IPASS INC
Form 10-Q
May 10, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2006**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ________ to ________**

**000-50327**
**(Commission File Number)**

**iPass Inc.**
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **93-1214598** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**3800 Bridge Parkway**
**Redwood Shores, California 94065**
(Address of principal executive offices, including zip code)
**(650) 232-4100**
(Registrant s telephone number, including area code)

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 þ No o
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).

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The number of shares outstanding of the Registrant s Common Stock, $0.001 par value, as of April 30, 2006 was 64,931,164.

**iPASS INC. AND SUBSIDIARIES**
**FORM 10-Q**
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006**
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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

### iPASS INC. AND SUBSIDIARIES
### CONDENSED CONSOLIDATED BALANCE SHEETS
### (Unaudited, in thousands)

| | March 31, 2006 | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 15,627 | $ 37,829 |
| Short-term investments | 97,474 | 146,727 |
| Accounts receivable, net of allowance for doubtful accounts of $2,760 and $2,040, respectively | 31,371 | 23,347 |
| Prepaid expenses and other current assets | 5,168 | 3,777 |
| Short-term deferred income tax assets | 6,536 | 4,555 |
| Total current assets | 156,176 | 216,235 |
| Property and equipment, net | 10,569 | 9,210 |
| Other assets | 3,131 | 1,561 |
| Long-term deferred income tax assets | 9,196 | |
| Acquired intangible assets, net | 16,855 | 8,776 |
| Goodwill | 80,162 | 18,692 |
| Total assets | $ 276,089 | $ 254,474 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 14,528 | $ 12,669 |
| Accrued liabilities | 20,994 | 12,523 |
| Deferred revenue short-term | 4,075 | 3,031 |
| Total current liabilities | 39,597 | 28,223 |
| Deferred revenue long-term | 228 | |
| Other long-term accrued liabilities | 688 | |
| Total liabilities | 40,513 | 28,223 |
| Stockholders equity: | | |
| Common stock | 65 | 64 |
| Additional paid-in capital | 254,220 | 245,456 |
| Deferred stock-based compensation | | (593) |
| Accumulated other comprehensive loss | (275) | (307) |
| Accumulated deficit | (18,434) | (18,369) |
| Total stockholders equity | 235,576 | 226,251 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 276,089 | $ 254,474 |

*See Accompanying Notes to the Condensed Consolidated Financial Statements*

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**iPASS INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited, in thousands, except share and per share amounts)**

| | Three Months Ended March 31, 2006 | | Three Months Ended March 31, 2005 | |
|---|---|---|---|---|
| Revenues | $ | 44,270 | $ | 44,072 |
| Operating expenses (1) | | | | |
| Network access | | 12,532 | | 10,492 |
| Network operations | | 6,964 | | 5,378 |
| Research and development | | 5,531 | | 4,537 |
| Sales and marketing | | 14,815 | | 12,758 |
| General and administrative | | 5,862 | | 4,354 |
| Amortization of intangibles | | 821 | | 592 |
| Total operating expenses | | 46,525 | | 38,111 |
| Operating income (loss) | | (2,255) | | 5,961 |
| Other income, net | | 1,127 | | 773 |
| Income (loss) before income taxes | | (1,128) | | 6,734 |
| Provision for (benefit from) income taxes | | (716) | | 2,645 |
| Net income (loss) before cumulative effect of change in accounting principle | | (412) | | 4,089 |
| Cumulative effect of change in accounting principle, net of zero tax effect | | 347 | | |
| Net income (loss) | $ | (65) | $ | 4,089 |
| Net income (loss) per share before cumulative effect of change in accounting principle: | | | | |
| Basic | $ | (0.00) | $ | 0.07 |
| Diluted | $ | (0.00) | $ | 0.06 |
| Per share effect of cumulative change in accounting principle: | | | | |
| Basic | $ | (0.00) | $ | 0.00 |
| Diluted | $ | (0.00) | $ | 0.00 |
| Net income (loss) per share: | | | | |
| Basic | $ | (0.00) | $ | 0.07 |
| Diluted | $ | (0.00) | $ | 0.06 |
| Number of shares used in per share calculations: | | | | |
| Basic | | 64,494,634 | | 62,316,794 |
| Diluted | | 64,494,634 | | 66,127,536 |

(1) Amortization of stock-based compensation

| | | |
|---|---|---|
| included in the expense line items: | | |
| Network operations | $ 207 | $ 53 |
| Research and development | 301 | 57 |
| Sales and marketing | 532 | 85 |
| General and administrative | 390 | 165 |
| Total amortization of stock-based compensation | $ 1,430 | $ 360 |

*See Accompanying Notes to the Condensed Consolidated Financial Statements*

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**iPASS INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited, in thousands)**

| | Three Months Ended March 31, 2006 | Three Months Ended March 31, 2005 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ (65) | $ 4,089 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Stock-based compensation expense | 1,430 | 360 |
| Tax benefits from employee stock option plans | | 294 |
| Amortization of acquired intangibles | 821 | 592 |
| Depreciation and amortization | 1,248 | 1,256 |
| Deferred income tax | (949) | 2,307 |
| Provision for doubtful accounts | 100 | 200 |
| Realized loss on investments, net | | 31 |
| Cumulative effect of change in accounting principle | (347) | |
| Changes in operating assets and liabilities, net of acquired assets and liabilities: | | |
| Accounts receivable | (968) | (2,804) |
| Prepaid expenses and other current assets | (758) | (98) |
| Other assets | (1,225) | (1) |
| Accounts payable | (339) | 330 |
| Accrued liabilities | 285 | 137 |
| Other liabilities | 228 | |
| Net cash provided by (used in) operating activities | (539) | 6,693 |
| **Cash flows from investing activities:** | | |
| Purchases of short-term investments | (56,667) | (16,217) |
| Maturities of short-term investments | 111,739 | 9,997 |
| Acquisition, net of cash acquired | (77,960) | |
| Purchases of property and equipment | (1,223) | (1,295) |
| Net cash used in investing activities | (24,111) | (7,515) |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock | 2,405 | 591 |
| Tax benefit from employee stock option plans | 43 | |
| Net cash provided by financing activities | 2,448 | 591 |
| Net decrease in cash and cash equivalents | (22,202) | (231) |
| Cash and cash equivalents at beginning of period | 37,829 | 34,395 |
| | $ 15,627 | $ 34,164 |

*See Accompanying Notes to the Condensed Consolidated Financial Statements*

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**iPASS INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**Note 1. Description of Business**

iPass Inc. (the Company , iPass or we ) provides software-enabled enterprise connectivity services for remote and mobile workers. Our primary service offering, iPass Corporate Access, is designed to enable enterprises to provide their employees with secure access from over 160 countries to the enterprise s internal networks through an easy-to-use interface. As opposed to telecommunications companies that own and operate physical networks, iPass provides its services through a virtual network. iPass virtual network is enabled by its software, its scalable network architecture and its relationships with over 300 telecommunications carriers, internet service providers and other network service providers around the globe. In addition, we provide policy management services that extend our secure offering to enable better protection of user identities, the integrity of an enterprise s remote and mobile computer systems, or endpoints, as well as an enterprise s network. These services can be used in conjunction with iPass Corporate Access or over non-iPass network connections. The Company s software is designed to provide enterprises with a high level of security, the ability to affect and control policy management, and to receive centralized billing and detailed reporting. iPass was incorporated in California in July 1996 and reincorporated in Delaware in June 2000.

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

***Basis of Presentation***

The accompanying financial data as of March 31, 2006, and for the three months ended March 31, 2006 and 2005 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The December 31, 2005 Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. However, the Company believes that the disclosures are adequate to make the information presented not misleading.

On February 15, 2006 the Company acquired GoRemote Internet Communications, Inc. ( GoRemote ). The effects of this transaction as well as the results of operations of GoRemote from February 15, 2006 through March 31, 2006 are included in our results of operations as of and for the three months ended March 31, 2006.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (which include normal recurring adjustments, except as disclosed herein) necessary to present fairly the Company s financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

***Principles of Consolidation***

The accompanying condensed consolidated financial statements include the financial statements of iPass Inc. and its wholly owned subsidiaries after elimination of intercompany accounts and transactions.

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***Foreign Currency Translation***

Substantially all revenues and network access expenses are denominated in U.S. dollars. Therefore, the Company considers the functional currency of its foreign subsidiaries to be the U.S. dollar. Foreign currency transaction gains and losses are included in the accompanying condensed consolidated statements of operation. Foreign currency transaction gains and losses were not significant for the three months ended March 31, 2006 and 2005.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with stockholders. Comprehensive income (loss) is the total of net income (loss) and all other non-owner changes in equity. Comprehensive income (loss) includes net income and unrealized losses on available-for-sale securities.

Comprehensive income (loss) is comprised of the following (in thousands):

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2006** | **2005** |
| Net income (loss) | $ (65) | $ 4,089 |
| Net change in accumulated unrealized gain (loss) on available-for-sale securities, net of tax | 32 | (237) |
| Total comprehensive income (loss) | $ (33) | $ 3,852 |

***Cash Equivalents and Short-term Investments***

Cash equivalents consist of highly liquid investments, including corporate debt securities and money market funds with maturities of 90 days or less from the date of purchase.

The Company has the ability to convert its short-term investments into cash or into securities with a shorter remaining time to maturity without penalty and is not committed to holding the investments until maturity. As such, all short-term investments in the Company s portfolio are classified as available-for-sale and are stated at fair market value, with the unrealized gains and losses reported as a component of accumulated comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of unrealized discounts to maturity. Such amortization and accretion is included in other income, net. The cost of securities sold is based on the specific identification method.

***Concentrations of Risk***

Substantially all of the Company s cash and cash equivalents are held by two well established financial institutions. The Company provides credit to its customers in the normal course of business, performs ongoing credit evaluations of its customers, and maintains an adequate allowance for doubtful accounts. As of March 31, 2006 and December 31, 2005, no individual customer represented 10% or more of revenue or accounts receivable.

***Fair Value of Financial Instruments***

For the Company s financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities, carrying amounts approximate fair value due to the relatively short maturities of the financial instruments.

***Property and Equipment***

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Equipment (Three years)

Furniture and fixtures (Five years)

Computer software and equipment (Three years)
Leasehold improvements (Shorter of useful life or lease term)

***Impairment of Long-Lived Assets***

The Company periodically evaluates the carrying amount of its property and equipment when events or changes in business circumstances have occurred which indicate the carrying amount of such assets may not be fully realizable. Determination of impairment is based on an estimate of undiscounted future cash flows resulting from the use of the assets and their eventual disposition. If the Company determines these assets have been impaired, the impairment charge is recorded based on a comparison of the net book value of the fixed assets and their fair value determined by the discounted future cash flows resulting from the use of the assets over their remaining useful lives. There have been no such impairment charges during any of the periods presented.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is recorded against deferred tax assets if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

***Stock- Based Compensation***

*Description of the Company s Plans*

In February 1997, the Company adopted the 1997 Stock Option Plan (1997 Plan). In June 1999, the Company adopted two option plans, the 1999 Stock Option Plan (1999 Plan) and the 1999 Interim Stock Option Plan (1999 Interim Plan). The 1997 Plan, the 1999 Plan, and the 1999 Interim Plan are collectively referred to as the Plans. Under the Plans, as amended, the Company is authorized to issue shares to employees, directors and consultants. As of March 31, 2006, 19,139,734 shares were authorized for grant. The Company s board of directors adopted the 2003 Equity Incentive Plan and the 2003 Non-employee Directors Plan on January 15, 2003. The board of directors may grant incentive and nonqualified stock options to employees, directors, and consultants of the Company. The exercise price per share for nonstatutory stock options cannot be less than 85% of the fair market value, as determined by the board of directors, on the date of grant. The exercise price per share for incentive stock options cannot be less than the fair market value, as determined by the board of directors on the date of grant. Options generally vest over a four-year period and generally expire 10 years after the date of grant. Certain options can be exercised prior to vesting in exchange for restricted stock. Should the option holder subsequently terminate employment prior to vesting, the Company has the right to repurchase unvested shares at the lower of original exercise price or fair value. At March 31, 2006, there were no shares of common stock subject to repurchase.

