MOBILEPRO CORP Form SB-2/A February 27, 2006

As filed with the Securities and Exchange Commission on February [__], 2006

Registration No.	
110510110111101	

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM SB-2/A Amendment No. 3 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MOBILEPRO CORP.

(Name of Registrant in Our Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization) 3570

(Primary Standard Industrial Classification Code Number) 87-0419571

(I.R.S. Employer Identification No.)

6701 Democracy Boulevard, Suite 202 Bethesda, MD 20817 (301) 315-9040

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business) Jay O. Wright, Chief Executive Officer Mobilepro Corp. 6701 Democracy Boulevard, Suite 202 Bethesda, MD 20817

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(Name, Address and Telephone Number of Agent for Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

			Proposed	
		Proposed	Maximum	
		Maximum	Aggregate	Amount Of
Title Of Each Class Of	Amount To Be	Offering Price	Offering	Registration
Securities To Be Registered	Registered	Per Share	Price	Fee
Common stock, par value \$0.001	122,415,358 Shares	\$0.262(1)	\$32,072,824(1)	\$3,774.97
per share				

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933. For purposes of this table, we have used the closing price of our common stock on September 27, 2005.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Subject to completion, dated February ___, 2006

MOBILEPRO CORP.

122,415,358 Shares of Common Stock

All of the **122,415,358** shares of our common stock and common stock issuable upon exercise of certain warrants and conversion of certain convertible debentures held by the selling stockholders are being sold by the selling stockholders named on page 12 of this Prospectus and summarized below. The selling stockholders may sell the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. The selling stockholders may sell the common stock at any time at market prices prevailing at the time of sale or at privately negotiated prices. We will not receive any proceeds from the sale of shares offered by the selling stockholders. Our common stock is quoted on the OTC Bulletin Board under the symbol "MOBL." On February 15, 2006, the last reported sale price of our common stock on the OTC Bulletin Board was \$0.30 per share.

These securities are speculative and involve a high degree of risk.

Please refer to "Risk Factors" beginning on page

The date of this Prospectus is February ____, 2006.

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Our consolidated financial statements for the fiscal year ended March 31, 2005 were contained in our Annual Report on Form 10-KSB and our condensed consolidated financial statements for the fiscal quarter ended December 31, 2005 were contained in our Quarterly Report on Form 10-QSB that were filed with the Securities and Exchange Commission on June 28, 2005 and February 14, 2006, respectively.

SUMMARY OF THE COMPANY

We are a broadband wireless, telecommunications, and integrated data communication services company. We deliver a comprehensive suite of voice and data communications services, including local exchange, long distance, enhanced data, Internet, wireless and broadband services to our end-user customers. We are focused on growing our current customer bases, deploying wireless networks, acquiring and growing profitable telecommunications and broadband companies, and forging strategic alliances with well positioned companies with complementary product lines and in complementary industries.

We market and sell our integrated communications services through 11 branch offices in eight states and we service over 155,000 billed accounts representing over 278,000 equivalent subscriber lines including approximately 145,000 local and long-distance telephone lines, 105,000 dial-up lines, 5,000 broadband lines, and over 23,000 wireless customers. We own and operate approximately 36,000 payphones predominantly located in 42 states and the District of Columbia.

The adoption of initiatives by cities to create areas within city limits where residents, visitors, students and businesses can obtain wireless access to the Internet has created a surging market. We are concentrating efforts on the deployment, management and ownership of such municipally sponsored wireless access zones. In the current fiscal year, we have been selected by six municipalities for such projects. The deployment of our first network is scheduled for completion in February 2006. To date, no material revenues have been provided from this business.

Our revenues are generated through three of our four business reporting segments that are described as follows:

Wireless Networks

Our broadband wireless network deployment efforts are being conducted by our wholly-owned subsidiary, NeoReach, Inc., ("NeoReach"), and its subsidiary, NeoReach Wireless, Inc. ("NeoReach Wireless"). This segment also includes the operations of Kite Broadband LLC, ("Kite"), a wireless broadband Internet service provider located in Ridgeland, Mississippi.

Voice Services

Our voice services segment is led by CloseCall America, Inc. ("CloseCall"), a Competitive Local Exchange Carrier ("CLEC", which is a term applied under the Telecommunications Act of 1996 to new local telephone companies intended to compete with the incumbent local telephone companies) based in Stevensville, Maryland; American Fiber Network, Inc. ("AFN"), a CLEC based in Kansas City, Kansas; and Davel Communications, Inc. ("Davel"), an independent payphone provider based in Cleveland, Ohio. CloseCall offers our customers a full array of telecommunications products and services including local, long-distance, 1.800CloseCall anytime/anywhere calling, digital wireless, high-speed telephone (voice over IP), and dial-up and DSL Internet services. AFN is licensed to provide local telephone, long distance and/or Internet services throughout the United States. Davel is one of the largest independent payphone operators in the United States, providing approximately 57% of the revenues of the voice services segment in the nine months ended December 31, 2005.

Internet Services

Our internet services segment is led by DFW Internet Services, Inc. ("DFW", doing business as Nationwide Internet), an Internet services provider ("ISP") based in Irving, Texas, its acquired Internet service provider subsidiaries and InReach Internet, L.L.C, ("InReach"), a full service ISP located in Stockton, California that we acquired on November 1, 2005. Our Internet services segment provides dial-up and broadband Internet access, web-hosting services and related Internet services to business and residential customers in over 40 states. Over 80% of our ISP customers subscribe to our dial-up service.

Corporate

Our corporate reporting segment serves as the holding company of the operating subsidiaries that are divided among the other three business reporting segments, provides senior executive and financial management, and performs corporate-level accounting, financial reporting and legal functions. Occasionally, its employees may provide services to customers resulting in the recognition of consulting service revenues.

Revenues for the reportable business segments for the fiscal year ended March 31, 2005 and the nine months ended December 31, 2005 were as follows:

	Fiscal Year March 31,	2005	Nine Months Ended December 31, 2005		
Business Segment	\$s	% of Revenues	\$ s	% of Revenues	
Ü			·		
Voice	\$ 32,009,084	68.8%\$	56,301,164	74.8%	
Internet Services	13,884,060	29.9	12,395,635	16.5	
Wireless Networks	_	_	6,600,302	8.7	
Corporate	615,000	1.3	_	_	
Total Revenues	\$ 46,508,144	100.0%\$	75,297,101	100.0%	

Prior to January 2004, we were a development stage company. Although we were incorporated only five years ago, we have undergone a number of changes in our business strategy and organization. In June 2001, we focused our business on the integration and marketing of complete mobile information solutions to meet the needs of mobile professionals. In April 2002, we acquired NeoReach and shifted our focus toward solutions supporting the third generation wireless market that provides broadband to allow faster wireless transmission of data, such as the viewing of streaming video in real time. We shifted our business strategy again in December 2003 with a new management team, expanding significantly the scope of our business activity to include Internet access services, local and long distance telephone services and the ownership and operation of payphones. In 2005, we began to invest in the business of deploying broadband wireless networks and providing wireless network access services in wireless access zones to be primarily located in municipality-sponsored areas. We entered these businesses primarily through acquisitions. We have completed 19 acquisitions within the last 24 months. Accordingly, our experience in operating our current businesses is limited. Our Company has lost money historically. In the years ended March 31, 2005 and 2004, we incurred net losses of \$5,359,722 and \$2,157,844, respectively. For the nine-month period ended December 31, 2005, we incurred a net loss of \$6,012,640, including charges for goodwill impairment and restructuring costs amounting to \$3,764,429 and \$1,335,612, respectively. At December 31, 2005, we had an accumulated deficit of \$27,209,190.

Mobilepro Corp ("Mobilepro") was incorporated under the laws of Delaware in July 2000. Our principal executive offices are located at 6701 Democracy Boulevard, Suite 202, Bethesda, MD 20817 and our telephone number at that

address is (301) 315-9040. We maintain a corporate web site at www.mobileprocorp.com. We make available free of charge through our web site our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC. The contents of our web site are not a part of this report. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding Mobilepro.

THE OFFERING

This offering relates to the sale of common stock by certain persons who are our stockholders. The selling stockholders consist of:

- •The holder of 10,000,000 shares of common stock that were issued to the former owner in connection with our acquisition of AFN.
- •The holder of 2,200,000 shares of our common stock that were issued to the former owner in connection with our acquisition of Clover Computer Corporation.
- ·Certain holders of 1,846,733 shares of our common stock that were issued to the former stockholders upon the conversion of convertible promissory notes obtained in connection with the acquisition of The River Internet Access Co.
- •Cornell Capital Partners, L.P. that owns 4,995,000 shares of our common stock acquired in connection with the negotiation of the \$100 million Standby Equity Distribution Agreement, and that holds a debenture that is convertible into 50,000,000 shares of our common stock and a warrant to purchase up to 6,000,000 shares of our common stock.
- ·Certain holders of warrants to purchase collectively up to 5,600,000 shares of our common stock that were issued in connection with the bridge financing of our acquisition of Davel.
- ·Certain holders of warrants to purchase collectively up to 5,000,000 shares of our common stock that were issued to the former owners in connection with our acquisition of Davel.
- ·Certain holders of warrants to purchase collectively up to 3,223,625 shares of our common stock that were issued to the former owners in connection with our acquisition of CloseCall.
- •The holder of a warrant to purchase up to 600,000 shares of our common stock that were issued to a former owner in connection with our acquisition of Evergreen Open Broadband Corporation.
- ·Certain holders of warrants and options to purchase an aggregate of 32,950,000 shares of our common stock that were issued to current and former employees, consultants, advisors and directors.

A more detailed description of each selling security holder is provided on page 12 of this Prospectus. We are contractually obligated to register the shares held by certain of the selling security holders pursuant to registration rights granted in connection with certain financings and acquisitions.

After this registration statement is declared effective by the Securities and Exchange Commission, the selling stockholders may sell in the public market up to all of the shares of common stock being registered in this offering, subject to the provisions of "lock-up" agreements executed by Messrs. Wright and Gordon which prohibit the sale or disposition of more than one million (1,000,000) shares of the Company's common stock during any calendar quarter during their respective employment periods and, with respect to Mr. Wright, an agreement by him not to sell any shares prior to April 2006.

Brokers or dealers effecting transactions in the shares being registered in this offering should confirm that the shares are registered under applicable state law or that an exemption from registration is available.

Common Stock

Offered

122,415,358 shares of our common stock by selling stockholders (the number of shares being registered in this offering will represent approximately 22.86% of the total number of

shares of common stock outstanding upon their issuance).

Offering Price

Market price.

Common Stock Outstanding Before

the Offering

537,161,236 shares.

Use of Proceeds

We will not receive any proceeds of the shares offered by the selling stockholders.

Risk Factors

The securities offered hereby involve a high degree of risk and immediate substantial

dilution. See "Risk Factors".

Over-the-Counter Bulletin Board

Symbol

MOBL

SUMMARY FINANCIAL INFORMATION

The following information as of March 31, 2004 and 2005 and for the fiscal years then ended was taken from the audited financial statements appearing elsewhere in this filing. The following information as of December 31, 2005 and for the nine-month periods ended December 31, 2004 and 2005 was taken from the unaudited financial statements appearing elsewhere in this filing. This information should be read in conjunction with such financial statements and the notes thereto.

Statement of Operations Data:	Ye	For the ar Ended ch 31, 2004		For the Year Ended Iarch 31, 2005	N	For the Nine Months Ended December 31, 2004	M	For the Nine conths Ended becember 31, 2005
Revenues	\$	311,355	\$	46,508,144	\$	23,265,366	\$	75,297,101
Revenues	Ψ	311,333	Ψ	40,500,144	Ψ	23,203,300	Ψ	75,277,101
Operating Costs and Expenses		2,094,507		50,029,303		27,493,176		78,903,939
Operating Loss		(1,783,152)		(3,521,159)		(4,227,816)		(3,606,838)
Other Income (Expenses)		(374,692)		(1,838,563)		(1,232,280)		(2,213,295)
Minority Interests		_	_	_	_	_	_	(192,507)
Net Loss Applicable to Common Shares	\$	(2,157,844)	\$	(5,359,722)	\$	(5,460,090)	\$	(6,012,640)
Net Loss Per Share								
Basic	\$	(0.0193)	\$	(0.0185)	\$	(0.0202)	\$	(0.0154)
Diluted	\$	(0.0193)	\$	(0.0185)	\$	(0.0202)	\$	(0.0154)
Balance Sheet Data:				March 31, 2004		March 31, 2005	D	ecember 31, 2005
Assets								
Cash and Cash Equivalents		\$		1,955,607	\$	4,669,787	\$	4,960,703
Total Current Assets		\$		2,106,143	\$	20,269,751	\$	20,415,289
Total Non-Current Assets				1,252,030		52,553,180		62,971,598
Total Assets		\$		3,358,173	\$	72,822,931	\$	83,386,887
Liabilities								
Total Current Liabilities		\$		2,511,654	\$	48,869,082	\$	31,686,396
Total Long-Term Liabilities				560,200		999,196		11,698,207

Total Liabilities	3,071,854	49,868,278	43,384,603
Minority Interests	_	600,000	3,799,605
Total Stockholders' Equity	286,319	22,354,653	36,202,679
Total Liabilities and Stockholders' Equity	\$ 3,358,173 \$	72,822,931 \$	83,386,887
3			

RISK FACTORS

Investing in our securities involves a high degree of risk. Before investing in our securities, you should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition or future operating results could be materially harmed. In that case, the trading price of our common stock could decline and you could lose part or all of your investment.

RISKS RELATED TO OUR BUSINESS

We Have Lost Money Historically Which Means That We May Not Be Able to Maintain Profitability

We have historically lost money. For the nine months ended December 31, 2005, we incurred a net loss of \$6,012,640. In the years ended March 31, 2005 and 2004, we sustained net losses of \$5,359,722 and \$2,157,844, respectively. Future losses may occur. Accordingly, we may experience liquidity and cash flow problems if we are not able to improve our operating performance or raise additional capital as needed and on acceptable terms. Despite our reporting net income in the three consecutive quarters ended September 30, 2005, no assurances can be given that we will achieve profitable operations again, or maintain them if achieved.

Our Operations Are Recently Acquired Which Means That We Have a Limited Operating History upon Which You Can Base Your Investment Decision

Prior to January 2004, we were a development stage company. Although we were incorporated only five years ago, we have undergone a number of changes in our business strategy and organization.

We have had several major shifts in our business strategy. In June 2001, we focused our business on the integration and marketing of complete mobile information solutions that satisfy the needs of mobile professionals. In April 2002, we acquired NeoReach, Inc. and shifted our focus toward solutions supporting the third generation wireless market. We shifted our business strategy again in December 2003 by beginning to expand significantly the scope of our business activity to include Internet access services, local and long distance telephone services and the ownership and operation of payphones. In 2005, we began to invest in the business of deploying wireless broadband networks and providing wireless network access services in wireless access zones to be primarily located in municipality-sponsored areas. We entered these businesses primarily through the acquisition of established companies. These operations have all been acquired subsequent to January 1, 2004.

Accordingly, the Company has a limited operating history upon which an evaluation of its prospects can be made.

Our strategy is unproven and the revenue and income potential from our strategy is unproven. We may encounter risks and difficulties frequently encountered by companies that have grown rapidly through acquisition, including the risks described elsewhere in this section. Our business strategy may not be successful and we may not be able to successfully address these risks.

If we are unsuccessful in the execution of our current strategic plan, we could be forced to reduce or cease our operations.

We Have Limited Experience Running Our Businesses Which May Hamper Our Ability to Make Effective Management Decisions

Virtually all of our operations have been acquired or started in the last 24 months. Therefore, our experience in operating the current business is limited. Further, we intend to pursue additional acquisitions to further the

development of our Internet services business, competitive local exchange and wireless broadband businesses.

Mr. Jay O. Wright became our President and Chief Executive Officer in December 2003. In February 2004, Mr. Kurt Gordon became our Chief Financial Officer. Prior to Mr. Gordon joining the Company, Messrs. Wright and Gordon had no experience working together. Since Mr. Wright joined our Company we have completed numerous acquisitions and integrated various different management teams into our operations. Prior to closing those acquisitions, Messrs. Gordon and Wright had not previously worked with management at any of our subsidiaries and divisions. The other senior executives, including the general managers of each of the three operating business segments, have joined the Company in connection with acquisitions or been recently hired. None of these executives has significant experience working with the others. Consequently, internal communication and business-decision making processes are evolving. We may react too slowly or incorrectly to trends that may emerge and affect our business. Our future success depends on the ability of the senior executives to establish an effective organizational structure and to make effective management decisions despite their limited experience.

The Success of Our Business Is Based on Unproven Revenue Generation Models Which Means That We May Not Achieve Anticipated Revenues

Our revenue models, especially for our municipal wireless network business, are new and evolving. Our ability to generate revenue depends, among other things, on our ability to provide quality wireless technology, telecommunications, broadband and integrated data communication services to our customers utilizing new technologies, new products and innovative bundled service packages. Because our businesses are either newly acquired, based on emerging opportunities and technologies, or based on new bundled services with new price packages, we have limited experience with our revenue models.

Our ability to achieve organic revenue growth is dependent upon the success of long-term projects, such as our wireless initiatives, that require us to incur significant up-front costs. We expect to confront multiple challenges in reaching the point where significant revenues are provided by this business. For example, the securing of a city contract is a multi-step process that can take over six months to complete, including a pilot demonstration, the RFP preparation, response and evaluation, contract negotiation, development of the deployment plan, and equipment installation and testing. Although we attempt to minimize development risks by carefully analyzing demographics, topography, climate and other factors, each project includes the utilization of newly developed transmission equipment. For example, operating costs incurred by NeoReach Wireless in the current year approximate \$1,392,000 and we expect that the cost of the equipment required for the completion of the Tempe network will approximate \$2.2 million. Further, in order to generate revenues from these projects, we will be required to successfully complete marketing efforts to obtain individual subscribers willing to pay us for wireless Internet service and negotiate contracts with large Internet service providers allowing them use of the network.

In addition, during the current fiscal year, the activities of the Internet services operation have focused on the integration of the acquired companies. The efforts are focused on combining service offerings, consolidating network operations and customer support locations, and reducing operating expenses. The success of our overall growth strategy depends, in part, on our ability to transition customers to new Internet access services, especially broadband wireless, and/or to sell additional voice services to the existing customer base. However, at present, dial-up subscribers represent a significant number of our Internet service customers. The erosion of this customer base is likely to continue until our new efforts to transition these customers to enhanced services become more effective.

There can be no assurance that the projects will be successfully completed or that the completed projects will provide the anticipated revenues. Accordingly, there can be no assurance that our business revenue models will be successful or that we can sustain revenue growth or maintain profitability.

If We Are Not Able to Compete Effectively in Our Markets That Are Highly Competitive, We May Be Forced to Reduce or Cease Operations

We believe that our ability to compete successfully in our markets depends on a number of factors, including market presence; the adequacy of our member and technical support services; the capacity, reliability and security of our network infrastructures; the ease of access to and navigation of the Internet provided by our services; our pricing policies and those of our competitors and suppliers; the timing of introductions of new services by us and our competitors; our ability to support existing and emerging industry standards; and general industry and economic trends. Other specific factors that could impact our ability to compete successfully include the following items, among others:

•	our success in withstanding the continued shift from dial-up ISP service to broadband ISP service;
•	the performance of our products, services and technology in a manner that meets customer expectations;
•	the success of our efforts to develop effective channels of distribution for our products;
•	our ability to price our products that are of a quality and at a price point that is competitive with similar or comparable products offered by our competitors;
•	the success of our efforts to develop, improve and satisfactorily address any issues relating to our technology;
•	our ability to effectively compete with companies that have substantially greater market presence and financial, technical, marketing and other resources than us including (i) local ISPs, (ii) national and regional ISPs, (iii) established online services; (iv) nonprofit or educational ISPs; (v) national telecommunications companies; (vi) Regional Bell Operating Companies ("RBOCs"); (vii) competitive local exchange carriers; and (viii) cable operators;
•	our ability to adapt to the consolidation of existing ISPs with or into larger entities, or entry of new entities into the Internet services market, would likely result in greater competition for the Company;
•	our ability to collect dial around compensation owed to our pay telephone business from third party payors; and
•	the continued erosion of coin revenues in our pay telephone business resulting from the penetration of wireless technologies and prepaid calling cards.

There can be no assurance that the Company will have the financial resources, technical expertise or marketing and support capabilities to compete successfully. Failure to do so could harm our business and operating results in a material way and could cause us to reduce or cease operations.

Recent Industry Trends Could Adversely Affect Our Ability to Compete in the Wireless Communications Industry and Significantly Reduce the Likelihood of Our Success

The wireless communications industry has experienced consolidation of participants, and this trend may continue. If wireless carriers consolidate with companies that utilize technologies that are similar to or compete with our wireless technology, our proportionate share of the emerging market for wireless technologies may be reduced or eliminated. This reduction or elimination of our market share could reduce our ability to obtain profitable operations and could even cause us to reduce or cease operations.

In addition, the increasing number of municipally sponsored wireless network opportunities is attracting the interest of very large competitors. For example, competitors for the Philadelphia network included Verizon, Comcast and Earthlink. According to a published report, the city of San Francisco received plans from 26 companies in response to a request for proposals, including Cingular Wireless, Earthlink and Google.

The activity of these competitors, with resources far greater than ours, could adversely affect our ability to obtain additional awards for the deployment and management of wireless networks and significantly reduce the likelihood of success for our emerging wireless network and other businesses.

Our Payphone Division is Subject to Intense Competition That May Result in Future Revenue Declines

Through our Davel subsidiary, we compete with other independent pay telephone providers and large local exchange carriers for the locations where we install and operate pay telephones. Many of these competitors have substantially greater financial, marketing and other resources than us.

Additionally, Davel indirectly competes with other telecommunications providers, including providers of wireless services and prepaid calling card companies, for end users to utilize our pay telephones to make local and long distance calls. The proliferation of wireless communication devices has continued to reduce the use of pay telephones. For example, the cellular telephone business of CloseCall represents indirect competition for Davel. Furthermore, certain providers of wireless communication devices have continued to introduce rate plans, including pre-paid rate plans, that are competitively priced with certain of the products offered by us and have negatively impacted the usage of pay telephones throughout the nation. The effect on our business is that revenues of Davel are steadily declining. Davel's revenues were \$32,283,029 for the nine months ended December 31, 2005 compared with \$44,007,674 (including the pre-acquisition portion) for the corresponding period of the prior year.

If we are unsuccessful in increasing revenues from other sources, the declining payphone business may contribute to declines in consolidated revenues and the incurring of operating losses.

Davel's Reliance on Third Party Providers Could Delay the Timely Receipt of Accounts Receivable

Davel relies on third party providers to provide local access, long distance and operator services to its pay telephones. The uncertainty with the greatest potential negative financial impact relates to revenue from and collectibility of access code calls and toll-free dialed calls, or dial around compensation (i.e., intercarrier compensation paid to us by the providers of 800 numbers at the rate of 49.4 cents per call). In current quarters, Davel initially recognizes revenue related to non-coin dial-around calls that are initiated from a Company payphone in order to gain access to a long distance company or to make a standard toll free call based on estimates. The inter-exchange carriers have historically paid for fewer dial-around calls than are actually made and the collection period for dial-around revenue is generally four to six months, but can be in excess of a year. The estimates of revenue are based on the historical analysis of calls placed and amounts collected. These analyses are updated on a quarterly basis. Recorded amounts of revenue relating to prior periods may be adjusted based on the amounts of actual receipts and/or an unexpected change in the historical trends of calls and/or collections.

Dial around compensation represents a material percentage of our consolidated revenues. Dial around revenue was approximately \$8,082,691 in the current year, representing approximately 10.7% of consolidated revenues. The amount of dial-around revenue estimated to be collectible and included in the balance of accounts receivable at December 31, 2005 was \$5,453,041. We depend on the third-party service providers to quickly and accurately report and pay amounts owed to us as dial around compensation. Our inability to obtain such reports and/or our inability to collect amounts owed to us could result in material reductions in accounts receivable with material adverse effects to future consolidated revenues and net income.

