DATA RACE INC
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
QUARTERLY REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 2001	Commission File Number 0-20706

DATA RACE, Inc.
(Exact name of registrant as specified in its charter)

Texas	74-2272363
(State of Incorporation)	(I.R.S. Employer Identification No.)

6509 Windcrest, Suite 120
Plano, Texas 75024
Telephone (972) 265-4000
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

On May 11, 2001, there were approximately 29,983,700 outstanding shares of Common Stock, no par value.

1

DATA RACE, Inc.
INDEX TO FORM 10-Q

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. INTERIM CONDENSED FINANCIAL STATEMENTS

DATA RACE, Inc.
CONDENSED BALANCE SHEETS

	As
	March 31, 2001
	Unaudited
ASSETS	

Current assets:		
Cash and cash equivalents	$	542,293
Accounts receivable, net		15,511
Inventory		3,341,679
Prepaid expenses and deposits		467,597
Total current assets		4,367,080
Notes receivable, non-current		343,667
Property and equipment, net		1,912,449
Other assets, net		84,630
Total assets	$	6,707,826

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$	2,291,923
Accrued expenses		517,159
Obligations under capital lease, current		12,572
Total current liabilities		2,821,654
Obligations under capital lease, non-current		62,570
Deferred gain		331,602
Shareholders' equity:		
Common stock		62,079,803
Additional paid in capital		8,702,295
Retained deficit		(67,290,098)
Total shareholders' equity		3,492,000
Total liabilities and shareholders' equity	$	6,707,826

See accompanying notes to interim condensed financial statements

DATA RACE, Inc.
CONDENSED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended Mar. 31,		Nine Months Ended M	
	2001	2000	2001	
Total revenue	$ 45,801	$ 45,077	$ 52,118	$

Cost of revenue	475,147	219,135	817,017	
Gross profit	(429,346)	(174,058)	(764,899)	(
Operating expenses:				
Engineering and product development	1,490,001	763,496	3,975,711	2,
Sales and marketing	1,188,659	717,231	3,767,440	1,
General and administration	1,275,250	593,959	3,351,547	2,
Total operating expenses	3,953,910	2,074,686	11,094,698	6,
Operating loss	(4,383,256)	(2,248,744)	(11,859,597)	(6,
Other income	11,048	100,775	321,693	
Loss from continuing operations	(4,372,208)	(2,147,969)	(11,537,904)	(6,
Income from discontinued operation	-	47,181	-	
Net loss	$(4,372,208)	$(2,100,788)	$(11,537,904)	$(6,
Per share data:				
Net loss	(4,372,208)	(2,100,788)	(11,537,904)	(6,
Effect of beneficial conversion feature of convertible preferred stock	-	-	-	(
Net loss applicable to common stock	$(4,372,208)	$(2,100,788)	$(11,537,904)	$(6,
Net basic/diluted loss from continuing operations per common share	$ (0.16)	$ (0.09)	$ (0.43)	$
Net basic/diluted loss per common share	$ (0.16)	$ (0.09)	$ (0.43)	$
Weighted average shares outstanding	27,880,747	22,819,767	26,916,718	21,

See accompanying notes to interim condensed financial statements

DATA RACE, Inc.
STATEMENTS OF SHAREHOLDERS' EQUITY
UNAUDITED

	Number of Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumula
Balances at July 1, 2000	26,083,364	$59,806,425	$7,673,310	$(
Net loss for the nine months ended March 31, 2001	-	-	-	(
Issuance of common stock in exercise of warrants relating to Class A and B preferred stock	210,222	472,999	-	
Issuance of common stock in cashless exercise of warrants related to November 1998 private placement	297,313	-	-	
Issuance of common stock and warrants in connection of March 2001 private placement, net of offering costs	3,047,620	1,147,888	164,718	
Modification of warrant terms to acquire common stock in connection with the sale of common stock in the March 2001 private placement	-	-	687,394	
Stock option compensation	-	-	176,873	
Exercise of stock options and warrants	249,024	560,483	-	
Employee stock purchase plan	87,100	92,008	-	
Balances at March 31, 2001	29,974,643	$62,079,803	$8,702,295	$(

