



# FORM 10-K

## IPASS INC - IPAS

**Filed: March 16, 2006 (period: December 31, 2005)**

Annual report which provides a comprehensive overview of the company for the past year

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## PART I

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2005**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

Commission File Number 000-50327

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**iPass Inc.**

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

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**93-1214598**  
*(I.R.S. Employer  
Identification No.)*

**3800 Bridge Parkway**  
**Redwood Shores, California 94065**  
*(Address, including zip code, of principal executive offices)*

**(650) 232-4100**  
**(Registrant's telephone number, including area code)**

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

**Securities registered pursuant to Section 12(g) of the Act:**  
**Common Stock, \$0.001 Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on June 30, 2005 as reported by the Nasdaq National Market on that date: \$339,543,717. The determination of affiliate status for the purposes of this calculation is not necessarily a conclusive determination for other purposes. The calculation excludes approximately 12,443,493 shares held by directors, officers and stockholders whose ownership exceeded five percent of the registrant's outstanding Common Stock as of June 30, 2005. Exclusion of these shares should not be construed to indicate that such person controls, is controlled by or is under common control with the registrant.

The number of shares outstanding of the Registrant's Common Stock, \$0.001 par value, as of February 28, 2006 was 64,567,835.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement in connection with our 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than April 30, 2006, are incorporated by reference in Part III, Items 10-14 of this report on Form 10-K.



**iPASS INC.**  
**FORM 10-K**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**  
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### **Disclosure Regarding Forward-Looking Statements**

This annual report on Form 10-K 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,” “seeks,” “estimates,” 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 and are subject to risks, uncertainties, and assumptions that are difficult to predict. 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” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere herein, for factors that may cause actual results to be different than those expressed in these forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

## PART I

### Item 1. *Business*

#### Overview

We are a global provider of software-enabled enterprise connectivity and endpoint management services for remote and mobile workers. Our flagship service offering, iPass Corporate Access<sup>™</sup>, is designed to enable enterprises to provide their employees with secure internet and corporate network connectivity over any access network through a single easy-to-use interface. iPass Corporate Access unifies access through over 300 networks in over 160 countries that make up the iPass global virtual network. It also gives customers the option to use the service for access over networks that are not yet part of the iPass global virtual network such as enterprise home broadband and on-campus wireless local area networks (LANs) as well as third-party Wi-Fi hotspot, municipal Wi-Fi networks and hotel Ethernet links.

In addition, we provide endpoint management services that enable better protection of an enterprises' remote and mobile computer systems, or endpoints. These services, which include device authentication, patch automation and systems management, can be used in conjunction with iPass Corporate Access or on a stand-alone basis. Fundamental to all iPass services is enabling the IT Manager to maintain direct control of the determination and application of policies as part of a self-service management process.

#### *Software-Based Platform for Service Delivery*

As opposed to traditional telecommunications companies that build, operate and maintain network facilities, we have created a virtual network as the platform for our services. Our virtual network is based on a software architecture that gives it technology flexibility and cost-effective scalability. It comprises contractual relationships and technical integrations with over 300 telecommunications carriers, Internet service providers and other network service providers around the globe. This architecture has redundancy built in throughout, from multiple network providers in most countries to fault-tolerance mechanisms at all points in the authentication process. This allows it to deliver extremely high availability of service to our customers. In fact, since 2000, there has been no system down-time that impacted the platform and the services that it provides.

In addition, our architecture allows customers to gain better control of remote and mobile connectivity while also simplifying their back-end operations. Customers can configure and enforce policies around network access based on financial and security considerations. They also receive centralized delivery of detailed billing, reporting and management information.

#### *Revenue Sources*

We derive revenues from usage of our networks and from fees and other services. Our usage revenues are generated by providing enterprise connectivity services to customers using narrowband access technologies, such as modem dial-up, and from broadband access technologies, including Ethernet and Wireless-Fidelity (Wi-Fi) and Mobile Data Services such as 1xRTT and EV-DO. Revenues pertaining to usage represented 87% of our total revenues in 2005. Additionally, we receive revenue from fees and other services, including authentication services for channel partners, value-added reporting services and endpoint systems management services. In 2005 we generated approximately 13% of our revenues from fees and other services. We market and sell our services directly, as well as indirectly through channel partners, including network service providers, Internet service providers, systems integrators and value-added resellers. We were incorporated in California in July 1996 and reincorporated in Delaware in June 2000.

#### **Our Strategy**

Our objective is to use our software-enabled virtual network to become the leading provider of secure enterprise connectivity services worldwide. The key elements of our strategy to achieve this objective include:

*Expand our Enterprise Customer Base.* We seek to increase the number of enterprises that use our services by leveraging our direct sales professionals and channel partners who focus on generating new

accounts. We also seek to expand our indirect sales capabilities by building additional relationships with channel partners, such as systems integrators, providers of security products (i.e. virtual private networks (VPN), personal firewalls and intrusion detection) and providers of broadband access service equipment. We also intend to build and maintain iPass brand awareness through the promotion of our brand through marketing campaigns, our web presence, and our large installed base of branded client software, and to increase our market reach through integration of our back-end software and client software with the offerings of our channel partners.

*Increase User Penetration within our Existing Customer Base.* We seek to accelerate the adoption of our services by increasing usage of our services from the highly mobile business travelers who dominate our current user base to all customer employees who use laptop and handheld mobile devices. This we intend to achieve through the sale of services related to non-iPass networks, such as enterprise home broadband and on-campus wireless LANs as well as third party Wi-Fi hotspot, municipal Wi-Fi networks and hotel Ethernet links. Additionally, we will promote our endpoint management services into our existing customer base.

Within customers who only have implemented our services in a single division we endeavor to broaden service adoption to all other operating units of the enterprise. A key function of our sales force is to assist our customers with the adoption and integration of our services with their organizations, continually assess the customers evolving needs, offer new services for adoption, and provide ongoing support.