If We Are Unable to Raise Additional Capital, We May Be Unable to Make Acquisitions or to Fund Our Future Operations

We have relied almost entirely on external financing to fund our operations and acquisitions to date. We have been particularly reliant on funds provided by Cornell Capital Partners, LP ("Cornell Capital"). Such financing has historically come from a combination of borrowings and sale of common stock. As of February 3, 2006, we have drawn a total of \$34,423,129 in funds under the \$100 million Standby Equity Distribution Agreement (the "SEDA"). Draws in the amount of \$27,823,129 have been converted to common stock. To date, the conversion of draws and related interest has resulted in the issuance of approximately 135,547,132 shares of our common stock to Cornell

Capital. We registered 250,000,000 shares of our common stock for resale by Cornell Capital in May 2004. Based on the closing price of our common stock on February 3, 2006 (\$0.230 per share), approximately 30,060,987 shares of our common stock would be issued in connection with the conversion of outstanding draws and accrued interest, and approximately \$4,391,881 shares would be available for the conversion of future draws, representing approximately \$19,410,133 in remaining funds available under the SEDA. At December 31, 2005, we believe that Cornell Capital owned approximately 1.2% of our outstanding common stock. Future funding from Cornell Capital under the SEDA may be unavailable if Cornell Capital holds more than 9.9% of our outstanding common stock at the time financing is needed. Assuming that Cornell Capital does not dispose of its currently owned common stock, the conversion of the currently outstanding draws and accrued interest would result in ownership greater than 9.9%, making future draws unavailable. In addition, the term of the current SEDA expires in May 2006.

Over the next two years we anticipate that, in addition to the funds available to us under the SEDA with Cornell Capital, we may need to raise additional or alternative capital to fund major acquisitions and to grow our emerging businesses. We anticipate that these additional funds will be in the range of \$10 million to \$50 million, depending on the pace of growth and/or the size of future acquisitions.

If our ability to draw funds under the SEDA in the future is limited, our efforts to negotiate an extension to the SEDA on acceptable terms are unsuccessful, or we are unable to obtain capital from alternative sources when needed on favorable terms, we may be unable to adequately fund our future operations and continuing expansion; to successfully promote our brand name, products and services; to develop or enhance our service offerings; to take advantage of business opportunities; or to respond to competitive market pressures. Any resulting reduction in our operations may result in a lower stock price. In addition, the issuance of any additional shares will reduce the percentage ownership of a stockholder with a fixed number of shares of our common stock.

We May Not Successfully Execute or Integrate Our Acquisitions Which Could Harm Our Business

Our business model is dependent upon growth through acquisition of other telecommunication service providers. We have completed 19 acquisitions during the 24 month period ended December 31, 2005. We expect to continue making acquisitions that will enable us to build our Internet services, competitive local exchange carrier and wireless broadband businesses. Acquisitions involve numerous risks, including the following:

- Difficulties in integrating the operations, technologies, products and personnel of the acquired companies;
- Diversion of management's attention from normal daily operations of the business;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- Initial dependence on unfamiliar partners;
- Insufficient revenues to offset increased expenses associated with acquisitions; and
- The potential loss of key employees of the acquired companies.

Acquisitions may also cause us to:

- Issue common stock that would dilute our current stockholders' percentage ownership (22,521,272 of the shares of our common stock that are being registered herein were acquired by selling stockholders in connection with acquisitions by us);
- Assume liabilities;
- Record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- Incur amortization expenses related to certain intangible assets;
- Incur large and immediate write-offs, and restructuring and other related expenses; or
- Become subject to litigation.

Mergers and acquisitions are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. In order to achieve the critical mass of business activity necessary to successfully execute our business plan, we plan to continue making strategic acquisitions and significantly increase the number of strategic partners and customers that use our technology and services. This growth has placed, and will continue to place, significant strain on our personnel, systems and resources. We expect that we will continue to hire employees, including technical, management-level employees, and sales staff, in the foreseeable future. This growth will require us to improve management, technical, information and accounting systems, controls and procedures. We may not be able to maintain the quality of our operations, control our costs, continue complying with all applicable regulations and expand our internal management, technical information and accounting systems in order to support our desired growth. We cannot be sure that we will manage our growth effectively, and our failure to do so could cause us to reduce or cease operations.

Many of the companies that we have acquired have been very small and/or privately held. Consequently, we have made acquisition decisions based on historical information that has not been audited. Generally, we structure our merger agreements to give us the right to make subsequent adjustments to the purchase consideration based on the subsequent discovery of inaccuracies. However, the process requires that senior management spend significant amounts of time resolving disputes with former owners of the acquired companies. In addition, we have been confronted with the challenges of managing many remotely located operations and combining different systems. Although we have been successful in retaining key managers and other employees of our major acquired companies, the lack of employee retention at certain smaller acquired companies has adversely affected the integration of operations and the retention of customers.

Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way.

We May Not Be Successful in Obtaining and Retaining Key Employees Which Could Adversely Affect Our Ability to Operate, Grow and Manage Our Businesses

Over the last twelve month period, we have been successful in making important additions to our management, including not only members of the management teams of certain acquired companies but new hires as well. For example, our executive management team has been expanded to include senior executive officers for each of our three operating business segments, an executive vice president focused on the integration of our acquired operations, and a general counsel. In addition, employment contract extensions were negotiated with our chief executive and other officers. Our future success depends in a large part upon the continued service of key members of our senior management team. In particular, our chief executive officer, Mr. Jay O. Wright, is critical to the overall management of our Company as well as the development and implementation of our business strategy. Although we have designed employment agreements with Mr. Wright and other key executives that we believe provide incentives to perform at high levels and to fulfill the terms of their agreements with us, each executive, or any other employee, may terminate their employment with us at any time. Our future success also depends on our ability to identify, attract, hire, retain and motivate other well-qualified managerial, technical, sales and marketing personnel. There can be no assurance that these professionals will be available in the market or retained, or that we will be able to meet or to continue to meet their compensation requirements. Failure to establish and maintain an effective management team and work force could adversely affect our ability to operate, to grow and to manage our businesses.

Impairment of Goodwill Could Result in Significant Future Charges That Could Jeopardize Our Ability to Raise Capital

At December 31, 2005, our balance sheet included intangible assets with a total carrying value of approximately \$46,404,000, representing 55.6% of total assets and including approximately \$37,311,000 in goodwill. Substantially, this goodwill has been recorded in connection with the series of acquisitions completed by us since January 1, 2004. GAAP requires that we assess the fair values of acquired entities at least annually in order to identify any impairment in the values. We perform our annual impairment tests for goodwill at fiscal year-end. However, on a quarterly basis, we are alert for events or circumstances that would more likely than not reduce the fair value of a reporting segment below its carrying amount. If we determine that the fair value of an acquired entity is less than the net assets of the entity, including goodwill, an impairment loss would be identified and recorded at that time.

During the three months ended December 31, 2005, both the Internet and voice services segments incurred operating losses that were not expected. As a result, management reviewed the carrying values of the assets of these segments and determined that an adjustment for goodwill impairment was appropriate at December 31, 2005. The Company recorded an impairment charge in the amount of \$3,764,429, including \$1,945,519 related to the Internet service companies and \$1,818,910 related to Affinity Telecom ("Affinity"), a CLEC business located in the State of Michigan that was acquired in August 2004. The negative customer churn of dial-up Internet access customers has exceeded

management's expectations, contributing to the net loss incurred by this segment during the most recent quarter. The Company has experienced a significant and steady loss of Affinity customers, and Affinity has incurred bad debt losses at a greater rate than in our other CLEC companies. The impairment charge represented approximately 12.8% and 73.0% of the goodwill related to the Internet service companies (excluding InReach) and Affinity, respectively.

Future assessments of the acquisition fair values could identify material impairment losses resulting in substantial write-offs of goodwill. Such adjustments could have material adverse effects on our results of operations and our financial position, and could impede our continuing ability to raise capital and/or to make acquisitions.

We May Not Be Able to Effectively Protect Our Intellectual Property Rights Which Could Harm Our Business by Making it Easier for Our Competitors to Duplicate Our Services

We regard certain aspects of our products, processes, services and technology as proprietary. We have taken steps to protect them with patents, copyrights, trademarks, restrictions on disclosure and other methods. Despite these precautions, we cannot be certain that third parties will not infringe or misappropriate our proprietary rights or that third parties will not independently develop similar products, services and technology. Any infringement, misappropriation or independent development could seriously harm our business.

We have filed patent applications with respect to our ZigBee wireless technology and for certain aspects of our chips, but these may not be issued to us, and if issued, may not protect our intellectual property from competition which could seek to design around or invalidate these patents. Our failure to adequately protect our proprietary rights in our products, services and technology could harm our business by making it easier for our competitors to duplicate our services.

We own several Internet domain names including, among others, www.mobileprocorp.com, www.nationwide.net www.closecall.com , www.wazmetro.com , www.tommywireless.com, www.neoreach.com and www.neoreachwireless.com. The regulation of domain names in the United States and in foreign countries may change. Regulatory bodies could establish additional top-level domains or modify the requirements for holding domain names, any or all of which may dilute the strength of our names. We may not acquire or maintain our domain names or additional common names in all of the countries in which our marketplace may be accessed, or for any or all of the top-level domains that may be introduced. The relationship between regulations governing domain names and laws protecting proprietary rights is unclear. Therefore, we may not be able to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights.

We may have to resort to litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others, or defend ourselves from claims of infringement, invalidity or unenforceability. Litigation may be expensive and divert resources even if we win. This could adversely affect our business, financial condition and operating results such that it could cause us to reduce or cease operations.

If We Are Unable to Successfully Acquire the Necessary Equipment, the Deployment and Management of Our Wireless Networks Could Be Delayed

The successful deployment and management of a broadband wireless network, like the Tempe network, depends on our ability to obtain the necessary technical equipment and to acquire such equipment when needed at prices and on terms acceptable to us. Required equipment includes antennas, transmitters and network routers. For the Tempe network, we have been able to successfully obtain such equipment. We currently expect that capital expenditures for the Tempe network will approximate \$2,200,000; as of December 31, 2005, we had incurred such costs of approximately \$839,000. However, there can be no assurance that our purchasing efforts will continue to be successful. If we are unable to acquire the remainder of the equipment necessary for the successful completion of the Tempe wireless network when needed, or are unable to purchase equipment for future networks, all at prices and on terms acceptable to us, the deployment, ownership and management of broadband wireless networks could be delayed.

We May Not Be Able to Keep Up with Rapid Technological Changes Which Could Render Our Services Obsolete

Our industry is characterized by rapid technological change, changes in customer requirements and preferences, frequent introduction of products and services embodying new technologies and the emergence of new industry standards and practices that could render our existing services obsolete. Our future success will depend on our ability to enhance and improve the responsiveness, functionality, accessibility and features of our services including providing broadband for existing dial-up ISP customers. We expect that our marketplace will require extensive technological upgrades and enhancements to accommodate many of the new products and services that we anticipate will be added to our marketplace. We cannot assure you that we will be able to expand and upgrade our services, or successfully introduce new services or features that we develop in the future. Failure to keep pace with technology gains or to satisfy the desire of customers to utilize such new technology, could render our services obsolete resulting in future reductions in revenues.

Disruptions to the Growth and Maintenance of the Internet Infrastructure Could Harm Our Internet Services Business

Our future success will depend on the continued growth and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet services. Internet infrastructure may be unable to support the demands placed on it if the number of Internet users continues to increase or if existing or future Internet users access the Internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the Internet. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. To date, we have not experienced significant disruptions to our business as the result of such problems. However, these outages and delays, if they were to occur, could reduce the level of Internet usage as well as our ability to provide our solutions. If the growth, maintenance or growth of the Internet infrastructure is disrupted in any of these ways, our revenues, especially the revenues of our Internet services segment, could be adversely affected resulting in harm to our business.

The Unavailability of Telecommunication Lines Could Threaten Our Business

Our ability to deliver good quality services at competitive prices depends on our ability to obtain access to T-l and dial-up lines pursuant to pricing and other terms that are acceptable to us. Access to these lines necessary for providing services to a significant portion of our subscribers is obtained from incumbent local exchange carriers like Verizon, SBC and Bell South. In 2005, we have been successful in reaching certain important agreements with each of these carriers providing us with opportunities to expand services and the geographic coverage of such services and predictable prices, avoiding any interruption in service to our customers. In the event that any of the carriers would be unable or unwilling to provide service to us, even if legally required to do so, our ability to service existing customers or add new customers could be adversely impaired in a material manner.

The Federal and State Regulations Under Which Our Payphone Business Operates Could Change, Resulting in Harm to This Business

The enactment of the Telecommunications Act of 1996 significantly altered the regulatory landscape in which payphone companies operate. Although the Telecommunications Act of 1996, as implemented by the FCC, addressed certain historical inequities in the payphone marketplace, uncertainties relating to the impact and timing of the implementation of this framework still exist.

The uncertainty with the greatest potential financial impact relates to revenue from and collectibility of access code calls and toll-free dialed calls, or dial around compensation. Dial around compensation accounts for a material percentage of our revenues.

Historically, many parties legally obligated by the FCC to pay dial around compensation have nevertheless failed to do so. We believe that such failures exist today. While we believe that we would have the right to sue in order to collect amounts owed, such efforts may consume management time and attention and our cash, and there can be no assurance that such efforts would result in the collection of any additional amounts. Consequently, such illegal nonpayment activities may adversely affect our cash flows, receivable collectibility, and future business profitability.

In addition, the December 2004 decision by the Federal Communications Commission to abolish "UNE-P" rules and rates will likely increase local line rates for us. The March 2004 United States Court of Appeals, D.C. Circuit decision to vacate the Federal Communications Commission Unbundled Network Element rules will have an unknown effect on local access pricing for pay telephone providers; however, it is likely that the impact will cause price increases to pay telephone providers.

Our Payphone Division's Revenue Is Subject to Seasonal Variations

Davel's revenue from pay telephone operations is affected by seasonal variations. Since many of its pay telephones are installed outdoors, weather patterns have differing effects on our revenue depending upon the region of the country where the pay telephones are located. For example, the pay telephones installed and operated throughout the Midwestern and eastern United States produce their highest call volumes during the second and third calendar quarters, when the climate tends to be more favorable. Currently, approximately 22% of our 36,000 payphones are located in these regions of the country. Unusually severe weather in these regions could exacerbate the seasonal variations in revenues resulting in adverse effects on our business. In addition, changes in the geographic distribution of Davel's pay telephones in the future may result in differing seasonal variations in our operating results.

Our Common Stock Is Deemed to Be "Penny Stock," Which May Make It More Difficult for Investors to Resell Their Shares Due to Suitability Requirements

Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. A penny stock has the following characteristics:

• It is traded at a price of less than \$5.00 per share;

• It is not traded on a "recognized" national exchange;

Its price is not quoted on the Nasdaq automated quotation system (Nasdaq-listed stock must still have a price of not less than \$5.00 per share); or

Its issuer has net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$5.0 million (if in continuous operation for less than three years), or has average annual revenues of less than \$6.0 million for the last three years.

Trading of our stock may be restricted by the SEC's penny stock regulations that may limit a stockholder's ability to buy and sell our stock.

The penny stock rules impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. The penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These disclosure requirements may have the effects of reducing the number of potential investors and the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. This may make it more difficult for

investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline. We believe that the penny stock rules discourage investor interest in and limit the marketability of, our common stock.

In addition, the National Association of Securities Dealers, or NASD, has adopted sales practice requirements that may also limit a stockholder's ability to buy and sell our stock. Before recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit investors' ability to buy and sell our stock and have an adverse effect on the market for our shares.

RISKS RELATED TO THIS OFFERING

If the Selling Stockholders Sell Part or All of Their Shares of Common Stock in the Market, Such Sales May Cause Our Stock Price to Decline

After this registration statement is declared effective by the Securities and Exchange Commission, the selling stockholders may sell in the public market up to all of the shares of common stock being registered in this offering, subject to the provisions of "lock-up" agreements executed by Messrs. Wright and Gordon which prohibit the sale or disposition of more than one million (1,000,000) shares of the Company's common stock during any calendar quarter during their respective employment periods and, with respect to Mr. Wright, an agreement by him not to sell any shares prior to April 2006.

That means that up to 122,415,358 shares of common stock, the number of shares being registered in this offering, may be sold. The number of shares being registered in this offering represents approximately 22.86% of the total number of shares of common stock outstanding upon their issuance. Such sales may cause our stock price to decline.

If the Selling Stockholders Sell a Material Amount of Common Stock, the Significant Downward Pressure on the Price of Our Stock Caused by Those Sales Could Encourage Short Sales by Third Parties, Which Could Contribute to The Further Decline of Our Stock Price

The significant downward pressure on our stock price caused by the sale of stock registered in this offering could encourage short sales by third parties. Such short sales could place further downward pressure on our stock price.

A Large Percentage of the Shares Held by Our Senior Management and Directors Are Fully Vested. These Employees And Directors May Not Have Sufficient Financial Incentive to Stay with Us

This offering registers a large percentage of the shares held by our executive officers and directors. While we are not aware of any plans of any officer or director to leave Mobilepro, it is not uncommon for similarly situated officers and directors to leave a company after they are able to sell a sufficient number of shares to meet their individual financial goals, which time frame may be accelerated if the shares appreciate in value. Our officers and directors may be similarly disposed.

SELLING STOCKHOLDERS

The following table presents information with respect to the selling stockholders and the shares of our common stock that they may offer with this Prospectus. To our knowledge, except as described below, the selling stockholders have not, or within the past three years have not had, any position, office or other material relationship with us or any of our affiliates. The share information provided in the table below is based on information provided to us by the selling stockholders on or about December 31, 2005.

We calculated beneficial ownership according to Rule 13d-3 of the Exchange Act as of this date. Beneficial ownership generally includes voting or investment power with respect to securities. Shares of common stock that may be obtained within 60 days of December 31, 2005 are deemed to be beneficially owned by the person holding such securities that are convertible or exchangeable into shares of common stock for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

The selling stockholders may from time to time offer and sell any or all of their shares as listed below. Because the selling stockholders are not obligated to sell their shares, and because they may also acquire publicly traded shares of our common stock, we cannot estimate how many shares the selling stockholders may beneficially own after this offering. However, for presentation of the data in the table below, we have estimated the number of shares of our common stock beneficially owned after the completion of the offering based on the assumptions that the selling stockholders exercise the outstanding stock options and warrants described below, convert the outstanding debentures described below and sell all of the shares being offered. We may update, amend or supplement this Prospectus from time to update the disclosure in this section. The following table presents information regarding the selling stockholders.

Percentage						
		of				of
	(Outstanding				Outstanding
		Shares				Shares
	Total Shares l	•	Contingent			Beneficially
	Beneficially	Owned	Shares Not			Owned
	Owned	Before	Considered	Shares to be		After
	Before	Offering	Beneficially	Sold in the		Offering
Selling Stockholder	Offering	(1)	Owned	Offering		(1)
The Bethell Family Trust	10,000,000	2.31%	-	10,000,000	(2)	0.00%
D 10 11	2 200 000	0.510		2 200 000	(2)	0.000
Paul Sadler	2,200,000	0.51%	-	2,200,000	(3)	0.00%
Marcus Needham	139,057	0.03%	-	139,057		0.00%
Robert Malecki	43,913	0.01%	-	43,913		0.00%
Tom Millitzer	7,026	0.00%	-	7,026		0.00%
Paul Halvorsen	14,638	0.00%	-	14,638		0.00%
Estate of Roger L. Beck, Jr.	587,471	0.14%	-	587,471		0.00%
Jansen Blanton	355,893	0.08%	-	355,893		0.00%
Jared B. Reimer	153,156	0.04%	-	153,156		0.00%
Dr. Ronald Reimer	72,456	0.02%	-	72,456		0.00%
Pankaj Sharma	72,456	0.02%	-	72,456		0.00%
Kim DeWitt	42,215	0.01%	-	42,215		0.00%
Robert Doggett	351,133	0.08%	-	351,133		0.00%
Dr. Bhagwab Swaroop Misra	7,319	0.00%	-	7,319		0.00%

Subtotal	1,846,733	0.43%	-	1,846,733	(4)	0.00%
Cornell Capital Partners, L.P.	22,445,000	4.99%	40,216,667	60,995,000	(5)	0.00%
-	22,113,000	1.77 /0	10,210,007	00,772,000	(3)	0.0070
Airlie Master Opportunity						
Fund, Ltd.	1,866,666	0.43%	_	1,866,666		0.00%
Richard Berritt	1,866,667	0.43%	-	1,866,667		0.00%
Jonathan Heine	1,866,667	0.43%	-	1,866,667		0.00%
Subtotal	5,600,000	1.28%	-	5,600,000	(6)	0.00%
ABLECO Finance, LLC	456,250	0.11%	-	456,250	(7)	0.00%
ARK-CLO 2000-1	447,303	0.10%	-	447,303	(8)	0.00%
Avenue Special Situations						
Fund II, LP	118,386	0.03%	-	118,386	(9)	0.00%
BNP Paribas	208,727	0.05%	-	208,727	(10)	0.00%
Cerberus Partners, L.P.	1,884,475	0.43%	-	1,884,475	(11)	0.00%
Foothill Partners III, L.P.	684,375	0.16%	-	684,375	(12)	0.00%
Morgan Stanley Prime						
Income Trust	98,655	0.02%	-	98,655	(13)	0.00%
PNC Bank N.A.	208,727	0.05%	-	208,727	(14)	0.00%
US Bank, N.A.	208,727	0.05%	-	208,727	(15)	0.00%
Wells Fargo Foothill, Inc.	684,375	0.16%	-	684,375	(16)	0.00%
Subtotal	5,000,000	1.14%	-	5,000,000	(17)	0.00%
Peter Aquino	3,728	0.00%	-	300		0.00%
Alexander Enterprise						
Holdings	1,260,939	0.29%	-	101,455		0.27%
Daniel P. Behuniak	252,188	0.06%	-	20,291		0.05%
Yakob Ben-Shlomo	60,525	0.01%	-	4,870		0.01%
Brent & Patrice Clapacs						
Family Trust	53,926	0.01%	-	4,339		0.01%
Tiffany Brown	6,769	0.00%	-	545		0.00%
Adrian Catalano	60,525	0.01%	-	4,870		0.01%
Diane Clarence	13,472	0.00%	-	1,084		0.00%
George F. Conniff	50,437	0.01%	-	4,058		0.01%
William Cortez	51,446	0.01%	-	4,139		0.01%
William P. Dioguardi	183,342	0.04%	-	55,800		0.03%
Drax Holdings LP	1,260,939	0.29%	-	101,455		0.27%
Chris Drazdys	114,199	0.03%	-	9,188		0.02%
Val Drazdys	41,162	0.01%	-	3,312		0.01%
Natasha Ervin	2,848	0.00%	-	229		0.00%
Donald F. Farley	75,656	0.02%	-	6,087		0.02%
Mohinder Goswami	252,188	0.06%	-	20,291		0.05%
Mary Guerra	121,050	0.03%	-	9,740		0.03%
Peter Habib	52,959	0.01%	-	4,261		0.01%
Raja B. Hannush	30,263	0.01%	-	2,435		0.01%
Health Care Professionals,						
Inc.	1,513,124	0.35%		121,746		0.32%
David Hoachman	113,484	0.03%	-	9,131		0.02%
Jimayne Howser	7,439	0.00%	-	599		0.00%
Lawrence R. Hyman	30,263	0.01%	-	2,435		0.01%

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Lawrence R. and Lois Hyman						
as TBE	302,625	0.07%	-	24,349		0.06%
Ammar Kawash	151,260	0.03%	-	12,170		0.03%
Timothy Keating	110,603	0.03%	-	8,899		0.02%
Allen H. Kupetz	25,218	0.01%	-	2,029		0.01%
Frank Frost Lane	68,091	0.02%	-	5,479		0.01%
JoAnn Lanning	7,418	0.00%	-	597		0.00%
Paul Latchford	222,914	0.05%	-	17,936		0.05%
Jerry and Michelle Levine as						
TBE	151,313	0.04%	-	12,175		0.03%
Grover A. Lewis	15,131	0.00%	-	1,217		0.00%
Brian Leyda	13,982	0.00%	-	1,125		0.00%
Ezra P. Mager	2,559,163	0.59%	-	205,910		0.54%
Thomas Mazerski	2,047,344	0.47%	-	164,729	(18)	0.44%
Robert William McCausland	504,376	0.12%	-	40,582		0.11%
Hugh McConnell	96,686	0.02%	-	7,779		0.02%
Paul B. McHugh	38,583	0.01%	-	3,104		0.01%
Randy Moore	130,708	0.03%	-	8,505		0.03%
Mark Norris	151,313	0.04%	-	12,175	(34)	0.03%
Richard O'Connell	1,270,260	0.29%	-	102,205		0.27%
Jennifer Orem	932	0.00%	-	75		0.00%
John C. Payne	933,093	0.22%	-	75,076		0.20%
Jamie Pollock	3,464	0.00%	-	279		0.00%
Richard Ramlall	324,560	0.08%	-	26,114		0.07%
Cynthia A. Ryan	189,140	0.04%	-	15,218		0.04%
Frederick Sass	25,218	0.01%	-	2,029		0.01%
Joseph P. Schmelzeis	31,523	0.01%	-	2,536		0.01%
Fredrik C. Schreuder	252,186	0.06%	-	20,291		0.05%
Stephen Schwartz	63,048	0.01%	-	5,073		0.01%
Shah, Vipul	63,046	0.01%	-	5,073		0.01%
Spencer Segura	453,937	0.11%	-	36,524		0.10%
Spencer Trask Illumination						
Fund	635,512	0.15%	-	51,133	(37)	0.14%
Spencer Trask Media &						
Communication Group, LLC	7,565,618	1.75%	-	608,728	(37)	1.61%
12						