See accompanying notes to interim condensed financial statements

DATA RACE, Inc.
CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	Nine Months Ended Mar. 31	
	2001	2000
Cash flows from operating activities:		
Net loss..	$(11,537,904)	$(6,382,8

Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization..................................	383,595	217,4
Non-cash consulting fee..		729,1
Non-cash stock option compensation.............................	176,873	
Gain (loss) on sale of assets..................................	19,400	3,7
Income from discontinued operations............................	-	(217,7
Changes in assets and liabilities:		
Accounts and notes receivable..................................	(2,777)	44,8
Inventory..	(3,091,803)	11,2
Prepaid expenses, deposits, and other assets...................	(261,596)	145,7
Accounts payable...	1,787,922	(123,7
Accrued expenses and other liabilities.........................	(111,585)	18,2
Net cash used in operating activities........................	(12,637,875)	(5,554,0
Cash flows from investing activities:		
Purchase of property and equipment.............................	(1,102,102)	(133,2
Proceeds from sale of property and equipment...................	136,755	
Provided by discontinued operations............................	-	
Net cash used in investing activities........................	(965,347)	(133,2
Cash flows from financing activities:		
Payment on capital leases......................................	(39,036)	
Net proceeds from the issuance of common stock and related warrants...	3,125,490	4,735,6
Net cash provided by financing activities....................	3,086,454	4,735,6
Net decrease in cash and cash equivalents........................	(10,516,768)	(540,3
Cash and cash equivalents at beginning of period.................	11,059,061	7,654,9
Cash and cash equivalents at end of period.......................	$ 542,293	$ 7,114,6

See accompanying notes to interim condensed financial statements

DATA RACE, Inc.
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
UNAUDITED

1) Summary of Significant Accounting Policies

Description of Business

DATA RACE, Inc. d/b/a IP AXESS (the "Company") provides integrated IP based remote worker solutions over multiple access media. The Company's VocalWare IP client/server product line provides out-of-office employees with simultaneous access to critical corporate resources including phone, fax, Internet, and E-mail over a single connection via: DSL, cable modem, LAN, Frame Relay, ATM or high speed dial up through VPN, local ISP POP, or PSTN. VocalWare's primary markets are telecommuters, who can establish a virtual office presence with just one line, and call centers that use VocalWare to connect part-time workers to customers and corporate databases simultaneously over a single line. The Company, after exiting the network multiplexer business, operates in one business segment.

Basis of Presentation

The unaudited interim financial statements reflect all adjustments (consisting of normal recurring accruals) that in the opinion of management are necessary for a fair presentation of the financial position, results of operations and cash flows for such periods. These financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the June 30, 2000 Annual Report on Form 10-K and the Quarterly Report on Form 10-Q for the quarters ended September 30, 2000 and December 31, 2000. The condensed balance sheet data as of June 30, 2000 included herein has been derived from such audited financial statements. Interim period results are not necessarily indicative of the results to be expected for any future periods or the full year.

Revenue Recognition

Revenue is generally recognized upon direct sale shipment of products to end user customers or when contractual services have been provided to end user customers, the fee and terms are fixed or determinable, and collectibility is reasonably assured. Revenue is generally recognized upon reseller (indirect) sale of products when a reseller agreement exists, the fee and terms are fixed or determinable, and collectibility is reasonably assured. The Company does have a reservation of title on resellers where the products are delivered to reseller's location or reseller's end user location outside the United States. The Company reserves title in the products until either: a) reseller pays in full for the products; or b) reseller sells the product to a third party at which time title passes to the third party. The Company in most reseller agreements has an inventory balancing provision, which generally gives the reseller the opportunity to balance its inventory by returning for credit up to 20% of the value of the products shipped during a quarter. Revenue from service obligations and licensing agreements are deferred and recognized ratably over the period of the obligation or agreement. The Company recognizes revenue and gross profit from

7

evaluation units shipped only upon receipt of payment or upon customer acceptance and reasonably assured collection.

