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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2006**
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 000-21091

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**FIRST AVENUE NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**52-1869023**  
(I.R.S. Employer  
Identification No.)

**7925 Jones Branch Drive, Suite 3300, McLean, VA 22102**  
(Address of principal executive offices)

**(703) 873-4165**  
(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934): Yes  No .

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes  No .

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: The registrant had 61,884,521 shares of its common stock outstanding as of April 25, 2006.

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**FIRST AVENUE NETWORKS, INC.**

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ITEM 1. FINANCIAL STATEMENTS

**FIRST AVENUE NETWORKS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**(unaudited)**  
**(in thousands, except share data)**

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Current assets:		
Cash and cash equivalents .....	\$ 47,415	\$ 50,681
Certificates of deposit .....	20,037	20,000
Accounts receivable, net .....	427	479
Prepaid expenses and other current assets .....	<u>665</u>	<u>442</u>
Total current assets .....	68,544	71,602
Restricted cash .....	134	-
Property and equipment, net of accumulated depreciation.....	5,240	3,225
FCC licenses .....	60,662	60,662
Goodwill .....	90,727	90,727
Other assets .....	<u>753</u>	<u>706</u>
Total assets .....	<u>\$ 226,060</u>	<u>\$ 226,922</u>
Current liabilities:		
Accounts payable .....	\$ 2,142	\$ 141
Accrued compensation and benefits .....	631	786
Accrued taxes other than income taxes, current portion.....	363	369
Deferred revenue, current portion .....	141	140
Accrued lease liability, current portion .....	269	269
Other accrued liabilities.....	<u>723</u>	<u>598</u>
Total current liabilities .....	4,269	2,303
Deferred revenue, less current portion .....	338	369
Accrued lease liability, less current portion .....	269	336
Accrued taxes other than income taxes, less current portion .....	<u>3,760</u>	<u>3,760</u>
Total liabilities.....	<u>8,636</u>	<u>6,768</u>
Commitments and contingencies .....		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 61,838,821 and 60,576,484 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively.....	63	61
Additional paid-in capital.....	279,021	277,852
Accumulated deficit .....	<u>(61,660)</u>	<u>(57,759)</u>
Total stockholders' equity.....	<u>217,424</u>	<u>220,154</u>
Total liabilities and stockholders' equity .....	<u>\$ 226,060</u>	<u>\$ 226,922</u>

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

**FIRST AVENUE NETWORKS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(unaudited)  
(in thousands, except per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Revenues .....	\$ 378	\$ 265
Costs and expenses:		
Technical and network operations .....	1,336	963
Sales and marketing .....	1,238	209
General and administrative .....	2,318	1,274
Depreciation and amortization .....	<u>77</u>	<u>16</u>
Total costs and expenses .....	<u>4,969</u>	<u>2,462</u>
Loss from operations .....	<u>(4,591)</u>	<u>(2,197)</u>
Interest and other:		
Interest income .....	690	265
Other .....	<u>-</u>	<u>4</u>
Total interest and other .....	<u>690</u>	<u>269</u>
Net loss .....	<u>\$ (3,901)</u>	<u>\$ (1,928)</u>
Basic and diluted net loss per common share .....	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>
Weighted average common shares .....	<u>61,015</u>	<u>55,842</u>

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

**FIRST AVENUE NETWORKS, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**  
**(in thousands)**

	<u>Three Months Ended March 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net loss .....	\$ (3,901)	\$ (1,928)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation .....	77	16
Non-cash stock-based compensation expense .....	1,061	75
Changes in operating assets and liabilities, net of effect of acquisition	<u>1,714</u>	<u>676</u>
Net cash used in operating activities .....	<u>(1,049)</u>	<u>(1,161)</u>
Cash flows from investing activities:		
Acquisition of property and equipment .....	(2,017)	(311)
Deposits toward equipment purchases .....	(137)	(676)
Acquisition costs .....	-	(441)
Cash from Teligent acquisition .....	-	1,135
Purchase of certificate of deposit .....	(134)	-
Accrual of interest .....	<u>(36)</u>	<u>-</u>
Net cash used in investing activities .....	<u>(2,324)</u>	<u>(293)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants .....	107	35
Transaction fees for sale of common stock .....	<u>-</u>	<u>(243)</u>
Net cash (used in) provided by financing activities .....	<u>107</u>	<u>(208)</u>
Net increase (decrease) in cash and cash equivalents .....	(3,266)	(1,662)
Cash and cash equivalents, beginning of period .....	<u>50,681</u>	<u>80,398</u>
Cash and cash equivalents, end of period .....	<u>\$ 47,415</u>	<u>\$ 78,736</u>
Supplemental Disclosure of Cash Flow Information:		
Non-cash financing and investing activities:		
Issuance of common stock and warrants in connection with the acquisition of certain assets and assumption of certain liabilities of Teligent, Inc. ....	<u>\$ -</u>	<u>\$ 130,162</u>

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

**First Avenue Networks, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 1—The Company**

First Avenue Networks, Inc. (collectively with its subsidiaries, the “Company”) (NASDAQ: FRNS) is a wireless carrier and wholesale provider of wireless backhaul, fiber network extensions and carrier Ethernet solutions. With one of the largest and most comprehensive collections of millimeter wave spectrum in the United States, its spectrum portfolio includes, on average, over 740 MHz in the top 20 U.S. metropolitan areas and, in aggregate, approximately 1.5 billion channel pops, calculated as number of channels in a given area, as measured in the 2000 census, multiplied by the population covered by these channels. These licenses extend over virtually the entire United States, covering over 284 million in population. The Company holds (i) over 750 licenses for spectrum between 38.6 GHz and 40 GHz, commonly referred to as 39 GHz spectrum, granted by the Federal Communications Commission or “FCC” and (ii) 103 licenses for spectrum between 24.25-24.45 GHz and 25.05-25.25 GHz, commonly referred to as 24 GHz spectrum, also granted by the FCC.

On January 14, 2005, the Company purchased substantially all of the assets of Teligent, Inc. (“Teligent”). These assets included Teligent’s portfolio of 24 GHz licenses and its fixed wireless operations and radio inventories. Since the acquisition of the assets of Teligent, Inc., the Company’s core services include a diverse mix of managed network services utilizing its fixed wireless spectrum assets. The Company markets these services primarily to wireless telecommunications carriers. The Company also leases its 39 GHz spectrum on a limited basis. The Company expects its operations to further its long term objectives of participating in and leading growing fixed wireless markets such as providing backhaul for mobile device traffic and cost effective extensions to fiber optic networks.

