage by which the purchase price, conversion price, or warrant or option exercise price of any issued security (others than to employees) is less than the current market price of the common stock, and (2) the number of warrants will be increased by the same percentage as the percentage by which the exercise price is reduced, if this formula results in a lower exercise price than the adjustment described in the preceding sentence. Similar anti-dilution provisions apply to outstanding warrants to acquire 1,002,026 shares of our common stock (as adjusted) at an exercise price of $0.12 per share.

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SPEEDCOM WIRELESS CORPORATION,

A Development Stage Enterprise

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DECEMBER 31, 2004 AND 2003

Dividend Arrearages

Beginning August 23, 2003, SPEEDCOM s preferred stockholders are entitled to cumulative dividends at the rate of 14% per year times the $3.38 ($4.50 if paid in stock) per share liquidation preference. The cumulative, undeclared dividend in arrearage that the preferred stockholders are entitled to as of December 31, 2003 is $860,635, assuming a stock payout. No record date has been established for the dividend by SPEEDCOM s Board of Directors. In February 2004, SPEEDCOM converted all of its 3,835,554 shares of preferred stock, dividends and registration penalty due to the preferred stockholders into 76,868,961 shares of SPEEDCOM common stock.

9. Leases

Prior to the Asset Sale described in Note 2, SPEEDCOM leased office and manufacturing facilities and computer and office equipment under operating leases. Rent expense under operating leases amounted to approximately $55,000 and $802,000 for the years ended December 31, 2004 and 2003, respectively. SPEEDCOM does not have any future noncancellable lease payments under operating leases. Lease expense for the year ended December 31, 2004 includes $5,000 of cash paid and payments satisfied with 5,000,000 shares of common stock valued at $50,000.

All of SPEEDCOM s leases were assumed by P-Com per the Asset Sale.

10. Employee Benefit Plan

SPEEDCOM had established a 401(k) profit-sharing plan, which was terminated effective November 15, 2003. Employees 21 years or older were eligible to participate in the plan. Participants could elect to contribute, on a tax-deferred basis, up to the legal maximum of their compensation. SPEEDCOM contributed 25% matching after an employee had been with SPEEDCOM for 90 days. SPEEDCOM s contributions to the plan were approximately $24,000 year ended December 31, 2003.

11. Severance Costs

During the year ended December 31, 2003, SPEEDCOM recorded severance costs of $170,000 in accordance with the separation agreements between SPEEDCOM and its former Vice President of Marketing and Product Development, its former Vice President of Finance and Accounting and its former Director of International Sales. Per the Asset Sale, these liabilities were assumed by P-Com.

12. Segment and Geographic Information

Revenue

No single customer accounted for 10% or more of SPEEDCOM s revenue for the years ended December 31, 2004 or 2003.

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SPEEDCOM WIRELESS CORPORATION,

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SPEEDCOM operated during all periods in a single operating segment when applying the management approach defined in SFAS No. 131, DISCLOSURES ABOUT SEGMENTS.

SPEEDCOM s business and principal operations are domiciled in North America. SPEEDCOM generated revenue in the following geographic areas: North America, Latin America, Asia, Africa, Middle East, Europe and Australia. Revenues from customers in foreign geographic areas represented 58% and 46% of total revenues for the years ended December 31, 2003 and 2002, respectively. During 2003, 17% and 19% of SPEEDCOM s revenues were derived from customers located in Asia and the Middle East, respectively. During 2002, 11% and 14% of SPEEDCOM s revenues were derived from customers located in Asia and Africa, respectively. No other foreign geographic area contributed 10% or greater of total revenues for 2003 or 2002. SPEEDCOM has no significant property in any foreign geographic area.

13. Subsequent Events

In January 2005, SPEEDCOM converted $21,338.97 of amounts due into 2,133,897 shares of common stock.

In January 2005, the Company settled with B-Com for $7,500 as payment in full for $37,500 in accounts payable. The Company will record a gain of $30,000 related to this settlement in the period that the settlement was reached.

In March 2005, the Company issued 8,162,837 shares of its common stock in connection with the conversion of 8,162,837 warrants.

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Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

In a letter dated August 18, 2004, Aidman, Piser & Company, P.A. who had served as independent auditors of SPEEDCOM Wireless Corporation (the Registrant), resigned from its engagement with the Registrant.

During the two most recent fiscal years preceding the resignation no report of Aidman, Piser & Company, P.A. on the Registrant s financial statements contained an adverse opinion or a disclaimer of opinion, nor was one qualified as to uncertainty, audit scope, or accounting principles, except as described in the following sentence. However, during the two most recent fiscal years preceding the resignation the reports of Aidman, Piser & Company were modified to express substantial doubt about the ability of the Company to continue as a going concern.

During the two most recent fiscal years preceding the resignation and the subsequent interim period through the date of the resignation, there were no disagreements with Aidman, Piser & Company, P.A. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Aidman, Piser & Company, P.A., would have caused Aidman, Piser & Company, P.A. to make a reference to the subject matter of the disagreements in connection with its report.

Aidman, Piser & Company, P.A. did not advise the Registrant at any time during the two most recent fiscal years and the subsequent interim period through the date hereof that the Registrant did not have the internal controls necessary for the preparation of reliable financial statements.