In January 2003, the Company s Board of Directors adopted the 2003 Employee Stock Purchase Plan (ESPP). The ESPP became effective on July 23, 2003. At that time, 2,000,000 shares were reserved for issuance under this plan. The number of shares reserved under this ESPP automatically increases annually beginning January 1, 2004 by 1% of the total number of shares outstanding as of the last day of the previous fiscal year. The ESPP permits participants to purchase common stock through payroll deductions of up to 15% on an employee s compensation, including commissions, overtime, bonuses and other incentive compensation. The purchase price per share is equal to the lower of 85% of the fair market value per share at the beginning of the offering period, or 85% of the fair market value per share on the semi-annual purchase date.

*Change in Accounting Principle*

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, ( SFAS 123(R) ) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the ESPP based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ).

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ( SAB 107 ) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Using the modified prospective transition method of adopting SFAS 123(R), the Company began recognizing compensation expense for stock-based awards granted or modified after December 31, 2005 and awards that were granted prior to the adoption of SFAS 123(R) but were still unvested at December 31, 2005. Under this method of implementation, no restatement of prior periods has been made.

Stock-based compensation expense and the related income tax benefit recognized under SFAS 123(R) in the condensed consolidated statements of operations for the three months ended March 31, 2006 related to stock options and ESPP were $1,430,000 and $43,000, respectively. The estimated fair value of the Company s stock-based awards, less expected forfeitures, is amortized over the awards vesting period on a straight-line basis. In addition, the Company has recorded a $(347,000) cumulative effect of a change in accounting principle in the condensed consolidated statement of operations for the three months ended March 31, 2006. The cumulative effect adjustment reversed the impact of estimated forfeitures on prior period stock compensation to the extent the related unvested options were outstanding as of January 1, 2006.

As a result of adopting SFAS 123(R), the Company s loss before income taxes and net loss for the three months ended March 31, 2006 were increased by $1,430,000 and $1,040,000, respectively. The implementation of SFAS 123(R) reduced basic and fully diluted earnings per share by $0.02 for the three months ended March 31, 2006. The implementation of SFAS 123(R) did not have a significant impact on cash flows from operations during the three months ended March 31, 2006.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company s income statements. Prior to January 1, 2006, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method under APB 25 and related interpretations. In accordance with APB 25, no stock-based compensation expense was recognized in the Company s income statements for stock options granted to employees and directors that had an exercise price equal to the deemed fair value of the underlying common stock on the date of grant.

Stock-based compensation expense recognized in the Company s statement of operations for the three months ended March 31, 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended, and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in the consolidated income statements for the three months ended March 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company s pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

On November 10, 2005, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position No. FAS 123(R)-3 Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. This FSP provides a practical transition election related to the accounting for the tax effects of share-based payments awards to employees, as an alternative to the transition guidance for the additional paid-in capital pool ( APIC pool ) in paragraph 81 of SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the APIC pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R). The guidance in this FSP is effective after November 10, 2005. The Company may take up to one year from the later of adoption of SFAS 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. The Company is currently evaluating the transition alternatives.

*Stock Options*

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatilities are based the historical volatility of the Company s common stock, and other factors. The expected term of options granted is derived from the average midpoint between vesting and the contractual term, as described in SAB107. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | **Three Months Ended March 31, 2006** |
|---|---|
| Risk-free rate | 4.5% |
| Expected dividend yield | 0% |
| Expected volatility | 50% |
| Expected life | 6.1 years |

A summary of the changes in stock options outstanding under the Company s equity-based compensation plan during the three months ended March 31, 2006 is presented below:

| | **Number of Shares** | **Weighted Average Exercise Price** |
|---|---|---|

| | | | |
|---|---|---|---|
| Balance as of December 31, 2005 | 9,348,025 | $ | 5.12 |
| Granted | 787,748 | $ | 7.53 |
| Assumed | 1,915,009 | $ | 23.63 |
| Exercised | (811,318) | $ | 3.87 |
| Cancelled | (367,562) | $ | 8.08 |
| Balance as of March 31, 2006 | 10,871,902 | $ | 7.42 |

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | |
| Options outstanding at March 31, 2006 | 10,871,902 | 7.42 | 7.43 | $ 31,079 |
| Options vested and expected to vest at March 31, 2006 | 10,218,178 | 7.46 | .49 | $ 29,939 |
| Options exercisable at March 31, 2006 | 5,915,077 | 8.26 | 6.39 | $ 20,605 |

The weighted average grant date fair value of options granted during the three months ended March 31, 2006 was $4.05. The total intrinsic value of options exercised during the three months ended March 31, 2006 was $2.9 million. At March 31, 2006, the Company had $7.5 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 3.8 years. Cash received from stock option exercises was $2.4 million during the three months ended March 31, 2006.

The following table summarizes significant ranges of outstanding and exercisable options as of March 31, 2006 (in thousands, except years and per-share amounts):

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| | Number Outstanding | Weighted-Average Remaining Contractual Life (in Years) | Weighted-Average Exercise Price per Share | Number Exercisable | Weighted-Average Exercise Price per Share |
| $ 0.10 - 0.85 | 1,215,313 | 5.87 | $ 0.63 | 1,153,064 | $ 0.62 |
| 0.95 - 4.00 | 1,168,559 | 6.55 | 2.46 | 879,730 | 2.42 |
| 4.17 - 5.05 | 1,887,035 | 6.29 | 4.89 | 1,174,944 | 4.79 |
| 5.26 - 5.35 | 1,765,124 | 8.33 | 5.35 | 688,343 | 5.35 |
| 5.38 - 5.87 | 1,310,809 | 9.02 | 5.70 | 415,241 | 5.61 |
| 5.91 - 7.38 | 1,191,163 | 8.79 | 6.59 | 307,159 | 6.40 |
| 7.40 - 8.50 | 1,134,198 | 7.55 | 7.89 | 538,449 | 8.23 |
| 8.80 - 47.78 | 1,089,741 | 7.45 | 15.43 | 648,187 | 16.56 |
| 53.33 - 160.00 | 101,910 | 3.97 | 149.35 | 101,910 | 149.35 |
| 250.00 - 250.00 | 8,050 | 3.82 | 250.00 | 8,050 | 250.00 |
| Total | 10,871,902 | 7.43 | $ 7.42 | 5,915,077 | $ 12.13 |

*Employee Stock Purchase Plan*

Compensation expense is calculated related to the ESPP using the fair value of the employees purchase rights granted under the Black-Scholes model, assuming no expected dividends and the following weighted average assumptions:

| | 2006 | 2005 |
|---|---|---|
| Risk-free rate | 4.5% | 3.2% |
| Expected dividend yield | 0% | 0% |
| Expected volatility | 50% | 41% |
| Expected life | 0.5 to 1 year | 0.5 years |

The weighted-average fair value of the purchase rights granted under the ESPP during the three months ended March 31, 2006 was $1.80.

*Pro Forma Information under SFAS 123 for Periods Prior to 2006*

Prior to January 1, 2006, the Company followed the disclosure-only provisions under SFAS 123, as amended. The following table illustrates the effect on net income and earnings per share for the three months ended March 31, 2005 if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except per share data):

| | | Three Months Ended March 31, 2005 |
|---|---|---|
| Net income as reported | $ | 4,089 |
| Add: Stock-based employee compensation expense included in the reported net income, net of related tax effects | | 220 |
| Deduct: Stock-based employee compensation expense using the fair value method, net of related tax effects | | (1,083) |
| Pro forma net income | $ | 3,226 |
| Basic net income per share: | | |
| As reported | $ | 0.07 |
| Pro forma | $ | 0.05 |
| Diluted net income per share: | | |
| As reported | $ | 0.06 |
| Pro forma | $ | 0.05 |

Compensation expense for pro forma purposes is reflected over the vesting period, in accordance with the method described in FASB Interpretation (FIN) 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

For pro forma purposes, the fair value of the Company s stock option awards was estimated using the Black-Scholes option-pricing model, assuming no expected dividends and the following weighted-average assumptions for the three months ended March 31, 2005:

| | 2005 |
|---|---|
| Risk-free rate | 3.5% |
| Expected dividend yield | 0% |
| Expected volatility | 41% |
| Expected life | 3 years |

Prior to January 1, 2006, the expected life and expected volatility of the stock options were based upon historical data and other relevant factors. Forfeitures of employee stock options were accounted for on an as-incurred basis.

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock option grants was $2.05 for the three months ended March 31, 2005. The total intrinsic value of options exercised during the three months ended March 31, 2005 was $3.0 million. No shares were issued under the ESPP during the three months ended March 31, 2006 and 2005.

***Revenue Recognition***

*Services and Fees*

We derive the large majority of our revenues from usage fees. We recognize revenues when persuasive evidence of an arrangement exists, service has been provided to the customer, the price to the customer is fixed or determinable, and collection is reasonably assured.

We recognize revenues during the period the services are rendered to end users based on usage at negotiated rates. We typically require our customers to commit to minimum usage levels. Minimum usage levels can be based on an annual term, monthly term or over the term of the arrangement. If actual usage in a given period is less than the minimum commitment, we recognize the difference between the actual usage and the minimum commitment as revenue when cash is collected because we cannot reasonably estimate the amount of the difference that will be collected. We cannot reasonably estimate the amount of the difference to be collected because we have from time to time renegotiated minimum commitments in cases where customers have sought renegotiation of their contract for reasons such as a significant downturn in their business or where we have determined that it would be in our best interest to do so. Customers are not contractually entitled to use or otherwise receive benefit for unused service in subsequent periods.

We typically provide our customers with deployment services, technical support and additional optional services. Depending on the service provided and the nature of the arrangement, we may charge a one-time, annual or monthly fee. We recognize revenues relating to one-time fees on a straight-line basis over the term of the initial contract, generally one to three years, as we can not reasonably estimate the period of performance. We recognize revenues relating to annual fees on a straight-line basis. We recognize revenues for monthly services during the month that these services are provided.

*License and Maintenance*

License revenue consists of revenue earned under software license agreements. License revenue is generally recognized when a signed contract or other persuasive evidence of an arrangement exists, the software has been shipped or electronically delivered, the license fee is fixed or determinable, and collection of the resulting receivable is probable as prescribed by AICPA Statement of Portion ( SOP ) 97-2. We enter into revenue arrangements in which a customer may purchase a combination of software, upgrades and maintenance and support (multiple-element arrangements). When vendor-specific objective evidence ( VSOE ) of fair value exists for all elements, we allocate revenue to each element based on the relative fair value of each of the elements. VSOE of fair value is established by the price charged when that element is sold separately. When contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the residual method prescribed by AICPA Statement of Position ( SOP ) 98-9. Revenue from subscription license agreements, which include software, rights to future products on a when-and-if available basis and maintenance, is recognized ratably over the term of the subscription period. Revenue on shipments to resellers, which is generally subject to certain rights of return and price protection, is recognized when the products are sold by the resellers to the end-user customer.

Maintenance revenue consists of fees for providing software updates on a when and if available basis and technical support for software products (post-contract support or PCS ). Maintenance revenue is recognized ratably over the term of the agreement.

Payments received in advance of services performed are deferred. Allowances for estimated future returns and discounts are provided for upon recognition of revenue.

*Fixed Broadband*

Through the acquisition of GoRemote Internet Communications, Inc., the Company provides services over a heterogeneous virtual network, which was created by forming contractual relationships with approximately 500 access providers, including Internet service providers, cable companies, DSL companies and telecommunications companies. These companies may provide us their services under either a reseller or an agency arrangement. In applying our revenue recognition policy we must make judgments with regard to the specific facts and circumstances surrounding each provider relationship to determine which portion of our revenues we provide under a reseller arrangement, where we would record gross revenues and cost of revenues, and which portion of our revenues we provide as an agent, where we would record revenues and cost of revenues combined on a net basis. In exercising our judgment, we evaluate the contractual arrangements and de facto relationships with each provider, together with various other assumptions believed to be applicable and reasonable under the circumstances, to determine whether revenues are gross versus net. We have one significant provider arrangement under which we account for revenues on a net basis. All other provider arrangements are accounted for on a gross basis, with the related costs associated with provisioning each endpoint being deferred initially and amortized over the estimated life of an endpoint, typically 30 months. Our judgments may change as new events occur, as additional information is obtained and as our operating environment changes, any of which could cause a material impact on the revenues that we have reported. We record estimated allowances against revenues for returns and cancellations in the same period the revenues are recorded. These estimates are based upon historical analysis of our service level agreements, credit memo data and other known factors for pricing and transaction volume disputes that arise in the normal course of business. To date, allowances pertaining to our current business have not been significant.