The Company operates a mobile backhaul network in New York City with over 77 remote sites and 5 Multiservice Core Access Point, traffic aggregation sites. It intends to expand this network to meet customer demand for backhauling mobile device traffic. It also intends to use this network and its relationship with large national mobile carriers as a foundation for future nationwide network construction. The Company intends to build facilities which can support mobile traffic backhaul applications as well as broadband wireless fiber extensions services to bridge critical carrier network gaps.

The Company is subject to all of the risks inherent in an early-stage business in the telecommunications industry. These risks include, but are not limited to: limited operating history; management of a changing business; reliance on other third parties; competitive nature of the industry; development and maintenance of efficient technologies to support the business; employee turnover; and, operating cash requirements. Management expects operating losses and negative cash flows to continue for the near term. Failure to generate sufficient revenues could have a material adverse effect on the Company’s results of operations, financial condition and cash flows. The recoverability of assets is highly dependent on the ability of management to execute its business plan.

**Note 2—Summary of Significant Accounting Policies**

*Interim financial statements* - Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. The accompanying interim condensed consolidated financial statements are unaudited. In the opinion of Company management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company’s financial position and results of operations for the interim periods presented. The unaudited condensed consolidated financial statements should be read in conjunction with the Company’s 2005 audited consolidated financial statements and notes thereto contained in the Company’s 2005 Annual Report on Form 10-K.

*Consolidation* – The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany balances have been eliminated in consolidation.

*Use of estimates* – Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates. Among the more significant estimates made by management are fair value of long-lived assets, accrued property and use taxes and realization of deferred tax assets.

*Reclassifications* – Certain reclassifications have been made to prior period amounts to conform to current period classifications.

*Segment reporting* – Statement of Financial Accounting Standards No. 131, “Disclosure about Segments of an Enterprise and Related Information” establishes annual and interim reporting standards for an enterprise’s operating segments and related disclosures about its products, services, geographic areas, and major customers. The Company has determined that it operates in one segment.

*Cash and cash equivalents* – Cash and cash equivalents represent funds on deposit with banks or investments with original maturities of less than three months when purchased that are readily convertible into cash and not subject to significant risk from fluctuation in interest rates. The Company places its temporary cash investments with major financial institutions in amounts which, at times, exceed federally insured limits.

*Certificates of deposit* – During 2005, the Company purchased \$20 million of certificates of deposit with initial maturities of three months or greater. These investments are classified as held to maturity and carried at cost which approximates market. Interest on the certificates of deposit is included in interest income as earned.

*Restricted cash* – In March 2006, the Company purchased a certificate of deposit for \$134,000, which is to be used as collateral against a letter of credit established to support a facility lease. This amount is reported on the Company’s balance sheet as restricted cash.

*Fair values of financial instruments* – At March 31, 2006, the Company’s financial instruments included cash and cash equivalents, certificates of deposit, accounts receivable, restricted cash and accounts payable. The fair values of these financial instruments approximated their carrying value because of the short-term nature of these instruments.

*Property and equipment* – Property and equipment is stated at cost. Costs incurred to prepare an asset for service and substantial improvements, including installation costs, labor, shipping and handling and related supplies are capitalized and depreciated over the useful life of the asset. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds from a sale. The costs of maintenance and repairs of property and equipment are charged to expenses as incurred. Depreciation is computed utilizing-straight line methods over the applicable useful asset life. Deployable assets are not depreciated until placed in service. Construction of network assets generally takes less than 90 days; therefore, no interest costs were capitalized during the three months ended March 31, 2006 and 2005. The estimated useful lives of property and equipment categories are as follows:

Network assets in service .....	3-5 years
Computer systems .....	2 years
Furniture and equipment .....	3 years

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying value of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset.

*Intangibles* – The Company accounts for its intangibles, FCC licenses and goodwill, in accordance with the provisions of Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”) which requires that goodwill and intangible assets with indefinite lives not be amortized, but be tested annually or more frequently if indicators of impairments arise. Intangible assets that have finite lives continue to be amortized over their estimated useful lives.

The Company evaluates its long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. In cases where undiscounted expected cash flows associated with such assets are less than their carrying value, an impairment provision is recognized in an amount by which the carrying value exceeds the estimated fair value of such assets.

*FCC licenses* – Recoverability of the carrying value of FCC licenses is dependent on numerous factors including successful deployment of networks and radio links or sales of such assets to a third party. The Company considers the FCC licenses to have an indefinite useful life under the provisions of SFAS 142. The Company performs an impairment test on these assets on an annual basis or more frequently if events and circumstances indicate the assets might be impaired. The impairment test compares the estimated fair value of the FCC licenses with the carrying value of the assets. If the estimated fair value is less than the carrying value an impairment loss would be recorded.

The Company has determined that its FCC licenses have indefinite useful lives based on the following factors:

- FCC spectrum is a non-depleting asset;
- The licenses are integral to the business and the Company expects them to contribute to cash flows indefinitely;
- License renewal applications are generally authorized by the FCC subject to certain conditions, without substantial cost under a stable regulatory, legislative and legal environment;
- Maintenance expenditures required to obtain future cash flows are not significant; and,
- The Company intends to use these assets for the foreseeable future.

To evaluate whether an impairment in valuation has occurred the Company considers a number of factors, including (i) the change in its public equity value; (ii) the change in the public equity value of companies providing similar services or holding similar FCC licenses; (iii) private purchases of similar licenses; and (iv) the results of FCC spectrum auction for similar spectrum. Recoverability of the carrying value of the Company's FCC licenses is dependent on successful deployment of networks and radio links or sales of such assets to a third party. At March 31, 2006 the Company's licenses have a carrying value of \$60.7 million. During the fourth quarter of 2005 the Company performed its valuation and determined that no impairment had occurred.

*Goodwill* – The Company has one reporting unit. Goodwill is recorded when the price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Annually in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, the Company performs a review to determine if the carrying value of the recorded goodwill is impaired. The first step of this process is to identify potential goodwill impairment by comparing the fair value of the single reporting entity to its carrying value. The Company estimates fair value using a combination of the market price of the Company's common equity and discounted cash flows. If the carrying value is less than fair value, the Company would complete step two in the impairment review process which measures the amount of goodwill impairment. Management tests the reasonableness of the inputs and outcomes of the discounted cash flow analysis and the evaluation of the market price of its common equity against other available comparable market data. All of the goodwill is related to the Company's January 2005 acquisition of substantially all of the assets and assumption of certain related liabilities of Teligent. During the fourth quarter of 2005, the Company performed its valuation and determined that no impairment had occurred. Management is not aware of any events or circumstance that could impair the valuation as of March 2006.