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Melissa Stoneberg	3,700	0.00%	-	298		0.00%
Stacey Swoboda	3,728	0.00%	-	300		0.00%
Paul Taylor	136,093	0.03%	-	10,145		0.03%
Luca Toscani	36,214	0.01%	-	2,914		0.01%
Michele Toscani	12,862	0.00%	-	1,035		0.00%
Greg Van Allen	36,482	0.01%	-	1,125		0.01%
John Vandewalle	30,263	0.01%	-	2,435		0.01%
Viventures 2 Entrepeneurs Fund						
LP	43,502	0.01%	-	3,500	(38)	0.01%
Viventures 2 FCPR	15,284,489	3.53%	-	1,229,782	(38)	3.24%
Nancy Walcutt	3,939	0.00%	-	317		0.00%
Subtotal	39,612,408	9.10%	-	3,223,625	(19)	8.36%
Martin Levetin (29)	150,000	0.03%	450,000	(36) 600,000	(29)	0.00%
	•		·			
Geoffrey B. Amend (21)	1,318,839	0.30%	2,181,161	3,500,000	(21)	0.00%
Larry Bouts (22)	800,000	0.18%	-	800,000	(22)	0.00%
Dr. Bruce Bowman (22)	260,000	0.06%	-	250,000	(22)	0.00%
Hank Deily (23)	-	0.00%	750,000	750,000	(23)	0.00%
John Dumbleton (24)	2,000,000	0.46%	_	2,000,000	(24)	0.00%
Kurt Gordon (25)	7,718,750	1.75%	281,250	1,500,000		1.44%
Don Gunther (22)	839,500	0.19%	-	800,000	(22)	0.01%
Hawk Associates, Inc. (26)	200,000	0.05%	-	200,000	(26)	0.00%
John von Harz (27)	800,000	0.18%	-	800,000	(27)	0.00%
Kevin Kuykendall (28)	3,538,950	0.81%	-	3,500,000	(28)	0.01%
Michael Kleeman (22)	192,500	0.04%	62,500	250,000	(22)	0.00%
Chris MacFarland (40)	1,008,334	0.23%	41,666	1,050,000	(40)	0.00%
Tammy Martin (30)	1,363,636	0.31%	136,364	1,500,000	(30)	0.00%
Tom Mazerski (35)	1,000,000	0.23%	1,000,000	2,000,000	(35)	0.00%
Michael O'Neil (39)	1,109,834	0.26%	41,666	1,050,000	(39)	0.00%
Ocean Avenue Advisors (31)	2,000,000	0.46%	_	2,000,000	(31)	0.00%
Philip Otto (22)	250,000	0.06%	-	250,000	(22)	0.00%
Bruce Sanguinetti (32)	4,000,000	0.92%	-	3,000,000	(32)	0.23%
Paul Silverman (22)	1,000,000	0.23%	-	1,000,000	(22)	0.00%
Don Sledge (41)	708,334	0.16%	41,666	750,000	(41)	0.00%
Fred Tarter (22)	1,000,000	0.23%	_	1,000,000	(22)	0.00%
Jay O. Wright (33)	16,268,651	3.63%	4,084,849	5,000,000	(33)	3.27%
, ,	47,377,328	9.89%	8,621,122	(36) 32,950,000		4.58%
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Grand Totals	134,231,469	26.29%	49,287,789	122,415,358		10.53%

⁽¹⁾ The percentage of outstanding shares is based on 432,161,236 shares of common stock outstanding on December 31, 2005, together with shares deemed beneficially owned by each such stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that may be obtained within 60 days of December 31, 2005 are deemed to be beneficially owned by the person holding such securities that are convertible or exchangeable into shares of common stock for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

The Bethell Family Trust received a total of 10,000,000 shares of our common stock, 6,000,000 shares on July 13, 2005 and 4,000,000 shares on August 24, 2005, in connection with our acquisition of American Fiber Network, Inc. Doug Bethell, the former CEO of AFN continues as President of AFN subsequent to our acquisition. Mr. Bethell maintains investment and voting control of the Bethell Family Trust.

- (3) Paul Sadler, the former owner of Clover Computer Corporation, holds 2,200,000 shares of our common stock that were acquired upon his conversion of a convertible note, in the principal amount of \$271,131.85, plus accrued interest, in the amount of \$10,221.30, and the settlement of a second note, in the principal amount of \$253,834.11, on June 23, 2005. Both notes were issued in connection with our acquisition of Clover. The convertible note had a maturity date of July 6, 2006, carried interest at an annual rate of 4.00%, and was convertible into shares of our common stock at any time during the term at a price of \$0.20 per share. The second note was due on July 6, 2006, carried interest at the annual rate of 7.00%, and was converted into shares of our common stock at a conversion price of \$0.32 per share.
- (4) These former owners of The River Internet Access Co., acquired by us in September 2004, hold 1,846,733 shares of our common stock that were issued on October 6, 2005 upon the conversion of debentures received by them in connection with the acquisition. The debentures had a maturity date of September 16, 2006, carried interest at the annual rate of 3.00%, and were convertible into shares of our common stock at any time during their terms at \$0.20 per share. The debenture principal amounts were subject to downward adjustments pending the results of an acquisition audit or the occurrence of any damages as defined in the merger agreement.
- (5) Cornell Capital holds a \$15.0 million debenture convertible into 50,000,000 shares of our common stock and a warrant to purchase 6,000,000 shares of our common stock at a price of \$0.50 per share (see Note 8 to the Condensed Consolidated Financial Statements as of December 31, 2005 included elsewhere in this Prospectus), both dated May 13, 2005, and provides equity financing to us through the \$100 million Standby Equity Distribution Agreement. In connection with the negotiation of the SEDA, Cornell Capital received 7,990,000 shares of our common stock on June 7, 2004, 4,995,000 of which are being registered herein. Mark Angelo maintains investment and voting control of these shares. For presentation purposes above, the shares of our common stock issuable upon the conversion of the debenture that would result in ownership greater than 4.99% are not considered beneficially owned by Cornell Capital at December 31, 2005. Pursuant to the terms of the debenture, conversion of the debenture for a number of shares in excess of that number of shares which, upon giving effect to such conversion, would cause the aggregate number of shares beneficially owned by Cornell Capital to exceed 4.99% of our outstanding shares following such conversion requires at least 65 days prior notice. No such notice has been received by us. Upon the receipt of such notice, conversion could occur pursuant to the terms of the debenture with Cornell Capital becoming the beneficial owner of the shares.
- (6) Includes warrants to purchase shares of our common stock that were issued on November 15, 2004 to Airlie Master Opportunity Fund, Ltd., the source of the Davel bridge financing, and the brokers involved with the arrangement of this loan. Dort Cameron and Seth Cameron maintains investment and voting control of the Airlie Fund.
- (7) Steven Feinberg maintains investment and voting control of Ableco Finance, LLC.
- (8) Lynn Tilton maintains investment and voting control of ARK-CLO 2000-1, Limited.
- (9) Matthew Kimble maintains investment and voting control of Avenue Special Situations Fund, II, LP.
- (10) Everett Schenk maintains investment and voting control of BNP Paribus.
- (11) Steven Feinberg maintains investment and voting control of Cerberus Partners, L.P.

- (12) Dennis Archer maintains investment and voting control of Foothill Partners III.
- (13) Sheila Finnerty maintains investment and voting control of Morgan Stanley Prime Income Trust.
- (14) Frank Devine maintains investment and voting control of PNC Bank N.A.
- (15) James P. Cecil maintains investment and voting control of U.S. Bank, N.A.

- (16) Scott Diehl maintains investment and voting control of Wells Fargo Foothill, Inc.
- (17) Includes warrants to purchase shares of our common stock that were issued on November 15, 2004 to certain lenders in connection with our acquisition of 100% of the senior secured debt of Davel and an assignment by those lenders of their shares of Davel's common stock representing approximately 95% of Davel's issued and outstanding common stock.
- (18) Thomas Mazerski, a founder and the President and CEO of CloseCall prior to our acquisition, currently serves as Chief Executive Officer of Close Call.
- (19) Includes warrants to purchase 3,500,000 shares of our common stock that were issued on October 15, 2004 to the former owners of CloseCall America in connection with its acquisition by us.
- (20) Martin Levetin, a former owner of Evergreen Open Broadband Corporation, received a warrant to purchase 600,000 shares of our common stock on April 21, 2005 in connection with our acquisition of Evergreen. Currently, Mr. Levetin serves as a Vice President in our NeoReach Wireless organization in the area of business development.
- (21) Includes warrants to purchase 2,000,000 shares of our common stock and warrants to purchase 1,500,000 shares of our common stock that were awarded to Geoffrey Amend, who currently serves as our General Counsel and corporate Secretary, on November 1, 2004 and April 20, 2005, respectively. 50% of the warrant for 2,000,000 shares vests ratably over 24 months from the award date, and 1,000,0000 shares vest upon our achieving \$5 million in EBITDA over any consecutive 12 month period. The warrant for 1,500,000 shares vests over a 23 month period from the award date.
- (22) Includes warrants to purchase common stock issued to each member of our board of advisors as follows Messrs. Silverman and Tarter were each issued a warrant to purchase 1,000,000 shares of our common stock on January 1, 2004 and July 20, 2004, respectively, and each warrant was fully vested at December 31, 2005; Messrs. Bouts and Gunther were each issued a warrant to purchase 800,000 shares of our common stock on January 1, 2004 and June 28, 2004, respectively, and each warrant was fully vested at December 31, 2005; Dr. Bowman and Mr. Otto were each issued a warrant to purchase 250,000 shares of our common stock on February 17, 2005 that vests ratably over 12 months from the date of award; and Mr. Kleeman was issued a warrant to purchase 250,000 shares of our common stock on May 17, 2005 that vests ratably over 12 months from the date of award.
- (23) Includes a warrant to purchase 750,000 shares of our common stock awarded to Hank Deily, who currently serves as our Corporate Controller, on June 20, 2005. The warrants vest in three equal installments on March 31, 2006, 2007 and 2008.
- (24) Includes a warrant to purchase 2,000,000 shares of our common stock awarded on January 17, 2005 to John Dumbleton, who (until his employment with us ended on January 15, 2006) served as our Executive Vice President, Sales and Business Development. The warrant vesting ceased on his employment termination date.
- (25) Includes a warrant to purchase 1,500,000 shares of our common stock awarded on April 1, 2005 to Kurt Gordon, who currently serves as our Chief Financial Officer, that vests over 12 months from the date of award.
- (26)Includes a warrant to purchase 200,000 shares of our common stock issued on February 1, 2003 to Hawk Associates, Inc., a firm that currently provides investor and public relations services to us; this warrant was fully vested at December 31, 2005.

(27)

Includes a warrant to purchase 800,000 shares of our common stock awarded on January 1, 2004 to John von Harz, a former member of our board of advisors, who currently serves as a Vice President of our NeoReach Wireless organization in the area of business development. This warrant was fully vested on December 31, 2005.

- (28) Includes warrants to purchase 3,500,000 shares of our common stock awarded on June 10, 2004 to Kevin Kuykendall who served as President of our voice business segment from June 2004 through December 2004. These warrants were fully vested on December 31, 2005.
- (29) Includes a warrant to purchase 600,000 shares of our common stock awarded on April 21, 2005 to Martin Levetin, Vice President, Business Development, in our wireless networks business segment, that vests ratably over a twenty-four month period from the date of award.
- (30) Includes a warrant to purchase 1,500,000 shares of our common stock awarded on April 20, 2005 to Tammy Martin, formerly the General Counsel of Davel, who currently serves as its Chief Executive Officer, that vests ratably in 11 monthly installments from the award date.
- (31) Includes shares issuable upon the exercise of a warrant to purchase our common stock that was granted in July 2004 in connection with the provision of investor relations services. This warrant was fully vested at December 31, 2005.
- (32) Includes a warrant to purchase 3,000,000 shares of our common stock awarded on January 1, 2005 to Bruce Sanguinetti, the former President and Chief Executive of NeoReach that were fully vested on December 31, 2005.
- (33) Includes a warrant to purchase 5,000,000 shares of our common stock awarded on April 1, 2005 to Jay O. Wright who currently serves as our Chief Executive Officer; Mr. Wright also serves as Chairman of our Board of Directors. This warrant vests ratably over 33 months from April 1, 2005.
- (34) Mark Norris currently serves as Chief Financial Officer of our voice business segment on a temporary basis. This warrant was fully vested on December 31, 2005.
- (35) Includes options to purchase 500,000 shares of our common stock and a warrant to purchase 1,500,000 shares of our common stock that were awarded to Mr. Mazerski on October 18, 2004 and April 20, 2005, respectively. The warrant vests over an 18-month period in equal monthly installments from April 20, 2005. 50% of the options will vest upon our achievement of \$5,000,000 in annual EBITDA and the remaining options vest ratably over a 2-year period from October 18, 2004.
- (36) Represents shares of our common stock that will become exercisable pursuant to the terms of outstanding stock warrant and stock option agreements beyond 60 days from December 31, 2005. Consequently, these shares are not considered beneficially owned by the holder of the stock warrant or option on December 31, 2005.
- (37) William Dioguardi, President of Spencer Trask Ventures, Inc. maintains investment and voting control of these shares.
- (38) Gabriel Montessus maintains investment and voting control of these shares.
- (39)Includes a warrant to purchase 800,000 shares of our common stock awarded on January 1, 2004 to Michael O'Neil, a member of our Board of Directors, that was fully vested on December 31, 2005, and a warrant to purchase 250,000 shares of our common stock, awarded on June 16, 2005, that vests ratably until April 20, 2006.
- (40) Includes a warrant to purchase 800,000 shares of our common stock awarded on March 1, 2004 to Chris MacFarland, a member of our Board of Directors, that will be fully vested on February 18, 2006, and a warrant to

purchase 250,000 shares of our common stock, awarded on June 16, 2005, that vests ratably until April 20, 2006.

(41)Includes a warrant to purchase 500,000 shares of our common stock awarded on January 19, 2005 to Don Sledge, a member of our Board of Directors, that was fully vested on December 31, 2005, and a warrant to purchase 250,000 shares of our common stock, awarded on June 16, 2005, that vests ratably until April 20, 2006.

FORWARD-LOOKING STATEMENTS

Information included or incorporated by reference in this Prospectus may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on words or comparable terminology. This Prospectus contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans and (e) our anticipated needs for working capital. These statements may be found under "Description of Business" and "Management's Discussion and Analysis or Plan of Operations" as well as in other places in this Prospectus. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this Prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Prospectus will in fact occur.

DESCRIPTION OF BUSINESS

The Company

Overview

We are a broadband wireless, telecommunications, and integrated data communication services company. We deliver a comprehensive suite of voice and data communications services, including local exchange, long distance, enhanced data, Internet, wireless and broadband services to our end-user customers. We are focused on growing our current customer bases, deploying wireless networks, and acquiring and growing profitable telecommunications and broadband companies.

We market and sell our integrated communications services through 11 branch offices in eight states and we service over 155,000 billed accounts representing over 278,000 equivalent subscriber lines including approximately 145,000 local and long-distance telephone lines, 105,000 dial-up lines, 5,000 broadband lines, and over 23,000 wireless customers. We own and operate approximately 36,000 payphones predominantly located in 42 states and the District of Columbia.

Our revenues are primarily generated through three of our four business reporting segments that are described as follows:

Wireless Networks	Our broadband wireless network deployment efforts are being conducted by our wholly-owned subsidiary, NeoReach, Inc., and its subsidiary, NeoReach Wireless, Inc. This segment also includes the operations of Kite Broadband, LLC, a wireless broadband Internet service provider located in Ridgeland, Mississippi.
Voice Services	Our voice services segment is led by CloseCall America, Inc., a CLEC based in Stevensville, Maryland; American Fiber Network, Inc., a CLEC based in Kansas City, Kansas; and Davel Communications, Inc., an independent payphone provider based in Cleveland, Ohio. CloseCall offers our customers a full array of telecommunications products and services including local, long-distance, 1.800CloseCall anytime/anywhere calling, digital wireless, high-speed telephone (voice over IP), and dial-up and DSL Internet services. AFN is licensed to provide local telephone, long distance and/or Internet services throughout the United States. Davel is one of the largest independent payphone operators in the United States, providing approximately 57% of the revenues of the voice services segment in the nine months ended December 31, 2005.
Internet Services	Our internet services segment includes the operations of DFW Internet Services, Inc., an ISP based in Irving, Texas, its acquired ISP subsidiaries, and InReach Internet, L.L.C., a full service ISP located in Stockton, California that we acquired on November 1, 2005. Our Internet services segment provides dial-up and broadband Internet access, web-hosting services and related Internet services to business and residential customers in over 40 states. Over 80% of our ISP customers subscribe to our dial-up service.
Corporate	Our corporate reporting segment serves as the holding company of the operating subsidiaries that are divided among the other three business reporting segments, provides senior executive and financial management, and performs corporate-level accounting, financial reporting and legal functions. Occasionally, its employees may provide services to customers resulting in the recognition of consulting service revenues.

Revenues for the reportable business segments for the three and nine months ended December 31, 2004 and 2005 were as follows:

	Three Months Ended December 31,			Nine Months Ended December 31,		
Business Segment	2004		2005	2004		2005
Voice Services	\$ 12,391,227	\$	18,505,132 \$	13,346,798	\$	56,301,164
Internet Services	4,735,906		4,534,617	9,303,568		12,395,635
Wireless Networks	-		3,204,857	-		6,600,302
Corporate	-		-	615,000		-
Total Revenues	\$ 17,127,133	\$	26,244,606 \$	23,265,366	\$	75,297,101

The revenues for each business segment, expressed as a percentage of total revenues for the respective period, were as follows:

	Three Months December		Nine Months Ended December 31,	
Business Segment	2004	2005	2004	2005
Voice Services	72.3%	70.5%	57.4%	74.8%
Internet Services	27.7	17.3	40.0	16.5
Wireless Networks	-	12.2	-	8.7
Corporate	-		2.6	
Total Revenues	100.0%	100.0%	100.0%	100.0%

The revenues of the voice services business segment are provided primarily by the operations of Davel and CloseCall. Davel's revenues represented approximately 57% and 43% of voice services revenues and consolidated revenues, respectively, for the nine months ended December 31, 2005. CloseCall's revenues represented approximately 36% and 27% of voice services revenues and consolidated revenues, respectively, for the nine months ended December 31, 2005.

The costs of the network services that we provide to our customers are comprised primarily of telecommunications charges, including data transmission and database access, leased digital capacity charges, circuit installation charges and activation charges. The costs of database access, circuits, installation charges and activation charges are based on fixed fee and/or measured services contracts with local exchange carriers, inter-exchange carriers and data services providers. The cost of providing services to our customers also includes salaries, equipment maintenance and other costs related to the ongoing operation of our network facilities. Depreciation expense on our network equipment is excluded from our cost of network services and is included in depreciation and amortization of property and equipment and amortization of intangible assets in our consolidated statements of operations. Our other operating expenses include costs related to sales, marketing, administrative and management personnel; outside legal, accounting and consulting services; advertising and occupancy expenses; and other costs of being a publicly traded company, including legal and audit fees, insurance premiums and board of director fees.

Substantially, our business has been built through acquisitions. We expect that future revenue growth will occur largely through the consummation of additional acquisitions, the growth of our CLEC businesses, and the deployment, ownership and management of broadband wireless networks that we expect to provide subscription and advertising revenues.

The adoption of initiatives by cities to create areas within city limits where residents, visitors, students and businesses can obtain wireless access to the Internet has created an emerging and growing market. We are concentrating efforts on the deployment, management and ownership of such municipally sponsored wireless access zones. In the current fiscal year, we have been selected by six municipalities for such projects. The deployment of our first network is scheduled for completion in February 2006. To date, no material revenues have been provided from this business.

Prior to January 2004, we were a development stage company. Although we were incorporated only five years ago, we have undergone a number of changes in our business strategy and organization. In June 2001, we focused our business on the integration and marketing of complete mobile information solutions to meet the needs of mobile professionals. In April 2002, we acquired NeoReach, Inc. and shifted our focus toward solutions supporting the third generation wireless market that provides broadband to allow faster wireless transmission of data, such as the viewing of streaming video in real time. We shifted our business strategy again in December 2003 with a new management team, expanding significantly the scope of our business activity to include Internet access services, local and long distance telephone services and the ownership and operation of payphones. In 2005, we began to invest in the business of deploying broadband wireless networks and providing wireless network access services in wireless access zones to

be primarily located in municipality-sponsored areas. As indicated above, we entered these businesses primarily through acquisitions. We have completed nineteen (19) acquisitions within the last 24 months. Accordingly, our experience in operating our current businesses is limited. The Company has lost money historically. For the nine month period ended December, 31, 2005, we incurred a net loss of \$6,012,640. In the years ended March 31, 2005 and 2004, we incurred net losses of \$5,359,722 and \$2,157,844, respectively. At December 31, 2005, we had an accumulated deficit of \$27,209,190.

Our strategy is largely unproven and the revenue and income potential from our strategy is uncertain. We may encounter risks and difficulties frequently encountered by companies that have grown rapidly through acquisition, including the risks described elsewhere in this report. Our business strategy may not be successful and we may not be able to successfully address these risks.

Mobilepro Corp was incorporated under the laws of Delaware in July 2000 and, at that time, was focused on the integration and marketing of complete mobile information solutions that satisfied the needs of mobile professionals. In June 2001, Mobilepro merged with and into CraftClick.com, Inc. ("CraftClick"), with CraftClick remaining as the surviving corporation. The name of the surviving corporation was subsequently changed to Mobilepro Corp. on July 9, 2001. CraftClick had begun to cease its business operations in October 2000, and ultimately disposed of substantially all of its assets in February 2001.

On March 21, 2002, Mobilepro entered into an Agreement and Plan of Merger with NeoReach, a private Delaware company, pursuant to which a newly formed, wholly owned subsidiary of Mobilepro merged into NeoReach in a tax-free transaction. The merger was consummated on April 23, 2002. As a result of the merger, NeoReach is now a wholly owned subsidiary of Mobilepro.

DFW is the principal operating subsidiary within our Internet services division. On January 20, 2004, we acquired DFW. Since then, we have acquired nine additional Internet service businesses that operate as subsidiaries of DFW and, on November 1, 2005, we acquired the business of InReach.

On October 15, 2004, we closed our acquisition of CloseCall, which further established our commitment to the provision of voice services. One month later, we closed our acquisition of Davel. On June 30, 2005, we acquired AFN.

Our principal executive offices are located at 6701 Democracy Boulevard, Suite 202, Bethesda, MD 20817 and our telephone number at that address is (301) 315-9040. We maintain a corporate web site at www.mobileprocorp.com. We make available free of charge through our web site our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC. The contents of our web site are not a part of this report. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding Mobilepro.

Geographic Markets

Through our various businesses, we provide service to customers located throughout the United States. However, certain portions of our consolidated business are concentrated in certain geographic markets. For example, the business of CloseCall is concentrated in the mid-Atlantic region of the country. Although Davel has payphones located across the United States, 41% of the payphones are located in the southeast states of Florida, Georgia, South Carolina, North Carolina and Virginia; 22% of the payphones are located in Midwest and eastern sections of the country, with usage thereby affected by climate; and 12% of the payphones are located in the southwest states of Texas, Arizona and New Mexico. The Internet services business provides service to customers that are primarily located in the states of Texas, Arizona, Louisiana, Kansas, Missouri, Wisconsin and Ohio.

Recent Events

Significant accomplishments in the nine-month period ended December 31, 2005 included, among other achievements, expanding our voice services and wireless networks businesses through the consummation of four acquisitions, deploying a broadband wireless network in Tempe, Arizona, obtaining a controlling interest in a company that will supply broadband wireless services to customers of Sprint Communications Company ("Sprint"), being selected by the city of Sacramento, California, for the deployment, ownership and management of its planned

broadband wireless network, and the refinancing of a \$13 million acquisition bridge loan.