*Continue to Expand our Wired and Wireless Broadband Coverage and Service Offerings.* We believe that the improved security, ease of use and management control that our services provide can address many of the challenges presented by the emerging broadband markets, such as wireless security, lack of unified roaming standards and increased complexity driven by provider fragmentation. As such, we seek to continually expand the broadband coverage of our virtual network to venues attractive to business travelers, such as airports, hotels, convention centers, cafes, restaurants, and other retail locations. We intend to continue increasing the number of these venues by establishing relationships with network service providers that provide access to these hotspots. We also plan to expand the network coverage through mobile data services based on 2.5G and 3G networks, that can help to keep these end users connected when a hotspot venue is not convenient. We also seek to continue evolving our back-end authentication, settlement and clearinghouse capabilities to support this expansion, developing our client software to simplify the user experience, and improving our management capabilities to unify management control for our customers.

*Continue to Enhance our Virtual Network.* We intend to continue to establish new relationships with network service providers to increase the coverage and redundancy of our virtual network. We intend to enhance the functionality and features of our software architecture and to address changing customer requirements and technologies through internal development, strategic partnerships and/or acquisitions. We also seek to expand our service offerings by supporting and integrating new access methods, devices, applications and operating systems, and by building additional relationships with systems integrators and technology providers and develop services that effectively leverage an enterprise's existing infrastructure. We also intend to explore additional managed services that enhance our competitive advantage and provide us with new growth opportunities.

*Leverage and Extend our Endpoint Management Capabilities.* In order to deepen the value we provide to customers, we intend to continue to improve the endpoint management and policy enforcement capabilities of our services through both extension of our platform to new functions that serve to protect identities, endpoints, the network, and user data as well as integrate with technology partners in the enterprise security industry.

## **Our Core Capabilities**

Our services are designed to enable enterprises to provide their employees with secure access from approximately 160 countries to the internet and an enterprise's internal networks through a single easy-to-use interface. We provide our services through a virtual network that is enabled by our software-based network architecture and our contractual relationships with over 300 network service providers around the globe.

Our core assets and capabilities include:

*Global Virtual Network.* Our virtual network aggregates over 70,000 access points in approximately 160 countries. As of December 31, 2005, over 31,000 of these access points were dial-up connections and approximately 38,000 were broadband connections, comprised of approximately 36,000 Wi-Fi hotspots and approximately 2,000 wired hotspots as well as a North American CDMA footprint. As a result, enterprises that use our services can provide their remote and mobile workers with access from these countries, in most instances with a local telephone or broadband connection.

*High-Availability and Scalable Authentication Architecture.* Our relationships with over 300 network service providers enable us to provide connectivity through multiple networks in approximately 120 out of the approximately 160 countries on our virtual network. As a result, our virtual network reduces the risk of service interruptions associated with depending on only one service provider. Furthermore, our geographically distributed transaction centers act as a unified and fault-tolerant system that provides scalable and highly-available user authentication and quality management information collection. Each point in the authentication process is designed with built-in redundancy and fail-over capabilities. There has been no system down-time that impacted the platform and the services that it provides since 2000.

This architecture also makes our virtual network scalable, allowing us to handle many connections and users without a proportionate increase in capital expenditures.

*Flexible Enterprise Security Integration.* Our software is designed to enable integration between an enterprise's network connectivity infrastructure and a wide variety of enterprise security applications. Our services integrate a breadth of security software and systems, including VPNs, personal firewall, anti-virus and authentication systems, enabling enterprises to rapidly deploy our services while leveraging their existing and future investments in security infrastructure.

*Authentication Security.* Unlike many network service providers, we securely route all credentials relating to our end users with 128-bit Secure Socket Layer, or SSL, protocols, ensuring the confidentiality of sensitive user information as it traverses the Internet. To defend against identity theft, an additional layer of authentication using 131-bit ECC cryptography protects user credentials from the device over the local access link into the iPass virtual network.

*Network Access Policy Management.* Our virtual network also offers policy management capabilities, enabling customers to allow or deny access to their network based on specific user and session characteristics. The characteristics may be based on the user's location, the user's identity and role within the organization, the type of access network being used, and the compliance of the user's computer with enterprise security policies.

*Endpoint Policy Management.* We have software services that allow for flexible and automated systems management capabilities, with specific advantages with regards to endpoint systems used by remote and mobile workers. The capabilities can be used for device discovery, asset management, device configuration, and software distribution. These capabilities can be hosted on servers at our customer's premises or in an iPass data center and are supported by an agent software that runs on the mobile worker's device.

*Centralized Billing and Management Reporting.* We integrate the networks of multiple service providers to create one global virtual network, eliminating the need for enterprises to negotiate agreements with multiple network service providers to provide network connectivity to their mobile workers. Our virtual network creates call detail records (CDRs) for each network session, including user, date, time, duration of usage and other parameters. We are also able to provide detailed transaction-level billing in a single invoice for all services provided to enterprises and network service providers and can tailor the invoice to provide the level of detail and the format that our customers desire. We also offer the ability for information technology managers to gain a comprehensive and near real-time view of their employees' network connectivity usage patterns, enabling faster identification and resolution of user-related issues.

Our technology enables us to deliver producing near real-time information of connection success rates, client configurations, authentication times and other information critical to diagnosing network health and

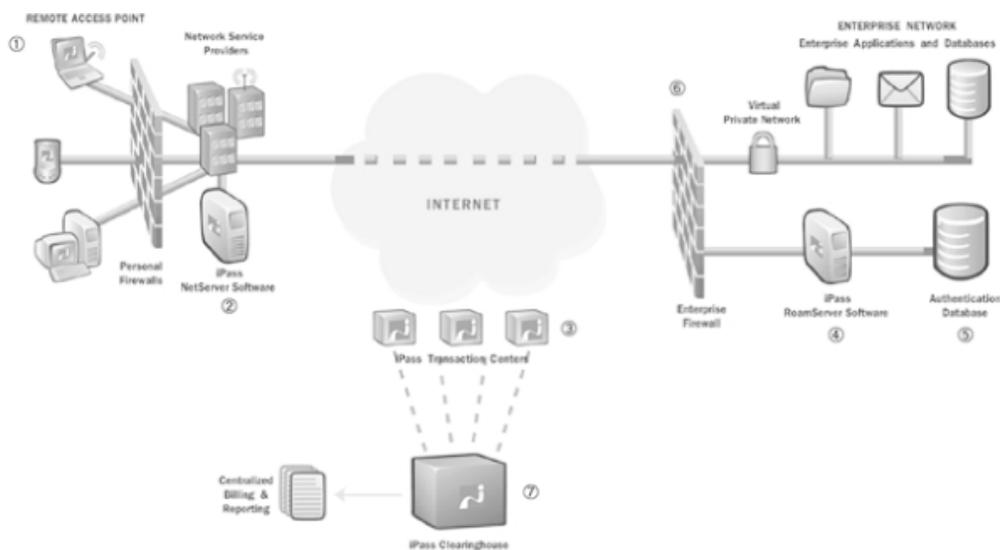
troubleshooting user connection problems. This patented capability is used internally to manage network provider quality as well to provide in-depth reporting to customers for trouble-shooting purposes.