*Revenue recognition* – The Company recognizes revenue from its fixed wireless services in the period in which such services are provided to customers. Revenue from these services is based upon contracted monthly fees. The Company recognizes revenue from its spectrum leasing program ratably over the lease term beginning when the FCC approves the lease. Revenue from the spectrum leasing program is based upon signed lease agreements.

*Allowance for doubtful accounts* – The Company records its trade accounts receivable at the invoiced amount. The Company maintains an allowance for doubtful accounts for estimated losses that result from failure or inability of customers to make required payments. When determining the allowance, the Company considers the probability of collection based on past experience, taking into account current collection trends that are expected to continue, as well as general economic factors. Accounts are written off when the Company determines that it is probable that the amount will not be collected.

*Income taxes* – The Company accounts for income taxes utilizing the liability method of accounting. Under the liability method, deferred taxes are determined based on differences between financial statement and tax bases of assets and liabilities at enacted tax rates in effect in years in which differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts expected to be realized.

*Stock options* – Effective January 1, 2005, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R") using the modified prospective application method. Under the modified prospective application, SFAS 123R is applied to new awards and to awards modified, repurchased or cancelled after the effective date. Compensation cost for the portion of awards for which requisite service has not been rendered that are outstanding as of the effective date is recognized as the requisite service is rendered on or after the effective date. The compensation cost for that portion of awards is based on the grant date fair value of those awards as calculated for pro-forma disclosures under SFAS 123. In accordance with SFAS 123R, the Company has recorded a non-cash stock-based compensation charge of \$1.1 million and \$75,000 during the three-month periods ended March 31, 2006 and 2005, respectively.

*Net loss per share* – Calculation of net loss per share for the three months ended March 31, 2006 excludes the effect of warrants and options to purchase 8.5 million and 3.7 million, respectively, shares of common stock since inclusion in such calculation would have been antidilutive. Calculation of net loss per share for the three months ended March 31, 2005 excludes the effect of warrants and options to purchase 10.3 million and 1.1 million, respectively, shares of common stock since inclusion in such calculation would have been antidilutive.

### **Note 3—Purchase of Teligent assets**

The Company purchased Teligent's 24 GHz assets, in particular the spectrum licenses, in order to assemble what the Company considers to be the premier collection of millimeter wave spectrum in the United States. The combination of the Company's 39 GHz spectrum with Teligent's 24 GHz spectrum provides outstanding breadth of geographic coverage, depth in key markets and complementary technical and propagation characteristics. The acquisition of Teligent's fixed wireless operations includes an operational mobile backhaul network. This network provides the Company with a foundation for future growth in New York and a reference account for future nationwide network construction.

In consideration for the assets, the Company issued 25.2 million shares of its common stock and a warrant to acquire up to 2.5 million shares of the Company's common stock. The warrant has exercise prices ranging from \$1.98 to \$2.40 depending on the exercise date. The warrant terminates on June 28, 2009.

The Company valued the transaction at \$131.2 million based upon the value of the common stock and warrants issued plus transaction costs. The value of the common stock of \$121.0 million was calculated by multiplying the number of shares of common stock issued times the weighted average stock price for the three day period before and after the announcement of the transaction. The value of the warrants was determined to be \$9.1 million using a Black-Scholes option pricing model, assuming no expected dividends, an 18 month life, a risk free interest rate of 3.53% and a volatility of 131%. The Company incurred \$1.1 million in transaction costs. The Company recorded \$90.7 million in goodwill, representing the cost of the acquired assets in excess of the fair value of the assets acquired and liabilities assumed.

The following table summarizes the final purchase price allocation (dollars in thousands):

	<u>Amount</u>	<u>Lives</u>
Cash and cash equivalents	\$ 1,535	N.A.
Accounts receivable	82	N.A.
Undeployed equipment	964	N.A.
Property and equipment	124	3 years
FCC licenses	39,000	Indefinite
Goodwill	90,727	Indefinite
Other assets	56	N.A.
Current liabilities	(388)	N.A.
Accrued taxes other than income	(20)	N.A.
Other non-current liabilities	<u>(850)</u>	N.A.
Net assets acquired	<u>\$ 131,230</u>	

Under the terms of the Amended and Restated Asset Purchase Agreement (the "Agreement"), the Company will receive any cash remaining at December 31, 2006 from the liquidation of Teligent, Inc. Additional cash received, if any, under this Agreement will increase cash and decrease goodwill when received.

The results of operations of the acquired fixed wireless business are included in the consolidated results of operations from the acquisition date. None of the goodwill is expected to be amortized for tax purposes.

*Pro forma* financial information for the three months ended March 31, 2005 is not presented because Teligent did not maintain separate accounting records for its long distance business and its fixed wireless business. The Company did not acquire Teligent's long distance business which represented 70% of Teligent's historic revenue. As a result, Teligent's historical financial statements would not provide meaningful information regarding the future operations of the business which the Company did acquire.

#### **Note 4—FCC Licenses**

The Company acquired its spectrum portfolio from 1996 through 2005 through purchase transactions and participation in the FCC auction process.

*Auction* – In 2000, the Company acquired certain 39 GHz licenses from the FCC for \$77.0 million cash. In 2004, the Company acquired one 24 GHz license from the FCC for \$62,000 in cash.

*Teligent* – In 2005, the Company obtained additional 24 GHz licenses in its purchase of Teligent's assets (See Note 3).

## Note 5—Property and Equipment

Components of property and equipment were as follows (in thousands):

	March 31, <u>2006</u>	December 31, <u>2005</u>
Deployable assets .....	\$ 4,509	\$ 2,805
Network assets in service .....	274	169
Computer systems .....	425	240
Furniture and equipment.....	<u>197</u>	<u>137</u>
Total property and equipment .....	5,405	3,351
Accumulated depreciation .....	<u>(165)</u>	<u>(126)</u>
Property and equipment, net.....	\$ 5,240	\$ 3,225

Depreciation expense approximated for the three months ended March 31, 2006 and 2005 totaled \$77,000 and \$16,000, respectively.