Wireless Networks

In April 2005, we were selected by the city of Tempe, Arizona, to deploy, own and manage a city-wide broadband wireless access network covering 40 square miles and serving a population of approximately 160,000 people. The network is expected to reach approximately 65,000 households, 1,100 businesses, 50,000 students and the annual visitors to Tempe. The completed network will enable a range of free and fee-based services and provide secure high-speed access to data, voice and video throughout the coverage area. The network will also provide municipal services to the city's police, fire, emergency, and administrative personnel, and the staff, faculty and students of Arizona State University. Subscription services will be offered on a monthly, daily and hourly basis and will allow access to multiple Internet service providers. We believe that the Tempe wireless networking project is one of the first of its kind by providing a cost-effective alternative to residential dial-up service and local area hot-spot wireless access and serving as an alternative and/or complement to DSL and cable. The network is scheduled to be completed in February 2006. In August 2005, we executed a definitive, fifteen-year agreement with the city, including a base period of five years and two five-year extensions, for the deployment, ownership and management of the wireless network. At December 31, 2005, we had approximately forty (40) customers paying monthly subscription fees.

We intend that the Tempe network be an open platform, offering freedom of service choices to subscribers over a mixture of public, restricted and licensed bands. Our target customers are retail Internet service providers that would provide e-mail messaging, VoIP, web-hosting and emergency services to subscribers. Although we do not yet have any such agreements at this time, we expect to receive a majority of subscriptions pursuant to service agreements with major retail service providers that will, most likely, provide payments to us based on the actual amount of network usage. We plan to operate the network, and host the splash page, free service and hospitality. As a result, we expect low customer acquisition costs, rapid increases in the number of subscribers and reduced churn.

The user start-up splash page for the Tempe network will be sponsored by the Arizona Republic pursuant to an agreement with us that was announced on October 11, 2005. In summary, we have agreed to share any revenues related to the placement of advertising on the splash page on a 50/50 basis. Although no material revenues have yet been generated, we are hopeful that this agreement and other similar agreements that we may negotiate in the future will provide a significant new source of revenues.

In May 2005, the foundation of our operation in Tempe was obtained when NeoReach Wireless acquired Transcordia, LLC, d/b/a/ WazAlliance, a network of metro-wide commercial and residential wireless Internet access zones for a purchase price, subject to post closing adjustments, of \$257,500, payable in the form of \$188,500 in common stock and \$69,000 cash. We have expanded this operation as it focuses its efforts on the design and deployment of the Tempe wireless network.

Because of the increased pace in the emergence of municipal wireless networking opportunities, we have accelerated our business development efforts in this market. Including the operating costs being incurred to support the Tempe network, total operating expenses for NeoReach Wireless in the three months and nine months ended December 31, 2005 were \$513,773 and \$1,391,701, respectively. In order to complete the Tempe network, we estimate that capital expenditures will approximate \$2,200,000 including the development of the deployment plan, networking equipment (i.e., antennas, transmitters and network routers) and equipment installation. To date, we have acquired networking equipment at a total cost of approximately \$839,000 for the Tempe wireless network.

In June 2005, we acquired Evergreen Open Broadband ("Evergreen"), a wholesale wireless Internet service provider based in Boston, with the issuance of 1,505,360 shares of our common stock, valued in the amount of approximately \$231,000, and the assumption of approximately \$30,000 in certain liabilities. Evergreen provides to us a developed scoring model that we now utilize to evaluate municipal wireless network opportunities. The model considers a variety of factors in the areas of demographics, climate and topography in rating a city as a desirable opportunity for our business development activities. Evergreen will operate as part of NeoReach Wireless. Evergreen actively participated in our bidding for Tempe and is involved with business development opportunities represented by

numerous other city-wide wireless network projects that are pending or under consideration.

The city of Sacramento, California (population of approximately 465,000 people) and the cities of Chandler, Arizona; Farmers' Branch, Texas; Akron, Ohio; and Cuyohoga Falls, Ohio, have also selected us for the proposed deployment, ownership and management of their planned wireless networks. Currently, we are negotiating definitive contracts and/or developing pilot deployments with these municipalities. We are aware of five other publicly-announced municipal wireless network projects that we have lost including Philadelphia, Pennsylvania, that was awarded to Earthlink, and Minneapolis, Minnesota, and Portland, Oregon, where we were not included as a finalist for the pending awards.

In June 2005, we invested \$3,825,000 cash in connection with the formation of Kite Broadband, LLC ("Kite") resulting in a 51% ownership percentage. On June 30, 2005, Kite executed a Master Agreement for Services with Sprint under which Kite shall provide services to Sprint's broadband customers in 14 metropolitan markets for a period of three years utilizing the Sprint mark. The agreement covers, among other things, the provisioning of certain customer-facing services, such as customer operations and call center management, sales, marketing, billing, collection, installation and repair. Sprint continues to provide network support and transport services. The customers remain Sprint customers during the three-year term of the agreement. Upon expiration of the agreement, Kite will have the option to acquire the then existing customers pursuant to the terms of the agreement. All network and spectrum assets will remain the property of Sprint. Since June 30, 2005, Kite has generated revenues of approximately \$6,584,680 and our 51% share of Kite's net income for this period was \$237,464. On January 31, 2006, we acquired the 49% minority interest in Kite for approximately 90,000,000 shares of our common stock.

Voice Services

During the current year, activities at CloseCall America have been focused on the expansion of its telecommunications service offerings, and the securing of long-term agreements with local exchange carriers. CloseCall has also expanded its advertising programs in the current year. It uses print, signage, radio and television advertising to market services to customers of certain local professional sports teams including the Baltimore Ravens, Ripken Baseball, Aberdeen Ironbirds, Frederick Keys, Bowie Baysox, and the Delmarva Shorebirds.

We offer our integrated communications services in a high-quality bundle to residential customers, and small to medium-sized businesses at attractive prices. When economically advantageous for us to do so, we seek to bundle our integrated communications services. Our targeted customers often will have multiple vendors for voice and data communications services, each of which may be billed separately. Unlike many of these vendors, we are able to provide a comprehensive package of local telephone, long distance, Internet access and other integrated communications services. Our future business strategy will focus on the establishment of effective cross-selling programs in order to leverage the combined customer base of the voice and Internet service provider business segments, the effective delivery of such services and the provision of excellent customer service. CloseCall's combined local and long distance churn measured by terminations of customer subscriber lines is approximately 2% per month compared to an industry average of approximately 5% per month.

In the nine-month period ended December 31, 2005, we completed five-year commercial agreements with Verizon and SBC covering six and thirteen states, respectively. In addition, we executed a similar agreement with BellSouth covering nine states that runs through December 31, 2007. Completion of these agreements 1) allows the expansion of CloseCall's overall geographic market, and the expansion and bundling of service offerings in these states including Florida, and 2) provides predictability of the pricing of wholesale services provided to us by these carriers during the terms of the agreements.

During the nine-month period ended December 31, 2005, we completed two acquisitions intended to add revenues, profits and licensed coverage areas. On June 30, 2005, we acquired AFN, a company licensed to provide local, long distance and/or Internet service throughout the United States that added approximately 15,000 customer lines to our customer base. AFN is focused on four major customer segments - hotels and resorts, corporate housing, resort-area property management and other business services. The purchase consideration was \$3,000,000, including 10,000,000

shares of our common stock and a cash payment of \$1,500,000. Since its acquisition on June 30, 2005, AFN has provided revenue of approximately \$3,458,286 and contributed net income of \$810,176. This operating profit was favorably affected by the timing of costs and expenses incurred by AFN's affiliated service company during 2005. The service agreement terminated on October 31, 2005. In September 2005, AFN acquired the assets of AllCom USA and their long distance and T-1 customers for \$300,000 cash, providing an additional customer base for bundled services. This acquisition is expected to increase our annual revenues by approximately \$1,200,000.

On September 30, 2005, Davel sold the majority of the payphones and certain related assets and liabilities of its Bronx, New York, field service office, representing 2,204 payphones, for a net selling price of \$962,246. We recognized a \$91,373 gain on the sale of the net assets, but we incurred \$144,073 of exit and disposal activity costs associated with the closing of the field service office resulting in a net loss of \$52,700. Davel also entered into agreements with the purchaser of its payphones to acquire certain of their payphones in Florida and to maintain, to service and to collect Davel's remaining payphones in the New York City area. On September 30, 2005, Davel acquired 2,240 payphones located in Florida from the purchaser for a net purchase price of \$784,000. We expect that the purchase of the payphones in Florida will allow us to maintain the level of revenues at a reduced level of operating expenses.

Internet Services

During the current year, the activities of this operation have focused on the integration of the operations of the acquired companies comprising this business segment. The efforts are focused on combining service offerings, consolidating network operations and customer support locations, and reducing operating costs. As a result of this effort, we recorded a restructuring charge of \$1,335,612 in the three months ended December 31, 2005, including \$902,306 related to the loss expected on the abandonment of leased facilities, \$392,899 related to the loss expected upon the disposal of excess equipment, and \$40,407 related to certain employees terminated in January 2006. The success of our overall growth strategy depends, in part, on our ability to transition customers to new Internet access services, especially broadband wireless. However, at present, dial-up subscribers represent the largest group of customers of the Internet services group. The erosion of this customer base is likely to continue.

During the nine months ended December 31, 2005, through cash payments and the conversion of note amounts into shares of our common stock, we retired notes payable related to ISP acquisitions in the amount of approximately \$1,608,000, including negotiated note reductions of approximately \$220,000 relating to post closing purchase price adjustments.

On November 1, 2005, we completed the acquisition of InReach. Besides adding annual revenues expected to approximate \$5,700,000, InReach provides a base of operations for the Sacramento municipal wireless network. The purchase price for InReach, before any post closing adjustments, included \$2,111,873 cash and 4,357,798 shares of common stock valued at \$950,000.

Goodwill Impairment

At September 30, 2005, our balance sheet included intangible assets with a total carrying value of approximately \$49,060,000, representing 56.3% of total assets and including approximately \$37,492,000 in goodwill. Substantially, this goodwill has been recorded in connection with the series of acquisitions completed by us since April 1, 2004. In connection with acquisition of InReach, an additional \$3,003,974 in goodwill was added to the balance sheet during the quarter ended December 31, 2005. Generally accepted accounting principles require that we assess the fair values of acquired entities at least annually in order to identify any impairment in the values. However, on a quarterly basis, we are alert for events or circumstances that would indicate, more likely than not, that the fair value of a reporting segment has been reduced below its carrying amount. If we determine that the fair value of an acquired entity is less than the net assets of the entity, including goodwill, an impairment loss would be identified and recorded at that time.

During the three months ended December 31, 2005, both the Internet service provider segment and the voice services segments incurred operating losses that were not expected. As a result, we reviewed the carrying values of the assets of these segments and determined that an adjustment for goodwill impairment was appropriate at December 31, 2005. We recorded an impairment charge in the amount of \$3,764,429, including \$1,945,519 related to the Internet service provider companies and \$1,818,910 related to Affinity Telecom ("Affinity"), a CLEC business located in the state of Michigan that was acquired in August 2004. The negative customer churn of dial-up ISP customers has exceeded our expectations, contributing to the net loss incurred by this segment during the most recent quarter. We have

experienced a significant and steady loss of Affinity customers, and Affinity has incurred bad debt losses at a greater rate than in our other CLEC companies. The impairment charges represented approximately 12.8% and 73.0% of the goodwill related to the ISP companies (excluding InReach) and Affinity, respectively.

Future assessments of the fair values of acquired companies could identify material impairment losses resulting in additional write-offs of goodwill. Such adjustments could have material adverse effects on our results of operations and our financial position, and could impede our ability to raise capital and/or to make acquisitions.

Corporate Activities

Since the beginning of the current fiscal year, we have attempted to strengthen our balance sheet in order to provide capital for acquisitions, to fund our NeoReach Wireless operating needs (including the capital expenditures related to the build-out of municipal broadband wireless networks), and to improve our liquidity. We have increased stockholders' equity to over \$36 million with a cash balance of approximately \$5 million at December 31, 2005. Total debt has been reduced from a balance of approximately \$26,534,000 at March 31, 2005 to a balance of \$22,016,000 at December 31, 2005. We are looking for opportunities to further improve those positions.

We extended debt maturities and reduced our interest cost in May 2005 when we issued a convertible debenture in the aggregate amount of \$15,500,000 to Cornell Capital Partners, L.P. ("Cornell Capital"). We used a significant portion of the proceeds to pay in full the remaining \$13,000,000 balance of a note payable that bore interest at the rate of 23% and was due on November 15, 2005. The retired note was the source of bridge financing for our acquisition of Davel. The debenture is payable in installments over a three-year period, with \$3,500,000 classified as a current liability at December 31, 2005, and bears interest at an annual rate of 7.75%.

In a letter to our stockholders dated October 17, 2005, Mr. Wright stated that he would continue to buy Mobilepro common stock on the open market and increase his buying program by more than 50%, effective November 1, 2005, in the event that the market price of our common stock remained below \$0.30 per share. Under his 10b5-1 buying program, Mr. Wright committed to monthly purchases of our common stock in the amount of \$5,000 in the event our stock price remained below \$0.30 per share and \$3,000 in the event that our stock price was at \$0.30 per share or above. As the market price of our common stock remained below \$0.30 per share since the date that his letter was issued, and as set forth in Form 4s filed with the SEC, Mr. Wright purchased 24,000 shares of our common stock at a price of \$0.205 per share on November 1, 2005, 25,000 shares of our common stock at a price of \$0.1998 per share on December 1, 2005, 27,000 shares of our common stock at a price of \$0.18 per share on January 2, 2006 and 19,000 shares of our common stock at a price of \$0.25 per share on February 1, 2006. Mr. Wright has not resold any of the shares that he has purchased under his 10b5-1 buying program and is prohibited in any case under Section 16 of the Securities Exchange Act of 1934 from purchases and sales within a six-month period. Any profits derived in violation of Section 16 would require payment of such short swing profits to Mobilepro.

In September 2005, the stockholders approved 1) an amendment to our certificate of incorporation that increased the authorized number of shares of common stock from 600 million to 1.5 billion shares and the authorized number of preferred shares from 5,035,425 to 20,035,425, and 2) an increase in the number of shares of our common stock available for award under our employee stock option plan from 1 million to 30 million.

Wireless Networks

Municipally Sponsored Broadband Wireless Networks

In August 2005, we executed a definitive, five-year agreement, also including two five-year extensions, with the city of Tempe Arizona, for the deployment, ownership and management of a wireless network. We have begun to acquire paying customers in Tempe and the deployment is scheduled to be completed by February 2006. In order to complete the Tempe network, we estimate that capital expenditures will approximate \$1,800,000 including the development of the deployment plan, networking equipment (i.e., antennas, transmitters and network routers) and equipment installation. Besides subscribers who pay for daily or weekly access to the network, we had approximately forty customers paying monthly subscription fees of \$29.95 at December 31, 2005.

We believe that the Tempe broadband wireless network project, covering forty square miles and serving a population of approximately 160,000 people, is one of the first of its kind by providing a cost-effective alternative to residential dial-up service and local area hot-spot wireless access and serving as an alternative and/or complement to DSL and cable. Wireless Internet access will be available in these areas on a fixed and mobile basis, to the city, and to residents, businesses, students and visitors. The completed network will enable a range of free and fee-based services and provide secure high-speed access to data, voice and video throughout the coverage area. Subscription services will be offered on a monthly, daily and hourly basis and will allow access to multiple Internet service providers. The user start-up splash page for the network will be sponsored by the Arizona Republic pursuant to an agreement with us that was announced on October 11, 2005. In summary, we have agreed to share any revenues related to the placement of advertising on the splash page on a 50/50 basis. Although no material revenues have yet been generated, we are hopeful that this agreement and other similar agreements that we may negotiate in the future will provide a significant new source of revenues.

We intend that the Tempe network represents an open platform, offering freedom of service choices to subscribers over a mixture of public, restricted and licensed bands. Our target customers are retail Internet service providers that would provide e-mail messaging, VoIP, web-hosting and emergency services to subscribers. Although we do not yet have any such agreements at this time, we expect to receive a majority of subscriptions pursuant to service agreements with major retail service providers that will, most likely, provide payments to us based on the actual amount of network usage. We plan to operate the network, and host the splash page, free service and hospitality. As a result, we expect low customer acquisition costs, rapid increases in the number of subscribers and reduced churn.

Because of the increased pace in the emergence of municipal wireless networking opportunities, we have accelerated our business development efforts in this surging market that did not exist three years ago. Our internal year-end municipal wireless network opportunity report included approximately eighty opportunities at various stages of pre-award activity. However, we do not respond to all opportunities. We have developed a metro scoring methodology that we use to evaluate opportunities. Factors considered include demographics, topography, climate and other business factors. The securing of a city contract is a multi-step process that can take over six months to complete, including a pilot demonstration, the RFP preparation, response and evaluation, contract negotiation, development of the deployment plan, and equipment installation and testing.

The city of Sacramento, California (population of approximately 465,000 people) and the cities of Chandler, Arizona; Farmers' Branch, Texas; Akron, Ohio; and Cuyohoga Falls, Ohio, have also selected us for the proposed deployment, ownership and management of their planned wireless networks. Currently, we are negotiating definitive contracts and/or developing pilot deployments with these municipalities. We are aware of five other publicly-announced municipal wireless network projects that we have lost including Philadelphia, Pennsylvania, that was awarded to Earthlink, and Minneapolis, Minnesota, and Portland, Oregon, where we were not included as a finalist for the pending awards. Nevertheless, we believe that we have won more cities than any other company.

Kite Broadband LLC

In June, 2005, we participated in the formation of Kite, a wireless broadband Internet service provider, resulting in the 51% ownership of this venture. Kite intends to establish a nationwide presence through the pursuit of acquisitions and other growth opportunities in the wireless broadband industry. On January 31, 2006, we acquired the remaining 49% of Kite.

As stated above, on June 30, 2005, Kite executed a Master Agreement for Services with Sprint under which Kite shall provide services to Sprint's broadband customers in 14 metropolitan markets for a period of three years utilizing the Sprint mark. The agreement covers, among other things, the provisioning of certain customer-facing services, such as customer operations and call center management, sales, marketing, billing, collection, installation and repair. Kite is entitled to have Sprint remit collected customer revenues in exchange for these services and remit a monthly fee back to Sprint for network support and transport services. Since June 30, 2005, Kite has generated revenues of approximately \$6,585,000; our 51% share of Kite's net income for the six months ended December 31, 2005 was \$237,464.

The agreement with Sprint established us as a leading wireless broadband company in North America by providing approximately 20,000 subscribers to our RF broadband wireless service. Based on the results of a recently published survey in the September / October 2005 issue of Broadband Wireless Business of the leading U.S. wireless service providers, the next nearest competitor was estimated to service approximately 15,000 subscribers.

Research and Development

Development efforts related to certain wireless networking technologies are being conducted by NeoReach, in particular, our ongoing ZigBee chip development work. The objective of the Zigbee development effort is to make the technologies ready for sale or licensing on an OEM basis. Currently, we are not working towards incorporating the technologies into commercial products. In the nine months ended December 31, 2005, we incurred research and development costs of approximately \$112,000 in connection with this effort. The development of these technologies is unrelated to the deployment, ownership and management of the broadband wireless networks in Tempe or Sacramento. There can be no assurance that we will ever succeed in selling or licencing any of these technologies.

NeoReach is currently developing a semiconductor chip for use in home networking and selected industrial monitoring applications based on the ZigBee standard. ZigBee is an IEEE standard (802.15.4) developed for certain low power, short-range devices.

Prior to December 2003, NeoReach was focused on developing wireless modem solutions to support third generation wireless communications systems based on the worldwide wideband - code division multiple access, "W-CDMA," standard. Third generation technology features integrated voice and data, access to high-speed Internet and intranet applications, interactive e-mail, data exchange, global roaming and full motion video transmission-all delivered to a mobile device such as a cellular phone, personal data assistant, "PDA," or laptop. Because of the substantial financial and other resources required to develop these modem solutions and bring them to market, NeoReach suspended its development efforts on the modem device in order to focus on development of the ZigBee chip.

To directly capitalize on our wireless technology assets, we are pursuing a two-pronged plan. First, we are seeking alliance partners to leverage our five patents that cover existing wireless antenna intellectual property. Our most recent patent application with commercial applicability to the cellular phone, PDA and mobile device industry was filed in September 2004. That application covered 28 claims with broad applicability to cell phones, PDAs and other devices that rely on radio-frequency transmissions for data and voice interchange. Our efforts related to our latest technological developments are focused on reducing the "noise" associated with the translation of an RF signal into usable sound or other signal by taking previously ignored aspects of an RF signal and utilizing them to achieve greater clarity. We continue to focus our research and development efforts on these wireless technologies and the worldwide cell phone and PDA market. Second, we are moving forward with our planned Zigbee chip development. In October

2004, we completed the design of our first ZigBee wireless semiconductor chip. Our chip design for the so-called "RF layer," or "physical layer," was converted into a prototype chip at a facility in Taiwan. We filed a patent application covering certain aspects of our chip's design in April 2004. The ZigBee Standard itself is public domain and therefore not patentable. Work is also proceeding on the design of a separate 900 MHz ZigBee Chip.

Zigbee represents the next generation of standards-based, reliable, ultra low power, scaleable and secure communications specifically designed to support a wide range of new applications in the areas of home automation, monitoring and remote control systems, data telemetry, toys and selected wireless security applications. In June 2004, we reached an agreement with RF Microelectronics Laboratory of the Information and Communications University of the Republic of Korea to jointly develop our Zigbee RF transceiver chip.

As of September 15, 2005, NeoReach had filed a total of eight patent applications with the U.S. Patent and Trademark Office (PTO) in the areas of "Smart Antenna" technology and RF Transceiver Chip Design for "Low Noise Amplifier for wireless communications." As of September 15, 2005, we have been granted approval of five patents in the area of "Smart Antenna" technology and three patent applications are still pending approval. The five approved patents are as follows:

- 1. "Smart Antenna with Adaptive Convergence Parameter" with PTO Patent Number 6,369,757, issued April 9, 2002.
- 2. "A Smart Antenna with No Phase Calibration for CDMA Reverse Link" with PTO Patent Number 6,434,375, issued August 13, 2002.

- 3. "PN Code Acquisition with Adaptive Antenna Array and Adaptive Threshold for DS-CDMA Wireless Communication" with PTO Patent Number 6,404,803, issued June 11, 2002.
- 4. "New Cellular Architecture for Code Division Multiple Access SMOA Antenna Array Systems" with PTO Patent Number 6,459,895, issued October 1, 2002.
- 5. "Direction of Arrival Angel Tracking Algorithm for Smart Antennas" with PTO Patent Number 6,483,459, issue date November 19, 2002.

The three patents pending approval are as follows:

- 1. "Improvement of PN Code Chip Time Tracking with Smart Antenna," a patent application filed on February 6, 2002 is pending awaiting first Office Action from United States Patent and Trademark Office.
- 2. "Low Noise Amplifier for Wireless Communications," a patent application filed on April 7, 2004 is pending awaiting first Office Action from the United States Patent and Trademark Office.
- 3. "Voltage Controlled Oscillator using Complementary Transistors," a patent application filed on September 15, 2004 is pending awaiting first Office Action from the United States Patent and Trademark Office.

Voice Services

Competitive Local Exchange Carrier Business

Overview

Our efforts in the competitive local exchange carrier business are led by CloseCall, a company that we acquired in October 2004 and AFN, a company we acquired in June 2005. CloseCall and AFN offer our customers a full array of telecommunications products and services including local, long-distance, 1.800CloseCall anytime/anywhere calling, digital wireless, high-speed telephone (voice over IP), and dial-up and DSL Internet services.

Our entrance into this business began with two acquisitions consummated in the summer of 2004. In June 2004, we acquired US1Telecommunications, Inc. ("US1"), a long distance provider located in Kansas. In July 2004, we completed our acquisition of C.Y.L.K., Inc., d/b/a Affinity Telecom ("Affinity"), a Michigan-based CLEC and long distance carrier. The operations of US1 and Affinity have been integrated into the operations of AFN and CloseCall, respectively. For the time being, we intend for AFN to operate on a standalone basis. However, the operating results of both AFN and ClosCall are included in our voice business segment.

On June 24, 2005, CloseCall filed its first provisional patent application with the U.S. PTO: "System and Method for Secure Web-Based Mobile Phone Parental Controls".

Business Strategy

Our primary objective in the voice division is to be a leading provider of high-quality integrated communications services in each of our major service areas, acting as a reseller of local, long distance, wireless, Internet access and data services to residential customers and small to medium-sized business enterprises. We deliver high-value bundled and individual services tailored to the needs of our customers presented on a single invoice.