*Integration of New Technologies.* We actively evaluate and integrate support for new access methods, devices, applications and operating systems into our service offering. For example, we support wired broadband, wireless broadband based on the current and emerging Wi-Fi standards, as well as 3G mobile data services. End users can access our virtual network using desktop and laptop computers, wireless handheld devices and other Internet Protocol (IP) enabled electronic devices. Our network integrates with our enterprise customers' existing VPN and security applications, and our software supports a wide range of computer operating systems, including various versions of Microsoft's Windows®, Apple's Mac OS, and Microsoft's Windows Mobile versions for handheld devices.

## Services

### *iPass Corporate Access*

iPass Corporate Access is our primary service, offering our customers the ability to provide global dial-up, wired broadband and wireless access to their remote and mobile workers through the iPassConnect universal client and centralized management and billing for the IT department. We generally bill customers based on usage of the iPass virtual network, as well as additional monthly fees based on number of users for use of our client and management software over non-iPass networks. The process by which a mobile worker accesses their enterprise network through iPass virtual network is illustrated in the following diagram and described through the following steps:



1. The iPassConnect universal client software installed on a mobile worker's laptop computer or other electronic device enables the mobile worker to connect to our virtual network. For wired access the mobile worker launches the iPassConnect™ universal client, selects the city in which he or she is located, and then selects a local network access point (dial-up, ISDN, or wired high-speed internet). For wireless access, the client software automatically detects and displays any available Wi-Fi hotspots or mobile data services, whether it is a part of the iPass footprint or not. It will also automatically choose the appropriate authentication protocol to initiate the access request without user intervention. This is especially beneficial in Wi-Fi hotspots, corporate wireless LANs or home wireless LANs that require 802.1x-based security. The client software can also be used to connect via the user's home broadband connection and home Wi-Fi LAN.

Security checks can be built into the connection process. A feature called SecureConnect allows the enterprise to set policies that detect whether the user's personal firewall or anti-virus software is active, auto-launch this software if it is not, and disallow the connection attempt if the proper software cannot be launched. In addition, the user must enter his or her corporate credentials, which will be checked against his or her enterprise database before the connection is allowed.

2. The iPass NetServer software, installed in a network service provider's network, provides the interface between the network service provider and the iPass network. The NetServer recognizes that the end user belongs to the iPass user base and securely transmits the username and password to the nearest available iPass Transaction Center using 128-bit SSL encryption. Our ten transaction centers are located in California, New York, Georgia, Hong Kong, Australia, the United Kingdom, Germany, The Netherlands, Japan and Brazil. Any NetServer can communicate with any Transaction Center, allowing for high availability in the rare event of a single Transaction Center failure.

3. The Transaction Center to which the authentication request is routed looks up the enterprise to which the user belongs and securely transmits the user name and password to the iPass RoamServer software residing on the enterprise's servers.

4. The RoamServer receives the request from the Transaction Center, converts it to the local authentication protocol used at the enterprise, and passes it to the enterprise authentication database. Enterprises can manage their own user lists and authentication databases and control users' access to their internal network through the authentication system of their choice.

5. The enterprise authentication database then grants or denies authorization. The RoamServer securely sends a yes/no response back to the NetServer via a Transaction Center.

6. The NetServer authorizes the network service provider to allow the user access to the Internet. At this point the iPassConnect universal client software can be configured to invoke the Endpoint Policy Management service to assess and remediate the mobile device for compliance with endpoint security policies before providing access to the corporate network. Once remediation is complete, iPassConnect can automatically launch the user's VPN to securely connect to the enterprise network.

7. When the mobile worker terminates the Internet session, the VPN connection is also terminated and a record of the transaction is forwarded to the iPass Clearinghouse. The enterprise receives detailed invoices either on a monthly or more frequent basis, as requested. For additional security, customers can use the Auto-Teardown feature to set policies that terminate the internet session if the VPN, personal firewall, or anti-virus software is terminated during the session.

### ***Additional Services***

In addition to iPass Corporate Access, we currently offer the following services:

*iOQ.* We have developed our iOQ service to allow our customers' in-house or outsourced help desk personnel to quickly identify issues and troubleshoot connection problems. With our iOQ service, enterprises can generate records and reports regarding access locations, client configuration, error codes, connection speeds, time to authenticate and other critical information. We generally charge a monthly fee for our iOQ service. We periodically update the iOQ software in order to provide improved reporting for our internal support organization and our customers. These upgrades are downloaded to the user's computer or other electronic device when the user logs in, at no additional cost to the customer.

*ExpressConnect.* Our ExpressConnect service is designed to enable enterprises to realize the benefits of our enterprise connectivity services while avoiding the cost of installing and managing additional authentication infrastructure. We manage an enterprise's authentication server in one of our secure data centers, but the enterprise's information technology manager retains full control. There is an additional option in ExpressConnect that allows the individual charges to be directly charged to their corporate credit card. We generally charge a monthly fee for our ExpressConnect service.

*Wireless LAN Roaming.* Our Wireless LAN Roaming service is an add-on option to the iPass Corporate Access service that extends its benefits to connections over on-campus Wi-Fi LANs. This service allows enterprise IT departments to offer a single user experience for all remote and local wireless connections while extending centralized management of security policies to these potentially vulnerable corporate wireless networks. We generally charge a monthly fee for our Wireless LAN Roaming service.

*DeviceID.* The DeviceID service strengthens network security through device authentication. This service creates a digital fingerprint for every device by gathering unique identifying numbers from select hardware components and uses this information when interrogating the device to provide access to the corporate LAN via a VPN. DeviceID helps protect against replay attacks, reverse engineering and spoofing by checking different hardware attributes during each authentication request. This service is designed to ensure that only corporate-issued or authorized machines access the network as well as validate device identity as an additional factor for VPN authentication.

