

# Appendix A

Management uses a non-GAAP measurement, which we call Pre-Marketing EBITDA, to evaluate the performance of our current base of subscriber lines and for the purpose of allocating resources to discretionary activities such as new subscriber line marketing. We calculate Pre-Marketing EBITDA by starting with loss from operations and adding to it stock option compensation expense and depreciation and amortization to yield EBITDA. EBITDA is further adjusted by adding stock option compensation, marketing expense and direct cost of goods sold, then subtracting customer equipment and shipping revenue. Some level of marketing expense is required on an ongoing basis to acquire new subscriber lines to replace those lost due to customer churn. Since Pre-Marketing EBITDA does not include our expenses related to replacing subscriber lines lost due to customer churn, management does not believe the level of Pre-Marketing EBITDA at any point in time can be sustained in future periods without some level of marketing expense. As a result, we also review loss from operations, loss from operations before depreciation and amortization and net loss to measure overall performance. Set forth below is a reconciliation of Pre-Marketing EBITDA to loss from operations.

	Year Ended December 31,			Three Months Ended March 31,
	2003	2004	2005	2006
	(dollars in thousands)			
Loss from operations	\$ (28,061)	\$ (71,547)	\$ (264,537)	\$ (82,403)
Add back:				
Depreciation and amortization	2,367	3,907	11,122	4,959
EBITDA	(25,694)	(67,640)	(253,415)	(77,444)
Add back:				
Stock option compensation	-	-	15	4,452
Adjusted EBITDA	(25,694)	(67,640)	(253,400)	(72,992)
Add back:				
Marketing	11,819	56,075	243,404	88,288
Direct cost of goods sold	4,867	18,878	40,441	17,580
Subtract:				
Customer equipment and shipping revenue	1,817	3,844	11,031	7,225
Pre-Marketing EBITDA	<u>\$ (10,825)</u>	<u>\$ 3,469</u>	<u>\$ 19,414</u>	<u>\$ 25,651</u>
Pre-Marketing EBITDA as a percentage of telephony services revenue	-64%	5%	8%	23%

We believe Pre-Marketing EBITDA is useful to an investor because it helps an investor more meaningfully evaluate the performance of our current base of subscriber lines by removing from our operating results the impact of (1) our asset base (primarily depreciation and amortization), (2) costs primarily associated with acquiring new subscriber lines and (3) revenue derived from sources other than the provision of telephony services. Pre-Marketing EBITDA, as we define it, is not comparable to EBITDA or other similarly titled measures used by other companies, and it is not a measure of performance presented in accordance with GAAP. Pre-Marketing EBITDA should not be considered as a substitute for net loss, net cash used in operating activities or other financial information prepared in accordance with GAAP.