During the current year, CloseCall has focused on the expansion of its telecommunications service offerings and the securing of long-term agreements with local exchange carriers. As stated above, in the six-month period ended September 30, 2005, we completed five-year commercial agreements with Verizon and SBC covering six and thirteen

states, respectively. In addition, we executed a similar agreement with BellSouth covering nine states that runs through December 31, 2007. Completion of these agreements 1) allows the expansion of CloseCall's overall geographic market, and the expansion and bundling of service offerings in these states including Florida, and 2) provides predictability of the pricing of wholesale services provided to us by these carriers during the terms of the agreements.

CloseCall has also expanded its advertising programs in the current year. It uses print, signage, radio and television advertising to market services to customers, including fans of certain local professional sports teams, such as the Baltimore Ravens, Ripken Baseball, Aberdeen Ironbirds, Frederick Keys, Bowie Baysox, and the Delmarva Shorebirds.

Our future business strategy will focus on the establishment of effective cross-selling programs in order to leverage the combined customer base of the voice and Internet service provider business segments, the effective delivery of such services and the provision of excellent customer service. CloseCall's combined local and long distance churn measured by terminations of customer subscriber lines is approximately 2% per month compared to an industry average of approximately 5% per month. As part of this effort, we are seeking to increase our penetration of existing markets in which we have, or believe we may achieve, significant operating efficiencies.

Services

This portion of our voice business segment provides service to over approximately 120,000 equivalent subscriber lines, including approximately 86,000 long distance lines and approximately 27,000 local lines. This business also has approximately 6,000 cell phone subscribers and approximately 1,700 Internet access customers. In addition, we have recently begun to offer VoIP telephone service to customers. The majority of our customers in this business segment are residential.

Bundled Services Approach. We offer our integrated communications services in a high-quality bundle to residential customers, and small to medium-sized businesses at attractive prices. When economically advantageous for us to do so, we seek to bundle our integrated communications services. Our targeted customers often will have multiple vendors for voice and data communications services, each of which may be billed separately. Unlike many of these vendors, we are able to provide a comprehensive package of local telephone, long distance, Internet access and other integrated communications services.

Local Services . We offer a wide range of local services, including local voice services, voicemail, universal messaging, directory assistance, call forwarding, return call, hunting, call pick-up, repeat dialing and speed dialing services. We provide our local services primarily over local connections utilizing Incumbent Local Exchange Carrier (ILEC) facilities.

Long Distance Services. We offer both domestic and international switched and dedicated long distance services, including "1+" outbound dialing, inbound toll-free and calling card services. Many of our customers prefer to purchase our long distance services as part of a bundle that includes some of our other integrated communications services offerings. We also offer for convenience an away from home or business service using our own network platform with 1.800.CloseCall.

High Speed Internet Access via Digital Subscriber Line . We offer xDSL combined with our local service in selected markets. DSL technology provides continuous high-speed local connections to the Internet and to private and local area networks.

Internet Access. We offer dial-up Internet access utilizing multiple wholesale vendors and have recently added our five times ("5X") traditional dial-up speeds in select locations.

Digital Wireless. We offer digital wireless services in many of our target markets. We believe that CloseCall America is one of the few companies that have the capability to add wireless service to an existing customer invoice.

Digital Broadband Phones via Voice over IP ("VoIP"). We offer digital phones for customers that have access to high-speed internet connections utilizing VoIP technologies.

Payphone Services

Overview

Our subsidiary, Davel, is one of the largest independent payphone service providers in the United States. Davel operates in a single business segment within the telecommunications industry, and primarily utilizes subcontractors to operate, service, and maintain its system of payphones throughout the United States. On November 15, 2004, we completed our acquisition of 100 percent of the senior secured debt of Davel and received an assignment of the secured lenders' shares of Davel common stock representing approximately 95.2 percent of Davel issued and outstanding common stock. We subsequently acquired the remaining 4.8 percent of the issued and outstanding Davel common stock in May 2005.

As of December 31, 2005, Davel owned and operated a network of approximately 36,000 payphones predominantly located in 42 states and the District of Columbia, providing it with one of the broadest geographic ranges of coverage of any payphone service provider, or PSP, in the country. Davel's installed payphone base generates revenue through coin calls (local and long-distance), non-coin calls (calling card, credit card, collect, and third-party billed calls using the Company's pre-selected operator services providers) and dial-around calls (utilizing a 1-800, 1010XXX or similar "toll free" dialing method to select a carrier other than the Company's pre-selected carrier). Approximately 25% of Davel's revenues, or approximately 11% of consolidated revenues, are comprised of dial-around revenues. A significant portion of Davel's payphones are located in high-traffic areas such as convenience stores, shopping centers, truck stops, service stations, and grocery stores.

As part of the Telecommunications Act of 1996, or 1996 Telecom Act, Congress directed the Federal Communications Commission, or FCC, to ensure widespread access to payphones for use by the general public. The most recent estimates of payphone deployment released by the FCC suggest that there are approximately 1.5 million payphones currently operating in the United States, of which approximately 0.8 million are operated by the Regional Bell Operating Companies, or RBOCs, and approximately 0.1 million are operated by the smaller independent local

exchange carriers, or LECs. The remaining approximately 0.6 million payphones are owned or managed by the major long distance carriers such as Sprint and AT&T and more than 1,000 independent payphone providers, or IPPs, currently operating in the United States.

Payphone Services Business - Background

Today's telecommunications marketplace was principally shaped by the 1984 court-approved divestiture by AT&T of its local telephone operations, or the AT&T Divestiture, and the many regulatory changes adopted by the FCC and state regulatory authorities in response to and subsequent to the AT&T Divestiture, including the authorization of the connection of competitive or independently owned payphones to the public switched network. The "public switched network" is the traditional domestic landline public telecommunications network used to carry, switch and connect telephone calls. The connection of independently owned payphones to the public switched network has resulted in the creation of additional business segments in the telecommunications industry. Prior to these developments, only the consolidated Bell system or independent LECs were permitted to own and operate payphones. Following the AT&T Divestiture and subsequent FCC and state regulatory rulings, the independent payphone sector developed as a competitive alternative to the consolidated Bell system and other LECs by providing arguably more responsive customer service, lower cost of operations and higher commissions to the owners or operators of the premises at which a payphone is located ("Location Owners").

Prior to the AT&T Divestiture, the LECs could refuse to provide payphone service to a business operator or, if service was installed, would typically pay no or relatively small commissions for the right to place a payphone on the business premises. Following the AT&T Divestiture and the FCC's authorization of payphone competition, IPPs began to offer Location Owners higher commissions on coin calls made from the payphones in order to obtain the contractual right to install the equipment on the Location Owners' premises. Initially, coin revenue was the only source of revenue for the payphone operators because they were unable to participate in revenues from non-coin calls. However, the operator service provider, or OSP, industry emerged and enabled the competitive payphone operators to compete more effectively with the regulated telephone companies by paying commissions to payphone owners for non-coin calls. For the first time, IPPs were able to receive non-coin call revenue from their payphones. With this incremental source of revenue from non-coin calls, IPPs were able to compete more vigorously on a financial basis with RBOCs and other LECs for site location agreements, as a complement to the improved customer service and more efficient operations provided by the IPPs. As part of the AT&T Divestiture, the United States was divided into Local Access Transport Areas, or LATAs. RBOCs were authorized to provide telephone service that both originates and terminates within the same LATA, or intraLATA, pursuant to tariffs filed with and approved by state regulatory authorities. RBOCs typically provide payphone service primarily in their own respective territories, and are now authorized to share in the payphone revenues generated from telecommunications services between LATAs, or interLATA. Long-distance companies, such as Sprint, AT&T and MCI, provide interLATA services, and in some circumstances, also provide local or long-distance service within LATAs. An interLATA long-distance telephone call generally begins with an originating LEC transmitting the call from the originating payphone to a point of connection with a long-distance carrier. The long-distance carrier, through its owned or leased switching and transmission facilities, transmits the call across its long-distance network to the LEC servicing the local area in which the recipient of the call is located. The terminating LEC then delivers the call to the recipient.

Business Strategy

Rationalization of Low-Revenue Phones. In recent years, Davel has experienced revenue declines as a result of increased competition from cellular and other telecommunications products. As a result of declining revenues, Davel's strategy has been to remove low revenue payphones that do not meet its minimum criteria of profitability and to promote improved density of its payphone routes. During the most recent two calendar years ending December 31, 2004 and 2003, Davel removed approximately 8,900 and 24,800 payphones respectively. Although a portion of these removals resulted from competitive conditions or decisions not to renew contracts with Location Owners under unfavorable terms, a large portion of these removals was to eliminate unprofitable payphones. Davel has an ongoing program to identify additional payphones to be removed in 2005 based upon low revenue performance and route density considerations. Additionally, prior to the expiration or renewal of the term of its agreements with Location Owners, Davel regularly evaluates the economics of such agreements to determine whether more favorable terms can be negotiated in order to minimize the number of payphones that do not meet its minimum criteria of profitability and which may be subject to removal.

Selective Acquisitions. As a means of maintaining and expanding Davel's customer and payphone base, Davel continues to identify and evaluate other payphone companies that can be acquired and integrated into Davel's operations. By strategically acquiring additional payphones in certain targeted areas, Davel can improve the density of its payphone routes and expand its revenues to improve the overall profitability of its operations.

Outsourcing Service, Maintenance and Collection Activities. Notwithstanding improvements in payphone route densities and other efficiencies achieved during the previous two years, Davel continues to examine its cost structure to identify additional ways to improve the profitability of the business. During 2003, Davel outsourced the assembly and repair of its payphone equipment and closed its warehouse and repair facility in Tampa, Florida to reduce the cost to repair, maintain and store its replacement payphone equipment. In the fourth quarter of 2003, Davel also outsourced the collection, service and maintenance of its payphones in the western region of the United States to reduce the cost of servicing its geographically disbursed payphones in this area and closed eleven district offices. During the calendar year 2004 Davel outsourced the remainder of its district offices, with the exception of its office located in Bronx, New

York. Although there were costs associated with the outsourcing of these activities, Davel believes future savings will more than offset these costs and have a favorable impact on its future operating results. Davel plans to continue to evaluate additional outsourcing opportunities and to implement those strategies that can further reduce its operating costs.

Utilize Advanced Payphone Technology. The payphones installed and operated by Davel utilize "smart" technology which provides voice synthesized calling instructions, detects and counts coins deposited during each call, informs the caller at certain intervals of the time remaining on each call, identifies the need for and the amount of an additional deposit in order to continue the call, and provides other functions associated with the completion of calls. Through the use of a non-volatile, electronically erasable, programmable memory chip, the payphones can also be programmed and reprogrammed from Davel's central computer facilities to update rate information or to direct different types of calls to particular carriers. Davel's payphones can also distinguish coins by size and weight, report to its central host computer the total amount of coin in the coin box, perform self-diagnosis and automatically report problems to a pre-programmed service number.

Apply Sophisticated Monitoring and Management Information Systems. Davel utilizes a blend of enterprise-class proprietary and non-proprietary software that continuously tracks coin and non-coin revenues from each payphone, as well as expenses relating to each payphone, including commissions payable to the Location Owners. Davel's technology also allows it to efficiently track and facilitate the activities of field technicians via interactions from the pay telephone with its computer systems and technical support personnel at its headquarters.

Provide Outstanding Customer Service. The technology used by Davel enables it to (i) respond quickly to equipment malfunctions and (ii) maintain accurate records of payphone activity that can be verified by customers. Davel strives to minimize "downtime" on its payphones by identifying service problems as quickly as possible. Davel employs both advanced telecommunications technology and utilizes trained field technicians as part of its commitment to provide superior customer service. The records generated through Davel's technology also allow for the more timely and accurate payment of commissions to Location Owners.

Consolidation of Carrier Services. As part of its strategy to reduce costs and improve service quality, Davel has consolidated its coin and non-coin services with a limited number of major carriers. This enables Davel to maximize the value of its traffic volumes and has translated into more favorable economic and service terms and conditions in these key aspects of its business. Davel has entered into service agreements with certain Competitive Local Exchange Carriers ("CLECs") which has allowed it to significantly reduce its costs of obtaining local line service while improving the efficiency and quality of entering its billing information through electronically generated billing.

Pursue Regulatory Improvements. Davel continues to actively pursue regulatory changes that will enhance its near and long-term performance and viability. Notably, Davel is pressing, through regulatory channels, the reduction in line and related charges and improvements to the dial around compensation collection system that are critical to the economic viability of the payphone industry generally and Davel's operations specifically.

Enhance Product Offerings. As part of its strategy to maintain and grow its customer base, Davel continues to pursue additional product offerings made available to it through its affiliated companies in order to enhance the benefits provided to its customers.

Internet Services

Overview

We provide broadband, dial-up, web-hosting services, VoIP and other related internet services to business and residential customers in over 40 states through the efforts of DFW and its eight ISP subsidiaries.

During the first fiscal quarter of 2004, we acquired three Internet Service Providers ("ISPs"). On April 21, 2004, we acquired August.net Services, LLC, a Texas based ISP. On June 3, 2004, we acquired ShreveNet, Inc., a Louisiana-based ISP. On June 21, 2004, we acquired the assets of Crescent Communications, a Texas-based ISP.

During the second fiscal quarter of 2005 we completed the acquisition of an additional three ISPs. On July 6, 2004, we completed our acquisition of Clover Computer Corporation, an Ohio-based ISP. On July 14, 2004, we completed our acquisition of Ticon.net, Inc., a Wisconsin-based ISP. Finally, on August 13, 2004, we completed our acquisition of certain assets of Web One, Inc., a Kansas City, Kansas-based ISP and web-hosting provider with operations in Missouri and Kansas.

During the third fiscal quarter of 2005 we acquired two additional ISPs. On September 15, 2004, we completed our acquisition of World Trade Network, Inc., an ISP based in Houston, Texas. On September 16, 2004, we completed our acquisition of The River Internet Access Co., an ISP based in Tucson, Arizona.

On November 1, 2005, we announced the acquisition of InReach Internet, an Internet services provider located in Stockton, California. InReach provides a base of operations for the Sacramento municipal wireless network.

Business Strategy

Most of our efforts in the Internet services division are led by DFW, d/b/a Nationwide Internet, a Texas-based ISP that we acquired in January 2004. Nationwide provides a wide array of Internet services tailored to meet the needs of individual and business subscribers. As of December 31, 2005, we served approximately 108,000 equivalent subscriber lines, including approximately 52,000 residential customers and approximately 13,000 business customers. Our strategy has been to expand our current customer base by acquiring ISPs in new markets. We intend to gain new customers and improve retention of existing customers through improved marketing, increased broadband service availability and the introduction of new value-added services.

During the current year, the activities of this operation have focused on the integration of the operations of the acquired companies comprising this business segment. Since 2004, we have been confronted with the challenges of managing many remotely located operations and combining different systems. Although many of the acquired companies have been operationally integrated into DFW, the business continues to maintain multiple offices in Texas and Arizona, locations that are necessary at this point to support existing customers. In addition, most of the acquired entities remain in corporate form requiring that we maintain separate set of accounting and income tax records for each company. The lack of employee retention at certain smaller acquired companies has, at times, adversely affected the integration of operations and the retention of customers. However, efforts are continuing to focus on combining service offerings, consolidating network operations and customer support locations, eliminating leases, merging companies and otherwise reduce operating costs.

At present, dial-up subscribers represent the largest group of customers of the Internet services group (approximately 82%). Our strategy to quickly create a viable telecommunications company positioned to capitalize on emerging opportunities, including municipally sponsored broadband wireless networks, was launched through the acquisition of a series of readily available, reasonably priced ISPs, operating in second and third tier markets and largely providing dial-up Internet access service. We believe that this tactic was successful. We expect that we will be more selective in consummating future acquisitions in this business. For example, we believe that the recent acquisition of InReach represents a unique opportunity to obtain an operation located in a position to support our broadband wireless network deployment in Sacramento, California. In addition, we believe that we have obtained an excellent organization operating with positive cash flows in a new geographic market on the west coast.

Services

We offer Internet services tailored to meet the needs of both individual and business subscribers. Our primary service offerings are broadband and dial-up Internet access, as well as related value-added services. For our business subscribers, we offer dedicated high speed Internet access, Web hosting, co-location, VoIP and other business related services. Our services are offered in several different packages to provide subscribers a broad range of choices to satisfy their Internet needs. The majority of our consumer subscribers have month-to-month subscriptions and the majority of our business customers are under service contracts for a term. We bill consumer subscribers through automatic charges to their credit cards or bank accounts, and by invoice and we bill most of our business customers by monthly invoices.

High Speed Connectivity; DSL Services. We offer broadband connectivity for business and consumers, including 64k/128k Integrated Service Digital Network (ISDN) access, 1.5M Asymmetrical Digital Subscriber Lines (ADSL), fractional to full T-1, DS-3 level connectivity and wireless connectivity. Our DSL products provide high-speed Internet access over existing telephone lines, and may allow subscribers to simultaneously use a single telephone line for voice service and for access to the Internet. DSL provides an "always on" connection thereby removing wait times associated with dialing into a network. The DSL products offer our residential and business subscribers a cost-effective way to substantially increase the speed at which they access the Internet.

Dial-Up Internet Access. Our most popular dial-up Internet access package includes basic Internet access and related Internet applications such as World Wide Web browsing, e-mail, file transfer protocol (FTP), and news access. Available value-added services include multiple e-mail mailboxes, national roaming services, personalized e-mail addresses and personal Web sites.

Web Services. We offer Web hosting for businesses and other organizations that wish to create their own World Wide Web sites without maintaining their own Web servers and high-speed Internet connections. Web hosting subscribers are responsible for building their own Web sites and then uploading the pages to a Nationwide server. This Web hosting service features state-of-the-art servers for high speed and reliability, a high quality connection to the Internet, specialized customer support and advanced services features, such as secure transactions and site usage reports.

T1/VoIP. We deliver VoIP services over a single all-IP network using T-1 connections. This gives us the ability to provide a wide range of voice and data services. Unlike traditional voice-centric circuit switched communications networks, which require separate networks in order to provide voice and data services, we employ a single integrated network, which uses technologies that digitize voice communications into IP packets and converges them with other data services for transport on an IP network. Our network design exploits the convergence of voice and data services and requires significantly lower capital expenditures and operating costs compared to traditional service providers using legacy technologies. The integration of our network with our automated front and back office systems allows us to monitor network performance, quickly provision customers and in the future, offer our customers the ability to add or change services online, thus reducing our customer care expenses. We believe that our all-IP network and automated support systems enable us to continue to offer new services to our customers in an efficient manner.

Customer Service

Our goal of 100% customer satisfaction begins with providing quality systems and network performance. We focus on scalability, reliability and speed in the technical design and maintenance of our systems. In addition to the provision of quality systems and network performance, we emphasize high quality customer care and technical support. We strive to retain our subscribers by prompt response to customer problems via telephone, email and newsgroups.

Customer service is available to subscribers 24-hours-a-day, 7-days-a-week. The customer care department is organized in tiers designed to respond to varying types of support needs. In addition to diagnosing and resolving subscribers' technical problems, our customer care department answers questions about account status and billing information, provisions new product requests and provides configuration information.

Infrastructure

Our network provides subscribers with local dial-up across the United States and broadband (DSL) in select markets. Our systems and network infrastructure are designed to provide reliability and speed. Reliability is achieved through redundancy in mission critical systems that minimize the number of single points of failure. Speed is achieved through clustered systems, diverse network architecture, multi-peered Internet backbone connections and aggressive load balancing.

Physical and Virtual POPs. Subscribers dial a local phone number and connect to one of our points of presence (POPs), consisting of inbound telephone lines, modems and related computer equipment. The POPs are either facilities owned by Nationwide or "Virtual POPs" owned by other telecommunication companies. Virtual POP architecture allows us to provide local access services without deploying additional physical infrastructure. The Virtual POP architecture enables subscribers to dial a local phone number and connect to a modem owned and housed by a telecommunications provider. The subscriber's data call is then routed across leased lines to our internal network. Unlike simply leasing network capacity from a third-party provider, the Virtual POP architecture allows us to maintain substantial control over quality of service and capacity. The benefits of this architecture include substantially reduced capital expenditures and reduced exposure to technological obsolescence. In addition, when entering new markets, the Virtual POP architecture allows us to more precisely match capacity needs to actual sales in that market.

Internal Network Infrastructure. Subscribers enter our network from either the physical POP or Virtual POP. Our primary internal network is designed to maximize sustained high-speed traffic and provide both resiliency to failure and redundancy. Our facilities are powered by a computer controlled uninterruptible power supply that provides battery backup, surge protection and power conditioning. Automatic onsite diesel generators provide power for prolonged power outages.

We also maintain a Network Operations Center ("NOC") in Tucson, AZ, which is staffed 24 hours a day. The NOC is responsible for monitoring the status of all networking facilities, components, applications and equipment deployed throughout our infrastructure. The NOC is responsible for operational communications among internal departments and is also responsible for communication with external service providers.

We maintain our applications on a variety of systems from a number of vendors. The major applications, such as e-mail and newsgroup access services, utilize a network of servers which are connected directly to our network backbone through high-availability network routers. We deploy PC style hardware in clusters for distributing the load of other applications and providing fault-tolerance against application failure. These distributed applications are housed on low cost, easily obtainable components with minimal interdependency.

Competition

Wireless Networks

Delivery of broadband wireless Internet access is a highly competitive industry that is a fast growing segment of the technology sector. NeoReach Wireless primarily operates in the city-sponsored sector of this industry. Competition for such city-sponsored metro area wireless deployments comes from primarily three levels of competition. First are cities themselves as many are attempting to own and operate Wi-Fi networks. Second, competition comes from wireless Internet service providers or WISPs located in or near a city, that are operating traditional wireless networks. Third, the incumbent large-scale telecommunication or cable operators can decide to compete against itself by setting up a wireless network, rather than allow another service provider to get a foothold in its market.

Voice Services

The communications industry is highly competitive. We compete primarily on the basis of the quality of our offerings, quality of our customer service, bundling (offering multiple services), price, availability, reliability, and variety. Our ability to compete effectively depends on our ability to maintain high-quality services at prices generally equal to or below those charged by our competitors. In particular, price competition in our sector has been intense and is not expected to decrease. Our competitors include, among others, various "competitive carriers" like us, as well as larger providers such as Verizon, SBC, AT&T Corp., Sprint, and MCI. These larger providers have substantially greater infrastructure, financial, personnel, technical, marketing and other resources, larger numbers of established customers and more prominent name recognition than CloseCall. We increasingly face competition in the local and long distance market from local carriers, resellers, cable companies, wireless carriers and satellite carriers, and may compete with electric utilities. We also may increasingly face competition from businesses offering long distance data and voice services over the Internet. These businesses could enjoy a significant cost advantage because currently they generally do not pay carrier access charges or universal service fees.

We face significant competition from "competitive carriers" that are similar to us, principally in terms of size, structure and market share. Some of these carriers already have established local operations in some of our current and target markets. Many competitive carriers are struggling financially. We cannot predict which of these carriers will be able to continue to compete effectively against us over time.

We also compete in the provision of local services against the incumbent local telephone company in each market, which is Verizon in a large majority of our market areas. Incumbent carriers enjoy substantial competitive advantages arising from their historical monopoly position in the local telephone market, including pre-existing customer relationships with all or virtually all end-users. Further, we are highly dependent on incumbent carriers for local network facilities and wholesale services required in order for us to assemble our own local services. In addition, incumbent carriers are expected to compete in each other's markets in some cases, which will increase the competition we face. Wireless communications providers are competing with wireline local telephone service providers, which further increases competition.

Local and long distance marketing is converging, as other carriers offer integrated communications services. For example, many competitive carriers also offer long distance services to their customers and large long distance carriers, such as AT&T Corp., Sprint and MCI, have begun to offer local services in some markets. We also compete with numerous direct marketers, telemarketers and equipment vendors and installers with respect to portions of our business.

Regional Bell operating companies, such as Verizon, are currently allowed to provide, both inside and outside their home regions, "interLATA" long distance and mobile services, which are long distance services that originate and terminate in different local access and transport areas. These companies already have extensive fiber optic cable, switching and other network facilities in their regions that they can use to provide long distance services throughout the country. By offering in-region long distance services in our markets, Verizon is able to offer substantially the same integrated local and long distance services as CloseCall, and will have a significant competitive advantage over us in marketing those services to its existing local customers.