The Company generally performs credit reviews to evaluate the customers ability to pay. If the Company determines that it is not probable that the revenue is collectible, the revenue is recognized as cash is collected.

***Network Access***

Network access expenses represent the amounts paid to network access providers for the usage of their networks. The Company has minimum purchase commitments with some network service providers for access that it expects to utilize during the term of the contracts. We recognize costs of minimum purchase contracts as network access expenses at the greater of the minimum commitment or actual usage.

If the Company estimates that the revenues derived from the purchase commitment will be less than the purchase commitment, the Company recognizes a loss on that purchase commitment to the extent of that difference. No such loss has been recognized for the three months ended March 31, 2006.

**Note 3. Net Income (Loss) Per share**

In accordance with SFAS 128, Earnings Per Share, basic net income (loss) per share is computed by dividing net income (loss) by the weighted daily average number of shares of common stock outstanding during the period. The weighted daily average number of shares of common stock excludes shares that have been exercised prior to vesting and are subject to repurchase by the company. There were no shares subject to repurchase for the three months ended March 31, 2006. Basic net income per share excludes 558,769 shares subject to repurchase for the three months ended March 31, 2005. These shares have been included in diluted net income per share to the extent that the inclusion of such shares is dilutive. Diluted net income (loss) per share is based upon the weighted daily average number of shares of common stock outstanding for the period plus dilutive potential common shares from the issuance of stock options using the treasury-stock method.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except share and per share amounts):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2006** | **2005** |
| Numerator: | | |
| Net income (loss) | $ (65) | $ 4,089 |
| Denominator: | | |
| Denominator for basic net income per share | | |
| Weighted average shares outstanding | 64,494,634 | 62,316,794 |
| Effect of dilutive securities: | | |
| Stock options | | 3,810,742 |
| Denominator for diluted net income (loss) per share adjusted | | |
| Weighted average shares | 64,494,634 | 66,127,536 |
| Basic net income (loss) per share | $ (0.00) | $ 0.07 |
| Diluted net income per (loss)share | $ (0.00) | $ 0.06 |

For the three months ended March 31, 2006 and 2005, 10,871,902 and 1,655,439 options to purchase common stock have been excluded from the computation of diluted net income per share because the effect of including these shares would have been anti-dilutive:

The weighted-average exercise price of options to purchase common stock excluded from the computation was $7.42 and $10.94 for the three months ended March 31, 2006 and 2005.

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**Note 4. Legal Contingencies**

Beginning on January 14, 2005, three purported class action complaints were filed against the Company and certain of its executive officers in the United States District Court for the Northern District of California. On March 2, 2005, these cases were consolidated as In re iPass Securities Litigation, Case No. 3:05-cv-00228-MHP. On April 22, 2005, David Lutzke and Rhonda Lutzke were named lead plaintiffs. On July 5, 2005, plaintiffs filed a Consolidated Amended Complaint. Named as defendants together with the Company are officers Kenneth D. Denman, Donald C. McCauley, Anurag Lal, and Jon M. Russo. The Consolidated Amended Complaint ( CAC ) alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 during an alleged class period from April 22, 2004 to June 30, 2004 by failing to inform investors of certain operational issues that allegedly led to declines in the Company s revenue, earnings and growth prospects. Defendants moved to dismiss the CAC, and on February 28, 2006, the court granted the motion with leave to amend. On March 30, 2006, plaintiffs filed a Second Consolidated Amended Complaint, ( SCAC ) which set forth, the same claims against the same defendants relating to the same alleged class period. Defendants filed a motion to dismiss the SCAC on May 1, 2006, and pursuant to an agreed-upon schedule, the motion is set to be heard on July 31, 2006. The case is at an early stage and no trial date has been set. No discovery is expected to take place unless defendants motion to dismiss is denied. No loss has been accrued as a loss is not probable or estimable as of March 31, 2006

Beginning on March 25, 2005, two stockholders filed separate derivative actions in California Superior Court for the County of San Mateo, purporting to state claims on behalf of the Company against Kenneth D. Denman, Donald C. McCauley, Anurag Lal, Jon M. Russo, Peter G. Bodine, Arthur C. Patterson, John D. Beletic, A. Gary Ames, Cregg B. Baumbaugh and Allan R. Spies. The complaints purport to arise out of the same alleged nondisclosures set forth in the Consolidated Amended Complaint set forth in the shareholder class action, and purport to set forth claims for breach of fiduciary duty, abuse of process, gross mismanagement, waste, unjust enrichment, and violation of California Corporations Code 25402. On May 5, 2005, the actions were consolidated as In re iPass, Inc. Derivative Litigation, Case No. CIV445765. By agreement of the parties, the time to file plaintiffs consolidated complaint was extended several times, and a Consolidated Derivative Complaint ( CDC ) was filed on February 21, 2006. On March 28, 2006, defendants filed a demurrer to the CDC, in response to which plaintiffs stated that they intend to further amend the CDC. The further amended complaint has not yet been filed. On April 6, 2006, the court granted the joint motion of all parties to have the case designated as complex litigation . The case is at an early stage, no discovery has occurred, and no trial date has been set. No loss has been accrued as a loss is not probable or estimable as of March 31, 2006

On December 15, 2005, Peter Helfrich filed a complaint in the Superior Court for Orange County against GoRemote Internet Communications, Inc. ( GoRemote ) (a company acquired by the Company on February 15, 2006), alleging claims, including wrongful termination in violation of public policy, breach of contract, unpaid compensation, unfair business practices, breach of the implied covenant of good faith and fair dealing, and intentional infliction of emotional distress (the Complaint ). GoRemote responded to that Complaint on January 17, 2006, with a general denial of the allegations in the Complaint and raised certain affirmative defenses. The parties have agreed to schedule a private mediation, and most discovery has been stayed pending the outcome of the mediation.

In July and August 2001, GoRemote and certain of its officers were named as defendants in five purported securities class action lawsuits filed in the United States District Court, Southern District of New York, captioned as In re GoRemote Internet Communications, Inc. Initial Public Offering Securities Litigation, No. 01 Civ 6771 (SAS), and consolidated with more than three hundred substantially identical proceedings as In re Initial Public Offering Securities Litigation, Master File No. 21 MC 92 (SAS). The Consolidated Amended Class Action Complaint for Violation of the Federal Securities Laws ( Consolidated Complaint ) was filed on or about April 19, 2002, and alleged claims against certain of GoRemote s officers and against CIBC World Markets Corp., Prudential Securities Incorporated, DB Alex. Brown, as successor to Deutsche Bank, and U.S. Bancorp Piper Jaffray Inc., underwriters of GoRemote s December 14, 1999 initial public offering ( underwriter defendants ), under Sections 11 and 15 of the Securities Act of 1933, as amended, and under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended.

Citing several press articles, the Consolidated Complaint alleged that the underwriter defendants used improper methods in allocating shares in initial public offerings, and claimed the underwriter defendants entered into improper commission agreements regarding aftermarket trading in GoRemote s common stock purportedly issued pursuant to the registration statement for the initial public offering. The Consolidated Complaint also alleged market manipulation claims against the underwriter defendants based on the activities of their respective analysts, who were allegedly compromised by conflicts of interest. The plaintiffs in the Consolidated

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Complaint sought damages as measured under Section 11 and Section 10(b) of the Securities Act of 1933, pre-judgment and post-judgment interest, and reasonable attorneys and expert witnesses fees and other costs; no specific amount was claimed in the plaintiffs prayer in the Consolidated Complaint.

In October 2002, certain of GoRemote s officers and directors who had been named as defendants in the Consolidated Complaint were dismissed without prejudice upon order of the presiding judge. In February 2003, the presiding judge dismissed the Section 10(b) claims against GoRemote and its named officers and directors with prejudice.

From September 2002 through June 2003, GoRemote participated in settlement negotiations with a committee of issuers litigation counsel, plaintiffs executive committee and representatives of various insurance companies (the Insurers ). GoRemote s Insurers were actively involved in the settlement negotiations, and strongly supported a settlement proposal presented to GoRemote for consideration in early June 2003. The settlement proposed by the plaintiffs would be paid for by the Insurers and would dispose of all remaining claims against GoRemote.

After careful consideration, GoRemote decided to approve the settlement proposal in July 2003. Although GoRemote believed that plaintiffs claims were without merit, it decided to accept the settlement proposal (which does not admit wrongdoing) to avoid the cost and distraction of continued litigation. Because the settlement would be funded entirely by its Insurers, GoRemote did not believe that the settlement would have any effect on GoRemote s financial condition, results of operations or cash flows.

On February 15, 2005, the court issued a decision certifying a class for settlement purposes and granting preliminary approval of the settlement subject to modification of certain orders contemplated by the settlement. On August 31, 2005, the court reaffirmed class certification and preliminary approval of the modified settlement in a comprehensive order, and directed that Notice of the settlement be published and mailed to class members beginning November 15, 2005. On February 24, 2006, the court dismissed litigation filed against certain underwriters in connection with the claims to be assigned to the plaintiffs under the settlement. On April 24, 2006, the Court held a final fairness hearing to determine whether to grant final approval of the settlement. A decision is expected this summer**.** GoRemote is covered by a claims-made liability insurance policy which the Company believes will satisfy any potential liability of the Company under this settlement. No loss has been accrued as of March 31, 2006.

**Note 5. Segment Information**

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* establishes standards for the reporting by business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information is reported is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance. The Company s chief executive officer (CEO) is considered to be the Company s chief operating decision maker. The CEO reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. The consolidated financial information reviewed by the CEO is similar to the information presented in the accompanying condensed consolidated financial statements. Therefore, the Company has determined that it operates in a single reportable segment.

**Note 6. Business Combinations**

On February 15, 2006, iPass completed its acquisition of GoRemote, a publicly-traded company headquartered in Milpitas, California that provides secure managed virtual business network services. GoRemote became a wholly owned subsidiary of iPass in a transaction accounted for using the purchase method. The Company acquired 100% of the outstanding shares of GoRemote in a cash transaction for $1.71 per share of GoRemote common stock and $3.37 per share of GoRemote Series A preferred stock for a total of approximately $75.8 million.

The Company plans to expand its product offering to its customers by offering GoRemote s managed broadband services for branch offices and teleworkers. On February 13, 2006, the stockholders of GoRemote adopted the merger agreement and on February 15, 2006, a certificate of merger was filed and the merger was effective. The Company paid, in total, approximately $78.9 million in cash, which includes ancillary expenses associated with the purchase, to acquire the approximately 43.3 million outstanding shares of GoRemote common stock and the approximately 541,631 shares of GoRemote Series A preferred stock. In addition, iPass assumed outstanding options to acquire approximately 8.3 million shares of GoRemote common stock, and converted those into options to acquire approximately 1.9 million shares of iPass common stock.

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The results of operations of GoRemote are included in the Company s Condensed Consolidated Statement of Operations beginning February 15, 2006, the date of the transaction closing. The following table summarizes the allocation of the purchase price based on the estimated fair values of the tangible assets acquired and the liabilities assumed at the date of acquisition (in thousands):

| | |
|---|---|
| Cash consideration for common and preferred stockholders | $ 75,806 |
| Estimated fair value of options assumed | 5,826 |
| Direct transaction costs | 3,097 |
| Total preliminary estimated purchase price | $ 84,729 |

Under the purchase method of accounting, the total estimated purchase price as shown in the table above is allocated to GoRemote s net tangible and intangible assets based on their estimated fair values as of February 15, 2006. Management has allocated the preliminary estimated purchase price based on various factors. The allocation of the purchase price is preliminary pending the completion of various analyses and the finalization of estimates. The allocation of the preliminary estimated purchase price is as follows (in thousands):

| | |
|---|---|
| Net tangible assets | $ 6,380 |
| Deferred Revenues | (1,025) |
| Restructuring liabilities | (1,249) |
| Amortizable intangible assets: | |
| Customer relationships | 7,600 |
| Supplier contracts | 950 |
| Internally developed software | 350 |
| Goodwill | 61,471 |
| Deferred tax assets, net | 10,252 |
| Total preliminary estimated purchase price | $ 84,729 |

Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets. The unaudited condensed consolidated statements of operations do not reflect the amortization of goodwill acquired in the proposed merger, consistent with the guidance in the Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangible Assets.