## Note 6—Capital Stock

*Teligent* – See Note 3 for discussion of stock issued in connection with the acquisition of certain assets and assumption of certain liabilities from Teligent, Inc.

*Sale of Common Stock* – In January 2004, the Company sold 1.2 million units, each unit comprised of one share of common stock and one warrant, for \$3.60 per unit, yielding gross proceeds of \$4.4 million. The five-year warrants were exercisable immediately with an exercise price of \$1.84.

On December 14, 2004, the Company sold an additional 12.87 million shares of common stock for \$7.25 per share yielding gross proceeds of \$93.3 million. The Company paid \$3.7 million to a placement agent in connection with this sale of common stock. The Company issued to the purchasers five-year warrants with an exercise price of \$7.25 to acquire 1.9 million shares of common stock. The warrants would have become exercisable, subject to certain limitations (i) with respect to 25% of the shares underlying the warrants on the 60<sup>th</sup> day following the closing if the Company had not filed a registration statement registering the issued shares with the Securities and Exchange Commission (SEC) by such time, (ii) with respect to an additional 25% of the shares underlying the warrants on the 90<sup>th</sup> day following the closing if the Company had not filed a registration statement registering the issued shares with the SEC by such time, (iii) with respect to an additional 25% of the shares underlying the warrants on the 180<sup>th</sup> day following the closing if the registration statement being used to register the shares issued to the purchasers under had not been declared effective by the SEC by such time, and (iv) with respect to the remaining 25% of the shares underlying the warrants on the 210<sup>th</sup> day following the closing under the securities purchase agreement if the registration statement being used to register the shares issued to the purchasers had not been declared effective by the SEC by such time. During 2005, the Company met each of its filing and registration deadlines. As a result, none of these warrants vested. As part of this transaction, the Company issued ten year warrants to the placement agent to acquire 2.6 million shares of common stock. The warrants are exercisable immediately with an exercise price of \$7.25 per share. Using the Black-Scholes option valuation model, assuming no expected dividends, a three year life, a risk free interest rate of 3.53% and a volatility of 131%, the value of these warrants is \$21.6 million.

*Class A Warrants* – Upon emergence from bankruptcy, the Company issued \$11.0 million of Senior Notes to shareholders, with 4 million Class A Warrants exercisable for the Company's common stock. On December 23, 2004 the Company repaid all Senior Notes using proceeds from the sale of common stock.

The Company recorded the issuance of Senior Notes and Class A Warrants by allocating proceeds of \$11.0 million to Senior Notes and Class A Warrants based on their estimated relative fair values at the issuance date, resulting in \$4.1 million assigned to Class A Warrants and \$6.9 million to Senior Notes. The value ascribed to the Class A Warrants was recorded as debt discount and an increase in additional paid-in capital. When the Company repaid all Senior Notes, it recognized the remaining unamortized debt discount. During the year ended December 31, 2004 and 2003, the Company recorded \$2.5 million and \$818,000, respectively, of interest expense relating to the amortization of original issue discount. Each warrant entitles the holder to purchase one share of common stock at a price of \$0.01 per share until December 20, 2006. In March 2006, 1.1 million warrants were exercised for proceeds of \$10,536.

*Outstanding Options and Warrants* – The following table summarizes information about stock options and warrants outstanding at March 31, 2006:

<u>Exercise Price</u>	<u>Options/Warrants Outstanding</u>	<u>Weighted Average Remaining Life</u>	<u>Options/Warrants Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$0.01*	2,946,379	1.0	2,946,379	\$0.01
\$0.14**	112,961	6.0	112,961	\$0.14
\$0.52**	372,608	6.0	293,845	\$0.52
\$1.84*	1,208,333	3.0	1,208,333	\$1.84
\$2.08*	1,519,464	3.0	1,519,464	\$2.08
\$7.00**	2,060,000	8.0	28,334	\$7.00
\$7.25*	2,815,667	9.0	2,815,667	\$7.25
\$7.47**	325,000	5.0	-	\$7.47
\$7.92**	175,000	5.0	-	\$7.92
\$7.93**	110,000	5.0	-	\$7.93
\$8.35**	5,000	5.0	-	\$8.35
\$8.70**	<u>550,000</u>	9.0	<u>173,332</u>	\$8.70
Total	<u>12,200,412</u>		<u>9,098,315</u>	

\* - Warrants

\*\* - Options issued to employees, officers and directors

### **Note 7—Stock-Based Compensation**

*Stock Compensation Expense* - During the three months ended March 31, 2006, the Company issued 1,600 shares of authorized, but not issued, common stock to a consultant for services rendered. The Company has recorded a non-cash stock-based compensation charge of \$10,000 as a result of this issuance. This charge was based on the average market value of the Company's common stock during the period that services were rendered.

*Stock Option Plan* - On March 31, 2006, the Company had one share-based compensation plan (the "Plan"), which was approved by the Company's shareholders. The Company has recorded compensation cost of \$1.1 million and \$75,000 for options granted under the Plan for the three month periods ended March 31, 2006 and 2005, respectively. This charge is included in the total stock-based compensation charge recorded in accordance with SFAS 123R. The Plan provides for the grant of incentive and non-qualified options to purchase up to 7.6 million shares of common stock to directors, officers and employees. Shares issued upon exercise of options granted under the Plan are issued from authorized but unissued shares of common stock. The Company believes that such awards better align the interests of its employees with those of shareholders. Option awards in 2006 were granted with an exercise price equal to the greater of \$7.00 per share or the market price of the Company's common stock at the grant date. The options granted vest ratably over initial periods ranging from two to five years of continuous service and are exercisable for initial terms of five or ten years. Option awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model, using the assumptions noted in the table below. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	<u>For the Three Months ended,</u>	
	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Risk free interest rates	4.81%	3.88% - 4.38%
Expected life (in years)	4	3 - 4
Volatility	114.8% - 118.5%	117% - 126%

The Company has not paid any cash dividends in the past and does not anticipate paying any cash dividends in the foreseeable future. As a result, the Company has assumed no dividends in its determination of stock compensation expense.

A summary of option activity under the Plan as of March 31, 2006, is presented below (shares thousands).

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price per Share</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value (\$000s)</u>
Outstanding at December 31, 2005 .....	3,258	\$5.91		
Options cancelled .....	(40)	\$8.70		
Options issued .....	700	\$7.60		
Options exercised .....	<u>(207)</u>	\$0.48		
Outstanding at March 31, 2006 .....	<u>3,711</u>	\$6.51	7.3	\$8,548
Exercisable at March 31, 2006 .....	<u>608</u>	\$3.08	7.0	\$3,486

The weighted average grant-date fair value of options granted during the three months ended March 31, 2006 was \$5.83. There were no options granted during the three months ended March 31, 2005. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was \$1.7 million and \$2.4 million, respectively.