2) Liquidity and Capital Resources

Operating losses have had and continue to have a substantial negative effect on the Company's cash balance. The Company's goal of returning to profitability and developing a more dependable revenue base depends on the success of the VocalWare IP product line. To successfully penetrate its target markets, the Company expects that significant additional resources will need to be expended in order to expand its sales and marketing infrastructure and operation systems, and to finance inventory and receivables.

The Company's ability to sustain operations, make future capital expenditures, and fund the development and marketing of new or enhanced products is highly dependent on existing cash, the ability to raise additional capital, and the ability to successfully develop and sustain strategic relationships. The failure to obtain such financing when needed and to attract a strategic partner would have a substantial adverse effect on the Company.

2) Earnings Per Share

Net loss per share of common stock is presented in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. Under SFAS No. 128, basic earnings/loss per share excludes dilution for potentially dilutive securities and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted loss per share and basic loss per share are the same, as no potential common shares are to be included in the computation when a loss from continuing operations available to common shareholders exists.

3) Inventory

Inventory is valued at the lower of standard cost (approximates first-in, first-out method) or market (net realizable value). Inventory consists of the following:

	March 31, 2001	June 30, 2000
Finished goods	$ 1,578,591	$ 138,014
Work in process	287,673	80,151
Raw materials	1,475,415	31,711
Total inventory	$ 3,341,679	$ 249,876

As of March 31, 2001, finished goods inventory included approximately $388,000 of inventory shipped and billed to third parties not yet recorded as revenue and approximately $186,000 of inventory shipped as evaluation units.

4) March 2001 Private Placement

On March 2, 2001, Data Race, Inc. (the "Company") completed a private placement of 3,047,620 shares of its common stock (the "Common Shares"), and warrants to purchase 304,762 shares of common stock (the "Warrants") to Protius Overseas Limited, Keyway Investments Ltd., and Lionhart Investments Ltd. (the "Investors"), for an aggregate price of $2,000,000. The Warrants are exercisable at a price of $0.9875 per share through March 2, 2006. The Company intends to use the proceeds from the private placement primarily for general corporate purposes.

The Company has agreed to file a registration statement under the Securities Act of 1933, covering the resale of the Common Shares and the shares of common stock issuable upon exercise of the Warrants. The Company will incur certain penalties if the registration statement, which has been filed, is not declared effective by May 31, 2001. These penalties may be paid in cash or, at the Investors' option, in common stock. In addition, if the Company issues additional shares of common stock prior to the effective date of the registration statement, then antidilution provisions contained in the securities purchase agreement may require the Company to issue additional shares of common stock to the Investors so as to prevent dilution of the Investors' investment in the Company.

In connection with the private placement, (i) the Company granted to the Investors a right of first refusal to purchase additional securities issued by the Company (subject to certain exceptions) prior to August 29, 2001 and (ii) agreed to reduce to $0.9875 the exercise price of warrants to purchase an aggregate of 1,265,317 shares of the Company's Common Stock issued in connection with the Company's June 1999 and December 1999 private placements and to extend the term of these warrants for two years to December 10, 2003.

5) Warrants

The following table summarizes the outstanding warrants as of March 31, 2001 and June 30, 2000, respectively.

	March 31, 2001	June 30, 2000	Price	Expiration
March 2001 private placement	304,762	-	$ .98	Mar 2006
June 2000 private placement	471,822	471,822	5.45	Jun 2002
December 1999 private placement	571,429	571,429	.98	Dec 2003
June 1999 private placement	693,888	693,888	.98	Dec 2003
November 1998 private placement	-	956,655	2.25	Nov 2000

Series C Warrants	-	53,977	6.435	Nov 2000
Class A and B second close	-	24,968	0.6625	Jul 2000
Class A and B first close	-	35,400	0.6625	Jul 2000
Total warrants outstanding	2,041,901	2,808,139		

In July 2000, remaining warrants for the class A and B first and second close expired.