Amortization of other intangibles has been provided over the following estimated useful lives: customer relationships (Mobile Office) 4 years, supplier contracts 4 years; customer relationships (Fixed Broadband) 7 years; internally developed software 7 years. The following represents the estimated annual amortization of acquired intangibles (in thousands):

| **Fiscal Year** | |
|---|---|
| 2006 | $ 1,605 |
| 2007 | 1,834 |
| 2008 | 1,834 |
| 2009 | 1,834 |
| 2010 | 685 |
| 2011 | 521 |
| 2012 | 521 |
| 2013 | 66 |
| | $ 8,900 |

The following unaudited pro forma information represents the results of operations for iPass and GoRemote for the three months ended March 31, 2006 and 2005 as if the acquisition had been consummated as of January 1, 2006 and 2005, respectively. This pro forma information does not purport to be indicative of what may occur in the future (in thousands, except per share amounts):

| | Three Months Ended March 31, 2006 | Three Months Ended March 31, 2005 |
|---|---|---|
| Total revenue | $ 49,293 | $ 56,274 |
| Net income (loss) | (4,753) | 3,421 |
| Net income (loss) per share: | | |
| Basic | $ (0.07) | $ 0.05 |
| Diluted | $ (0.07) | $ 0.05 |
| Number of shares used in per share calculations: | | |
| Basic | 64,494,634 | 62,316,794 |
| Diluted | 64,494,634 | 66,127,536 |

**Note 7. Goodwill and Intangibles**

The following table represents a rollforward of goodwill and acquired intangible assets, net (in thousands):

| | December 31, 2005 Balance | Acquisition | Amortization | March 31, 2006 Balance |
|---|---|---|---|---|
| Goodwill | $ 18,691 | $ 61,471 | $ | $ 80,162 |
| Intangibles: | | | | |
| Existing technology | 5,973 | | (403) | 5,570 |
| Patent/Core technology | 2,127 | | (141) | 1,986 |
| Maintenance agreements and certain relationships | 322 | | (17) | 305 |
| Customer relationships | 354 | 7,600 | (224) | 7,730 |
| Supplier contracts | | 950 | (30) | 920 |
| Internally developed software | | 350 | (6) | 344 |
| | $ 27,467 | $ 70,371 | $ (821) | $ 97,017 |

Total amortization expense related to acquired intangible assets is set forth in the table below (in thousands):

| | Three Months Ended March 31, 2006 | Three Months Ended March 31, 2005 |
|---|---|---|
| Intangibles: | | |
| Existing technology | $ (403) | $ (403) |
| Patent/Core technology | (141) | (141) |
| Maintenance agreements and certain relationships | (17) | (17) |
| Customer relationships | (224) | (31) |
| Supplier contracts | (30) | |
| Internally developed software | (6) | |
| | $ (821) | $ (592) |

The following tables set forth the carrying amount of other intangible assets that will continue to be amortized (in thousands):

| | March 31, 2006 | | | |
|---|---|---|---|---|
| | Amortization Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangibles: | | | | |
| Existing technology | 7 yrs | $ 7,900 | $ (2,330) | $ 5,570 |
| Patent/Core technology | 7 yrs | 2,800 | (814) | 1,986 |
| Maintenance agreements and certain relationships | 5 yrs | 400 | (95) | 305 |
| Customer relationships | 3-7 yrs | 8,100 | (370) | 7,730 |
| Supplier contracts | 4 yrs | 950 | (30) | 920 |
| Internally developed software | 7 yrs | 350 | (6) | 344 |
| | | $ 20,500 | $ (3,645) | $ 16,855 |

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Amortization Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Intangibles: | | | | |
| Existing technology | 6 yrs | $ 7,900 | $ (1,927) | $ 5,973 |
| Patent/Core technology | 6 yrs | 2,800 | (673) | 2,127 |
| Maintenance agreements and certain relationships | 6 yrs | 400 | (78) | 322 |
| Customer relationships | 4 yrs | 500 | (146) | 354 |
| | | $ 11,600 | $ (2,824) | $ 8,776 |

The following table presents the estimated future amortization of intangible assets (in thousands):

| Fiscal Year | |
|---|---|
| 2006 | $ 3,150 |
| 2007 | 4,201 |
| 2008 | 3,901 |
| 2009 | 2,401 |
| 2010 | 1,241 |
| Thereafter | 1,961 |
| | $ 16,855 |

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**
**Forward-Looking Statements**

This quarterly report on Form 10-Q, including this Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, seel variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements which refer to projections of our future financial performance, our anticipated growth and trends in our business, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions based upon assumptions made that we believed to be reasonable at the time, and are subject to risks and uncertainties. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below under Factors Affecting Operating Results and elsewhere in this quarterly report, for factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements.

**Company Overview**

We deliver simple, secure and manageable enterprise mobility services, maximizing the productivity of workers as they move between office, home and remote locations. Our policy management services close the gaps in protecting computers, network assets, user identities and data whenever users connect over the Internet. Our connectivity services utilize the iPass global virtual network, a unified network of hundreds of dial-up, wireless, and broadband providers in over 160 countries.

**Overview of the three months ended March 31, 2006**

Our overall revenues increased slightly for the three months ended March 31, 2006 as compared to the same period in 2005. The increase was driven primarily by our acquisition of GoRemote, which was completed on February 15, 2006. GoRemote contributed additional revenues of $4.2 million which offset a $4.0 million decline in iPass revenue primarily related to a continued decline in dial-up revenues.

We increased the number of broadband access points during the quarter, increasing our global broadband footprint. We ended the quarter with approximately 43,000 Wi-Fi and wired hotspots worldwide. This enabled our customers to remotely access their corporate networks from more locations, at higher speeds driving the increases in broadband usage revenues in 2006 over 2005.

Going forward, we will continue to focus on delivering innovative services and solutions for our customers, with the goal of increasing the number of end users of our services for both dial-up and broadband access, as well as to increase fee revenues from endpoint policy management and other fee based services. The Company also plans to expand its product offering to its customers by offering GoRemote s managed broadband services for branch offices and teleworkers. During the rest of 2006, we expect to see moderate growth in our business as we expect dial-up revenues to continue to decrease through the remainder of the fiscal year. However, our ability to achieve these goals could be limited by several factors, including the timely release of new products, continued market acceptance of our products and the introduction of new products by existing or new competitors. For a further discussion of these and other risk factors, see the section below entitled Factors Affecting Operating Results.

**Sources of Revenues**

We derive our revenues primarily from providing enterprise connectivity services through our virtual network. We sell these services directly, as well as indirectly through our channel partners. We bill substantially all customers on a time basis for usage based on negotiated rates. We bill the remaining customers based on a fixed charge per active user per month with additional charges for excess time. Substantially all enterprise customers commit to a one to three year contract term. Most of our contracts with enterprise customers contain minimum usage levels. We bill customers for minimum commitments when actual usage is less than their monthly minimum commitment amount. We recognize the difference between the minimum commitment and actual usage as fee revenue once the cash for such fee has been collected. Our usage-based revenues represented 82% and 88% of our revenues for the three months ended March 31, 2006 and 2005, respectively.

We have incurred expenses to expand our broadband coverage and are seeking to generate additional revenues from our broadband wired and wireless coverage. Revenues from usage of our broadband services were 13% and 3% of our total revenues for the three months ended March 31, 2006 and 2005, respectively.

We also provide customers with deployment services and technical support throughout the term of the contract. We typically charge fees for these services on a one-time or annual basis, depending on the service provided and the nature of the relationship. In addition, we also offer customers additional services for which we generally bill on a monthly basis. With the acquisition of Mobile

Automation, Inc. in October of 2004, we also began generating license and maintenance revenue through software licensing agreements. Revenues generated from service fees represented approximately 18% and 12% of our revenues for the three months ended March 31, 2006 and 2005, respectively.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, income taxes, impairment of short-term investments, impairment of goodwill and intangible assets and allowance for doubtful accounts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the results of which form the basis of making judgments about the carrying values of assets and liabilities.

We believe the following critical accounting policies are important in understanding our condensed consolidated financial statements.

***Revenue Recognition***

*Services and Fees*

We derive the large majority of our revenues from usage fees. We recognize revenues when persuasive evidence of an arrangement exists, service has been provided to the customer, the price to the customer is fixed or determinable, and collectibility is reasonably assured.

We recognize revenues during the period the services are rendered to end users based on usage at negotiated rates. We typically require our customers to commit to minimum usage levels. Minimum usage levels can be based on an annual term, monthly term or over the term of the arrangement. If actual usage in a given period is less than the minimum commitment, we recognize the difference between the actual usage and the minimum commitment as revenue when cash is collected because we cannot reasonably estimate the amount of the difference that will be collected. We cannot reasonably estimate the amount of the difference to be collected because we have from time to time renegotiated minimum commitments in cases where customers have sought renegotiation of their contract for reasons such as a significant downturn in their business or where we have determined that it would be in our best interest to do so. Customers are not contractually entitled to use or otherwise receive benefit for unused service in subsequent periods.

We typically provide our customers with deployment services, technical support and additional optional services. Depending on the service provided and the nature of the arrangement, we may charge a one-time, annual or monthly fee. We recognize revenues relating to one-time fees on a straight-line basis over the term of the initial contract, generally one to three years as we can not reasonably estimate the period of performance. We recognize revenues relating to annual fees on a straight-line basis. Revenues for monthly services are recognized during the month that these services are provided.

*License and Maintenance*

License revenue consists of revenue earned under software license agreements. We recognize license revenue generally when a signed contract or other persuasive evidence of an arrangement exists, the software has been shipped or electronically delivered, the license fee is fixed or determinable, and collection of the resulting receivable is probable as prescribed by AICPA Statement of Portion ( SOP ) 97-2. We enter into revenue arrangements in which a customer may purchase a combination of software, upgrades and maintenance and support (multiple-element arrangements). When vendor-specific objective evidence ( VSOE ) of fair value exists for all elements, we allocate revenue to each element based on the relative fair value of each of the elements. VSOE of fair value is established by the price charged when that element is sold separately. When contracts contain multiple elements wherein VSOE of fair value exists for all undelivered elements, we account for the delivered elements in accordance with the residual method prescribed by AICPA Statement of Position ( SOP ) 98-9. We recognize revenue from subscription license agreements, which include software, rights to future products on a when-and-if available basis and maintenance, is recognized ratably over the term of the subscription period. We recognize revenue on shipments to resellers, which is generally subject to certain rights of return and price protection, when the products are sold by the resellers to the end-user customer.

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Maintenance revenue consists of fees for providing software updates on a when and if available basis and technical support for software products (post-contract support or PCS ). We recognize maintenance revenue over the term of the agreement.

We defer payments received in advance of services performed. We provide allowances for estimated future returns and discounts upon recognition of revenue.

*Fixed Broadband*

Through the acquisition of GoRemote, the Company provides services over a heterogeneous virtual network, which was created by forming contractual relationships with approximately 500 access providers, including Internet service providers, cable companies, DSL companies and telecommunications companies. These companies may provide us their services under either a reseller or an agency arrangement. In applying our revenue recognition policy we must make judgments with regard to the specific facts and circumstances surrounding each provider relationship to determine which portion of our revenues we provide under a reseller arrangement, where we would record gross revenues and cost of revenues, and which portion of our revenues we provide as an agent, where we would record revenues and cost of revenues combined on a net basis. In exercising our judgment, we evaluate the contractual arrangements and de facto relationships with each provider, together with various other assumptions believed to be applicable and reasonable under the circumstances, to determine whether revenues are gross versus net. We have one significant provider arrangement under which we account for revenues on a net basis. All other provider arrangements are accounted for on a gross basis, with the related costs associated with provisioning each endpoint being deferred initially and amortized over the estimated life of an endpoint, typically 30 months. Our judgments may change as new events occur, as additional information is obtained and as our operating environment changes, any of which could cause a material impact on the revenues that we have reported. We record estimated allowances against revenues for returns and cancellations in the same period the revenues are recorded. These estimates are based upon historical analysis of our service level agreements, credit memo data and other known factors for pricing and transaction volume disputes that arise in the normal course of business. To date, allowances pertaining to our current business have not been significant.

The Company generally performs credit reviews to evaluate the customers ability to pay. If the Company determines that it is not probable that the revenue is collectible, the revenue is recognized as cash is collected.

***Accounting for Income Taxes***

In preparing our consolidated financial statements, we assess the likelihood that our deferred tax assets will be realized from future taxable income. We establish a valuation allowance if we determine that it is more likely than not that some portion of the net deferred tax assets will not be realized. Changes in the valuation allowance are included in our Condensed Consolidated Statements of Operations as a provision for (benefit from) income taxes. We exercise significant judgment in determining our provisions for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to utilize any future tax benefit from our deferred tax assets.