As of March 31, 2006, there was \$12.4 million of total unrecognized compensation cost related to nonvested share based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 39 months.

#### **Note 8—Related Party Transactions**

At March 31, 2006, holders of approximately 39.3% of the fully diluted common stock own approximately 93% (\$2.7 million) of the Class A Warrants. Representatives from two entities holding approximately 15.5% of the fully diluted common stock serve on the Company’s Board of Directors. A company controlled by a member of the Board of Directors periodically serves as a consultant to a holder of approximately 30.2% of the Company’s fully diluted common stock.

A member of the Board of Directors is a shareholder in a consulting firm which provides business development services to the Company. Under the terms of a consulting agreement between the Company and the consulting firm entered into in April 2005, the Company pays the consulting firm (i) \$5,000 plus expenses per month and (ii) 5% of the monthly recurring net revenue received under each customer agreement entered into as a direct result of services provided by the consulting agreement. This agreement expired April 30, 2006. During the three months ended March 31, 2006, the Company incurred expenses of \$15,000 under this agreement. There were no amounts payable to this firm at March 31, 2006.

In September 2005, the Company entered into an Employment Agreement with the Company’s then chief financial officer and secretary (“Former CFO”). In March 2006, the Former CFO resigned. The Company will potentially incur consulting services from the Former CFO under an existing consulting agreement on an as needed basis going forward. There were no amounts payable for consulting services to the former CFO as of March 31, 2006.

#### **Note 9—Commitments, Contingencies and Risks**

*Concentrations* – For the three month period ended March 31, 2006, the Company derived 67% of its revenue from providing mobile backhaul services to one customer in one metropolitan area.

*Regulatory Matters* – The Company is subject to certain claims and assessments and makes routine filings with the FCC. Management believes that resolution of any such claims or matters arising from such filings, if any, will not have a material adverse impact on the Company’s consolidated financial position.

In early 2004, the Company was contacted telephonically by the FCC regarding 15 spectrum leases allegedly effectuated prior to the effective date of the spectrum leasing rules adopted pursuant to the FCC’s First Report and Order in the Secondary Market Initiative (FCC-03-113). In October 2005, the Company entered into a Consent Decree with the FCC whereby the Company agreed to make a voluntary contribution of \$20,000 to the United States Treasury and to adopt and implement a plan to ensure future compliance with FCC-03-113. The Company further agreed to keep this compliance plan in effect for three years. In exchange, the FCC concluded its investigation.

*License Renewal* – Like other FCC licenses, the licenses which the Company holds were granted for an initial ten-year term and have renewal dates ranging from 2006 to 2011. To obtain renewal of a license, the licensee must demonstrate that it has provided “substantial service” during its license term. What level of service is considered “substantial” will vary depending upon the type of offering by the licensee. The FCC has provided specific guidance only for point-to-point offerings, where it has indicated the licensee should have constructed four links per channel per million persons in the licensed market area. Licensees are required, prior to the expiration date of their licenses, to file renewal applications with an exhibit demonstrating compliance with the substantial service criteria. If an entity is deemed not to have provided substantial service with respect to a license for which renewal is sought, the renewal will not be granted and the license will be canceled.

The Company has licenses for four 39 GHz channels in four different second tier markets which are due to be renewed in November 2006. These channels represent 2 million channel pops of which only 1.5 million are not covered by other licenses which the Company holds. The Company holds at least one additional channel in three of the four markets.

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

You should read the following discussion in conjunction with the section below titled "Cautionary Statement," our Consolidated Financial Statements and related Notes, and other financial information appearing in our most recently filed Annual Report on Form 10-K.

### ***Executive Overview***

In 2001, we emerged from proceedings under Chapter 11 of the United States Bankruptcy Code under a plan of reorganization. Subsequent to the effective date of the plan, our product offering consisted of leasing our spectrum to others to construct high-speed wireless telecommunications networks. Our leasing products, Express Link and Express Net, provide a way for telecommunications carriers and enterprise customers to access interference-free, carrier class licensed spectrum. Our leasing strategy allows us to utilize our FCC licenses to facilitate wireless telecommunications services in a capital efficient manner. This strategy seeks to identify, contact and serve existing telecommunications carriers in a manner that does not require significant sales and marketing, operating and capital expenditures. The recoverability of our investment in our FCC licenses is dependent on the successful execution of our business plan as it evolves.

Currently, we have 89 leases for 39 GHz spectrum on a link-by-link basis primarily in the Southwestern and Northwestern United States. Additionally, we have retained nine 39 GHz fixed transmission links originated by our predecessor which customers incorporate into their telecommunication networks and utilize to provide a primary telecommunication link or, in other cases, redundancy, back up or diversity to other telecommunication services. In December 2003, we entered into an Express Net contract with a large national telecommunications carrier. Under the terms of this contract, we have leased a portion of our 39 GHz spectrum in two urban regions for seven years. In these markets, we have at least three channels which are not subject to the lease. We hold five other ExpressNet contracts, all with smaller entities, one of which is located on one channel in a major U.S. metropolitan area. In that market, we have at least three channels which are not subject to the lease.

On January 14, 2005, we completed the acquisition of substantially all of the assets and assumed certain related liabilities of Teligent, Inc. and its subsidiary, Teligent Services, Inc. (collectively, "Teligent"). The assets acquired from Teligent included 24 GHz spectrum licenses, radio equipment and the infrastructure supporting fixed wireless operations including an operational mobile backhaul network in New York City. In consideration for these assets, we issued approximately 25.2 million shares of common stock and a warrant to purchase up to approximately 2.5 million additional shares of common stock. We expect our New York operations to further our long term objectives of participating in and leading growing fixed wireless markets such as backhauling mobile device traffic and providing cost effective extensions to fiber optic networks.

We have reflected the assets of Teligent and the acquired operations in our financial statements as of the acquisition date. The assets are recorded at fair market value at the date of acquisition as required by purchase method accounting. We have allocated 30% and 69% of the \$131.2 million purchase price to the 24 GHz spectrum and goodwill, respectively.