In September 2000, the Company issued 210,222 shares of its common stock in conjunction with the exercise of 210,222 warrants from the November 1998 private placement. In a cashless exercise, the Company issued 297,313 shares of its common stock as result of the exercise of 690,333 warrants. The remaining 56,110 warrants balance of the November 1998 private placement expired in November 2000.

In November 2000, the remaining balance of Series C Warrants expired.

In March 2001, the Company issued 304,762 warrants to acquire its common stock in conjunction with its private placement.

Also, in connection with the private placement of common stock and warrants to acquire common stock for proceeds of $2 million in March 2001, the Company agreed to modify the terms of pre-existing warrants to acquire an aggregate of 1,265,317 shares of the Company's common stock. The Company reduced the strike price of these warrants from a weighted-average amount of $3.56 to $0.98 per share, and extended the expiration date of the warrants from December 2001 to December 2003. The change in the fair value of these warrants as a result of the modifications is $687,394, which has been recorded as a cost of the issuance of the common stock and related warrants.

6) Subsequent Events

In May 2001, the Company issued 10% secured convertible promissory notes and common stock purchase warrants for $700,000. The notes are convertible into common stock at $0.30 per share and the company issued 1,166,667 warrants. The warrants are exercisable at a price of $0.30 per share through May 2006.

In April 2001, the Company entered into a nonbinding letter of intent with an investor to invest $8,000,000 in cash and $22,000,000 in prepaid media in exchange for equity at a price of $0.30 per share. The consumation of this transaction is subject to a number of contingencies, including board approval and shareholder approval.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

In March 2000, the Company sold its network multiplexer line to HT Communications. Since the second quarter of 1999, the Company has not bid on additional custom modem business. Therefore, the following discussion is limited to the Company's continuing operations of its VocalWare IP business segment. Discontinued operations are discussed separately below.

In May 2001, the Company reduced its current workforce by approximately 15% in all areas of the Company. As a result, certain engineering and product development, sales and marketing and general and administration expenses will decline in the upcoming quarters.

In the third quarter ended March 31, 2001, the Company had approximately $46,000 in recognizable revenue. As of March 31, 2001, $625,000 in revenue shipments was not recognized on shipped servers and clients, since these transactions do not meet the Company's criteria for revenue recognition. The servers shipped prior to December 2000 have extended terms over normal reseller agreements. As a result, total revenue from continuing operations for the three and nine months ended March 31, 2001 increased 2% and decreased 83 %, respectively, from the comparable periods for prior fiscal year.

Engineering and product development expenses for the three and nine months ended March 31, 2001 increased 77 % and 59%, respectively, from the comparable periods for the prior fiscal year. This increase was primarily due to outside contract engineering expenditures and workforce increases for continued development and enhancements of the VocalWare IP products.

Sales and marketing expenses for the three and nine months ended March 31, 2001 increased 66% and 120%, respectively, from the comparable periods of the prior fiscal year. This increase was primarily due to increased headcount in the sales staff and travel that are necessary to properly market, coordinate, distribute, and service VocalWare IP products.

General and administrative expenses for the three and nine months ended March 31, 2001 increased 115% and 33%, respectively, from the comparable periods of the prior fiscal year. This increase reflects increased staffing that management believes is necessary to support recent organizational growth.

Income tax benefits related to the losses for the three and nine months ended March 31, 2001 were not recognized because the realization of such benefits is not assured. As of March 31, 2001, the Company had Federal tax net operating loss carryforwards of approximately $54,000,000 that expire beginning in 2008. Internal Revenue Code Section 382 limits NOL carryforwards when an ownership change of more than 50% of the value of stock in a loss corporation occurs within a three-year period. Accordingly, the ability to utilize remaining NOL carryforwards may be significantly restricted.