*Endpoint Policy Management — Online.* This iPass-hosted service links automated security assessment, remediation and patch management capabilities into the iPass Corporate Access service. When users attempt to use the iPassConnect universal client to connect to the Internet and the corporate VPN, the Endpoint Policy Management — Online service will check to see that the user's computer is running the proper versions of Microsoft Windows OS patches and anti-virus definition file updates for endpoint devices — prior to Internet access and the launching the VPN. This helps mitigate the effects of viruses and worms.

*Endpoint Policy Management — Enterprise (formerly Mobile Lifecycle Management Suite.)* This service helps enterprise customers to discover, secure, and manage their laptops, desktops and handheld devices from any location via a single management console. This service is driven by iPass server software and resides on the enterprise network. It is sold either on a per-seat fee-based model or through a perpetual license model with annually occurring maintenance fees.

Endpoint Policy Management — Enterprise includes the following features:

- allows IT to discover all mobile assets by gathering detailed hardware and software inventory on all mobile devices.
- provides high-performance, policy-driven distribution of new software and updates to remote and mobile devices, automatically distributing software applications and system updates to all PCs and handheld devices via LAN, wide-area networks (WAN) and wireless networks.
- patch automation features that speed the process of deploying Microsoft Windows OS and application patches across large populations of remote and mobile devices. IT staffs receive patches directly from Microsoft and apply them with no intermediate handling during the process. This minimizes the risk of inadvertent or intentional tampering with a patch, avoiding potential problems.
- A Win32 management console of user configurations and inventory information for rapid call resolution, all integrated with a customer's existing Windows NT Domain, NDS or Active Directory security system. There is also a Web-based console with a limited view of the same data set that can be accessed remotely.

### ***Principal Components***

The technology incorporated in our services is designed to provide our customers with reliability, quality of service, network security, policy enforcement, consolidated billing and scalability. Our technology consists of the following four principal components, each of which was designed and developed internally: iPassConnect universal client; distributed authentication system; iPass Clearinghouse; and Service Quality Management.

*iPassConnect Universal Client.* The iPassConnect universal client software is installed on mobile workers' laptop computers or other devices, and allows them to securely and reliably connect to the Internet using a variety of access methods including narrowband, integrated services digital network, or ISDN, wired and wireless broadband, GSM and 3G. The iPassConnect universal client is designed to be easy-to-use and to

be a flexible and scalable network connectivity platform for enterprises. The key features of iPassConnect include:

- *Intuitive User Interface.* iPassConnect universal client was designed with over seven years of experience and customer feedback, resulting in a user-friendly interface with many features.
- *Automatic Updates.* iPassConnect universal client also provides enterprises with the ability to schedule periodic software modifications or updates of iPassConnect to their end users without handling each end user device separately. These upgrades are securely downloaded to the user's computer or other electronic device when the user logs in, at no additional cost to the customer.
- *Central Policy Control.* iPassConnect universal client enables an enterprise to define a set of criteria, such as length of session or idle timeouts, once and apply those criteria to manage its remote access policies across its entire workforce.
- *Dynamic Phonebook.* iPassConnect universal client enables enterprises to adjust the order of narrowband access points that are displayed to the end user, based on service quality. Customers also have the flexibility of integrating in-house access numbers with iPass' access points in cases where both networks are being utilized.
- *Third Party Application Integration.* iPassConnect universal client can be configured to automatically launch a variety of third party VPNs upon successful connection to the Internet.
- *Support for multiple operating systems and languages.* iPassConnect universal client supports a wide range of computer operating systems, including Windows 95, 98, NT, 2000, Me, XP, CE, Mac OS 8.x, 9.x, 10.x, Pocket PC2000, Pocket PC2002 and Palm OS. Additionally, iPassConnect is localized in Brazilian Portuguese, Portuguese, Simplified Chinese, Traditional Chinese, French, German, Japanese, Korean and Spanish.

*Distributed and Redundant Authentication System.* Our distributed authentication system, which is made up of iPass NetServer software, iPass RoamServer software and iPass TransactionServer software, is designed to enable the reliable, scalable and secure initiation and termination of a remote access session on our virtual network. NetServer is installed on the servers of our network service providers. RoamServer is installed on our enterprise customer's internal networks, typically located on their premises. Our ten transaction centers, each of which is comprised of two or more transaction servers, are located in third party co-location facilities.

The software components of NetServer, RoamServer and the transaction server operate on third party single-or multi-processor servers based on Unix, Linux, or Windows. We send our enterprise customers updates to NetServer, RoamServer and the transaction server electronically on an as needed basis to support new authentication and management needs.

iPass NetServer software receives end user authentication requests for Internet connectivity and securely forwards the request to a transaction server across a 128-bit SSL connection. The iPass transaction server validates the request and securely forwards this request to a RoamServer located at the enterprise. The RoamServer receives the authentication request for Internet connectivity and forwards the request in a format compatible with the enterprise's authentication database. Once the enterprise authentication database has allowed or denied the end user's request for access, this reply is returned along the same route.

We have recently developed and are presently deploying an additional security enhancement to our authentication system designed to further ensure the confidentiality of sensitive user credentials.

*iPass Clearinghouse.* Our iPass Clearinghouse software collects, filters, resolves, analyzes and summarizes the accounting details necessary to bill for the iPass Corporate Access and ExpressConnect services. Once an end user session is terminated, the Clearinghouse retrieves accounting records for each customer from each transaction server. Once received by the Clearinghouse, the records are filtered to eliminate duplicate records and reviewed for completeness and integrity of the data. The Clearinghouse then determines the identities of both the customer and the network service provider and generates two billing records to reflect

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the revenues and network access expenses based on the details contained in the original accounting record. The Clearinghouse then summarizes the records of each network service provider and generates and distributes customer call detail records and invoices. The Clearinghouse software is run internally on servers residing at a secure data center in Redwood City, California, with a fail-over and disaster recovery in a separate location.