Although we believe it is more likely than not that we will realize our net deferred tax assets, there is no guarantee this will be the case as our ability to use the net operating losses is contingent upon our ability to generate sufficient taxable income in the carryforward period. At each period end, we will be required to reassess our ability to realize the benefit of our net operating losses. If we were to conclude it is not more likely than not that we would realize the benefit of our net operating losses, we may have to re-establish the valuation allowance and therefore record a significant charge to our results of operations.

***Share-Based Compensation Employee Stock-Based Awards***

On January 1, 2006, we adopted SFAS 123(R) which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors including employee stock options and employee stock purchases under the ESPP based on estimated fair values. SFAS 123(R) supersedes our previous accounting under APB 25 for periods beginning in fiscal year 2006. In March 2005, the SEC issued SAB 107 providing supplemental implementation guidance for SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Condensed Consolidated Statements of Operations. We adopted SFAS 123(R) using the modified prospective transition method which requires the application of the accounting standard starting from January 1, 2006, the first day of our fiscal year 2006. Our Condensed Consolidated Financial Statements, as of and for the three months ended March 31, 2006, reflect the impact of SFAS

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123(R). Stock-based compensation expense for the three months ended March 31, 2006, was $1.4 million, which consisted of stock-based compensation expense related to employee stock options and our employee stock purchase plan recognized under SFAS 123(R).

Prior to the adoption of SFAS 123(R), we accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS 123 Accounting for Stock-Based Compensation. Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in our Consolidated Statements of Operations, because the exercise price of our stock options granted to employees and directors equalled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method we used in adopting SFAS 123(R), our results of operations prior to fiscal year 2006 have not been restated to reflect, and do not include, the possible impact of SFAS 123(R).

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the three months ended March 31, 2006, included compensation expense for stock-based awards granted prior to, but not yet vested as of December 31, 2005, based on the fair value on the grant date estimated in accordance with the pro forma provisions of SFAS 123, and compensation expense for the stock-based awards granted subsequent to December 31, 2005, based on the fair value on the grant date estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in our results for the first quarter of fiscal year 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to fiscal year 2006, we accounted for forfeitures as they occurred for the purposes of pro forma information under SFAS 123, as disclosed in our Notes to Condensed Consolidated Financial Statements for the related periods.

Upon adoption of SFAS 123(R), we selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value for stock-based awards. The Black-Scholes model requires the use of highly subjective and complex assumptions which determine the fair value of stock-based awards, including the option s expected term and the price volatility of the underlying stock.

Also see Note 2 to the Condensed Consolidated Financial Statements on Share-Based Compensation.

***Allowance for Doubtful Accounts***

Our allowance for doubtful accounts is based on a detailed assessment of accounts receivable for specific, as well as anticipated, uncollectible accounts receivable. Our estimate in determining the allowance for doubtful accounts is based on credit profiles of our customers, current economic trends, contractual terms and conditions, and historical payment experience. We have an allowance for doubtful accounts of $2.8 million and $2.0 million as of March 31, 2006 and December 31, 2005, respectively, for estimated losses resulting from the inability of our customers to make their required payments to us. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, or if we underestimated the allowances required, additional allowances may be required, which would result in an increased general and administrative expense in the period such determination was made.

## RESULTS OF OPERATIONS

### Revenue

| | March 31, | | Change | |
|---|---|---|---|---|
| | **2006** | **2005** | **$** | **%** |
| | (in thousands, except percentages) | | | |
| Total revenue | $ 44,270 | $ 44,072 | $ 198 | 0.4% |

Total revenue increased slightly in the three months ended March 31, 2006, as compared to the same period in 2005 due to offsetting factors. Revenues were impacted by a continued decline in dial-up revenues for the period as customers continue to migrate from dial-up to broadband as the preferred method of connecting to their corporate networks. Dial-up revenues decreased $7.0 million in the first quarter of 2006 as compared to 2005 and were partially offset by a $4.3 million increase in revenues related to our broadband services. Revenues generated from broadband usage, dial-up usage and fees include $4.2 million of revenue from our acquisition of GoRemote whose revenues for the period from February 15, 2006 through March 31, 2006 are included in our total revenues. No individual customer accounted for 10% or more of total revenues for the three months ended March 31, 2006 and 2005. Revenues from minimum commitments, license and maintenance fees and additional services represented approximately 18% and 12% of our revenues for the three months ended March 31, 2006 and 2005, respectively.

International revenues accounted for approximately 44% and 43% of total revenues for the three months ended March 31, 2006 and 2005, respectively. Substantially all of our international revenues are generated in the EMEA (Europe, Middle East and Africa) and Asia Pacific regions. Revenues in the EMEA region represented 29% and 27% of total revenues for the three months ended March 31, 2006 and 2005, respectively. The increase in the EMEA region as a percentage of total revenues is due to the efforts of our expanded sales force in EMEA. Revenues in the Asia Pacific region represented 11% of total revenues for the three months ended March 31, 2006 and 2005. The only individual foreign country to account for 10% or more of total revenues for the periods presented was the United Kingdom, which represented approximately 14% and 13% of total revenues for the three months ended March 31, 2006 and 2005, respectively. Substantially all of our revenues to date have been denominated in U.S. dollars. In the future, some portion of revenues may be denominated in foreign currencies.

**Operating Expenses**

***Network Access***

Network access expenses consist of charges for access, principally by the minute or time-based, that we pay to our network service providers.

| | March 31, | | Change | |
|---|---|---|---|---|
| | 2006 | 2005 | $ | % |
| | (in thousands, except percentages) | | | |
| Network access expenses | $ 12,532 | $ 10,492 | $ 2,040 | 19.4% |
| As a percent of revenue | 28.3% | 23.8% | | |

The growth in network access expenses in the three months ended March 31, 2006 as compared to the same period in 2005 was due, in part, to increased usage of our virtual network as well as the reflection of the higher costs of broadband access as it continues to comprise an increased portion of our total network access usage. We expect network access expenses to continue to increase in absolute dollars as usage of our virtual network increases, and to increase as a percentage of revenues.

***Network Operations***

Network operations expenses consist of compensation and benefits for our network engineering, customer support, network access quality and information technology personnel, outside consultants, transaction center fees, depreciation of our network equipment, and certain allocated overhead costs.

| | March 31, | | Change | |
|---|---|---|---|---|
| | 2006 | 2005 | $ | % |
| | (in thousands, except percentages) | | | |
| Network operations expenses | $ 6,964 | $ 5,325 | $ 1,639 | 30.8% |
| As a percent of revenue | 15.7% | 12.1% | | |

The growth in network operations expenses in the three months ended March 31, 2006 as compared to the first quarter of 2005 was due primarily to approximately $830,000 in additional compensation and benefits expense due to an increase in headcount, approximately $210,000 related to the adoption of SFAS 123(R), and an increase in licensing fees of approximately $270,000, offset, in part, by approximately $160,000 of decreased communication line costs. The remainder of the increase was attributable to various expenses which individually, are insignificant items. The increase as a percentage of revenues from the first quarter of 2005 to the first quarter of 2006 was due primarily to the expansion and support of our virtual network and increased headcount due to the acquisition of GoRemote. As we expand our operations, we expect that our network operations expenses will continue to increase in absolute dollars and as a percentage of revenues.

***Research and Development***

Research and development expenses consist of compensation and benefits for our research and development personnel, consulting, and certain allocated overhead costs.

| | March 31, | | Change | |
|---|---|---|---|---|

| | 2006 | 2005 | $ | % |
|---|---|---|---|---|
| | (in thousands, except percentages) | | | |
| Research and development expenses | $ 5,531 | $ 4,480 | $ 1,051 | 23.5% |
| As a percent of revenue | 12.5% | 10.2% | | |

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The increase in research and development expenses for the three months ended March 31, 2006 as compared to the three months ended March 31, 2005 was due primarily to an additional $1.7 million of compensation costs related to increased headcount and the inclusion of stock-based compensation expense. The increase was partially offset by various expenses which, individually are insignificant items. The increase as a percentage of revenues as well as absolute dollars was due to the continued acceleration of our development of new products, the integration of technology acquired into existing products and services as a result of the business acquisitions that occurred in 2004 and 2005. We expect that our research and development expenses will continue to increase in absolute dollars and remain relatively constant as a percentage of revenue as we increase the number of our personnel and consultants to develop and enhance new and existing service offerings.

***Sales and Marketing***

Sales and marketing expenses consist of compensation, benefits, advertising, promotion expenses, and certain allocated overhead costs.

| | **March 31,** | | **Change** | |
|---|---|---|---|---|
| | **2006** | **2005** | **$** | **%** |
| | (in thousands, except percentages) | | | |
| Sales and marketing expenses | $ 14,815 | $ 12,673 | $ 2,142 | 16.9% |
| As a percent of revenue | 33.5% | 28.8% | | |

The increase in sales and marketing expenses in absolute dollars in the three months ended March 31, 2006 as compared to the first quarter of 2005 was due primarily to an approximately $640,000 additional compensation and benefits expenses due to additional sales personnel related to the expansion of the sales organization in the EMEA region, and an additional $530,000 related to the adoption of SFAS 123(R). There was also an increase of approximately $350,000 in marketing programs, including trade shows and promotions. The remaining portion of the increase was due to individually insignificant items. We expect that sales and marketing expenses will remain constant in absolute dollars and also decrease slightly as a percentage of revenues.

***General and Administrative***

General and administrative expenses consist of compensation and benefits of general and administrative personnel, legal and accounting expenses, bad debt expense, and certain allocated overhead costs.

| | **March 31,** | | **Change** | |
|---|---|---|---|---|
| | **2006** | **2005** | **$** | **%** |
| | (in thousands, except percentages) | | | |
| General and administrative expenses | $ 5,862 | $ 4,189 | $ 1,673 | 39.9% |
| As a percent of revenue | 13.2% | 9.5% | | |

General and administrative expenses increased for the three months ended March 31, 2006 as compared to the three months ended March 31, 2005. The increase was primarily driven by increased legal and consulting fees of $400,000, increased benefits and expenses of $770,000 as a result of increased headcount and stock-based compensation expense, and approximately $670,000 related to increased facility costs. The increase were partially offset by various individually insignificant items. We expect that in future periods our general and administrative expenses will remain constant in absolute dollars and also decrease slightly as a percentage of revenues.

***Amortization of Acquired Intangibles***

Amortization of acquired intangibles was approximately $821,000 and $592,000 for the three months ended March 31, 2006 and 2005, respectively. The increase from 2005 to 2006 was driven by the amortization of intangible assets acquired in 2006 as a result of the acquisition of GoRemote.

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## Non-Operating Expenses

***Other Income, Net***

Other income, net consists of the net total of interest and other income and interest expense for the period.

Interest and other income includes interest income on cash, cash equivalents, and short-term investment balances and foreign exchange gains or losses. Interest income and other was $1.1 million and $773,000 for the three months ended March 31, 2006 and 2005, respectively. The increase in interest and other income was due primarily to an increase in the rate of return on our investments as compared to the same period in 2005.

There was no interest expense for the three months ended March 31, 2006 and 2005.

***Provision for (Benefit from) Income Taxes***

The benefit from income taxes was $716,000 for the three months ended March 31, 2006, compared to a provision of $2.6 million for the three months ended March 31, 2005, respectively. The decrease in income taxes is due to a decrease in income before income taxes for the three months ended March 31, 2006 as compared to the same period in 2005.

The effective tax rate was 63% and 39% for the three months ended March 31, 2006 and 2005, respectively.

## Liquidity and Capital Resources

From our inception in July 1996 through our initial public offering of our common stock in July 2003, we funded our operations primarily through issuances of preferred stock, which provided us with aggregate net proceeds of approximately $86.5 million. In July 2003, we completed the sale of 8,050,000 shares of common stock in an initial public offering, which included the underwriters exercise of an over-allotment option, and realized net proceeds of $102.7 million. We used $10.9 million of the net proceeds to pay off all outstanding balances on loans payable and the line of credit.

Net cash used by operating activities was $539,000 for the three months ended March 31, 2006, compared to net cash provided by operating activities of $6.7 million for the three months ended March 31, 2005. This change primarily was the result of a net loss incurred in the first three months of 2006 of $65,000 as compared with net income of $4.1 million for the first three months of 2005. as well as a increase in deferred income tax assets and an increase in other assets, as compared to the first three months of 2005.