Discontinued Operations

The majority of the Company's revenue in the three and nine months of fiscal 2000 resulted from operations that the Company has now exited. The Company sold its network multiplexer business to HT Communications in March 2000 for $350,000. The Company to date has received approximately $6,000 in principal payments and $4,500 in royalty payments. The Company is in the process of negotiating revised terms on the remaining principal balance owed and has classified the balance owed and the deferred gain as long-term on the balance sheet. Income from discontinued operations in the first three quarters of fiscal 2000 was approximately $218,000. There was no income from discontinued operations for the corresponding nine months ended March 31, 2001 as the Company exited the network multiplexer business and other related business in March 2000.

Liquidity and Capital Resources

Operating losses have had and continue to have a significant negative effect on the Company's cash balance. At March 31, 2001, the Company had approximately $542,000 in cash and cash equivalents.

Historically, the majority of the Company's revenue was derived from shipments of custom modem and network multiplexer products. Revenue from shipments of custom modems has ended as the market has shifted away from custom modem products. The Company sold its network multiplexer products business to HT Communications, Inc in March 2000. The Company has focused all of its resources on the VocalWare IP product line since May 2000.

11

The Company's strategy is to focus its sales efforts on developing an increasing number of larger customers using the VocalWare IP products, to develop a new generation of products that will address the market's need for an easy-to-install software client that can operate over the new broadband communications services, including DSL, cable modems, and IP networks, and to establish one or more strategic partnerships with well-established companies that would enhance the Company's market presence and credibility and provide financial assistance. The ability of the Company to successfully execute its strategy to increase sales is subject to numerous risks and such success cannot be assured. The Company's return to profitability and development of a more dependable revenue base depends on the success of the VocalWare IP product line. The Company does not anticipate a return to profitability as long as its expenditures on the VocalWare IP system remain disproportionate to revenue.

In March 2001, the Company received net proceeds of approximately $2,000,000 from the issuance of common stock and warrants.

On May 11, 2001, the Company issued 10% secured convertible promissory notes and common stock purchase warrants for $700,000. The notes are convertible into common stock at $0.30 per share and the company issued 1,166,667 warrants.

In April 2001, the Company received a nonbinding letter of intent from an investor to invest $8,000,000 in cash and another $22,000,000 in prepaid media in exchange for equity at a price of $0.30 per share. The Company hopes to close this transaction by the end of May 2001, although no assurance can be provided that closing will occur.

The Company's ability to sustain operations, make future capital expenditures, and fund the development and marketing of new or enhanced products is highly dependent on existing cash, the ability to raise additional capital, and the ability to successfully develop and sustain strategic relationships. The failure to obtain such financing when needed and to attract a strategic partner would have a substantial adverse effect on the Company. The timing and amount of the Company's future capital requirements cannot be accurately predicted. The Company believes its current cash balances and commitments for additional financing will be sufficient to meet its anticipated cash needs on a short-term and long-term basis. However, if the Company does not close on its nonbinding letter of intent for $30,000,000 in cash and prepaid media, the company may cease to be viable as an ongoing entity.

In October 2000, the Company entered into a nonbinding agreement to acquire substantially all of the assets of Voiceboard Corporation ("Voiceboard"), a significant component supplier to the Company. In December 2000, the Company terminated its offer to acquire Voiceboard. On January 11, 2001, the Company notified the Escrow Agent that Voiceboard was in default of the OEM Purchase Agreement between the Company and Voiceboard and a condition of release of the escrowed materials had occurred. In March 2001, Voiceboard cured the default under the OEM Purchase Agreement and the Company terminated its condition of release of the escrowed materials.

Disclosure Regarding Forward Looking Statements

Except for the historical information, this report contains various "forward-looking statements" which represent the Company's expectations or beliefs concerning future events, including expectations regarding the rate of use of existing cash and the success of the Company's strategy to increase sales and return to profitability. The Company cautions that these forward-looking statements involve a number of risks and uncertainties and are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Such factors include lack of adequate capital; changing market trends and market needs; uncertainty regarding the breadth of market acceptance of the remote worker products; uncertainty regarding the length of the sales process; uncertainty regarding the supply of components; rapid or unexpected technological changes; new or increased competition from companies with greater resources than the Company; inability to resolve technical issues or overcome other development obstacles and the Company's success in developing new strategic and financial partnerships. Additional factors, which qualify forward-looking statements, are set forth in the Company's other SEC filings, including the Form 10-K for fiscal 2000 and Forms 10-Q for the quarters ended September 30, 2000 and December 31, 2000. The Company's failure to succeed in its efforts, including its development of new strategic and financial partnerships, could have a material adverse effect on the Company's financial condition and operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company does not believe that it is currently exposed to material risks associated with market risk sensitive instruments.