*Service Quality Management.* Our iPass service quality management, or SQM, software consists of several quality-of-service monitoring and management elements that we incorporated into our services. These tools and processes are comprised of the following:

- *Client-Side SQM.* Client-side SQM captures detailed status and usage information from connection attempts and uploads this information to a central iPass database when a successful connection is made. SQM records and reports access points from which connections are made, client configuration, error codes, connection speeds, time to authenticate and other information important in diagnosing network health. Our SQM software is deployed on networks worldwide to gather data on local access points and network conditions and allows us to monitor our virtual network from a customer's point of view.
- *SQM Reporting.* Our SQM infrastructure enables our iOQ service and provides information such as detailed access point performance, individual and corporate connection success rates, and other connection data to our customers and to us. With this data, our customer support and development teams can monitor service quality and continue to improve the reliability and performance of our service offering. Through our iOQ service, our customers benefit from this SQM technology because it enables them to diagnose problems their users are experiencing.
- *Phonebook/ Connection Directory.* Based on input from the SQM infrastructure, the phonebook tool within the iPassConnect universal client places the highest quality access point at the top of the directory in order to enhance the experience for our customers' end users.

### **Co-location Facilities**

Our ten Transaction Centers are located in third-party co-location facilities in California, New York, Georgia, Hong Kong, Australia, the United Kingdom, The Netherlands, Germany, Japan and Brazil. Three additional co-location facilities are utilized to host our primary Clearinghouse and Finance systems, and corporate web services, which are located in California. Three out of our ten transaction centers also run the standby and disaster recovery Clearinghouse environments, our ExpressConnect service and the phonebook distribution servers. We maintain standard contractual agreements with the third parties that host our co-location facilities which generally provide for a term of between one and three years. If our relationships with these providers terminate, we believe that we will be able to secure relationships with alternative providers without any significant disruption to our operations.

### **Customers**

We sell our service offering directly to enterprise customers and indirectly through channel partners.

International revenue accounted for approximately 45%, 41% and 39% of total revenues for the year ended December 31, 2005, 2004 and 2003, respectively. Revenues generated in the United Kingdom accounted for 14% and 11% of total revenues for the year ended December 31, 2005 and 2004, respectively. No individual foreign country represented 10% or more of total revenues for the years ended December 31, 2003. International revenue is determined by the location of the customer's headquarters.

Substantially all of our long-lived assets are located in the United States.

### **Agreements with Network Service Providers**

We have relationships with over 300 telecommunications carriers, Internet service providers and other network service providers that enable us to offer our services in over 160 countries around the world. We pay

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network service providers for access to their network access points on a usage basis, in some cases, subject to minimum purchase commitments. Most of these contracts have a term of one year, after which either party can terminate the contract with six months notice. In 2005, two network service providers, MCI and Equant, accounted for approximately 9% and 6% of our network access expenses, respectively. The contracts we have entered into with these providers are non-exclusive and contain minimum commitments for the purchase of network access. Our contract with Equant expires in February 2007. The initial term of our contract with MCI expired in November 2005. The contract with MCI is automatically renewed for successive periods of one or 12 month periods unless terminated by either party. In countries in which we have contracted with multiple network service providers, if one network service provider is no longer available, we can generally obtain alternative network access without significant disruption to our business. We are also able to direct users to the network of particular service providers to fulfill minimum purchase commitments.

### **Sales and Marketing**

We sell our services directly through our sales force and indirectly through our channel partners. Our sales organization is organized into regional account teams, which include sales directors, sales managers, account executives, account managers, inside sales representatives, sales engineers and sales operations personnel. We maintain sales offices or personnel in a number of cities in the United States as well as Australia, the United Kingdom, Hong Kong, Japan, Korea, Germany, France, Singapore, Denmark, Sweden and The Netherlands. As of December 31, 2005, our sales organization was comprised of 95 individuals in North America, 22 individuals in Asia Pacific and 42 individuals in Europe. We intend to increase the size of our sales organization and establish additional sales offices as needed.

Our channel partners include network service providers, systems integrators and value added resellers. A channel partner typically signs a one to two year agreement with us through which we appoint the partner as a nonexclusive reseller of our services. Channel partners are responsible for implementing and managing billing and promotional activities for their customers. Selling through channel partners allows us to offer our services without incurring the cost of maintaining a direct sales force in each target market. Our channel partners typically sell related networking products and bundle our services with their core offerings. Once an enterprise has signed a contract for our services through a channel partner, our post-sales team works with the channel partner to ensure successful implementation of our services. However, the enterprise remains the channel partner's customer and has no direct financial relationship with us.

We focus our marketing efforts on creating awareness for our services and their applications, educating potential customers and generating new sales opportunities. We conduct a variety of marketing programs including advertising, press relations, analyst relations, telemarketing, direct marketing, web and e-mail marketing, collateral and sales tools creation, seminars, events and trade shows.

### **Competition**

We compete primarily with large, facilities-based carriers and non-facilities-based software-enabled network operators. We compete based on geographic coverage, reliability, quality of service, ease of implementation, ease of use and cost. We believe that we compete favorably in terms of geographical coverage, reliability, quality of service, ease of implementation and ease of use.

Facilities-based carriers against whom we compete, such as AT&T globally, Verizon Business (formerly MCI) in the US and BT Infonet and Equant in Europe, generally have substantially greater resources, larger customer bases, longer operating histories, and greater name recognition than we have. Carriers may have the ability to offer a broad range of services and may be willing to reduce the price for remote access that is bundled with their other services. In some cases, potential customers are also suppliers to these carriers, and may be more inclined to purchase enterprise connectivity services from these carriers than from us. We believe that we compete favorably against facilities-based carriers when the potential customer is not a supplier to the carrier, and when the customer requires global access rather than access only within a limited geographic region.

We also compete with other non-facilities-based software-enabled network operators. In some cases, our service offerings may not be as attractively priced as those offered by our competitors, which may put us at a competitive disadvantage. We believe we compete favorably against these competitors in terms of the coverage, redundancy, security, quality and ease of use of our service offerings. Still, non-facilities-based network operators that provide managed services such as VPNs and firewalls, may also provide, as a package, additional services such as local exchange and long distance services, voicemail and DSL services. Although our channel partners may offer these services in conjunction with our service, we do not offer these additional services directly, which may put us at a competitive disadvantage when competing for potential customers.

For a discussion of the possible effects that competition could have on our business, see “Factors Affecting Operating Results — We face strong competition in our market, which could make it difficult for us to succeed.”