Subsequent to the Teligent acquisition, we began generating revenue by providing mobile backhaul services in New York City. We currently have 31 employees (including officers) and operate with limited resources. We are currently focused on building our team and developing our business opportunities. We intend to continue to expand our New York City network and to design, build and operate mobile backhaul networks in other metropolitan areas.

We use a variety of metrics to assess the growth and evaluate the performance of our operations. In addition to the traditional financial evaluations of cash used and performance against budgets, we also consider non financial measurements. As we begin to grow our operations, two of the most important customer acquisition metrics that we will track will be the number of operating sites and average DS-1 equivalents per site. A DS-1, commonly known as a T-1, is a measure of bandwidth required for the transmission of 1.54 mbps. We have 77 operating sites in our New York network. Since we acquired the network from Teligent in January 2005, we have increased the capacity of this network by 47% based upon number of DS-1s. Our network averaged 5.7 DS-1s per site. This represents an increase of 39% from the DS-1 average per site when we acquired the Teligent assets.

We consider these to be key metrics because the number of operating sites is a key driver for the amount of capital expenditures required to grow our network and the number of field personnel required to support our operations. The increase in DS-1 equivalents is an indication of the productivity of our network. On a combined basis these metrics provide us with insights as to how effective we are in building new sites in areas where our customers need to increase capacity. Our goal is to fully utilize each site to maximize the return on our capital investment.

As we expand our network in New York and expand into other metropolitan markets, we expect the number of sites to increase. Further, we expect the average number of DS-1s per site to increase as our customers require more capacity to meet the demands placed on their networks by mobile device users for the transmission of pictures and Internet communication. Since our inception, we have generated operating and net losses and we expect to generate operating and net losses and negative cash flows for at least the next few years as we position ourselves to serve the mobile backhaul and fiber extension markets.

### ***Results of Operations***

#### ***Three months ended March 31, 2006 compared to three months ended March 31, 2005***

Revenues for the three months ended March 31, 2006 increased 43% to \$378,000 from \$265,000 for the three months ended March 31, 2005. This increase is primarily the result of the acquisition of Teligent's fixed wireless operations in January 2005. The Company generates revenue by providing fixed wireless links, including a cellular backhaul network of 77 links in New York City. In addition, the Company recognizes revenue from its spectrum leasing program. We do not expect this revenue source to grow substantially since our sales efforts no longer emphasize this product. Revenue under the spectrum leases is recognized ratably over the individual lease periods, which currently range from 12 to 84 months. We expect our future revenue growth to be derived from our fixed wireless operations.

Technical and network operations costs and expenses are comprised primarily of equipment development cost, repair and maintenance costs for the fixed wireless business and compensation and related costs for engineering and maintenance personnel. Technical and network operations costs and expenses increased \$373,000 or 39% from \$963,000 to \$1.3 million for the three months ended March 31, 2006 compared to the same period in 2005 as a result of costs incurred to support the fixed wireless business acquired from Teligent. Technical and network operations costs and expenses were 353% and 363% of revenues for the three months ended March 31, 2006 and 2005, respectively. For the three months ended March 31, 2006, the Company recorded non-cash compensation expense related to technical and network personnel of \$131,000. The Company did not record any non-cash compensation expense related to technical and network personnel for the three months ended March 31, 2005. The Company expects technical and network expenses, other than those related to stock compensation costs, to increase in future periods as it executes its business plan to grow its fixed wireless operations.

Sales and marketing costs and expenses are comprised primarily of compensation and related costs and professional fees. These costs increased 492% to \$1.2 million for the three months ended March 31, 2006, compared to \$209,000 for the three months ended March 31, 2005. This increase is primarily a result of additional salaries and benefits and professional fees to support our sales efforts as well as increases in travel and industry-related organizational dues. Sales and marketing costs and expenses were 328% and 79% of revenues for the three months ended March 31, 2006 and 2005, respectively. For the three months ended March 31, 2006 and 2005, the Company recorded non-cash stock compensation expense related to sales and marketing personnel of \$204,000 and \$7,000, respectively. The Company expects sales and marketing expenses, other than those related to stock compensation costs, to increase in future periods as a result of executing its business plan to grow its fixed wireless operations.

General and administrative costs and expenses increased 78% to \$2.3 million for the three months ended March 31, 2006 from \$1.3 million for the three months ended March 31, 2005. General and administrative costs and expenses for the three months ended March 31, 2006 and 2005 primarily consist of compensation, professional fees and insurance. The increase is a result of (i) additional salaries and benefits and professional fees to support the Company's growth plans; and (ii) increased non-cash stock compensation expense. General and administrative costs and expenses were 613% and 481% of revenues for the three months ended March 31, 2006 and 2005, respectively. For the three months ended March 31, 2006 and 2005, the Company recorded non-cash stock compensation expense related to general and administrative personnel of \$716,000 and \$68,000, respectively. The Company expects general and administrative expenses, other than those related to stock compensation costs, to increase in future periods as a result of executing its business plan to grow its fixed wireless operations.

Depreciation and amortization expense increased 381% to \$77,000 for the three months ended March 31, 2006 from \$16,000 for the three months ended March 31, 2005. This increase is primarily a result of an increase in the Company's property and equipment to support its fixed wireless operations and to support 42 additional employees and consultants. Depreciation and amortization expense was 20% and 6% of revenues for the three months ended March 31, 2006 and 2005, respectively.

Interest and other increased 157% to \$690,000 for the three months ended March 31, 2006 from \$269,000 for the three months ended March 31, 2005. This change primarily is attributable to the investment in certificates of deposit, yielding higher investment returns.

During the three month period ended March 31, 2006, the Company increased its deferred tax valuation allowance to equal its deferred tax asset based upon management's determination that the recognition criteria for realization had not been met.

## *Liquidity and Capital Resources*

On December 14, 2004, we raised \$89.5 million, net of agent fees, through the sale of 12.87 million shares of common stock in a private placement offering. Some of the proceeds were used to repay \$14.4 million in existing senior indebtedness on December 23, 2004. We intend to use the remaining proceeds from the offering:

- to grow our existing mobile backhaul network and, as we receive new contracts, construct additional mobile backhaul networks;
- to develop facilities for extending fiber optic telecommunications networks in selected metropolitan markets, as we identify and contract with appropriate customers and partners;
- for other working capital purposes; and,
- for general corporate purposes.

During the three months ended March 31, 2006, operating activities used cash of approximately \$1 million as compared to \$1.1 million during the three months ended March 31, 2005. Cash used by operating activities resulted primarily from the Company's net loss decreased by non-cash stock compensation expense and changes in operating assets and liabilities.