A continuing trend toward consolidation, mergers, acquisitions and strategic alliances in the communications industry also could increase the level of competition we face. On January 31, 2005, SBC Communications, Inc., and AT&T Corp. announced their intention to enter into a business combination. In February 2005, Verizon Communications, Inc., and MCI announced an agreement to enter into a business combination, and Qwest Communications International Inc. announced a bid to compete with Verizon's purchase offer. Such transactions, if consummated, would result in substantial consolidation of U.S. wireline telecommunications resources and revenue. In addition, as reflected in the acquisitions of Cable and Wireless USA, Inc., by Savvis Communications, Inc., Focal Communications, Inc., by Broadwing Corporation, and KMC Telecom Corp. by CenturyTel, Inc., substantial

consolidation also has taken place among competitive carriers. Assuming that each of the announced transactions involving AT&T Corp. and MCI occur as planned, market power for U.S. telecommunications services will be further consolidated among the incumbent carriers, and both business and residential customer choice will be significantly reduced. Although it is not certain what the effects of this industry consolidation will be, we believe that one possible result could be that prices for telecommunications services would stabilize due to reduced competition. The incumbent carriers are significantly larger than we are in terms of annual revenues, total assets, and financial resources, and have increased their marketing efforts toward our target market of small- and medium-size businesses.

A recent trend toward deregulation, particularly in connection with incumbent carriers and service providers that use Voice Over Internet Protocol applications, could increase the level of competition we face in our markets and, in turn, adversely affect our operating results. Incumbent carriers and, in particular, the regional Bell operating companies, continue to seek deregulation for many of their services at both the federal and state levels. If their efforts are successful, these companies will gain additional pricing flexibility, which could affect our ability to compete with them. The recent emergence of service providers that use Voice Over Internet Protocol applications also could present a competitive threat. Because the regulatory status of Voice Over Internet Protocol applications is largely unsettled, providers of such applications may be able to avoid costly regulatory requirements, including the payment of inter-carrier compensation. This could impede our ability to compete with these providers on the basis of price. More generally, the emergence of new service providers will increase competition, which could adversely affect our ability to succeed in the marketplace for communications and other services.

Our payphone business competes for payphone locations directly with LECs and other IPPs. We also compete, indirectly, with long-distance companies, which can offer Location Owners commissions on long-distance calls made from LEC-owned payphones. Most LECs and long-distance companies against which we compete, as well as some IPPs, may have substantially greater financial, marketing and other resources than us. Many LECs and IPPs faced with competition for payphone locations have increased their compensation arrangements with Location Owners to offer increased commission payments.

We believe that the competitive factors among payphone providers are (1) the quality of service and the availability of specialized services provided to a Location Owner and payphone users, (2) the ability to serve accounts with locations in several LATAs or states, (3) the commission payments to a Location Owner, and (4) responsiveness to customer service needs. We believe we are currently competitive in each of these areas.

We also compete with inter-exchange carriers ("IXCs") that provide access to alternative operator services, which can be accessed through our payphones. Payphone calls placed using this method are referred to as "dial around calls". Certain national long-distance operator service providers and prepaid calling card providers have implemented extensive advertising promotions and distribution schemes which have increased dial-around activity on payphones owned by LECs and IPPs, including us, thereby reducing traffic to our primary providers of operator assisted and long-distance services.

Notwithstanding the foregoing, we believe that our principal competition in our payphone business is from providers of wireless communications services for both local and long distance traffic. Certain providers of wireless communication services have introduced rate plans that are competitively priced with certain of the products offered by us and have negatively impacted the overall usage of payphones throughout the nation.

Although certain RBOCs such as Qwest and Bell South have exited the payphone business due to declining call volumes and lower revenues, there remain a large number of LEC's, IXCs and IPPs that compete for payphone locations. Davel continues to renew its existing location contracts and compete for new business at sites that can generate sufficient call volumes to support the installation of payphones.

Internet Services

We compete for subscription revenues with multiple companies providing Internet services, such as AOL, the Microsoft Network, EarthLink and AT&T Worldnet, NetZero and smaller regional ISPs. We also compete with companies that provide Internet access via narrowband and broadband technologies, such as Internet access providers, cable companies and telephone companies. Like us, other companies offer some of the same Internet connectivity services to their customers. We also compete more broadly for subscription revenues and members' time with cable, information, entertainment and media companies. We compete for advertising and commerce revenues with a wide range of companies, including those that focus on the Internet, such as online services, internet access companies, web-based portals and individual web sites providing content, commerce, community and similar features, as well as media companies, such as those with newspaper or magazine publications, radio stations and broadcast stations or networks.

We face competition in developing technologies, and risks from potential new developments in distribution technologies and equipment in Internet access. In particular, we face competition from developments in the following types of internet access distribution technologies or equipment: broadband distribution technologies used in cable Internet access services; advanced personal computer-based access services offered through DSL technologies offered by local telecommunications companies; other advanced digital services offered by wireless companies; television-based interactive services; personal digital assistants or handheld computers; and enhanced mobile phones. We must keep pace with these developments and also ensure that we either have comparable and compatible technology or access to distribution technologies developed or owned by third parties.

Governmental Regulation

Voice Services

Competitive Local Exchange Carrier

Overview. Our services are subject to federal, state and local regulation. Through our wholly-owned subsidiaries, we hold numerous federal and state regulatory authorizations. The Federal Communications Commission, or FCC, exercises jurisdiction over telecommunications common carriers to the extent they provide, originate or terminate interstate or international communications. The FCC also establishes rules and has other authority over some issues related to local telephone competition. State regulatory commissions retain jurisdiction over telecommunications carriers to the extent they provide, originate or terminate intrastate communications. Local governments may require us to obtain licenses, permits or franchises to use the public rights-of-way necessary to install and operate our networks.

Federal Regulation . We are classified as a non-dominant carrier by the FCC and, as a result, are subject to relatively limited regulation of our interstate and international services. Some general policies and rules of the FCC apply to us, and we are subject to some FCC reporting requirements, but the FCC does not review our billing rates. We possess the operating authority required by the FCC to conduct our long distance business as it is currently conducted. As a non-dominant carrier, we may install and operate additional facilities for the transmission of domestic interstate communications without prior FCC authorization, except to the extent that radio licenses are required. The following discussion summarizes some specific areas of federal regulation that directly or indirectly affects our business.

Local Competition. The FCC's role with respect to local telephone competition arises principally from the Telecommunications Act of 1996. The Telecommunications Act preempts state and local laws to the extent that they prevent competition in the provision of any telecommunications service. Subject to this limitation, state and local governments retain telecommunications regulatory authority over intrastate telecommunications. The Telecommunications Act imposes a variety of duties on local carriers, including competitive carriers such as CloseCall, to promote competition in the provision of local telephone services. These duties include requirements for local carriers to: interconnect with other telecommunications carriers; complete calls originated by customers of competing carriers on a reciprocal basis; permit the resale of their services; permit users to retain their telephone numbers when changing carriers; and provide competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices.

Incumbent carriers also are subject to additional duties. These duties include obligations of incumbent carriers to: offer interconnection on a non-discriminatory basis; offer co-location of competitors' equipment at their premises on a non-discriminatory basis; make available certain of their network facilities, features and capabilities on non-discriminatory, cost-based terms; and offer wholesale versions of their retail services for resale at discounted rates.

Collectively, these requirements recognize that local telephone service competition is dependent upon cost-based and non-discriminatory interconnection with, and use of, some elements of incumbent carrier networks and facilities under specified circumstances. Failure to achieve and maintain such arrangements could have a material adverse impact on our ability to provide competitive local telephone services. Under the Telecommunications Act, incumbent carriers are required to negotiate in good faith with carriers requesting any or all of the foregoing arrangements.

In August 2003, the FCC adopted changes to the rules defining the circumstances under which incumbent carriers must make network elements available to competitive carriers at cost-based rates. These rule changes were appealed by both incumbent carriers and competitive carriers to a federal court of appeals, which in March 2004 vacated and remanded to the FCC several aspects of those changes. In February 2005, the FCC issued a decision in response to the court's March 2004 ruling. That decision, which is known as the Triennial Review Remand Order, or TRRO, became

effective on March 11, 2005, and revised the rules for when incumbent carriers must unbundle and make available to competitive carriers various types of UNEs, including high-capacity loops and interoffice transport. The following sets forth information about the application of the new rules.

UNE Loops

DS0 Loops. A DS0 loop is a single, voice-grade channel. Typically, individual business lines are DS0 loops. Incumbent carriers must make DS0 loops available at UNE rates on an unlimited basis.

DS1 Loops. A DS1 loop is a digital loop with a total speed of 1.544 megabits per second, which is the equivalent of 24 DS0s. Multiple voice lines and Internet access can be provided to a customer over a single DS1 loop. We understand the FCC's new rules to require that incumbent carriers make available to competitive carriers DS1 loops at UNE rates in the majority of incumbent carrier central offices.

DS3 Loops. A DS3 loop is a digital loop with a total speed of 44.736 megabits per second. We understand the FCC's new rules to require that incumbent carriers make available to competitive carriers DS3 loops at UNE rates in the majority of incumbent carrier central offices.

OCn Loops and Dark Fiber. Under the FCC's new rules, incumbent carriers are not required to provide optical capacity loops or dark fiber loops as UNEs. Optical capacity loops, referred to as OCn loops, are very high-capacity digital loops ranging in capacity from OC3 loops, which are the equivalent of three DS3s, to OC192.

Incumbent carriers are not required to provide some mass market broadband loop facilities and functionality to competitive carriers as UNEs. Specifically, incumbent carriers are not required to make newly-deployed fiber-to-the-home, or FTTH, loops available as UNEs and are only required to provide the equivalent of DS0 capacity on any FTTH loop built over an existing copper loop. It is possible that incumbent carriers will seek additional regulatory relief from any remaining obligation to make FTTH loops available to competitive carriers. The FCC already has held that incumbent carriers are not required to unbundle and make available to competitive carriers fiber-to-the-curb, or FTTC, loops.

UNE Transport

DS1 Transport. Whether transport is available as a UNE is determined on a route-by-route basis. Incumbent carriers must make transport at UNE rates available at DS1 capacity levels between any two incumbent carrier central offices unless both central offices either serve more than 38,000 business lines or have four or more fiber-based colocators.

DS3 Transport. Access to DS3 capacity-level transport is more limited than access to DS1 transport. Incumbent carriers must make transport at UNE rates available at DS3 capacity levels between any two incumbent carrier central offices unless both central offices either serve more than 24,000 business lines or have three or more fiber-based colocators.

Dark Fiber Transport. Dark fiber transport is available under the same conditions as DS3 transport.

Incumbent carriers are not required to provide access to transport at greater-than DS3 capacity levels. Incumbent carriers also are not required to provide transport at any capacity level to connect an incumbent carrier central office with a competitive carrier's facilities.

In addition to addressing high-capacity loops and transport, the TRRO confirmed the eventual elimination of mass market local switching as a UNE, thereby phasing out the availability of UNE-P at cost-based rates to competitive carriers such as us. Although CloseCall has an embedded base of UNE-P customers, we have begun to migrate our existing UNE-P customers to other provisioning arrangements where we have facilities and it is advantageous for us to do so. We also have a five year "commercial agreement" in place with Verizon that locks in rates through 2010.

The FCC also confirmed in the TRRO that the availability of special access services for competitive carriers does not excuse incumbent carriers from the requirement to make available prescribed UNEs at rates based on the FCC's "Total

Element Long Run Incremental Cost," or TELRIC, pricing methodology.

To the extent incumbent carriers no longer need to provide to competitive carriers the above-described switching, loop and transport elements as UNEs, the FCC established a transitional period during which incumbent carriers must continue to make these elements available at prescribed rates for a defined period of time. We anticipate that some incumbent and competitive carriers will use this transition period to enter into commercial agreements for these elements, but these agreements are likely to contain rates, terms and conditions that are less favorable to competitive carriers than they have been in the past.

The TRRO continued the recent trend of reducing the number and types of UNEs that incumbent carriers must make available to competitive carriers. Although the TRRO has been appealed, we cannot predict the outcome of this appeal or whether the result of any such appeal will be favorable or unfavorable to our business.

TELRIC Pricing. The FCC has initiated a re-examination of its TELRIC pricing methodology for network elements. The FCC has proposed a number of changes to these pricing rules that would be unfavorable to us. Legislation has been proposed in Congress in the past and may be proposed in the future that would further restrict the access of competitive carriers to incumbent carriers' network elements. Future restrictions on, or reductions in, the network elements available to us, or any increase in the cost to us of such network elements, could have a material adverse effect on our business.

Broadband. In the future, an important element of providing competitive local service may be the ability to offer customers high-speed broadband local connections. The FCC recently reduced the number and types of unbundled network elements, such as FTTC and FTTH that incumbent carriers must make available to competitive carriers to enable them to provide broadband services to customers using incumbent carrier networks. These restrictions were largely upheld by a federal court of appeals. Although the court's decision regarding so-called "naked DSL" may be appealed, we cannot predict the outcome of any such appeal. The FCC also recently held that incumbent carriers such as Verizon cannot be required by state commissions to make digital subscriber line services available to end users when a competitive carrier provides the end user with voice service. This is known in the industry as "naked DSL." Although this decision also may be appealed, we cannot predict the outcome of any such appeal.

In other proceedings affecting broadband policy, the FCC is considering what regulatory treatment, if any, should be accorded to digital subscriber line services provided by communications companies and has already considered what regulatory treatment should be accorded to cable modem services, which are used by cable companies to deploy high-speed Internet access services. The FCC found in 2002 that cable modem service is an "information service" that is exempt from regulation. A federal court of appeals overturned that decision as being inconsistent with an earlier ruling by the court that cable modem service has both "information service" and "telecommunication service" components, which would make that service subject to regulation, but the court's decision has been appealed to the United States Supreme Court, where the matter is pending.

The FCC has sought comment on a number of other regulatory proposals that could affect the speed and manner in which high-speed broadband local services are deployed by our competitors. We cannot predict the outcome of these proposals at the FCC or in the courts or the effect they will have on our business and the industry.

Congress also has considered in the past, and may consider in the future, legislation that would deregulate some aspects of the incumbent local carriers' broadband services and would reduce the extent to which those carriers must provide access to their networks to competitive local carriers for the provision of broadband services. Several cable companies already are offering broadband Internet access over their network facilities, and incumbent carriers and competitive carriers also offer these services through digital subscriber line technology. If we are unable to meet the future demands of our customers for broadband local access on a timely basis at competitive rates, we may be at a significant competitive disadvantage.

Internet Protocol-Enabled Services. The FCC is considering clarifications and changes to the prospective regulatory status of services and applications using Internet Protocol, including Voice Over Internet Protocol offerings. Voice Over Internet Protocol is an application that manages the delivery of voice information across data networks, including the Internet, using Internet protocol. Rather than send voice information across traditional circuits, Voice Over Internet Protocol sends voice information in digital form using discrete packets that are routed in the same manner as data packets. Voice Over Internet Protocol is widely viewed as a more cost-effective alternative to traditional circuit-switched telephone service. Because Voice Over Internet Protocol can be deployed by carriers in various capacities, and because it is widely considered a next-generation communications service, its regulatory classification has not yet been determined.

The FCC thus far has issued three declaratory rulings in connection with the regulatory treatment of Voice Over Internet Protocol, but those rulings have been narrowly tailored. In one case, the FCC held that a computer-to-computer Voice Over Internet Protocol application provided by Pulver.com is an unregulated information service, in part because it does not include a transmission component, offers computing capabilities, and is free to its users. In another case, the FCC reached a different conclusion, holding that AT&T's use of Voice Over Internet Protocol to transmit the long-haul portion of certain calls constitutes a telecommunications service, thus subjecting it to regulation, because the calls use ordinary customer premises equipment with no enhanced functionality, originate and terminate on the public switched telephone network, and undergo no net protocol conversion and provide no enhanced functionality to end users. In a third case, which involved the Voice Over Internet Protocol application of Vonage, the FCC preempted the authority of the State of Minnesota (and presumably all other states) and ruled that Vonage's Voice Over Internet Protocol application, and others like it, is an interstate service subject only to federal regulation, thus preempting the authority of the Minnesota commission to require Vonage to obtain state certification. The FCC, however, refused to rule in the Vonage case whether Vonage's Voice Over Internet Protocol application is a telecommunications service or an information service, thus leaving open the question of the extent to which the service will be regulated. A number of other petitions addressing the application of existing regulations to Voice Over Internet Protocol and other Internet Protocol services have been filed at the FCC and are pending. We cannot at this time predict the outcome of those petitions on our business or the industry.

The FCC has initiated a more generic proceeding to address the many regulatory issues raised by the development and growth of Voice Over Internet Protocol services, including the extent to which Voice Over Internet Protocol will be regulated at the federal level, and has expressly reserved the right to reconsider its declaratory rulings in the generic proceeding. The FCC also is examining what requirements, if any, should be applied to Voice Over Internet Protocol service to enable law enforcement agencies, when necessary and appropriate, to access information transmitted through Voice Over Internet Protocol applications; the extent to which Voice Over Internet Protocol providers should contribute to the Universal Service Fund; and whether and to what extent E-911 requirements should apply to Voice Over Internet Protocol providers. Federal and state rulings in connection with Voice Over Internet Protocol will likely have a significant impact on us, our competitors and the communications industry.

Congress also has considered in the past, and may consider in the future, legislation addressing Voice Over Internet Protocol. We cannot at this time predict if or when such legislation will be enacted, or its effect on our business and the industry. Additionally, the U.S. Supreme Court in June 2005 in the Brand x opinion ruled that cable operators are not required to make their cable infrastructures available to Internet service providers on a wholesale basis. Subsequently, the FCC deregulated the pricing of naked DSL, allowing ILECs to charge much higher wholesale prices to independent Internet service providers. These two changes increase the risk of operating an independent Internet service provider absent a wireless broadband strategy.

Inter-carrier Compensation. The FCC regulates the interstate access rates charged by local carriers for the origination and termination of interstate long distance traffic. These access rates make up a significant portion of the cost of providing long distance service. The FCC has adopted policy changes that over time are reducing incumbent carriers' access rates, which have the impact of lowering the cost of providing long distance service, especially to business customers. In addition, the FCC has adopted rules that require competitive carriers to reduce gradually the levels of their tariffed access charges until those charges are no greater than those of the incumbent carriers with which they compete. In March 2005, the FCC initiated a proceeding designed to examine and reform comprehensively intercarrier compensation, including access charges, in the telecommunications market. Intercarrier compensation typically is the largest single expense incurred by companies that provide telecommunications services, including us. Further FCC action in this area may reduce most access charges in the future or shift all forms of intercarrier compensation to flat-rate pricing. We cannot predict at this time the result of this proceeding, the full impact of the FCC's decisions in this area, or the effect these decisions will have on our business and the industry.

The FCC has granted incumbent carriers some flexibility in pricing their interstate special and switched access services. Under this pricing scheme, local carriers may establish pricing zones based on access traffic density and charge different prices for access provided in each zone. The FCC recently has been granting incumbent carriers additional pricing flexibility on a market-by-market basis as local competition develops in their markets. This pricing flexibility could place us at a competitive disadvantage, either as a purchaser of access for our long distance operations or as a vendor of access to other carriers or end-user customers.

In April 2001, the FCC issued a ruling changing the compensation mechanism for traffic exchanged between telecommunications carriers that is destined for Internet service providers. In doing so, the FCC prescribed a new rate structure for this traffic and prescribed gradually reduced caps for its compensation. In the course of our business, we may exchange the traffic of Internet service providers with other carriers. The FCC's ruling in connection with such traffic affected a large number of carriers, including us, and further developments in this area could have a significant impact on the industry and on us. Although a federal court remanded that FCC decision for further consideration, the court did not reverse the decision, so it remains in effect. In March 2005, in the context of its generic proceeding on intercarrier compensation, the FCC sought comment on broad policy changes that could harmonize the rate structure and levels of all forms of intercarrier compensation, and ultimately could eliminate most forms of carrier-to-carrier payments for interconnected traffic, including traffic destined for Internet service providers.

Universal Service. Access charges historically have been used to subsidize universal telephone service. Together with access and other intercarrier compensation reform, the FCC in recent years has changed the methodology used to

subsidize universal telephone service and achieve other related public policy goals. Any reform in connection with intercarrier compensation will, by necessity, require revisions to the FCC's policies governing universal service. Because the effects of these revisions are uncertain, the fees we pay to subsidize universal service may increase or decrease substantially in the future.

The FCC continues to consider related questions regarding the applicability of access charges and universal service fees to providers of Internet access service and other services and applications using Internet protocol, including Voice Over Internet Protocol. Currently, Internet access providers are not subject to these expenses, and a federal court of appeals has upheld the FCC's decision not to impose such fees. However, there are open questions about how the existing rules apply to providers of data, voice or other services using the Internet or Internet protocol-based technology. The FCC is in the process of re-examining these issues in the context of its generic proceeding on IP-enabled services. We are not in a position to determine how these issues regarding access charges and universal service fees will be resolved, or whether the resolution of these issues will be harmful to our competitive position or our results of operations.

Detariffing. The FCC required non-dominant long distance companies, including us, to detariff interstate long distance domestic and international services in 2001. In 2001, the FCC also permitted competitive local exchange carriers, including us, to choose either to detariff the interstate access services that competitive carriers sell to long distance companies that originate or terminate traffic from or to their local customers, or to maintain tariffs but comply with rate caps. Tariffs set forth the rates, terms and conditions for service and must be updated or amended when rates are adjusted or products are added or removed. Before detariffing, we filed tariffs with the FCC to govern our relationship with most of our long distance customers and with long distance companies that originated or terminated traffic from or to our local customers. The detariffing process has required us, among other things, to post these rates, terms and conditions on our web site instead of filing them as tariffs with the FCC. Because detariffing precludes us from filing our tariffs with the FCC, some may argue that we are no longer subject to the "filed rate doctrine," under which the filed tariff controls all contractual disputes between a carrier and its customers. The detariffing process has effectively required us to enter into individual contracts with each of our customers and to notify our customers when rates are adjusted or products are added or removed. This process increases our costs of doing business. Detariffing may expose us to legal liabilities and costs if we can no longer rely on the filed rate doctrine to settle contract disputes with our customers.

Other Federal Regulations. The FCC imposes prior approval requirements on transfers of control and assignments of radio licenses and operating authorizations. The FCC has the authority generally to condition, modify, cancel, terminate, revoke or decline to renew licenses and operating authority for failure to comply with federal laws and the rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations. The FCC or third parties may raise issues with regard to our compliance with applicable laws and regulations.

State Regulation. We are subject to various state laws and regulations. Most state public utility commissions require providers such as CloseCall to obtain authority from the commission before initiating service in the state. We are subject to various reporting and record-keeping requirements. In addition, some states are ordering the de-tariffing of services, which may impede our reliance on the filed rate doctrine and increase our costs of doing business.

Many issues remain open regarding how new local telephone carriers will be regulated at the state level. For example, although the Telecommunications Act preempts the ability of states to forbid local service competition, the Telecommunications Act preserves the ability of states to impose reasonable terms and conditions of service and other regulatory requirements. The scope of state regulation will be refined through rules and policy decisions made by public utility commissions as they address local service competition issues.

State public utility commissions have responsibility under the Telecommunications Act to oversee relationships between incumbent carriers and their new competitors with respect to such competitors' use of the incumbent carriers' network elements and wholesale local services. Public utility commissions arbitrate interconnection agreements between the incumbent carriers and competitive carriers such as CloseCall when necessary. Pursuant to the Communications Act, the decisions of state public utility commissions with regard to interconnection disputes may be appealed to federal courts.

There also remain unresolved important issues regarding the scope of the authority of public utility commissions and the extent to which the commissions will adopt policies that promote local telephone service competition. For example, although the FCC recently preempted the ability of states to regulate some aspects of Voice Over Internet Protocol services, the FCC's decision has been appealed, and it is difficult to predict how this and other matters will affect our ability to pursue our business plan.

States also regulate the intrastate carrier access services of the incumbent carriers. We are required to pay access charges to the incumbent carriers when they originate or terminate our intrastate long distance traffic. Our business could be harmed by high access charges, particularly to the extent that the incumbent carriers do not incur the same level of costs with respect to their own intrastate long distance services or to the extent that the incumbent carriers are able to offer their long distance affiliates better access pricing. Some states also regulate the intrastate access charges of competitive carriers. States also will be developing intrastate universal service charges parallel to the interstate charges created by the FCC. Another issue is the use by some incumbent carriers, with the approval of the applicable public utility commissions, of extended local area calling that converts otherwise competitive intrastate toll service to local service. States also are or may be addressing various intraLATA dialing parity issues that may affect competition. Our business could be harmed by these developments.