## **Research and Development**

We believe that to compete favorably we must continue to invest in the research and development of our services. Our research and development efforts are focused on improving and enhancing our existing service offerings as well as developing new proprietary products and services. As of December 31, 2005, our research and development organization consisted of 100 employees. Our research and development expenses were \$17.6 million, \$13.8 million and \$9.9 million in 2005, 2004, and 2003, respectively.

## **Intellectual Property**

We rely on a combination of trademark, copyright, trade secret laws and disclosure restrictions to protect our intellectual property rights. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information. iPass®, iOQ® and the iPass logo are our U.S. registered trademarks. iPassConnect™, ExpressConnect™, iPassNet™, RoamServer™, NetServer™, iPass Alliance® and iPass Corporate Access™ are designations that we use. We have 18 U.S. patent applications pending relating to our service. On January 21, 2003, we were issued a U.S. patent for a method and a technology relating to our SQM technology. We also obtained two U.S. patents in 2004 through the acquisition of Safe3w and Mobile Automation. The duration of a patent is 20 years from the date of issuance. We have also applied for or registered company trademarks in over 50 other countries. If a claim is asserted that we have infringed the intellectual property of a third party, we may be required to seek licenses to that technology. In addition, we license third-party technologies that are incorporated into our services, including our license for encryption granted by RSA Security. The 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. Additionally, the steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our services. If we fail to protect our proprietary rights adequately, our competitors could offer similar services, potentially significantly harming our competitive position and decreasing our revenues.

## **Employees**

As of December 31, 2005, we had 406 employees, consisting of 65 in network operations, 100 in research and development, 192 in sales and marketing and 49 in general and administrative. We consider our relationship with our employees to be good.

## **Trademarks**

iPass®, iOQ® and the iPass logo are our U.S. registered trademarks. iPassConnect™, ExpressConnect™, iPassNet™, RoamServer™, NetServer™, iPass Corporate Access™, DeviceID™, EPM™, iSEEL™ and iPass

Alliancetm are designations that we use. We have also applied for or registered company trademarks in over 50 other countries.

### Available Information

Our Internet address is [www.ipass.com](http://www.ipass.com). We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Further, a copy of this annual report is located at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

### Item 1A. Risk Factors

*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 substantially all 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.

*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 24 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 24 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 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 45% of our revenues for 2005, of which approximately 29% and 12% were generated in our EMEA (Europe, Middle East and Africa) 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 were filed against the Company and certain of its executive officers in United States District Court for the Northern District of California, purportedly on behalf of a class of investors who purchased iPass stock between April 22, 2004 and June 30, 2004. The complaint alleges claims under Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934. 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 us are Kenneth D. Denman, Donald C. McCauley, Anurag Lal and Jon M. Russo. The Consolidated Amended Complaint 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 our revenue, earnings and growth prospects. iPass and the individual defendants moved to dismiss the complaint. The motion was heard on January 23, 2006, and the motion was granted on February 27, 2006. The court granted plaintiffs leave to file an amended complaint, which shall be due by March 30, 2006. In addition, beginning on March 25, 2005, a stockholder purporting to act on our behalf filed a lawsuit entitled *Narendar Gupta, et al. v. Kenneth Denman, et al.*, Case No. CIV445765 in the California Superior Court for the County of San Mateo against our directors and certain officers. iPass was also named as a nominal defendant solely in a derivative capacity. On April 6, 2005, a similar lawsuit entitled *Eugene Danielson v. Kenneth D. Denman, et al.*, No. CIV446034 was filed in that same court. Both lawsuits were consolidated into a single action by stipulation and order dated April 26, 2005. The derivative action is based on the same factual allegations and circumstances as the purported securities class actions and alleges state law claims for insider trading, breach of fiduciary duty, abuse of control, gross mismanagement, waste of

corporate assets, and unjust enrichment and seeks monetary damages on behalf of iPass to be proven at trial. On May 5, 2005, the actions were consolidated as *In re iPass, Inc. Derivative Litigation*, Case No. CIV445765. Plaintiffs filed a consolidated complaint on February 21, 2006, and the defendants have until March 28, 2006 within which to respond to the complaint. 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. 123R, "Accounting for Stock-Based Compensation — Revised" ("SFAS 123R"), 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 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 123R 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 123R 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. We expect that our adoption of SFAS 123R will have a material impact on our financial statements and results of operations and this will continue to be the case for 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 1B. *Unresolved Staff Comments***

There are no unresolved written SEC comments received at least 180 days prior to December 31, 2005.

**Item 2. *Properties***

We lease approximately 74,000 square feet of space in our headquarters in Redwood Shores, California under a lease that expires in 2010. We also lease sales and support offices in other parts of the United States and abroad. We believe that our principal facility in Redwood Shores will be adequate for our needs for at least the next several years, and we might expect that additional facilities will be available in other jurisdictions to the extent we add new offices.

**Item 3. *Legal Proceedings***

Beginning on January 14, 2005, three purported class action complaints were filed against us and certain of our executive officers in 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 us are Kenneth D. Denman, Donald C. McCauley, Anurag Lal and Jon M. Russo. The Consolidated Amended Complaint 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 our revenue, earnings and growth prospects. iPass and the individual defendants moved to dismiss the complaint. The motion was heard on January 23, 2006, and the motion was granted on February 27, 2006. The court granted plaintiffs leave to file an amended complaint, which shall be due by March 30, 2006. The case is at an early stage and no trial date has been set. No discovery is expected to take place unless and until plaintiffs file a complaint that survives the individual defendants' motion to dismiss. iPass and the individual defendants intend to take all appropriate actions to defend the suit. We cannot estimate any possible loss at this time.

On March 25, 2005, a stockholder purporting to act on our behalf filed a lawsuit entitled *Narendar Gupta, et al. v. Kenneth Denman, et al.*, Case No. CIV445765 in the California Superior Court for the County of San Mateo against our directors and certain officers. iPass was also named as a nominal defendant solely in a derivative capacity. On April 6, 2005, a similar lawsuit entitled *Eugene Danielson v. Kenneth D. Denman, et al.*, No. CIV446034 was filed in that same court. Both lawsuits were consolidated into a single action by stipulation and order dated April 26, 2005. The derivative action is based on the same factual allegations and circumstances as the purported securities class actions and alleges state law claims for insider trading, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment and seeks monetary damages on behalf of iPass to be proven at trial. On May 5, 2005, the actions were consolidated as *In re iPass, Inc. Derivative Litigation*, Case No. CIV445765. Plaintiffs filed a consolidated complaint on February 21, 2006, and the defendants have until March 28, 2006 within which to respond to the complaint. The case is at an early stage, no discovery has occurred and no trial date has been set. iPass and the individual defendants intend to take all appropriate actions to defend the suit. We cannot estimate any possible loss at this time.