During the three months ended March 31, 2006, investing activities used cash of \$2.4 million. This use of cash is a result of cash expenditures for the purchase of deployable equipment to support the growth of our fixed wireless operations. It also is a result of the purchase of a certificate of deposit which is to be used as collateral against a letter of credit established to support a facility lease.

During the three months ended March 31, 2006, financing activities provided cash of \$107,000 as a result of the exercise of stock options and warrants.

The Company had cash and cash equivalents, restricted cash and certificates of deposit totaling \$68 million at March 31, 2006. Since its inception, the Company has incurred losses from operations and expects to continue to incur losses and experience negative cash flows for at least the next few years as we position ourselves to serve the mobile backhaul and fiber extension markets. Subsequent to the Teligent acquisition, the Company is generating revenue by providing cellular backhaul services in New York City. In 2005, we focused our sales efforts on the large mobile carriers. In 2006, we intend to continue to expand our New York City network and to design, build and operate mobile backhaul networks in other metropolitan areas. If we are successful in signing long term contracts with mobile carriers, we will begin construction on these networks. We are currently focused on building our team and developing our business opportunities. Based upon our current cash balance, limited operations and historic annual cash utilization, we believe that our cash resources are sufficient to fund operations and capital requirements beyond 2006. However, additional unforeseen expenditures may require us to obtain additional financing.

## **Critical Accounting Matters and Significant Estimates**

The preparation of consolidated financial statements requires management to make judgments based upon estimates and assumptions that are inherently uncertain. Such judgments affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management continuously evaluates its estimates and assumptions, including those related to long-lived assets, income taxes, contingencies and litigation, and the carrying values of assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

A summary of our most critical accounting policies and significant estimates used in the preparation of our consolidated financial statements is as follows:

- **FCC Licenses** – We account for our FCC licenses in accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") which require that goodwill and intangible assets with indefinite lives not be amortized, but be tested annually or more frequently whenever indicators of impairments arise. Intangible assets that have finite lives continue to be amortized over their estimated useful lives. We have determined that our FCC licenses have indefinite useful lives due to the following:
  - FCC spectrum is a non-depleting asset;
  - The licenses are integral to the business and we expect them to contribute to cash flows indefinitely;
  - License renewal applications are generally authorized by the FCC subject to certain conditions, without substantial cost under a stable regulatory, legislative and legal environment;
  - Maintenance expenditures required to obtain future cash flows are not significant; and,
  - We intend to use these assets for the foreseeable future.

Given the nature of our 39 GHz spectrum, significant judgment is required in making an assessment as to whether the recorded carrying value of these assets exceeds the estimated fair market value. At December 31, 2005, our FCC licenses had a carrying value of \$60.7 million. During 2005, we performed a valuation of our spectrum under SFAS No. 142 and determined that the fair market value of the spectrum was \$128.9 million. In performing this evaluation, we identified a number of factors that are considered to be indicative of the value of our FCC licenses, including (i) our public equity value; (ii) private purchases of similar licenses; (iii) the change in the public equity value of companies providing similar services or holding similar FCC licenses; and (iv) the announced sale of XO's wireline division. Each of the factors was then quantified and weighted in deriving the estimated fair value. No impairment of the FCC license value occurred during the three month period ended March 31, 2006.

Several key assumptions were included in the valuation model: (i) the value of the FCC licenses directly correlates with the public trading value of our stock and that of other public companies in the telecommunications industry; (ii) certain private purchases of similar licenses are reflective of the fair value of the underlying assets; (iii) the relative weights assigned to each factor represent the level of the factor's relevance to the estimation of the fair value of the FCC licenses; and, (iv) the model captures relevant information impacting the fair value of these licenses. Any change in the above assumptions could lead to a different result. We will continue to evaluate the fair value of our FCC licenses for impairment as events or changes in circumstances indicate that the carrying value of these assets may not be fully recoverable.

We face various contingencies including the renewal of our FCC licenses in 2006 to 2011 and changing FCC regulations. The loss of some or all of our FCC licenses or the imposition of FCC usage restrictions could adversely affect our future business prospects and operations and could result in an impairment to the carrying value of these intangible assets.

Our 39 GHz and 24 GHz licenses are granted for initial ten-year terms with renewal dates ranging from 2006 to 2014. In order for the licenses to be renewed, we must demonstrate that we have provided "substantial service" during the license term. The FCC cancels those licenses that have not been used to provide substantial service. The level of service that will be considered "substantial" may vary depending upon the type of product offering. The FCC has provided specific guidance through "safe harbors" in both the 39 GHz and 24 GHz bands. For the 39 GHz band, the FCC's safe harbor is that the licensee should have constructed four individual point-to-point radio transmission links per channel per million persons in the license area. For the 24 GHz band, the FCC's safe harbor is that the licensee should have constructed four individual links per channel per million persons in the license area for point-to-point or point-to-multipoint operations. While all current service offerings are on a point-to-point basis, we do not currently meet the substantial service guidance provided by the FCC; however, we intend to meet this requirement before the expiration date of our licenses. Although we intend to meet the substantial service requirements, the FCC may modify its definition of substantial service and, in the future, we may offer products for which the FCC establishes more stringent substantial service requirements. We may be unable to meet the FCC's renewal requirements and could lose our licenses. The loss of some of our licenses could limit the expansion of our business and harm our operating results.

Our licenses are integral to our business. As a result, we believe that we must focus on protecting this valuable asset as our business plan evolves. Under FCC rules, licenses are renewed based upon service provided as of the renewal date. The FCC does not consider service provided during the ten year period for which the licenses are granted. They evaluate whether "substantial service" is provided as of the renewal date. With over \$68 million in cash and certificates of deposit we have the resources to grow our mobile backhaul services. We will continue to lease spectrum, utilizing this non-capital intensive method to put more of our FCC licenses to work. We intend to introduce new product offerings utilizing our spectrum. Under our current business plan, we believe that we will meet the FCC's "substantial service" requirement as of the various license renewal dates. We will continue to periodically assess our progress toward meeting these requirements. If at any time we determine that we will most likely not meet these requirements, we will modify the life of the particular FCC licenses and begin amortizing the cost over the remaining license period.

- **Goodwill** – The excess of the purchase price over the fair value of identifiable net assets of acquired companies is allocated to goodwill. Under the provisions of SFAS 142, goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise.