We also will be affected by how states regulate the retail prices of the incumbent carriers with which we compete. We believe that, as the degree of intrastate competition increases, the states will offer the incumbent carriers increasing pricing flexibility and deregulation of particular services deemed to be competitive. This flexibility and deregulation may present the incumbent carriers with an opportunity to subsidize services that compete with our services with revenues generated from their non-competitive services, thereby allowing incumbent carriers to offer competitive services at prices lower than most or all of their competitors.

Many states also require prior approval for transfers of control of certified carriers, corporate reorganizations, acquisitions of telecommunications operations, assignment of carrier assets, carrier stock offerings and incurrence by carriers of significant debt obligations. Certificates of authority generally can be conditioned, modified, canceled, terminated or revoked by state regulatory authorities for failure to comply with state law or the rules, regulations and policies of state regulatory authorities. Fines or other penalties also may be imposed for such violations. Public utility commissions or third parties may raise issues with regard to our compliance with applicable laws or regulations.

The 1996 Telecommunications Act, or the Telecom Act, substantially restructured the telecommunications industry, included specific provisions related to the payphone industry and required the FCC to develop rules necessary to implement and administer the provisions of the Telecom Act on both an interstate and intrastate basis. Among other provisions, the Telecom Act granted the FCC the power to preempt state payphone regulations to the extent that any state requirements are inconsistent with the FCC's implementation of Section 276 of the Telecom Act.

Federal Regulation of Local Coin and Dial-Around Calls. The Telephone Operator Consumer Services Improvement Act of 1990, or TOCSIA, established various requirements for companies that provide operator services and for call aggregators, including payphone service providers, or PSPs, who send calls to those operator service providers, or OSPs. The requirements of TOCSIA as implemented by the FCC included call branding, information posting, rate quotations, the filing of informational tariffs and the right of payphone users to access any OSP in order to make non-coin calls. TOCSIA also required the FCC to take action to limit the exposure of payphone companies to undue risk of fraud upon providing this "open access" to carriers.

TOCSIA further directed the FCC to consider the need to provide compensation to IPPs for dial-around calls made from its payphones. Accordingly, the FCC ruled in May 1992 that IPPs were entitled to dial-around compensation. Because of the complexity of establishing an accounting system for determining per call compensation for these calls, and for other reasons, the FCC temporarily set this compensation at \$6.00 per payphone per month based on an assumed average of 15 interstate carrier access code dial-around calls per month and a rate of \$0.40 per call. The failure by the FCC to provide compensation for 800 "toll free" dial-around calls was challenged by the IPPs, and a federal court subsequently ruled that the FCC should have provided compensation for these toll free calls.

Pay Phone Services. In 1996, recognizing that IPPs had been at a severe competitive disadvantage under the existing system of regulation and had experienced substantial increases in dial-around calls without a corresponding adjustment in compensation, Congress enacted Section 276 to promote both competition among payphone service providers and the widespread deployment of payphones throughout the nation. Section 276 directed the FCC to

implement rules by November 1996 that would:

- create a standard regulatory scheme for all public payphone service providers;
- -establish a per call compensation plan to ensure that all payphone service providers are fairly compensated for each and every completed intrastate and interstate call, except for 911 emergency and telecommunications relay service calls;
 - terminate subsidies for LEC payphones from LEC regulated rate-base operations;

- -prescribe, at a minimum, nonstructural safeguards to eliminate discrimination between LECs and IPPs and remove the LEC payphones from the LEC's regulated asset base;
- -provide for the RBOCs to have the same rights that IPPs have to negotiate with Location Owners over the selection of interLATA carrier services, subject to the FCC's determination that the selection right is in the public interest and subject to existing contracts between the Location Owners and interLATA carriers;
- -provide for the right of all PSPs to choose the local, intraLATA and interLATA carriers subject to the requirements of, and contractual rights negotiated with, Location Owners and other valid state regulatory requirements;
- -evaluate the requirement for payphones which would not normally be installed under competitive conditions but which might be desirable as a matter of public policy, and establish how to provide for and maintain such payphones if it is determined they are required; and
 - preempt any state requirements which are inconsistent with the FCC's regulations implementing Section 276.

In September and November 1996, the FCC issued its rulings implementing Section 276, or the 1996 Payphone Order. In the 1996 Payphone Order, the FCC determined that the best way to ensure fair compensation to independent and LEC PSPs for each and every call was to deregulate, to the maximum extent possible, the price of all calls originating from payphones. For local coin calls, the FCC mandated that deregulation of the local coin rate would not occur until October 1997 in order to provide a period of orderly transition from the previous system of state regulation.

To achieve fair compensation for dial-around calls through deregulation and competition, the FCC in the 1996 Payphone Order directed a two-phase transition from a regulated market. In the first phase, November 1996 to October 1997, the FCC prescribed flat-rate compensation payable to the PSPs by the interexchange carriers ("IXCs") in the amount of \$45.85 per month per payphone. This rate was arrived at by determining that the deregulated local coin rate was a valid market-based surrogate for dial-around calls. The FCC applied a market-based, deregulated coin rate of \$0.35 per call to a finding from the record that there was a monthly average of 131 compensable dial-around calls per payphone. This total included both carrier access code calls dialed for the purpose of reaching a long distance company other than the one designated by the PSP as well as 800 "toll free" calls. The monthly, per phone flat-rate compensation of \$45.85 was to be assessed only against IXCs with annual toll-call revenues in excess of \$100 million and allocated among such IXCs in proportion to their gross long-distance revenues. During the second phase of the transition to deregulation and market-based compensation (initially from October 1997 to October 1998, but subsequently extended in a later order by one year to October 1999), the FCC directed the IXCs to pay the PSPs on a per-call basis for dial-around calls at the assumed deregulated coin rate of \$0.35 per call. At the conclusion of the second phase, the FCC set the market-based local coin rate, determined on a payphone-by-payphone basis, as the default per-call compensation rate in the absence of a negotiated agreement between the PSP and the IXC. To facilitate per-call compensation, the FCC required the PSPs to transmit payphone-specific coding digits which would identify each call as originating from a payphone and required the LECs to make such coding available to the PSPs as a tariffed item included in the local access line service.

In July 1997, a federal court, or the Court responded to an appeal of the 1996 Payphone Order, finding that the FCC erred in (1) setting the default per-call rate at \$0.35 without considering the differences in underlying costs between dial-around calls and local coin calls, (2) assessing the flat-rate compensation against only the carriers with annual toll-call revenues in excess of \$100 million, and (3) allocating the assessment of the flat-rate compensation based on gross revenues rather than on a factor more directly related to the number of dial-around calls processed by the carrier. The Court also assigned error to other aspects of the 1996 Payphone Order concerning inmate payphones and the accounting treatment of payphones transferred by an RBOC to a separate affiliate.

In response to the Court's remand, the FCC issued its modified ruling implementing Section 276, or the 1997 Payphone Order, in October of 1997. The FCC determined that distinct and severable costs of \$0.066 were

attributable to coin calls that did not apply to the costs incurred by the PSPs in providing access for dial-around calls. Accordingly, the FCC adjusted the per call rate during the second phase of interim compensation to \$0.284 (which is \$0.35 less \$0.066). While the FCC tentatively concluded that the \$0.284 default rate should be utilized in determining compensation during the first phase and reiterated that PSPs were entitled to compensation for each and every call during the first phase, it deferred a decision on the precise method of allocating the initial interim period (November 1996 through October 1997) flat-rate payment obligation among the IXCs and the number of calls to be used in determining the total amount of the payment obligation.

On March 9, 1998, the FCC issued a Memorandum Opinion and Order, FCC 98-481, which extended and waived certain requirements concerning the provision by the LECs of payphone-specific coding digits which identify a call as originating from a payphone. Without the transmission of payphone-specific coding digits, some of the IXCs have claimed they are unable to identify a call as a payphone call eligible for dial-around compensation. With the stated purpose of ensuring the continued payment of dial-around compensation, the FCC's Memorandum and Order issued on April 3, 1998 left in place the requirement for payment of per-call compensation for payphones on lines that do not transmit the requisite payphone-specific coding digits but gave the IXCs a choice for computing the amount of compensation for payphones on LEC lines not transmitting the payphone-specific coding digits of either accurately computing per-call compensation from their databases or paying per-phone, flat-rate compensation computed by multiplying the \$0.284 per call rate by the nationwide average number of 800 subscriber and access code calls placed from RBOC payphones for corresponding payment periods. Accurate payments made at the flat rate are not subject to subsequent adjustment for actual call counts from the applicable payphone.

On May 15, 1998, the Court again remanded the per-call compensation rate to the FCC for further explanation without vacating the \$0.284 per call rate. The Court opined that the FCC had failed to explain adequately its derivation of the \$0.284 default rate. The Court stated that any resulting overpayment may be subject to refund and directed the FCC to conclude its proceedings within a six-month period from the effective date of the Court's decision.

In response to the Court's second remand, the FCC conducted further proceedings and sought additional comment from interested parties to address the relevant issues posed by the Court. On February 4, 1999, the FCC released the Third Report and Order and Order on Reconsideration of the Second Report and Order, or 1999 Payphone Order, in which the FCC abandoned its efforts to derive a "market-based" default dial-around compensation rate and instead adopted a "cost-based" rate of \$0.24 per dial-around call, which was to be adjusted to \$0.238 on April 21, 2002. Both PSPs and IXCs petitioned the Court for review of the 1999 Payphone Order's determination of the dial-around compensation rate. On June 16, 2000, the Court affirmed the 1999 Payphone Order setting a \$0.24 dial-around compensation rate. On all the issues, including those raised by the IXCs and the IPPs, the Court applied the "arbitrary and capricious" standard of review and found that the FCC's rulings were lawful and sustainable under that standard. The new \$0.24 rate became effective April 21, 1999 and was applied retroactively to the period beginning on October 7, 1997 and ending on April 20, 1999 (the "intermediate period"), less a \$0.002 amount to account for FLEX ANI payphone tracking costs, for a net compensation rate of \$0.238 per call.

In a decision released January 31, 2002, or the 2002 Payphone Order, the FCC partially addressed the remaining issues concerning the "true-up" required for the earlier dial-around compensation periods. The FCC adjusted the per-call rate to \$0.229, for the interim period only, to reflect a different method of calculating the delay in IXC payments to PSPs for the interim period, and determined that the total interim period compensation rate should be \$33.89 per payphone per month (\$0.229 multiplied by an average of 148 calls per payphone per month). The 2002 Payphone Order deferred to a later order its determination of the allocation of this total compensation rate among the various carriers required to pay compensation for the interim period. In addition to addressing the rate level for dial-around compensation, the FCC has also addressed the issue of carrier responsibility with respect to dial-around compensation payments.

On October 23, 2002 the FCC released its Fifth Order on Reconsideration and Order on Remand, or the Interim Order, which resolved all of the remaining issues surrounding the interim/intermediate period true-up and specifically addressed how the liability for flat rate monthly per-phone compensation owed to PSPs would be allocated among the relevant dial-around carriers. The Interim Order also resolved how certain offsets to such payments would be handled and a host of other issues raised by parties in their remaining FCC challenges to the 1999 Payphone Order and the 2002 Payphone Order. In the Interim Order, the FCC ordered a true-up for the interim period and increased the adjusted monthly rate to \$35.22 per payphone per month, to compensate for the three-month payment delay inherent in the dial-around payment system. The new rate of \$35.22 per payphone per month is a composite rate, allocated among approximately five hundred carriers based on their estimated dial-around traffic during the interim period. The FCC also ordered a true-up requiring the PSPs, including Davel, to refund an amount equal to \$0.046 (the difference between the old \$.284 rate and the current \$.238 rate) to each carrier that compensated the PSP on a per-call basis during the intermediate period. Interest on additional payments and refunds is to be computed from the original payment due date at the IRS prescribed rate applicable to late tax payments. The FCC further ruled that a carrier claiming a refund from a PSP for the Intermediate Period must first offset the amount claimed against any additional payment due to the PSP from that carrier. Finally, the Interim Order provided that any net claimed refund amount owing to carriers cannot be offset against future dial-around payments without (1) prior notification and an opportunity to contest the claimed amount in good faith (only uncontested amounts may be withheld); and (2) providing PSPs an opportunity to "schedule" payments over a reasonable period of time.

Davel and its billing and collection clearinghouse have previously reviewed the order and prepared the data necessary to bill or determine the amount due to the relevant dial-around carriers pursuant to the Interim Order. As of November 15, 2004, the date we acquired Davel, Davel had accrued a liability relating to dial-around compensation due to certain carriers pursuant to the Interim Order of \$1,172,789. In addition, Davel had recorded \$2,683,774 relating to the

sale of a portion of Davel's accounts receivable bankruptcy claim for dial-around compensation due from WorldCom (now MCI), a part of which related to the amount due from WorldCom under the Interim Order. Subsequent to the acquisition date, Davel received \$2,683,774 million in cash and MCI common stock in full settlement of the remaining portion of its claim, including the accounts receivable bankruptcy claim previously sold and Davel's retained interest in the bankruptcy claim. In January 2005, certain carriers deducted \$453,431 from their current dial-around compensation payments, thus reducing the liability accrued by Davel applicable to the Interim Order. The remaining amounts outstanding were deducted from the quarterly payments of dial-around compensation received by Davel in April 2005.

For the fiscal year ended March 31, 2005, Davel received \$420,366 of receipts from carriers under the Interim Order that has been reported as revenues in the consolidated statements of operations. In accordance with Davel's accounting policy on regulated rate actions, revenue from dial-around compensation pursuant to the Interim Order was recognized as revenue in March 2005, the period such revenue was received. Although Davel is entitled to receive a substantial amount of additional dial-around compensation pursuant to the Interim Order, such amounts, subject to certain limitations, have been assigned to Davel's former secured lenders in exchange for a reduction in Davel's secured debt prior to the acquisition of such debt by MobilePro.

On August 2, 2002 and September 2, 2002 respectively, the American Public Communications Council, the APCC, and the Regional Bell Operating Companies, the RBOCs, filed petitions with the FCC to revisit and increase the dial-around compensation rate level. Using the FCC's existing formula and adjusted only to reflect current costs and call volumes, the APCC and RBOCs' petitions supported an approximate doubling of the current \$0.24 rate. On August 12, 2004, the FCC released an order to increase the dial-around compensation rate from \$0.24 to \$0.494 per call, or the 2004 Order. The new rate became effective September 27, 2004, 30 days after publication of the 2004 Order in the Federal Register, and may be subject to appeal by IXCs or other parties. Dial-around revenues at the new rate of \$0.494 per call, which aggregated \$4,695,085 for the year ended March 31, 2005, are included in revenues reported in the MobilePro's consolidated financial statements.

Regulatory actions and market factors, often outside Davel's control, could significantly affect Davel's dial-around compensation revenues. These factors include (i) the possibility of administrative proceedings or litigation seeking to modify the dial-around compensation rate, and (ii) ongoing technical or other difficulties in the responsible carriers' ability and willingness to properly track or pay for dial-around calls actually delivered to them.

Effect of Federal Regulation of Local Coin and Dial-Around Calls. To ensure "fair compensation" for local coin calls, the FCC previously determined that local coin rates from payphones should be generally deregulated by October 7, 1997, but provided for possible modifications or exemptions from deregulation upon a detailed showing by an individual state that there are market failures within the state that would not allow market-based rates to develop. On July 1, 1997, a federal court issued an order that upheld the FCC's authority to deregulate local coin call rates. In accordance with the FCC's ruling and the court order, certain LECs and IPPs, including Davel, have increased rates for local coin calls. Initially, when Davel increased the local coin rate to \$0.35, Davel experienced a large drop in call volume. When Davel subsequently raised its local coin rates to \$0.50, it did not experience call volume declines at the same levels. Davel has experienced, and continues to experience, lower coin call volumes on its payphones resulting not only from increased local coin calling rates, but from the growth in wireless communication services, changes in call traffic and the geographic mix of Davel's payphones, as well.

Other Provisions of The 1996 Telecom Act and FCC Rules. As a whole, the Telecom Act and FCC Rules significantly altered the competitive framework of the payphone industry. Davel believes that implementation of the Telecom Act has addressed certain historical inequities in the payphone marketplace and has, in part, led to a more equitable and competitive environment for all payphone providers. However, there remain several key areas of implementation of the 1996 Telecom Act yet to be fully and properly implemented such that the 1996 congressional mandate for widespread deployment of payphones is not being realized. This circumstance creates an uncertain environment in which Davel and the industry must operate. Davel has identified the following such uncertainties:

Various matters pending in several federal courts and raised before the Congress which, while not directly challenging Section 276, relate to the validity and constitutionality of the Telecom Act, as well as other uncertainties related to the impact, timing and implementation of the Telecom Act.

The 1996 Payphone Order required that LEC payphone operations be removed from the regulated rate base on April 15, 1997. The LECs were also required to make the access lines that are provided for their own payphones equally available to IPPs and to ensure that the cost to payphone providers for obtaining local lines and services met the FCC's new services test guidelines, which require that LECs price payphone access lines at the direct cost to the LEC plus a

reasonable allocation of overhead. Proceedings are still pending in various stages and formats before the FCC and numerous state regulatory bodies across the nation to implement these provisions.

In the past, RBOCs were allegedly impaired in their ability to compete with the IPPs because they were not permitted to select the interLATA carrier to serve their payphones. Recent changes to the FCC Rules remove this restriction. Under the existing rules, the RBOCs are now permitted to participate with the Location Owner in selecting the carrier of interLATA services to their payphones, effective upon FCC approval of each RBOC's Comparably Efficient Interconnection plans. Existing contracts between Location Owners and payphone or long-distance providers that were in effect as of February 8, 1996 were grandfathered and will remain in effect pursuant to their terms.

The 1996 Payphone Order preempts state regulations that may require IPPs to route intraLATA calls to the LEC by containing provisions that allow all payphone providers to select the intraLATA carrier of their choice. Outstanding questions still exist with respect to 0+ local and 0 - call routing, whose classification will await the outcome of various state regulatory proceedings or initiatives and potential FCC action.

The 1996 Payphone Order determined that the administration of programs for maintaining public interest payphones should be left to the states within certain guidelines. Various state proceedings have been undertaken in reviewing this issue, but no widespread or effective actions have been taken to stem the tide of payphone removal around the nation. The FCC has pending various "universal service" proposals under consideration which may impact Davel, both positively and negatively.

Billed Party Preference and Rate Disclosure. On January 29, 1998, the FCC released its Second Report and Order on Reconsideration entitled In the Matter of Billed Party Preference for InterLATA 0+ Calls, Docket No. 92-77. Effective July 1, 1998, all carriers providing operator services were required to give consumers using payphones the option of receiving a rate quote before a call is connected when making a 0+ interstate call. The system appears to be functioning adequately to meet its designated goals.

State and Local Regulation. State regulatory authorities have been primarily responsible for regulating the rates, terms and conditions for intrastate payphone services. Regulatory approval to operate payphones in a state typically involves submission of a certification application and an agreement by Davel to comply with applicable rules, regulations and reporting requirements. The states and the District of Columbia have adopted a variety of state-specific regulations that govern rates charged for coin and non-coin calls, as well as a broad range of technical and operational requirements. The 1996 Telecom Act contains provisions that require all states to allow payphone competition on fair terms for both LECs and IPPs. State authorities also in most cases regulate LEC tariffs for interconnection of independent payphones, as well as the LECs' own payphone operations and practices.

Davel is also affected by state regulation of operator services. Most states have capped the rates that consumers can be charged for coin toll calls and non-coin local and intrastate toll calls made from payphones. In addition, Davel must comply with regulations designed to afford consumers notice at the payphone location of the long-distance company or companies servicing the payphone and the ability to access alternate carriers. Davel believes that it is currently in material compliance with all such regulatory requirements.

In accordance with requirements under the Telecom Act, state regulatory authorities are currently reviewing the rates that LECs charge IPPs for local line access and associated services. Local line access charges have been reduced in certain states, and Davel believes that selected states' continuing review of local line access charges, coupled with competition for local line access service resulting from implementation of the Telecom Act, may lead to more options available to Davel for local line access at competitive rates. Davel cannot provide assurance, however, that such options or local line access rates will become available in all states.

Davel believes that an increasing number of municipalities and other units of local government have begun to impose taxes, license fees and operating rules on the operations and revenues of payphones. Davel believes that some of these fees and restrictions may be in violation of provisions of the Telecom Act prohibiting barriers to entry into the business of operating payphones and the policy of the Act to encourage wide deployment of payphones. However, in at least one instance, involving a challenge to a payphone ordinance adopted by the Village of Huntington Park, California, the FCC declined to overturn a total ban on payphones in a downtown area. The proliferation of local government licensing, restriction, taxation and regulation of payphone services could have an adverse affect on Davel and other PSPs unless the industry is successful in resisting or moderating this trend.

Employees

As of December 31, 2005, we employed 302 full-time employees. We anticipate that we will need additional people to fill administrative, sales and technical positions if we continue to be successful in raising capital to implement our strategic business plan. We have no collective bargaining agreements with our employees. The breakout of employees and consultants by reporting segment is as follows:

Corporate6 full-time employeesWireless Networks64 full-time employeesVoice Services101 full-time employeesInternet Services131 full-time employees

DESCRIPTION OF PROPERTY

Our principal executive offices are located in approximately 2,000 square feet of leased office space at 6701 Democracy Boulevard, Suite 202, Bethesda, Maryland 20817. The lease includes a free rent period that expires on February 28, 2006. The remaining term of the lease expires on February 28, 2009.

In addition, our subsidiary operations currently occupy leased office space in locations around the country. A description of the occupancy terms for each of our significant locations follows.

CloseCall occupies approximately 14,000 square feet of leased office space in Stevensville, Maryland, that includes management, finance, sales and a customer support call center. The initial term of the lease expires on February 28, 2007, but the lease contains a provision providing CloseCall with the option of extending the lease for two additional years at the end of the initial term and at the end of each option term.

AFN occupies approximately 3,200 square feet of leased office space in Overland Park, Kansas, that includes management, finance, sales and operations. The initial term of the lease expires on July 31, 2006.

The Davel organization occupies approximately 16,700 square feet of leased office space in Cleveland, Ohio; the lease term expires on September 29, 2008. Approximately 4,000 square feet of storage space is also rented in Cleveland on a month-to-month basis.

NeoReach Wireless occupies an office in Tempe, Arizona, consisting of approximately 1,800 square feet, under a lease that terminates on May 31, 2006.

Kite Broadband operates 1) a call center in Tucson, Arizona, under a lease of 8,150 square feet that expires on July 31, 2008, and that includes two three-year options, and 2) a data center in Ridgeland, Mississippi, under a lease of 1,500 square feet that expires on August 31, 2008. Its corporate office is also located in Ridgeland, Mississippi, occupying approximately 5,000 square feet of space under a month-to-month arrangement. The organization is looking for suitable space to serve as the corporate office on a long-term basis.

The operations of our Internet services business segment, including DFW, occupy small leased office space facilities in numerous locations around the United States. The lease expiration dates for the most important properties are September 30, 2010 (Houston), April 30, 2006 (Seattle), November 15, 2006 (Janesville, Wisconsin), May 31, 2007 (Shreveport, Louisiana), January 31, 2010 (Irving, Texas) and February 29, 2008 (Tucson, Arizona). The charge for restructuring costs that we recorded in the quarter ended December 31, 2005 is based on our plan to close these Internet services facilities within six months.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following information should be read in conjunction with the audited and unaudited condensed consolidated financial statements of Mobilepro Corp. and the notes thereto appearing elsewhere in this filing. Statements in this "Management's Discussion and Analysis of Results of Operation and Financial Condition" and elsewhere in this Prospectus that are not statements of historical or current fact constitute "forward-looking statements."

The following is a discussion and analysis of 1) our results of operations for the three and nine months ended December 31, 2005 and 2004, and the fiscal years ended March 31, 2005 and 2004, 2) our financial position at December 31, 2005, and 3) the factors that could affect our future financial condition and results of operations. Historical results may not be indicative of future performance.

Overview

Prior to January 2004, we were a development stage company. Although we were incorporated only five years ago, we have undergone a number of changes in our business strategy and organization. In June 2001, we focused our business on the integration and marketing of complete mobile information solutions to meet the needs of mobile professionals. In April 2002, we acquired NeoReach, and shifted our focus toward solutions supporting the third generation wireless market. We shifted our business strategy again in December 2003 with a new management team, expanding significantly the scope of our business activity to include Internet access services, local and long distance telephone services and the ownership and operation of payphones. In 2005, we began to invest in the business of deploying broadband wireless networks and providing wireless network access services in wireless access zones to be primarily located in municipality sponsored areas. We entered these businesses primarily through the acquisition of established companies. These operations have been acquired within the last twenty-four months. Accordingly, our experience in operating our current businesses is limited. Our Company has lost money historically. For the nine months ended December 31, 2005, we incurred a net loss of \$6,012,640. In the years ended March 31, 2005 and 2004, we incurred net losses of \$5,359,722 and \$2,157,844, respectively. At December 31, 2005, we had an accumulated deficit of \$27,209,190.