We may be subject to various other claims and legal actions arising in the ordinary course of business from time to time.

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

No matters were submitted to a vote of our stockholders during the fiscal quarter ended December 31, 2005.

## PART II

### Item 5. *Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

#### Price Range of Common Stock

Our common stock is traded on the Nasdaq National Market under the symbol "IPAS". The following table sets forth the high and low sale price of our common stock, based on the last daily sale, in each quarterly period within the two most recent fiscal years, as reported on the Nasdaq National Market:

	<u>Low Sale Price</u>	<u>High Sale Price</u>
<b>Fiscal year ended December 31, 2005:</b>		
First Quarter	\$ 5.87	\$ 7.08
Second Quarter	5.17	6.60
Third Quarter	5.08	6.40
Fourth Quarter	5.32	7.00
<b>Fiscal year ended December 31, 2004:</b>		
First Quarter	\$ 10.70	\$ 16.25
Second Quarter	9.86	13.37
Third Quarter	4.78	6.91
Fourth Quarter	5.75	7.77

We had 64,567,835 shares of our common stock outstanding held by 168 stockholders of record as of February 28, 2006.

#### Dividend Policy

We have never paid any cash dividends on our common stock. Our board of directors currently intends to retain future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock in the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors.

#### Equity Compensation Plan Information

Information regarding our equity compensation plans will be presented under the caption "Securities Authorized For Issuance Under Equity Compensation Plans" in our definitive proxy statement in connection with our 2006 Annual Meeting of Stockholders to be filed not later than April 30, 2006 (the "Proxy Statement"). That information is incorporated into this report by reference.

#### Recent Sales of Unregistered Securities

We have not made any sales of unregistered securities following the date of our initial public offering.

**Item 6. Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” following this section and our consolidated financial statements and related notes included elsewhere in this report. The historical results are not necessarily indicative of results to be expected in any future period.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
(In thousands, except per share data)					
<b>Statement of Operations Data</b>					
Revenues	\$ 169,373	\$ 166,319	\$ 136,078	\$ 92,830	\$ 53,164
Total operating expenses	151,474	137,353	113,721	86,178	80,898
Operating income (loss)	17,899	28,966	22,357	6,652	(27,734)
Net income (loss)	12,895	19,068	13,902	29,759(1)	(27,801)
Net income (loss) per share:					
Basic	0.20	0.31	0.26	2.34	(2.43)
Diluted	0.19	0.29	0.23	0.57	(2.43)

(1) Of this amount, \$24.3 million was due to a tax benefit, resulting from the reversal of deferred tax valuation allowances.

	As of December 31,				
	2005	2004	2003	2002	2001
(In thousands)					
<b>Balance Sheet Data</b>					
Total assets	\$ 254,474	\$ 230,513	\$ 190,117	\$ 75,442	\$ 37,421
Line of credit and loans payable	—	—	—	10,375	8,932
Total stockholders’ equity	226,251	207,222	171,722	49,600	16,262

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**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 2005**

In 2005, we continued to experience a decline in revenues derived from our traditional dial-up business as dial-up revenue decreased 8% to \$138.1 million in 2005 as compared to 2004. This decrease was offset in part by revenues generated from fees and from usage of our broadband service. We also continued to add new customers during 2005, including 42 from the Forbes Global 2000, bringing our total customers to 291 as of December 31, 2005.

As we continued to increase the number of broadband access points during the year, increasing our global broadband footprint was a priority for us in 2005. We ended 2005 with approximately 38,000 Wi-Fi and wired hotspots worldwide, approximately 36,000 of which were Wi-Fi hotspots and approximately 2,000 of which were wired hotspots. This enabled our customers to remotely access their corporate networks from more locations, at higher speeds and contributed to a \$6.5 million increase in broadband usage revenue in 2005 over 2004.

Going forward, we will continue to focus on delivering innovative services and solutions for our customers, increasing the number of end users of our services for both dial-up and broadband access, as well as continue to increase fee revenues from endpoint policy management and other fee based services. In 2006, we expect to see continued growth in our business. However, our success 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 87%, 92% and 93% of our revenues for the years ended December 31, 2005, 2004 and 2003, 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 5.2% and 1.4% of our total revenues for the years ended December 31, 2005 and 2004, 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 license and maintenance fees, together with revenues generated from fees, represented approximately 13% and 8% of our revenues for the years ended December 31, 2005 and 2004, respectively.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these 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, 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 and estimates are important in understanding our consolidated financial statements.

#### ***Revenue Recognition***

##### ***Services and Fees***

We derive substantially all 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.

Revenues are recognized 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. Revenues relating to one-time fees are recognized 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. Revenues relating to annual fees are recognized 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. 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 Position (“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.

The Company generally performs credit reviews to evaluate the customers’ ability to pay. If the Company determines that collectibility is not probable, 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 consolidated statements of income 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.

When we assess the likelihood that we will be able to recover our deferred tax assets, we consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in

assessing the need for a valuation allowance. If recovery is not likely, we would increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. The available positive evidence at December 31, 2005 included three years of historical operating profits and a projection of future income limited to three years which coincides with the period over which we recorded historical operating profits. We continue to closely monitor available evidence and may adjust our valuation allowance in future periods.

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 reassess our ability to realize our net operating losses. If we conclude it is more likely than not that we would not realize the benefit of our net operating losses, we may have to re-establish all or a portion of the valuation allowance and therefore record a significant charge to our results of operations.