We have one reporting unit for consideration in the application of the requirements of SFAS 142. When determining the fair value of this reporting unit, we consider a combination of the market price of our common equity and discounted cash flows. In assessing the recoverability of goodwill, we must make assumptions regarding estimated future cash flows, discount rates and other factors to determine if an impairment has occurred. If these estimates or their related assumptions change in the future, we may be required to record impairment charges. Future declines in our goodwill value could result in an impairment charge to earnings, increasing our operating loss in future periods. Our stock price could decline as a result of such a charge to earnings.

Our annual evaluation of the fair value of goodwill was based upon our market equity value and our projected discounted cash flows. This evaluation indicated that no impairment to the fair value of goodwill had occurred.

- **Deferred taxes** – We have recorded a full valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In the event we were to determine that we would be able to realize the deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax valuation allowance would be reported as (i) a direct addition to additional paid in capital to the extent that the adjustment arises from the use of net operating loss carry forwards acquired from our predecessor and (ii) an increase in income in the period such determination is made to the extent the adjustment arises for any other reason.
- **Accrued taxes other than income taxes** – At March 31, 2006, other accrued taxes included accrued property tax and use tax liabilities of approximately \$2.5 million and \$1.6 million, respectively, which were incurred by our predecessor company. Such liabilities are expected to be released as we reach settlement with the respective tax jurisdictions or at such time that a basis exists for the reversal of this liability. While we believe the amounts represent reasonable estimates of the amounts potentially owed, the amounts ultimately paid to the respective jurisdictions could differ from the accrued amounts. Payments of any amount due will reduce the recorded liability and cash accordingly.
- **Fresh start accounting** – In connection with our emergence from bankruptcy, we reflected terms of the Plan in our consolidated financial statements by adopting the fresh start accounting provisions of SOP 90-7 on December 31, 2001. Fresh start accounting creates a new reporting entity and the recorded amounts of assets and liabilities are adjusted to reflect their estimated fair values. In adopting fresh start accounting, we utilized the reorganization value or fair value of the entity. The reorganization value of a company is the amount of value available and to become available for the satisfaction of post-petition liabilities and allowed claims, as negotiated between the debtor-in-possession and the creditors and holders of equity interests. A committee of unsecured creditors together with management determined a reorganization value of approximately \$53.7 million which was deemed fair value of the assets of the reorganized business, with FCC licenses comprising 86% of the reorganization value.
- **Early stage business** – We are subject to all of the risks inherent in an early-stage business in the telecommunications industry. These risks include, but are not limited to: limited operating history; management of a changing business; reliance on other third parties; competitive nature of the industry; development and maintenance of efficient technologies to support the business; employee turnover; and, operating cash requirements. In 2005, we began generating revenue by providing mobile backhaul services in New York City. From 2002 through March 2006, we have generated operating losses of \$58.3 million and net losses of \$61.7 million. We expect to generate operating and net losses and negative cash flows for at least the next few years. We are currently focused on developing our business opportunities. Failure to generate sufficient revenues could have a material adverse effect on our results of operations, financial condition and cash flows. The recoverability of our assets is highly dependent on our ability to execute on our business plan.

**Cautionary Statement**—This report includes “forward-looking” information, as that term is defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations and releases, regarding, among other things, our financial and business prospects, the deployment of our services, capital requirements and financing prospects. The Company cautions investors that any such statements are based on currently available operational, financial and competitive information, and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors. Those factors include, among others, those matters disclosed as Risk Factors at the end of the business section of the Company’s most recently filed Annual Report on Form 10-K.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

At March 31, 2006, the Company had cash and cash equivalents, restricted cash and certificates of deposit of \$68 million that were held in bank accounts with an average annual interest rate of 4.1%. The Company's investment policy provides that funds in excess of current operating needs may be invested in cash equivalents, marketable securities issued by the U.S. Government, its agencies and commercial paper of domestic corporations. Our policy prohibits investing in instruments with maturities that exceed 365 days. The Company's investment priorities are to minimize short-term risk and preserve capital. The Company has had no holdings of derivative financial or commodity instruments in the past and has no current plans to do so in the future. The Company has not conducted business in foreign currencies in the past and has no current plans to do so in the future.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### (a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the Company reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### (b) Change in Internal Controls

During the first quarter of 2006, we implemented a new financial accounting system, which resulted in changes to our internal controls over financial reporting.

In March 2006, the Former CFO resigned. Thomas A. Scott was appointed our chief financial officer effective March 2006.

These changes are not reasonably expected to materially affect our internal controls over financial reporting.

## **PART II -- OTHER INFORMATION**

### **Item 6. EXHIBITS**

#### (a) Exhibits:

- 31.1 Certification of Michael K. Gallagher under Section 302 of the Sarbanes-Oxley Act.
- 31.2 Certification of Thomas A. Scott under Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of Michael K. Gallagher under Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification of Thomas A. Scott under Section 906 of the Sarbanes-Oxley Act.

**SIGNATURES**

**Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.**

FIRST AVENUE NETWORKS, INC.

May 9, 2006  
Date

By: /s/ MICHAEL K. GALLAGHER  
Michael K. Gallagher  
President, Chief Executive Officer and Director

**Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.**

Signature	Title	Date
<u>/s/ MICHAEL K. GALLAGHER</u> Michael K. Gallagher	President, Chief Executive Officer and Director (Principal Executive Officer)	May 9, 2006
<u>/s/ THOMAS A. SCOTT</u> Thomas A. Scott	Chief Financial Officer (Principal Financial and Accounting Officer)	May 9, 2006

## **EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Title</u>
31.1	Certification of Michael K. Gallagher under Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Thomas A. Scott under Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Michael K. Gallagher under Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Thomas A. Scott under Section 906 of the Sarbanes-Oxley Act.

**CERTIFICATION PURSUANT TO  
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael K. Gallagher, President, Chief Executive Officer and Director of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Avenue Networks, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and,
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and,
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ Michael K. Gallagher  
Michael K. Gallagher  
President, Chief Executive Officer  
and Director

**CERTIFICATION PURSUANT TO  
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas A. Scott, Chief Financial Officer of the Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Avenue Networks, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and,
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and,
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 9, 2006

/s/ Thomas A. Scott

Thomas A. Scott  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief executive officer of First Avenue Networks, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Form 10-Q for the quarterly period ended March 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-Q for the quarterly period ended March 31, 2006 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael K. Gallagher

Michael K. Gallagher  
President and Chief Executive Officer

Dated: May 9, 2006