Net cash used in investing activities was $24.1 million for the three months ended March 31, 2006 which primarily represented the purchase of GoRemote, which net of cash acquired was $78.0 million, also net maturities of short-term investments were $55.1 million, and purchases of property and equipment was $1.2 million. The cash used for investing activities of $7.5 million, for the three months ended March 31, 2005 was comprised of net purchases of short-term investments of $6.2 million and purchases of property and equipment of $1.3 million.

Net cash provided by financing activities for the three months ended March 31, 2006 was $2.4 million, compared to $591,000 million for the three months ended March 31, 2005. Net cash provided by financing activities for the first three months of 2006 was due to stock option exercises. Net cash provided by financing activities in the first three months of 2005 was primarily due primarily to stock option exercises.

As of March 31, 2006, our principal source of liquidity was $113.1 million of cash, cash equivalents and short-term investments.

***Commitments***

At March 31, 2006, we had no material commitments for capital expenditures.

Other than in the approximately 22 countries in which our sole network provider is Equant, we have contracted with multiple network service providers to provide alternative access points in a given geographic area. In those geographic areas where we provide access through multiple providers, we are able to direct users to the network of particular service providers. Consequently, we believe we have the ability to fulfill our minimum purchase commitments in these geographic areas. Future minimum purchase commitments under all agreements as of March 31, 2006 are as follows (in thousands):

| | |
|---|---|
| Year ending December 31: | |
| 2006 | $ 2,085 |
| 2007 | 1,901 |

| | |
|---|---|
| 2008 | 1,066 |
| 2009 | 266 |
| | $ 5,318 |

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We lease our facilities under non-cancelable operating leases that expire at various dates through February 2010. Future minimum lease payments under these operating leases as of March 31, 2006 are as follows (in thousands):

| | |
|---|---|
| Year ending December 31: | |
| 2006 | $ 3,131 |
| 2007 | 4,279 |
| 2008 | 4,374 |
| 2009 | 4,311 |
| 2010 and thereafter | 1,453 |
| | $ 17,548 |

*Liquidity and Capital Resource Requirements*

Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures, investment requirements, commitments, and other liquidity requirements associated with our existing operations through at least the next 18 months. In addition to our historical working capital needs, we may utilize cash resources to fund acquisitions of complementary businesses, technologies or product lines. However, there are no current or planned transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

## FACTORS AFFECTING OPERATING RESULTS

*Set forth below and elsewhere in this report are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.*

### Risks Relating to Our Business

***If we are unable to meet the challenges posed by broadband access, our ability to grow our business will be impaired.***

We have generated the large majority of our usage revenues to date from the sale of enterprise connectivity services using narrowband technologies such as modem dial-up. In particular, in 2005 we derived $138.1 million, or 82%, of our total revenues from our traditional dial-up business. In some countries, including the United States, the use of narrowband as a primary means of enterprise connectivity has declined and is expected to continue to decline at an accelerated rate over time as broadband access technologies, such as cable modem, DSL, Wi-Fi and other wireless technologies, including 3G, become more broadly used. In 2005, our revenue derived from the use of narrowband connectivity decreased 8% as compared to 2004. A substantial portion of the growth of our business will depend in part upon our ability to expand the broadband elements of our virtual network. Such an expansion may not result in additional revenues to us. Key challenges in expanding the broadband elements of our virtual network include:

*The broadband access market is at an early stage of development.* Although we derive revenues from wired and wireless broadband hotspots , such as particular airports, hotels and convention centers, the broadband access market, particularly for wireless access, is at an early stage of development and demand at levels we anticipate may not develop. In particular, the market for enterprise connectivity services through broadband is characterized by evolving industry standards and specifications and there is currently no uniform standard for wireless access. We have developed and made available Wi-Fi specifications that are directed at enabling Wi-Fi access points to become ready for use by enterprise customers. If this specification is not widely adopted, market acceptance of our wireless broadband services may be significantly reduced or delayed and our business could be harmed. Furthermore, although the use of wireless frequencies generally does not require a license in the United States and abroad, if Wi-Fi frequencies become subject to licensing requirements, or are otherwise restricted, this would substantially impair the growth of wireless access. Some large telecommunications providers and other stakeholders that pay large sums of money to license other portions of the wireless spectrum may seek to have the Wi-Fi spectrum become subject to licensing restrictions. If the broadband wireless access market does not develop, we will not be able to generate substantial revenues from broadband wireless access.

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*The broadband service provider market is highly fragmented.* Due to the early stage of development of the broadband access market, there are currently many wired and wireless broadband service providers that provide coverage in only one or a small number of hotspots. We have entered into contractual relationships with numerous broadband service providers. These contracts generally have an initial term of two years or less. As this process is in an early stage, we must continue to develop relationships with many providers on terms commercially acceptable to us in order to provide adequate coverage for our customers mobile workers and to expand our broadband coverage. We may also be required to develop additional technologies in order to integrate new broadband services into our service offering. If we are unable to develop these relationships or technologies, our ability to grow our business could be impaired. In addition, if broadband service providers consolidate, our negotiating leverage with providers may decrease, resulting in increased rates for access, which could harm our operating results.

If demand for broadband access does not materially increase, or if demand increases but we do not meet the challenges outlined above, our ability to grow our business may suffer.

***Our customers require a high degree of reliability in our services, and if we cannot meet their expectations, demand for our services will decline.***

Any failure to provide reliable network access, uninterrupted operation of our network and software infrastructure, or a satisfactory experience for our customers and their mobile workers, whether or not caused by our own failure, could reduce demand for our services. In 2002, we experienced three outages affecting our clearinghouse system, which handles invoicing to our customers and network service providers, resulting in five days of outages and eight days of work to confirm data integrity in response to the outages. Although these problems did not affect the ability of mobile workers to access our services or impact our revenues, one of these outages caused a delay in our invoicing of approximately one week. If additional outages occur, or if we experience other hardware or software problems, our business could be harmed.

***We face strong competition in our market, which could make it difficult for us to succeed.***

We compete primarily with facilities-based carriers as well as with other non-facilities-based network operators. Some of our competitors have substantially greater resources, larger customer bases, longer operating histories or greater name recognition than we have. Also, with the recent introduction of our policy management services, we face additional competition from companies that provide security and policy-based services and software. In addition, we face the following challenges from our competitors:

*Many of our competitors can compete on price.* Because many of our facilities-based competitors own and operate physical networks, there may be little incremental cost for them to provide additional telephone or Internet connections. As a result, they may offer dial-up remote access services at little additional cost, and may be willing to discount or subsidize remote access services to capture other sources of revenue. In contrast, we have traditionally purchased network access from facilities-based network service providers to enable our dial-up remote access service. As a result, large carriers may sell their remote access services at a lower price. In addition, new non-facilities-based carriers may enter our market and compete on price. In either case, we may lose business or be forced to lower our prices to compete, which could reduce our revenues.

*Many of our competitors offer additional services that we do not, which enables them to compete favorably against us.* Some of our competitors provide services that we do not, such as local exchange and long distance services, voicemail and digital subscriber line, or DSL, services. Potential customers that desire these services on a bundled basis may choose to obtain remote access and policy management services from the competitor that provides these additional services.

*Our potential customers may have other business relationships with our competitors and consider those relationships when deciding between our services and those of our competitors.* Many of our competitors are large facilities-based carriers that purchase substantial amounts of products and services, or provide other services or goods unrelated to remote access services. As a result, if a potential customer is also a supplier to one of our large competitors, or purchases unrelated services or goods from our competitor, the potential customer may be motivated to purchase its remote access services from our competitor in order to maintain or enhance its business relationship with that competitor.

***The telecommunications industry has experienced a dramatic decline, which may cause consolidation among network service providers and impair our ability to provide reliable, redundant service coverage and negotiate favorable network access terms.***

The telecommunications industry has experienced dramatic technological change and increased competition that have led to significant declines in network access pricing. In addition, the revenues of network service providers have declined as a result of the general economic slowdown. As a result, network service providers have experienced operating difficulties in the last several years, resulting in poor operating results and a number of these providers declaring bankruptcy. As these conditions have continued, some of these service providers have consolidated and are working to consolidate or otherwise cease operations, which would reduce the number of network service providers from which we are able to obtain network access. As this occurs, while we expect that we will still be able to maintain operations and provide enterprise connectivity services with a small number of network service providers, we would potentially not be able to provide sufficient redundant access points in some geographic areas, which could diminish our ability to provide broad, reliable, redundant coverage. Further, our ability to negotiate favorable access rates from network service providers could be impaired, which could increase our network access expenses and harm our operating results.

***If our security measures are breached and unauthorized access is obtained to a customer s internal network, our virtual network may be perceived as not being secure and enterprises may curtail or stop using our services.***

It is imperative for our customers that access to their mission critical data is secure. A key component of our ability to attract and retain customers is the security measures that we have engineered into our network for the authentication of the end user s credentials; on a going forward basis, we expect an additional key component in this regard to be our policy management services. These measures are designed to protect against unauthorized access to our customers networks. Because techniques used to obtain unauthorized access or to sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures against unauthorized access or sabotage. If an actual or perceived breach of network security occurs, regardless of whether the breach is attributable to our services, the market perception of the effectiveness of our security measures could be harmed. To date, we have not experienced any significant security breaches to our network.

***If enterprise connectivity demand does not continue to expand, we may experience a shortfall in revenues or earnings or otherwise fail to meet public market expectations.***

The growth of our business is dependent, in part, upon the increased use of enterprise connectivity services and our ability to capture a higher proportion of this market. If the demand for enterprise connectivity services does not continue to grow, then we may not be able to grow our business, maintain profitability or meet public market expectations. Increased usage of enterprise connectivity services depends on numerous factors, including:

- the willingness of enterprises to make additional information technology expenditures;
- the availability of security products necessary to ensure data privacy over the public networks;
- the quality, cost and functionality of these services and competing services;
- the increased adoption of wired and wireless broadband access methods; and
- the proliferation of electronic devices and related applications.

***If we are unable to meet the challenges related to the market acceptance and provision of our policy management services, our ability to grow the business may be harmed.***

We expect that the growth of our business may depend in part upon whether our policy management services will achieve and sustain expected levels of demand and market acceptance. If enterprises do not perceive the benefits of our policy management services, then the market for these services may not develop at all, or it may develop more slowly than we expect, either of which could significantly and adversely affect our growth. In addition, if demand for our policy management services does not materialize as expected, our ability to recover our investment in Safe3w, Inc. and Mobile Automation, Inc. may be impaired or delayed. In addition, because of our limited operating history relating to policy management services, we cannot predict our revenue and operating results from the provision of these services. Key challenges that we face related to our provision of these services include the risk that we may encounter unexpected technical and other difficulties in developing our policy management services which could delay or prevent the development of these services or certain features of these services; the risk that the rate of adoption by enterprises of network security software or integrated secure connectivity solutions will not be as we anticipate, which if slow would reduce or eliminate the purchase of these services; and the risk that security breaches may occur, notwithstanding the use of our policy management services, by hackers that develop new methods of avoiding security software. If we do not adequately address these challenges, our growth and operating results may be negatively impacted.

***Our long sales and service deployment cycles require us to incur substantial sales costs that may not result in related revenues.***

Our business is characterized by a long sales cycle between the time a potential customer is contacted and a customer contract is signed. In addition, the downturn in the economy from early 2001 to 2003 and the resulting reduction in corporate spending on Internet infrastructure further lengthened the average sales cycle for our services. Furthermore, once a customer contract is signed, there is typically an extended period before the customer s end users actually begin to use our services, which is when we begin to realize revenues. As a result, we may invest a significant amount of time and effort in attempting to secure a customer which may not result in any revenues. Even if we enter into a contract, we will have incurred substantial sales-related expenses well before we recognize any related revenues. If the expenses associated with sales increase, we are not successful in our sales efforts, or we are unable to generate associated offsetting revenues in a timely manner, our operating results will be harmed.