On February 10, 2005, SPEEDCOM Wireless Corporation s board of directors approved the engagement of De Leon & Company, P.A. as SPEEDCOM s independent auditors. No outstanding matters were discussed with De Leon & Company, P.A. prior to their engagement.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

The information required by this Item 9 is incorporated by reference from the section captioned Directors, Executive Officers, Promoters and Control Persons of the Schedule 14C.

Item 10. Executive Compensation

The information required by this Item 10 is incorporated by reference from the section captioned Executive Compensation of the Schedule 14C.

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Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 11 is incorporated by reference from the section captioned Security Ownership of Certain Beneficial Owners and Management of the Schedule 14C.

Item 12. Certain Relationships and Related Transactions

The information required by this Item 12 is incorporated by reference from the section captioned Certain Relationships and Related Transactions of the Schedule 14C.

Item 13. Exhibits

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

Item 14. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, SPEEDCOM carried out an evaluation of the effectiveness of the design and operation of SPEEDCOM s disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of SPEEDCOM s management, including SPEEDCOM s Chief Financial Officer, who concluded that SPEEDCOM s disclosure controls and procedures are effective. There have been no significant changes in SPEEDCOM s internal controls or in other factors, which could significantly affect internal controls subsequent to the date SPEEDCOM carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in SPEEDCOM s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in SPEEDCOM s reports filed under the Exchange Act is accumulated and communicated to management, including SPEEDCOM s Chief Financial Officer, to allow timely decisions regarding required disclosure.

The following table sets forth the fees billed to the Company for professional services rendered by the Company s principal accountant, for the year ended December 31, 2004 and December 31, 2003:

Services	2004	2003

Audit fees	$ 15,761	$ 17,261
Audit related fees	11,000	
Tax fees		4,700
All other fees		
Total fees	$ 26,761	$ 21,961

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Audit fees consist of fees for the audit of the Company s annual financial statements or services that are normally provided in connection with the statutory and regulatory filings.

Tax fees included tax planning and various taxation matters that were approved in advance by our board of directors.

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/ Mark Schaftlein	Chief Financial Officer and acting	April 14, 2005
Mark Schaftlein	Chief Executive Officer	

Exhibit Index Number	**Description**
2	Plan of acquisition, reorganization, arrangement, liquidation, or succession.
2.1(4)	Asset Purchase Agreement between SPEEDCOM Wireless Corporation and P-Com, Inc.
3	Articles of incorporation and bylaws.
3.1(5)	Amended and Restated Certificate of Incorporation of SPEEDCOM Wireless Corporation.
3.2(1)	Amended and Restated Bylaws of SPEEDCOM Wireless Corporation.
4	Instruments defining the rights of securities holders, including indentures.
4.8(2)	Warrant No. W-1 to Purchase 146,667 Shares of Common Stock issued to S.A.C. Capital Associates, LLC.
4.9(2)	Warrant No. W-2 to Purchase 73,333 Shares of Common Stock issued to SDS Merchant Fund, L.P.
4.10(2)	Warrant No. W-3 to Purchase 220,000 Shares of Common Stock issued to Oscar Private Equity Investments, L.P.
4.11(2)	Warrant No. W-4 to Purchase 73,333 Shares of Common Stock issued to Bruce Sanguinetti.
4.12(3)	Purchase Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined.
4.13(3)	Registration Rights Agreement, dated August 23, 2001, by and among SPEEDCOM Wireless Corporation and the Purchasers, as defined.
4.14(3)	Form of Series A Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001.
4.15(3)	Form of Series B Warrant of SPEEDCOM Wireless Corporation dated August 23, 2001.
4.16(3)	Settlement Agreement between SPEEDCOM Wireless Corporation and I.W. Miller Group, Inc. dated June 25, 2001.
4.81	Secured Promissory Note dated December 31, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Institutional Fund LLC.
4.82	Secured Promissory Note dated December 31, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy International LTD.

4.83	Secured Promissory Note dated December 31, 2003 between SPEEDCOM Wireless Corporation and North Sound Legacy Fund LLC.
4.84	Form of Promissory Note dated April 13, 2005 in the amount of $40,000 issued between SPEEDCOM and two separate and individual note holders(6)
4.85	Form of Promissory Note dated April 13, 2005 in the amount of $6,500 issued between SPEEDCOM and two separate and individual note holders(6)
4.86	Form of Promissory Note dated April 13, 2005 in the amount of $25,000 issued between SPEEDCOM and two separate and individual note holders(6)
23.1	Consent of Certified Public Accountants(6)
31.1	Certification pursuant to Sarbanes-Oxley Section 302(6)
32.1	Certification pursuant to 18 U.S.C. Section 1350(6)

(1) Incorporated by reference to the Form 10-QSB filed May 14, 2001.
(2) Incorporated by reference to the Form 8-K filed July 2, 2001.
(3) Incorporated by reference to the Form S-3 filed September 18, 2001.
(4) Incorporated by reference to the Form 8-K filed June 17, 2003.
(5) Incorporated by reference to the Form 8-K filed December 3, 2003.
(6) Filed as an exhibit to this report on Form 10K-SB for the year ended December 31, 2004