Our acquisitions have resulted in the creation of a broadband wireless, telecommunications, and integrated data communication services company with customers representing approximately 278,000 equivalent subscriber lines. We intend to pursue additional acquisitions to further the development of our Internet services business, competitive local exchange and wireless broadband businesses. We expect that future revenue growth will occur largely through the consummation of additional acquisitions, growth of our core CLEC business, and the deployment, ownership and management of broadband wireless networks that we expect to provide subscription and advertising revenues. We have a publicly announced goal of reaching \$200 million in annualized revenues and 10% EBITDA margin by the end of the current fiscal year. Based on our revenues for the three months ended December 31, 2005, including the addition of revenues provided by InReach, we have attained an annualized revenue run rate of approximately \$105 million (calculated by multiplying \$26,244,206, the consolidated revenues for the three months ended December 31, 2005, by 4). However, there can be no assurance that the revenues for the next twelve months will be \$105 million. Revenues for the nine months ended December 31, 2005 were approximately \$75,297,000. Our EBITDA for the nine months ended December 31, 2005, was approximately \$4,464,000, or 5.9% of consolidated revenues. In order for our annualized revenue goal to be achieved, we would need to consummate the acquisition of one or more companies with annualized revenues exceeding \$95 million prior to March 31, 2006. Although we continue actively to evaluate acquisition opportunities, there can be no assurance that we will complete any additional acquisitions this year or that any additional acquisitions will provide sufficient revenues to achieve the goal. It is also unlikely that we will achieve the annual EBITDA margin target of 10%.

Our strategy is unproven and the revenue and income potential from our strategy is unproven. We may encounter risks and difficulties frequently encountered by companies that have grown rapidly through acquisition, including the risks

described elsewhere in this Prospectus. Our business strategy may not be successful and we may not be able to successfully address these risks.

We realize that effective analysis of our operations with an approach of comparing results for a current period with the results of a corresponding prior period may be difficult due to the number of acquisitions that we have completed and the significant number of shares of our common stock that we have issued to the former owners of acquired companies and Cornell Capital. In order to analyze ourselves, we focus not only on achieving increasing amounts of net income and EBITDA, but emphasize the increase of net income per share.

Revenues for the reportable business segments for the three and nine months ended December 31, 2004 and 2005 were as follows:

	Three Months Ended December 31,			Nine Months Ended December 31,		
Business Segment	2004		2005	2004		2005
Voice Services	\$ 12,391,227	\$	18,505,132 \$	13,346,798	\$	56,301,164
Internet Services	4,735,906		4,534,617	9,303,568		12,395,635
Wireless Networks	-		3,204,857	-		6,600,302
Corporate	-		-	615,000		-
Total Revenues	\$ 17,127,133	\$	26,244,606 \$	23,265,366	\$	75,297,101

Revenues for each business segment, expressed as a percentage of total revenues for the respective period, were as follows:

	Three Months December		Nine Months Ended December 31,		
Business Segment	2004	2005	2004	2005	
Voice Services	72.3%	70.5%	57.4%	74.8%	
Internet Services	27.7	17.3	40.0	16.5	
Wireless Networks	-	12.2	-	8.7	
Corporate	-		2.6		
Total Revenues	100.0%	100.0%	100.0%	100.0%	

The revenues of the voice services business segment are provided primarily by the operations of Davel and CloseCall. Davel's revenues represented approximately 57% and 43% of voice services revenues and consolidated revenues, respectively, for the nine months ended December 31, 2005. CloseCall's revenues represented approximately 36% and 27% of voice services revenues and consolidated revenues, respectively, for the nine months ended December 31, 2005. We do not expect that the changing UNE-P regulations will impact CloseCall's revenues materially as we have multi-year agreements in place with our major carriers such as Verizon.

We deliver a comprehensive suite of voice and data communications services, including local exchange, long distance, enhanced data, Internet, wireless and broadband services to our end-user customers. We are focused on growing our current customer bases, developing and deploying wireless technologies, acquiring and growing profitable telecommunications and broadband companies and forging strategic alliances with well positioned companies with complementary product lines and in complementary industries. We are also an innovator and developer of wireless broadband networks and services. Our wireless broadband networks and services will be provided in our Wireless Access Zones (WAZ) to be primarily located in municipality sponsored areas. These network systems are scalable and flexible and will be readily modified to offer a variety of broadband services.

Cost of network services is comprised primarily of telecommunications charges, including data transmission and database access, leased digital capacity charges, circuit installation charges and activation charges. The costs of database access, circuits, installation charges and activation charges are based on fixed fee and/or measured services contracts with local exchange carriers, inter-exchange carriers and data services providers. The cost of providing services to our customers also includes salaries, equipment maintenance and other costs related to the ongoing operation of our network facilities. Depreciation expense on our network equipment is excluded from our cost of network services and is included in depreciation and amortization of property and equipment and amortization of intangible assets in our consolidated statements of operations. Our other operating expenses include costs related to sales, marketing, administrative and management personnel; outside legal, accounting and consulting services; advertising and occupancy expenses; and other costs of being a publicly traded company, including legal and audit fees, insurance premiums and board of director fees.

Management Challenges

During the current fiscal year, management is concentrating its efforts on the business development and network deployment activities of NeoReach Wireless, the consolidation and integration of the Internet services and voice services businesses, and the identification and securing of additional sources of growth capital.

We see opportunity for growth in the emerging market presented by municipally sponsored broadband wireless networks. Our acquisition strategy of the last two years has been executed, in part, with the objective of establishing a viable telecommunications company with sufficient credibility to be considered for selection by cities for the

deployment, ownership and management of broadband wireless networks. The initial indication of the effectiveness of our business plan execution was the selection by Tempe, Arizona, of NeoReach Wireless for its network. Subsequently, we were selected by five other cities for the deployment, ownership and management of such networks. However, the ramp-up time from selection to the completion of deployment can exceed six months. As a result, we have incurred significant costs related to this business before the Tempe deployment is completed, and therefore before any significant revenues are expected. The capital equipment costs for the Tempe network are expected to approximate \$2,200,000. Operating costs for NeoReach Wireless, currently running at a monthly rate of approximately \$200,000, were approximately \$1,392,000 for the nine months ended December 31, 2005.

Many of the companies that we have acquired are experiencing declining revenues as we expected. Over 80% of the customers of our Internet services business are subscribers to dial-up service. The revenues of this business segment have declined from approximately \$4,580,000 for the three months ended March 31, 2005 to approximately \$3,591,000 (before the addition of InReach revenues) for the three months ended December 31, 2005, a decline of approximately 22%. Likewise, the pay telephone business is declining due primarily to the public's increasing usage of competitive technologies. Revenues for Davel for the nine months ended December 31, 2005 were \$32,283,029 compared with revenues of approximately \$44,007,674 for the corresponding period of the prior year. The declining revenues of these businesses and the operating costs of NeoReach Wireless discussed above are adversely affecting our operating profitability.

During the three months ended December 31, 2005, both the Internet service provider segment and the voice services segment incurred operating losses that were not expected. As a result, we reviewed the carrying values of the assets of these segments and determined that an adjustment for goodwill impairment was appropriate at December 31, 2005. We recorded an impairment charge in the amount of \$3,764,429, including \$1,945,519 related to the Internet service provider companies and \$1,818,910 related to Affinity. The negative customer churn of dial-up ISP customers has exceeded our expectations, contributing to the net loss incurred by this segment during the most recent quarter. We have experienced a significant and steady loss of Affinity customers, and Affinity has incurred bad debt losses at a greater rate than in our other CLEC companies. The impairment charges represented approximately 12.8% and 73.0% of the goodwill related to the ISP companies (excluding InReach) and Affinity, respectively. Future assessments of the acquisition fair values could identify material impairment losses resulting in substantial write-offs of goodwill. Such adjustments could have material adverse effects on our results of operations and our financial position. In order to attain and to sustain the profitability of our Internet and voice services businesses, we have undertaken a project to consolidate these operations that we expect to substantially complete by March 31, 2006. As a result, we recorded a restructuring charge of \$1,335,612 in the most recent quarter. As additional employee terminations occur, we expect to record an additional charge for restructuring costs in our fourth quarter. This amount has not yet been determined.

Critical Accounting Policies

We believe there have been no significant changes in our critical accounting policies during the current year as compared to what was previously disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-KSB for the year ended March 31, 2005. During the current year, because the \$100 million Standby Equity Distribution Agreement with Cornell Capital (the "SEDA") is providing equity financing to us, we began to amortize deferred financing costs related to the SEDA to additional paid-in-capital and we began to charge this account for the additional fees paid to Cornell Capital and other financial advisors in connection with making draws under the SEDA.

We consider the accounting policies related to revenue and related cost recognition, the valuation of goodwill and other intangible assets and the accounting for transactions related to our debt and equity financing activity to be critical to the understanding of our results of operations. Critical accounting policies include the areas where we have made what we consider to be particularly subjective or complex judgments in making estimates and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to

make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

The Notes to the Consolidated Financial Statements included elsewhere in this Prospectus include three additional disclosures that were not included in the set of Notes to Consolidated Financial Statements that were a part of our Form-10KSB for the year ended March 31, 2005. In the discussion of our revenue recognition policies in Note 2, we have added a statement that the revenues for the year ended March 31, 2005 included an adjustment to previously recorded revenues of \$167,319. In the Note 17 discussion of our income taxes, we have added the additional disclosures required by SFAS No. 109 that reconcile the statutory federal income tax rate of 35% to our effective rate of 0% for the fiscal years ended March 31, 2005 and 2004, present the components of our net deferred tax asset at March 31, 2005 and 2004, and disclose the amount of our net operating loss carryforward amount at March 31, 2005 of approximately \$15.9 million. In footnote Exhibits 1, 2 and 3, we have included additional financial information related to the companies acquired during the year ended March 31, 2005.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board revised SFAS No. 123. The revision, referred to as SFAS 123R, was entitled "Share-Based Payment". This revised pronouncement replaces SFAS 123 and supersedes APB No. 25, and its scope encompasses a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

SFAS 123R requires that the compensation cost relating to share-based payment transactions be recorded in financial statements. For each transaction, compensation cost is to be measured based on the fair value of the equity or liability instrument issued. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition of compensation expense. In accordance with a Securities and Exchange Commission announcement released in April 2005, small business issuers will be allowed to implement SFAS No. 123R as of the beginning of the first annual period that begins after December 15, 2005 -- for us that means adoption in the first fiscal quarter ending June 30, 2006.

Under SFAS No. 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The permitted transition methods include either retrospective or prospective adoption. Under the retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS No. 123R, while the retrospective methods would record compensation expense for all unvested stock options beginning with the first period presented. We are evaluating the requirements of SFAS No. 123R and expect that its adoption will have a material adverse impact on our consolidated financial position and consolidated results of operations including an increase in compensation expense for equity instruments issued to employees. We have not yet determined the method of adoption or the effect of adopting SFAS No. 123R, and we have not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures that have been provided in accordance with SFAS No. 123.

Results of Operations and Financial Condition

We realize that effective analysis of our operations with an approach of comparing results for a current period with the results of a corresponding prior period may be difficult due to the significant number of acquisitions and stock issues that we have completed. In order to analyze ourselves, we focus not only on achieving increasing amounts of net income and EBITDA, but emphasize the increase of net income per share.

The Three Months Ended December 31, 2005 and 2004

Total Revenues

We achieved consolidated revenues of \$26,244,606 in the three-month period ended December 31, 2005 compared with revenues of \$17,127,133 in the corresponding period of the prior fiscal year. Since April 1, 2004, we have completed the acquisition of seventeen companies that have provided significant revenues to us, particularly to our voice and Internet services operating segments. The most significant portions of our revenues are provided by our CloseCall and Davel subsidiaries that were acquired in October 2004 and November 2004, respectively. Revenues for these companies were included in our consolidated results of operations from the acquisition dates. In addition, major acquisitions in the current year include AFN, acquired on June 30, 2005, and InReach, acquired on November 1, 2005, and we obtained a 51% ownership of Kite on June 30, 2005. The revenues of these entities are included in our consolidated results of operations from those dates. Accordingly, the amounts of revenues included in our consolidated revenues for the three month periods ended December 31, 2004 and 2005 were as follows for Davel and CloseCall, Kite, AFN and InReach.

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Acquired Company	2004	2005	Increase
Davel	\$ 6,377,744 \$	10,084,268 \$	3,706,524
CloseCall (includes Affinity and US1)	6,013,483	6,509,269	495,786
Kite	-	3,199,366	3,199,366
AFN	-	1,906,635	1,906,635
InReach	-	943,138	943,138
Total Revenues	\$ 12,391,227 \$	22,642,676 \$	10,251,449

Revenues by Segment

Voice Services. We deliver voice communications services to end users on a retail basis principally though this business segment. Revenues from our voice services for the current quarter ended December 31, 2005 were \$18,505,132, representing approximately 71% of consolidated revenues. The revenues of this segment were \$12,391,227 in the third quarter last year. The current year revenues were attributable primarily to CloseCall, Davel and AFN, all of which were acquired subsequent to last year's second quarter. This group derives most of its operating revenues from recurring monthly charges, coin revenue and "dial-around" revenues (intercarrier compensation paid to us by the providers of 800 numbers at the rate of 49.4 cents per call) that are generated by our communications services. Our local and long distance service revenues are being negatively affected in the current year by a continued decline in rates and competitive pressures to bundle long distance minutes of use within local service product offerings. Our existing base of business of long distance minutes is also subject to increasing competition from both VoIP and competing wireless service offerings.

Internet Services. We deliver data communications services to end users on a retail basis principally though this business segment. Revenues from Internet services for the current quarter ended December 31, 2005 were \$4,534,617, representing approximately 17% of consolidated revenues and including \$943,138 in revenues attributable to InReach. We reported Internet service revenues of \$4,735,906 for the prior year quarter ended December 31, 2004. The current year and prior year results included a full quarter of operating results for each of the eight data services companies acquired during the fiscal year ended March 31, 2005. As a result, revenues determined on a "same company" basis declined by \$1,144,427 between years, or approximately 24%. As stated above, the loss of customers by this business, that includes mostly dial-up Internet access subscribers, has exceeded our expectations, contributing to the goodwill impairment loss recorded in the current quarter. In order to attempt to reverse the loss of revenues, we have consolidated the retail operations of the voice and Internet service provider businesses in order to promote the cross selling of CLEC services to our Internet access subscribers.

Wireless Networks. The revenues of this operating segment principally relate to Kite. As indicated above, Kite's revenues for the current quarter were \$3,199,366, representing 12.2% of consolidated revenues. To date, the revenues earned by NeoReach Wireless are insignificant. This segment did not generate any revenues for the fiscal quarter ended December 31, 2004.

Corporate. From time to time, the corporate segment generates miscellaneous revenues. No such revenues were generated by this segment in the current year or prior year quarters.

Operating Costs and Expenses

Total operating costs and expenses for the three months ended December 31, 2005, including depreciation and amortization, were \$32,567,755, including charges for goodwill impairment and restructuring costs of \$3,764,429 and \$1,335,612, respectively. Excluding these charges, total operating costs and expenses represented approximately 105% of consolidated revenues for the three months ended December 31, 2005. Operating costs and expenses for the three months ended December 31, 2004 were \$19,176,127, or 112% of consolidated revenues. Operating costs and expenses have increased, but decreased as a percentage of consolidated revenues, as we acquire companies and increase the size of our businesses. The cost of services (excluding depreciation and amortization) was \$13,790,195 in the three months ended December 31, 2005, or 52.5% of revenues, compared with \$8,633,278, or 50.4% of revenues, in the prior year quarter. Compensation expenses, professional fees paid to attorneys, accountants and other advisors, and other general and administrative expenses comprises a major portion of operating costs and expenses. Such expenses represented 90.4% and 89.5% of total operating costs and expenses (before impairment and restructuring charges) in the three-month periods ended December 31, 2004 and 2005, respectively.

Our current year operating expenses include the operating costs being incurred to start-up the municipal wireless network business and to support the deployment of the Tempe network. Total operating costs for the current quarter included \$513,773 in operating expenses of NeoReach Wireless. There were no such costs in the corresponding prior year period. Spending by NeoReach Wireless has accelerated in the current year as we see increased interest in municipal wireless projects, as measured by the number of municipalities issuing requests for proposals. This activity and our own success in being selected for such projects convinced us to increase the pace of our investment in this business. In order to respond to the growing number of opportunities, we have increased staff in this group and expanded our business development activities resulting in increased compensation costs, tradeshow attendance costs and other travel expenses.

Interest Expense

Interest expense, net, was \$582,785 for the three-month period ended December 31, 2005 compared with \$905,896 in the comparable period of the prior year. During the prior year period, we closed two significant acquisitions resulting in a significant increase in borrowings from Cornell Capital and Airlie. Most significantly, the purchase consideration for the acquisition of Davel in November 2004 included \$14 million cash. These funds were provided by the proceeds of the acquisition bridge loan from Airlie. We used funds borrowed from Cornell Capital to provide the \$8 million cash portion of the CloseCall purchase consideration. Since the end of last year's quarter, significant amounts of the Cornell Capital borrowings have been converted to common stock and the proceeds provided by the Debenture allowed us to retire the Airlie bridge loan in May 2005. The effect of this financing activity on interest expense for the quarter ended December 31, 2004 was interest related to notes payable to Cornell Capital and the bridge loan in the amounts of \$470,639 and \$389,211, respectively. Interest expense for the current quarter included interest expense related to notes payable to Cornell Capital of only \$149,266. Interest expense for the current quarter related to the Debenture, including the debt discount amortization, was approximately \$397,000.

Net Income (Loss)

We reported a net loss of \$6,955,732 for the three-month period ended December 31, 2005, or \$0.0165 per share, compared with a net loss of \$2,954,890, or \$0.0093 per share, for the corresponding quarter of the prior year. The charges for goodwill impairment and restructuring costs that were recorded in the current quarter totaled \$5,100,041, or \$0.0121 per share. As a result, all segments incurred net losses for the current quarter. In the comparable quarter of the prior year, the voice and Internet services segments provided net income amounts of \$581,781 and \$287,254, respectively, which were not sufficient to offset the combined operating loss of the wireless networks and corporate segments of approximately \$3,823,925. The prior year net loss for the quarter included amortization expense of approximately \$220,000 related to SEDA deferred financing fees. Consistent with our practice of converting funds drawn under the SEDA to common stock, we have charged current year amortization to additional paid-in capital.

Consecutive Quarter Results

On a consecutive quarter basis, consolidated revenues decreased by 1.1% from \$26,546,650 reported for the three-month period ended September 30, 2005, despite the acquisition of InReach during the current quarter that added revenues of \$943,138. For the prior quarter, we reported net income of \$523,900. As described above, the current quarter net loss included goodwill impairment and restructuring costs of \$5,100,041. However, the current quarter results were also adversely affected by the seasonal decline of Davel's revenues, the continuing negative churn of dial-up ISP customers, and increased bad debt expenses recorded by the ISP group and CloseCall. Cost of services, expressed as a percentage of corresponding revenues, increased from 43.9% in the prior quarter to 52.5% in the current quarter. Benefiting prior quarter results were favorable adjustments resulting from the settlement of disputes with vendors recorded by Davel and CloseCall that reduced cost of services by \$563,000. The total amount of other operating expenses, depreciation, amortization and interest expense increased by \$34,657 from the prior quarter total amount of \$14,225,645.

EBITDA Presentation

EBITDA represents net income (loss) before interest, taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under GAAP. However, we have included data with respect to EBITDA because we evaluate and project the performance of our business using several measures, including EBITDA. The computations of EBITDA for the preceding quarter ended September 30, 2005, and for the three-month periods ended December 31, 2005 and 2004 were as follows.

For the Three Months Ended For the Three Months Ended December 31,

For the Nine Months Ended

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	Sep	tember 30, 2005	2005	2004	December 31, 2005
Net Income (Loss)	\$	523,900	\$ (6,955,732)	\$ (2,954,890) \$	(6,012,640)
Add non-EBITDA items included in net results:					
Depreciation and amortization		1,047,319	1,293,993	792,717	3,163,689
Interest expense, net		698,335	582,785	905,896	2,213,295
Goodwill impairment and restructuring costs		-	5,100,041	-	5,100,041
EBITDA	\$	2,269,554	\$ 21,087	\$ (1,256,277) \$	4,464,385
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The significant decline in EBITDA from September 30 to December 31, 2005 was due to the loss incurred from operations in the current quarter before the nonrecurring charges. Our negative EBITDA in the third quarter of the prior fiscal year was primarily attributable to acquisition costs and the smaller scale of operations in the prior year.

We consider EBITDA to be an important supplemental indicator of our operating performance, particularly as compared to the operating performance of our competitors, because this measure eliminates many differences among companies in financial, capitalization and tax structures, capital investment cycles and ages of related assets, as well as certain recurring non-cash and non-operating items. We believe that consideration of EBITDA should be supplemental, because EBITDA has limitations as an analytical financial measure. These limitations include the following: EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments; EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements; EBITDA does not reflect the effect of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations; and not all of the companies in our industry may calculate EBITDA in the same manner in which we calculate EBITDA, which limits its usefulness as a comparative measure.

Management compensates for these limitations by relying primarily on its GAAP results to evaluate its operating performance and by considering independently the economic effects of the foregoing items that are not reflected in EBITDA. As a result of these limitations, EBITDA should not be considered as an alternative to net income (loss), as calculated in accordance with generally accepted accounting principles, as a measure of operating performance, nor should it be considered as an alternative to cash flows as a measure of liquidity.

Further, we realize that effective analysis of our operations with an approach of comparing results for a current period with the results of a corresponding prior period may be difficult due to the significant number of acquisitions and stock issues that we have completed. In order to analyze ourselves, we focus not only on achieving increasing amounts of net income and EBITDA, but strive to increase net income per share.

The Nine Months Ended December 31, 2005 and 2004

Revenues

Consolidated revenues were \$75,297,101 in the nine-month period ended December 31, 2005 compared with revenues of \$23,265,366 in the corresponding period of the prior fiscal year. The most significant portion of the increase in revenues is the combined revenues of CloseCall and Davel, subsidiaries that were acquired in October and November 2004, respectively. As a result, the voice business segment reported revenues of \$56,301,164 for the current year compared with revenues of only \$13,346,798 in the prior year. Full period revenues for all of the ISPs that were acquired in the prior year plus the addition of InReach resulted in the increase in Internet services revenues to \$12,395,635 for the current year from revenues of \$9,303,568 reported for the prior year. The current year revenues also benefited from the acquisitions of AFN and Kite. The schedule below presents a comparison of revenues included in our consolidated revenues for the quarters ended December 31, 2004 and 2005 for the most significant companies added since October 1, 2004 (the beginning of last year's quarter).

Acquired Company	2004	2005	Increase
Davel	\$ 6,377,744 \$	32,283,029 \$	25,905,285
CloseCall (includes Affinity and US1)	6,969,054	20,479,012	13,509,958
Kite	-	6,584,680	6,584,680
AFN	_	3,539,123	3,539,123

InReach	-	943,138	943,138
Total Revenues	\$ 13,346,798 \$	63,828,982 \$	50,482,184

In June 2004, we entered into a Business Development Agreement with Solution Technology International, Inc. ("STI"), a Frederick, Maryland-based software company, whereby we provided advice in connection with going public and financing to STI in exchange for a 5% ownership in STI. We believed that a strategic relationship with STI would be valuable to us since STI had contacts with insurance companies that could be potential purchasers of our various services. We valued this ownership at \$150,000 and recorded revenues of this amount in the quarterly period ended June 30, 2004.

In August 2004, we signed a Business Development Agreement with Texas Prototypes, Inc. ("Texas Prototypes"), an electronic prototype manufacturing company, to jointly pursue a working relationship covering a number of potential technology projects and business development initiatives. We saw a potential fit between their chip prototype business and our Zigbee chip development project. We received a 5% ownership in Texas Prototypes as consideration for services under the agreement. We valued this ownership at \$300,000 and recorded revenues of this amount in the quarterly period ended September 30, 2004.

The investments in STI and Texas Prototypes were classified as other assets and were included in our consolidated balance