PART II - OTHER INFORMATION

DATA RACE, Inc.

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

On March 2, 2001, the Company completed a private placement of 3,047,620 shares of its common stock (the "Common Shares") and warrants to purchase 304,762 shares of common stock (the "Warrants") to Protius Overseas Limited, Keyway Investments Ltd., and Lionhart Investments Ltd. (the "Investors") for an aggregate price of $2,000,000. The Warrants are exercisable at a price of $0.9875 per share through March 2, 2006. The Company intends to use the proceeds from the private placement primarily for general corporate purposes.

The Company has filed a registration statement under the Securities Act covering the resale of the Common Shares and the shares of common stock issuable upon exercise of the Warrants. The Company will incur certain penalties if the registration statement is not declared effective by May 31, 2001. These penalties may be paid in cash or, at the Investors' option, in common stock. In addition, if the Company issues additional shares of common stock prior to the effective date of the registration statement, then antidilution provisions contained in the securities purchase agreement may require the Company to issue additional shares of common stock to the Investors so as to prevent dilution of the Investors' investment in the Company.

In connection with the private placement, the Company (i) granted to the Investors a right of first refusal to purchase additional securities issued by the Company (subject to certain exceptions including securities issued for a merger, consolidation, acquisition, or under existing stock option plans and outstanding convertible securities) to prevent dilution of the Investors' investment in Company stock prior to August 29, 2001 and (ii) agreed to reduce to $0.9875 the exercise price of warrants to purchase an aggregate of 1,265,317 shares of the Company's Common Stock issued in connection with the Company's June 1999 and December 1999 private placements and to extend the term of these warrants for two years to December 10, 2003.

THE SUMMARY OF THE MARCH PRIVATE PLACEMENT SET FORTH ABOVE IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PURCHASE AGREEMENTS AND THE OTHER DOCUMENTS EXECUTED BY THE COMPANY IN CONNECTION WITH THE PRIVATE PLACEMENT. SUCH DOCUMENTS ARE FILED (OR INCORPORATED BY REFERENCE) AS EXHIBITS TO THIS FORM 10-Q.

The offer and sale by the Company of the securities in the March Private Placement was made in reliance upon Section 4(2) of the Securities Act, the non-public offering exemption from the registration requirements of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit	Description
10.1	Securities Purchase Agreement dated March 2, 2001, by and among DATA RACE, Inc. and Protius Overseas Limited, Keyway Investments Ltd., and Lionhart Investments Ltd., as the Investors. (a)
10.2	Registration Rights Agreement dated March 2, 2001, by and among DATA RACE, Inc. and Protius Overseas Limited, Keyway Investments Ltd., and Lionhart Investments Ltd., as the Investors. (a)
10.3	Warrant Agreement, dated March 2, 2001, issued to Protius Overseas Limited. (a)
10.4	Warrant Agreement, dated March 2, 2001, issued to Keyway Investments Ltd. (a)
10.5	Warrant Agreement, dated March 2, 2001, issued to Lionhart Investments Ltd. (a)

(a) Filed as an exhibit to Form 8-K Current Report filed on March 7, 2001.
(b) Filed herewith

(b) Reports on Form 8-K.

A report on Form 8-K was filed on March 7, 2001 to report the completion of a private placement of common stock and common stock purchase warrants.

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.

DATA RACE, INC.

By: /s/ James G. Scogin

James G. Scogin, Vice President,
Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

Date: May 15, 2001