***There are approximately 22 countries in which we provide dial-up access only through Equant. The loss of Equant as a dial-up network service provider would substantially diminish our ability to deliver global network access.***

In approximately 22 countries, our sole dial-up network service provider is Equant. Network usage from access within these countries accounted for less than 2% of our revenues for the quarter ended March 31, 2006 and years ended December 31, 2005, 2004 and 2003. If we lose access to Equant s network and are unable to replace this access in some or all of these countries, our revenues would decline. In addition, our ability to market our services as being global would be impaired, which could cause us to lose customers. Our agreement with Equant expires in February 2007, but Equant may terminate the agreement earlier if we materially breach the contract and fail to cure the breach, or if we become insolvent. In addition, Equant has no obligation to continue to provide us with access to its network after February 2007. If Equant were to cease operations or terminate its arrangements with us, we would be required to enter into arrangements with other dial-up network service providers, which may not be available. This process could be costly and time consuming, and we may not be able to enter into these arrangements on terms acceptable to us.

***If our channel partners do not successfully market our services to their customers or corporate end users, then our revenues and business may be adversely affected.***

We sell our services directly through our sales force and indirectly through our channel partners, which include network service providers, systems integrators and value added resellers. Our business depends on the efforts and the success of these channel partners in marketing our services to their customers. Our own ability to promote our services directly to their customers is often limited. Many of our channel partners may offer services to their customers that may be similar to, or competitive with, our services. Therefore, these channel partners may be reluctant to promote our services. If our channel partners fail to market our services effectively, our ability to grow our revenue would be reduced and our business will be impaired.

***If we fail to address evolving standards and technological changes in the enterprise connectivity and policy management services industry, our business could be harmed.***

The market for enterprise connectivity and policy management services is characterized by evolving industry standards and specifications and rapid technological change, including new access methods, devices, applications and operating systems. In developing and introducing our services, we have made, and will continue to make, assumptions with respect to which features, security standards, performance criteria, access methods, devices, applications and operating systems will be required or desired by enterprises and their mobile workers. If we implement technological changes or specifications that are different from those required or desired, or if we are unable to successfully integrate required or desired technological changes or specifications into our wired or wireless services, market acceptance of our services may be significantly reduced or delayed and our business could be harmed.

***Our software is complex and may contain errors that could damage our reputation and decrease usage of our services.***

Our software may contain errors that interrupt network access or have other unintended consequences. If network access is disrupted due to a software error, or if any other unintended negative results occur, such as the loss of billing information, a security breach or unauthorized access to our virtual network, our reputation could be harmed and our business may suffer. Although we generally attempt by contract to limit our exposure to incidental and consequential damages, if these contract provisions are not enforced or enforceable for any reason, or if liabilities arise that are not effectively limited, our operating results could be harmed.

***Because much of our business is international, we encounter additional risks, which may reduce our profitability.***

We generate a substantial portion of our revenues from business conducted internationally. Revenues from customers domiciled outside of the United States were 44% of our revenues for the first quarter of 2006, of which approximately 29% and 12% were generated in our EMEA (Europe, Middle East and Africa) and Asia Pacific regions. In 2005, revenues from customers domiciled outside of the United States were 45% of our total revenues, of which approximately 29% and 12% were generated in our EMEA and Asia Pacific regions, respectively. In 2004, revenues from customers domiciled outside of the United States were 41% of our total revenues, of which approximately 24% and 13% were generated in our EMEA and Asia Pacific regions, respectively. Although we currently bill for our services in U.S. dollars, our international operations subject our business to specific risks. These risks include:

- longer payment cycles for foreign customers, including delays due to currency controls and fluctuations;
- the impact of changes in foreign currency exchange rates on the attractiveness of our pricing;
- high taxes in some foreign jurisdictions;
- difficulty in complying with Internet-related regulations in foreign jurisdictions;
- difficulty in staffing and managing foreign operations; and
- difficulty in enforcing intellectual property rights and weaker laws protecting these rights.

Any of these factors could negatively impact our business.

***Completed or future acquisitions or investments could dilute the ownership of our existing stockholders, cause us to incur significant expenses or harm our operating results.***

Integrating any newly acquired businesses, technologies or services may be expensive and time-consuming. For example, we completed the acquisitions of Safe3w, Inc. in September 2004, Mobile Automation, Inc. in October 2004 and GoRemote Internet Communications, Inc. in February 2006. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us and, in the case of equity financings, would result in dilution to our stockholders. In the case of completed or future acquisitions, we may be unable to operate any acquired businesses profitably or otherwise implement our strategy successfully. If we are unable to integrate any newly acquired entities, such as GoRemote Internet Communications, Inc., or technologies effectively, our operating results could suffer. Completed acquisitions by us, such as the aforementioned Safe3w, Inc., Mobile Automation, Inc. and GoRemote Internet Communications, Inc. transactions, or future acquisitions by us could also result in large and immediate write-offs or assumption of debt and contingent liabilities, either of which could harm our operating results.

***If we are unable to effectively manage future expansion, our business may be adversely impacted.***

We have experienced, and in the future may continue to experience, rapid growth in operations which has placed and could continue to place, a significant strain on our network operations, development of services, internal controls and other managerial, operating, and financial resources. If we do not manage future expansion effectively, our business will be harmed. To effectively manage any future expansion, we will need to improve our operational and financial systems and managerial controls and procedures, which include the following:

- managing our research and development efforts for new and evolving technologies;
- expanding the capacity and performance of our network and software infrastructure;
- developing our administrative, accounting and management information systems and controls; and
- effectively maintaining coordination among our various departments, particularly as we expand internationally.

***We currently are, and in the future may be, subject to securities class action lawsuits due to decreases in our stock price.***

We are at risk of being subject to securities class action lawsuits if our stock price declines substantially. Securities class action litigation has often been brought against a company following a decline in the market price of its securities. For example, in June

2004, we announced that we would not meet market expectations regarding our financial performance in the second quarter, and our stock price declined. Beginning on January 14, 2005, three purported class action complaints, which were subsequently consolidated, were filed against iPass and certain of our executive officers, purportedly on behalf of a class of investors who purchased iPass stock between April 22, 2004 and June 30, 2004. The complaints allege claims under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934. In addition, in March and April of 2005, two stockholders purporting to act on our behalf filed lawsuits against our directors and certain officers. iPass was also named as a nominal defendant solely in a derivative capacity. The derivative action, which has been consolidated, is based on the same factual allegations and circumstances as the purported securities class actions and alleges state law claims as well. This actions are described in Part II, Item 1 of this Quarterly Report on Form 10-Q. If our stock price declines substantially in the future, we may be the target of similar litigation. The current, and any future, securities litigation could result in substantial costs and divert management s attention and resources, and could seriously harm our business.

***Litigation arising from disputes involving third parties could disrupt the conduct of our business.***

Because we rely on third parties to help us develop, market and support our service offerings, from time to time we have been, and we may continue to be, involved in disputes with these third parties. If we are unable to resolve these disputes favorably, our development, marketing or support of our services could be delayed or limited, which could materially and adversely affect our business.

***If licenses to third party technologies, including our license with RSA Security, do not continue to be available to us at a reasonable cost, or at all, our business and operations may be adversely affected.***

We license technologies from several software providers that are incorporated in our services. We anticipate that we will continue to license technology from third parties in the future. In particular, we license encryption technology from RSA Security. Our license agreement with RSA Security expired in February 2006 and automatically renewed for an additional three-year period. This license will continue to automatically renew for additional three-year periods upon expiration, unless terminated by us or by RSA Security. Licenses from third party technologies, including our license with RSA Security, may not continue to be available to us at a reasonable cost, or at all. The loss of these technologies or other technologies that we license could have an adverse effect on our services and increase our costs or cause interruptions or delays in our services until substitute technologies, if available, are developed or identified, licensed and successfully integrated into our services.

***Litigation arising out of intellectual property infringement could be expensive and disrupt our business.***

We cannot be certain that our products do not, or will not, infringe upon patents, trademarks, copyrights or other intellectual property rights held by third parties, or that other parties will not assert infringement claims against us. From time to time we have been, and we may continue to be, involved in disputes with these third parties. Any claim of infringement of proprietary rights of others, even if ultimately decided in our favor, could result in substantial costs and diversion of our resources. Successful claims against us may result in an injunction or substantial monetary liability, in either case which could significantly impact our results of operations or materially disrupt the conduct of our business. If we are enjoined from using a technology, we will need to obtain a license to use the technology, but licenses to third-party technology may not be available to us at a reasonable cost, or at all.

***New accounting pronouncements may impact our future financial position and results of operations.***

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Accounting for Stock-Based Compensation Revised ( SFAS 123(R) ), which requires the measurement and recognition of compensation expense for all stock-based compensation based on estimated fair values. As a result, our operating results for the first quarter of 2006 contains, and for future periods will contain, a charge for stock-based compensation related to employee stock options and employee stock purchases. The application of SFAS 123(R) requires the use of an option-pricing model to determine the fair value of share-based payment awards. This determination of fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion the existing valuation models may not provide an accurate measure of the fair value of our employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction. Our adoption of SFAS 123(R) had a material impact on our financial statements and results of operations in the first quarter of fiscal 2006, causing us to report a loss, rather than net income, for that quarter. SFAS 123(R) will continue to have a material impact on our financial statements and results of operations in future periods. We cannot predict the effect that this adverse impact on our reported operating results will have on the trading price of our common stock.

**Risks Relating to Our Industry**

***Security concerns may delay the widespread adoption of the Internet for enterprise communications, or limit usage of Internet-based services, which would reduce demand for our products and services.***

The secure transmission of confidential information over public networks is a significant barrier to further adoption of the Internet as a business medium. The Internet is a public network and information is sent over this network from many sources. Advances in computer capabilities, new discoveries in the field of code breaking or other developments could result in compromised security on our network or the networks of others. Security and authentication concerns with respect to the transmission over the Internet of confidential information, such as corporate access passwords and the ability of hackers to penetrate online security systems may reduce the demand for our services. Further, new access methods, devices, applications and operating systems have also introduced additional vulnerabilities which have been actively exploited by hackers. Internet-based worms and viruses, computer programs that are created to slow Internet traffic or disrupt computer networks or files by replicating through software or operating systems, are examples of events or computer programs that can disrupt users from using our Internet-based services and reduce demand for our services, potentially affecting our business and financial performance. In particular, certain Internet worms and viruses affected some of our customers and their mobile users, which may have negatively impacted our revenues. Furthermore, any well-publicized compromises of confidential information may reduce demand for Internet-based communications, including our services.

***Financial, political or economic conditions could adversely affect our revenues.***

Our revenues and profitability depend on the overall demand for enterprise connectivity services. The general weakening of the global economy from early 2001 to 2003 led to decreased trade and corporate spending on Internet infrastructure. In addition, in the past, terrorist attacks, including the attacks on the United States and internationally, have had a significant impact on global economic conditions and our operations. If there are further acts of terrorism, if hostilities involving the United States and other countries continue or escalate, or if other future financial, political, economic and other uncertainties or natural disasters arise, this could lead to a reduction in travel, including by business travelers who are substantial users of our services, and continue to contribute to a climate of economic and political uncertainty that could adversely affect our revenue growth and financial results.

***Government regulation of, and legal uncertainties regarding, the Internet could harm our business.***

Internet-based communication services generally are not subject to federal fees or taxes imposed to support programs such as universal telephone service. Changes in the rules or regulations of the U.S. Federal Communications Commission or in applicable federal communications laws relating to the imposition of these fees or taxes could result in significant new operating expenses for us, and could negatively impact our business. Any new law or regulation, U.S. or foreign, pertaining to Internet-based communications services, or changes to the application or interpretation of existing laws, could decrease the demand for our services, increase our cost of doing business or otherwise harm our business. There are an increasing number of laws and regulations pertaining to the Internet. These laws or regulations may relate to taxation and the quality of products and services. Furthermore, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, taxation, encryption, obscenity, libel, employment, personal privacy, export or import matters and other issues is uncertain and developing and we are not certain how the possible application of these laws may affect us. Some of these laws may not contemplate or address the unique issues of the Internet and related technologies. Changes in laws intended to address these issues could create uncertainty in the Internet market, which could reduce demand for our services, increase our operating expenses or increase our litigation costs.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Foreign Currency**

Although we currently bill substantially all of our services in U.S. dollars, our financial results could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets. A strengthening of the dollar could make our services less competitive in foreign markets and therefore could reduce our revenues. We are billed by and pay the majority of our network service providers in U.S. dollars. In the future, some portion of our revenues and costs may be denominated in foreign currencies. To date, exchange rate fluctuations have had little impact on our operating results.

### Interest Rate Sensitivity

As of March 31, 2006, we had cash, cash equivalents, and short-term investments totaling $113.1 million, as compared to $184.6 million as of December 31, 2005 which decreased, primarily due to cash outlays to acquire GoRemote. Our investment portfolio consists of money market funds and securities, asset backed securities, corporate securities, and government securities, generally due within one to two years. All of our instruments are held other than for trading purposes. We place investments with high quality issuers and limit the amount of credit exposure to any one issuer. These securities are subject to interest rate risks. Based on our portfolio content and our ability to hold investments to maturity, we believe that, a hypothetical 10% increase or decrease in current interest rates would not materially affect our interest income, although there can be no assurance of this.

As of December 31, 2005, we had cash, cash equivalents and short-term investments totaling $184.6 million, which consisted of cash and highly liquid short-term investments with original maturities of three months or less at the date of purchase, which we held solely for non-trading purposes. A hypothetical increase or decrease in market interest rates by 10% from the market interest rates would have caused the interest generated by, and the fair value of, these short-term investments to change by an immaterial amount.

The following is a chart of the principal amounts of short-term investments by expected maturity (in thousands):

| | Expected Maturity Date for Par Value Amounts For the Year Ended December 31, | | | | As of Mar. 31, 2006 |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | Total Cost Value | Total Fair Value |
| U.S. Government agencies | $ 41,900 | $ 11,900 | $ 21,490 | $ 77,058 | $ 76,550 |
| Auction rate and money market securities | 14,500 | | | 14,500 | 14,554 |
| Corporate notes | 6,215 | | | 6,390 | 6,370 |
| Total | $ 62,615 | $ 11,900 | $ 21,490 | $ 97,948 | $ 97,474 |

Our general policy is to limit the risk of principal loss and ensure the safety of invested funds by limiting market and credit risk. We consider all investments to be short-term investments, which are classified in the balance sheet as current assets, because (1) the investments can be readily converted at any time into cash or into securities with a shorter remaining time to maturity and (2) the investments are selected for yield management purposes only and we are not committed to holding the investments until maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date. All short-term investments and cash equivalents in our portfolio are classified as available-for-sale and are stated at fair market value, with the unrealized gains and losses reported as a component of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of unrealized discounts to maturity. Such amortization and accretion is included in interest income and other, net. The cost of securities sold is based on the specific identification method.

### Item 4. Controls and Procedures

### Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed by us in our periodic SEC reports are recorded, processed, summarized and reported within the time periods specified in the SEC s rules and the SEC reports.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitations of Disclosure Controls and Procedures and Internal Control Over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within iPass have been detected.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Beginning on January 14, 2005, three purported class action complaints were filed against the Company and certain of its executive officers in the United States District Court for the Northern District of California. On March 2, 2005, these cases were consolidated as In re iPass Securities Litigation, Case No. 3:05-cv-00228-MHP. On April 22, 2005, David Lutzke and Rhonda Lutzke were named lead plaintiffs. On July 5, 2005, plaintiffs filed a Consolidated Amended Complaint. Named as defendants together with the Company are officers Kenneth D. Denman, Donald C. McCauley, Anurag Lal, and Jon M. Russo. The Consolidated Amended Complaint ( CAC ) alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 during an alleged class period from April 22, 2004 to June 30, 2004 by failing to inform investors of certain operational issues that allegedly led to declines in the Company s revenue, earnings and growth prospects. Defendants moved to dismiss the CAC, and on February 28, 2006, the court granted the motion with leave to amend. On March 30, 2006, plaintiffs filed a Second Consolidated Amended Complaint, ( SCAC ) which set forth, the same claims against the same defendants relating to the same alleged class period. On May 1, 2006, the Defendants filed a motion to dismiss the SCAC, and pursuant to an agreed-upon schedule, the motion is set to be heard on July 31, 2006. The case is at an early stage and no trial date has been set. No discovery is expected to take place unless defendants motion to dismiss is denied.

Beginning on March 25, 2005, two stockholders filed separate derivative actions in California Superior Court for the County of San Mateo, purporting to state claims on behalf of the Company against Kenneth D. Denman, Donald C. McCauley, Anurag Lal, Jon M. Russo, Peter G. Bodine, Arthur C. Patterson, John D. Beletic, A. Gary Ames, Cregg B. Baumbaugh and Allan R. Spies. The complaints purport to arise out of the same alleged nondisclosures set forth in the Consolidated Amended Complaint set forth in the shareholder class action, and purport to set forth claims for breach of fiduciary duty, abuse of process, gross mismanagement, waste, unjust enrichment, and violation of California Corporations Code 25402. On May 5, 2005, the actions were consolidated as In re iPass, Inc. Derivative Litigation, Case No. CIV445765. By agreement of the parties, the time to file plaintiffs consolidated complaint was extended several times, and a Consolidated Derivative Complaint ( CDC ) was filed on February 21, 2006. On March 28, 2006, defendants filed a demurrer to the CDC, in response to which plaintiffs stated that they intend to further amend the CDC. The further amended complaint has not yet been filed. On April 6, 2006, the court granted the joint motion of all parties to have the case designated as complex litigation. The case is at an early stage, no discovery has occurred, and no trial date has been set.

The Company s wholly-owned subsidiary, Go Remote Internet Communications, Inc., which was acquired by the Company as of February 15, 2006, is subject to various legal proceedings and claims arising in the ordinary course of business. The Company s management does not expect that the results in any of these legal proceedings will have a material adverse effect on the Company s financial condition, results of operations, or cash flows.

In July and August 2001, GoRemote and certain of its officers were named as defendants in five purported securities class action lawsuits filed in the United States District Court, Southern District of New York, captioned as In re GoRemote Internet Communications, Inc. Initial Public Offering Securities Litigation, No. 01 Civ 6771 (SAS), and consolidated with more than three hundred substantially identical proceedings as In re Initial Public Offering Securities Litigation, Master File No. 21 MC 92 (SAS). The Consolidated Amended Class Action Complaint for Violation of the Federal Securities Laws ( Consolidated Complaint ) was filed on or about April 19, 2002, and alleged claims against certain of GoRemote s officers and against CIBC World Markets Corp., Prudential Securities Incorporated, DB Alex. Brown, as successor to Deutsche Bank, and U.S. Bancorp Piper Jaffray Inc., underwriters of GoRemote s December 14, 1999 initial public offering ( underwriter defendants ), under Sections 11 and 15 of the Securities Act of 1933, as amended, and under Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended.

Citing several press articles, the Consolidated Complaint alleged that the underwriter defendants used improper methods in allocating shares in initial public offerings, and claimed the underwriter defendants entered into improper commission agreements regarding aftermarket trading in GoRemote s common stock purportedly issued pursuant to the registration statement for the initial public offering. The Consolidated Complaint also alleged market manipulation claims against the underwriter defendants based on the activities of their respective analysts, who were allegedly compromised by conflicts of interest. The plaintiffs in the Consolidated Complaint sought damages as measured under Section 11 and Section 10(b) of the Securities Act of 1933, pre-judgment and post-judgment interest, and reasonable attorneys and expert witnesses fees and other costs; no specific amount was claimed in the plaintiffs prayer in the Consolidated Complaint.

In October 2002, certain of GoRemote s officers and directors who had been named as defendants in the Consolidated Complaint were dismissed without prejudice upon order of the presiding judge. In February 2003, the presiding judge dismissed the Section 10(b) claims against GoRemote and its named officers and directors with prejudice.

From September 2002 through June 2003, GoRemote participated in settlement negotiations with a committee of issuers litigation counsel, plaintiffs executive committee and representatives of various insurance companies (the Insurers ). GoRemote s Insurers were actively involved in the settlement negotiations, and strongly supported a settlement proposal presented to GoRemote for consideration in early June 2003. The settlement proposed by the plaintiffs would be paid for by the Insurers and would dispose of all remaining claims against GoRemote.

After careful consideration, GoRemote decided to approve the settlement proposal in July 2003. Although GoRemote believed that plaintiffs claims were without merit, it decided to accept the settlement proposal (which does not admit wrongdoing) to avoid the cost and distraction of continued litigation. Because the settlement would be funded entirely by its Insurers, GoRemote did not believe that the settlement would have any effect on GoRemote s financial condition, results of operations or cash flows.

On December 15, 2005, Helfrich filed a complaint in the Superior Court for Orange County against GoRemote Internet Communications, Inc. ( GoRemote ) (a company acquired by the Company on February 15, 2006), alleging claims, including wrongful termination in violation of public policy, breach of contract, unpaid compensation, unfair business practices, breach of the implied covenant of good faith and fair dealing, and intentional infliction of emotional distress (the Complaint ). GoRemote responded to that Complaint on January 17, 2006, with a general denial of the allegations in the Complaint and raised certain affirmative defenses. The parties are scheduled for a private mediation on May 5, 2006, and most discovery has been stayed pending the outcome of the mediation.

**Item 1A. Risk Factors**

We include in Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Risks Related to Our Operations a description of risk factors related to our business in order to enable readers to assess, and be appropriately apprised of, many of the risks and uncertainties applicable to the forward-looking statements made in this Quarterly Report on Form 10-Q. We do not claim that the risks and uncertainties set forth in that section are all of the risks and uncertainties facing our business, but do believe that they reflect the more important ones.

The risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the SEC on March 16, 2006, have not substantively changed, except for the following risk factors, which have been restated as set forth in Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Risks Related to Our Business of this Quarterly Report on Form 10-Q:

1. We have updated the risk factors If we are unable to meet the challenges posed by broadband access, our ability to grow our business will be impaired, There are approximately 22 countries in which we provide dial-up access only through Equant. The loss of Equant as a dial-up network service provider would substantially diminish our ability to deliver global network access and Because much of our business is international, we encounter additional risks, which may reduce our profitability to include first quarter of 2006 financial information;
2. We abbreviated the risk factor We currently are, and in the future may be, subject to securities class action lawsuits due to decreases in our stock price ; and
3. We updated the risk factor New accounting pronouncements may impact our future financial position and results of operations for the adoption of SFAS 123(R) as applied to our first quarter of 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults upon Senior Securities**

Not applicable.

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

Not applicable.

**Item 5. Other Information**
Not applicable.
**Item 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation (1) |
| 3.2 | Bylaws, as amended (2) |
| 4.1 | Reference is made to Exhibits 3.1 and 3.2 |
| 4.2 | Specimen stock certificate (2) |
| 10.1 | 2003 Non-Employee Director Plan, as amended (3) |
| 10.16 | 2006 Annual Executive Management Bonus Plan (4) |
| 10.17 | Outside Director Compensation Arrangement (6) |
| 10.21 | Forms of Restricted Stock Purchase Agreement under 2003 Equity Incentive Plan |
| 10.23 | Offer Letter to Thomas Thimot, dated December 9, 2005 (5) |
| 10.24 | Transition Agreement with John Thuma, dated January 20, 2006 (5) |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(1) Filed as an exhibit to iPass Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (Commission No. 000- 50327), filed November 13, 2003, and incorporated

herein by reference.

(2) Filed as an exhibit to iPass Registration Statement on Form S-1 (No. 333-102715) and incorporated herein by reference.

(3) Filed as an exhibit to iPass Current Report on Form 8-K (Commission No. 000-50327), filed March 13, 2006, and incorporated herein by reference.

(4) Filed as an exhibit to iPass Annual Report on Form 10-K for the year ended December 31, 2006 (Commission No. 000-50327), filed March 16, 2006, and incorporated herein by reference.

(5) Filed as an exhibit to iPass Current Report on Form 8-K (Commission No. 000-50327), filed February 16, 2006, and incorporated herein by reference.

(6)

Set forth under the heading Board Cash Compensation in Item 1.01 of iPass Current Report on Form 8-K (Commission No. 000-50327), filed February 16, 2006, and incorporated herein by reference.

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## SIGNATURE

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.

| | | |
|---|---|---|
| | | iPass Inc. |
| Date: May 10, 2006 | By: | /s/ Frank E. Verdecanna |
| | | Frank E. Verdecanna<br>Vice President and Chief Financial Officer<br>(duly authorized officer and principal financial officer) |

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(5) Filed as an exhibit to iPass Current Report on Form 8-K (Commission No. 000-50327), filed February 16, 2006, and incorporated herein by reference.

(6) Set forth under the heading Board Cash

Compensation in Item 1.01 of iPass Current Report on Form 8-K (Commission No. 000-50327), filed February 16, 2006, and incorporated herein by reference.