#### *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 for 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 \$2.0 million, \$2.1 million and \$2.3 million as of December 31, 2005, 2004 and 2003, respectively, for estimated losses resulting from the inability of our customers to make their required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability 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

	December 31,						
	2005	Change		2004	Change		2003
		\$	%		\$	%	
Total Revenue	\$169,373	\$3,054	1.8%	\$166,319	\$30,241	22.2%	\$136,078

Total revenue increased slightly in 2005 as compared to 2004 due to offsetting factors. Revenues generated from dial up usage decreased from \$150.5 million in 2004 to \$138.1 million in 2005. This represents a decrease of \$12.4 million or 9%. This was offset in part by increases in revenues generated from broadband usage and fees. Revenues generated from usage of our broadband services were \$8.8 million and \$2.3 million dollars for the years ended December 31, 2005 and 2004, respectively. Fee revenue increased from \$13.6 million in 2004 to \$22.5 million in 2005. We expect revenue from dial up usage to continue to decrease in absolute dollars as well as a percentage of total revenue, but we can not reasonably estimate if the decline will be consistent with that seen from 2004 to 2005. No individual customer accounted for 10% or more of total revenues for the years ended December 31, 2005, 2004 or 2003. Revenues from fees represented approximately 13%, 8% and 7% of our total revenue in 2005, 2004, and 2003, respectively.

The growth in total revenue in 2004 over 2003 was due primarily to an increase in the usage of our services resulting from an increased number of end users of our services at new and existing customers. Distinct end users of our service increased to 518,000 in the month of December of 2004, compared to 447,000 for the same period in 2003.

International revenues, which are revenues generated from customers domiciled outside the United States, accounted for approximately 45%, 41% and 39% of total revenues in 2005, 2004 and 2003, respectively. Substantially all of our international revenues are generated in the EMEA (Europe, Middle East

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and Africa) and Asia Pacific regions. Revenues in the EMEA region represented 29%, 24% and 21% of total revenues in 2005, 2004 and 2003, respectively. The increase in EMEA as a percent of revenues has been driven by the expansion of our sales force in the region. Revenues in the Asia Pacific region represented 12%, 13% and 14% of total revenues in 2005, 2004 and 2003, respectively. Revenues in the United Kingdom accounted for 14% and 11% of total revenues in 2005 and 2004, respectively. No individual foreign country accounted for 10% or more of total revenues in 2003. To date, substantially all of our revenues have been denominated in U.S. dollars, although 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, that we pay to our network service providers.

	December 31,						
	2005	Change		2004	Change		2003
		\$	%		\$	%	
			(In thousands, except percentages)				
Network access expenses	\$ 42,109	\$ 4,770	12.8%	\$ 37,339	\$ 7,218	24.0%	\$ 30,121
As a percent of revenue	24.9%	—	2.4%	22.5%	—	0.4%	22.1%

The growth in network access expenses in 2005 over 2004 was due primarily to increased usage of our virtual network with respect to our broadband services. For our dial-up access costs, we continued to purchase network access from additional service providers at a lower cost and to renegotiate a number of our existing network service provider contracts in 2005. While network access costs for broadband access are higher than those for dial-up, we believe that going forward, we will have the ability to negotiate lower rates for access to broadband networks. We expect network access expenses to continue to increase in absolute dollars and increase as a percentage of revenues as usage of our virtual network increases.

The growth in network access expenses in 2004 over 2003 was due primarily to increased usage of our virtual network. In 2004, we continued to purchase network access from additional service providers at a lower cost and to renegotiate a number of our network service provider contracts, resulting in lower network access costs for dial-up. This was offset in part by an increase in network access expenses for broadband usage.

#### *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.

	December 31,						
	2005	Change		2004	Change		2003
		\$	%		\$	%	
			(In thousands, except percentages)				
Network operations expenses	\$ 20,783	\$ 1,742	9.1%	\$ 19,041	\$ 4,735	33.1%	\$ 14,306
As a percent of revenue	12.3%	—	0.9%	11.4%	—	0.9%	10.5%

The increase in network operations expenses from 2004 to 2005 in absolute dollars was due primarily to \$1.1 million in additional compensation and benefits expense due to an increase in personnel, \$497,000 additional depreciation expense on network operations equipment in support and expansion of our virtual network and \$404,000 of additional transaction center fees and communication lines expenses. This was offset in part by a \$443,000 decrease in fees paid to consultants. To the extent that we continue to expand our operations, we expect that our network operations expenses will increase in absolute dollars, and increase slightly as a percentage of total revenue.

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The increase in network operations expenses in 2004 over 2003 in absolute dollars was due primarily to \$1.8 million in additional compensation and benefits expense due to an increase in personnel, \$840,000 of additional transaction center fees, and \$680,000 of additional depreciation expense on network operations equipment in support and expansion of our virtual network. There was also an additional \$530,000 in license and maintenance fees as well as \$250,000 in additional consulting fees. The remaining portion of the increase was due to individually insignificant items. Network operations expenses increased slightly as a percentage of total revenue as we continued to increase both the capacity and redundancy of our virtual network.

### ***Research and Development***

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

	December 31,						2003
	2005	Change		2004	Change		
	\$	\$	%	\$	\$	%	
	(In thousands, except percentages)						
Research and development expenses	\$ 17,571	\$ 3,767	27.3%	\$ 13,804	\$ 3,860	38.8%	\$ 9,944
As a percent of revenue	10.4%	—	2.1%	8.3%	—	1.0%	7.3%

The increase in research and development expenses from 2004 to 2005 was due primarily to an additional \$2.6 million of compensation and benefits expenses related to an increase in headcount, \$160,000 in fees paid to consultants to further develop our service and \$171,000 in technology association fees. The increase as a percentage of revenues 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 our two acquisitions of Safe3w and Mobile Automation in third and fourth quarters of 2004, respectively, as well as the increase in research and development personnel as a result of those acquisitions. We expect that our research and development expenses will continue to increase slightly in absolute dollars as we develop and enhance new and existing service offerings, but to remain relatively constant as a percentage of revenues.

The increase in research and development expenses in 2004 over 2003 was due primarily to an additional \$2.3 million of compensation and benefits expenses related to an increase in headcount, and approximately \$1.2 million in fees paid to consultants to further develop our service. The increase as a percentage of revenues was due to the acceleration of our development of new products as well as the increase in research and development personnel as a result of the two acquisitions that occurred in 2004.

### ***Sales and Marketing***

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

	December 31,						2003
	2005	Change		2004	Change		
	\$	\$	%	\$	\$	%	
	(In thousands, except percentages)						
Sales and marketing expenses	\$ 50,448	\$ 3,868	8.3%	\$ 46,580	\$ 5,531	13.5%	\$ 41,049
As a percent of revenue	29.8%	—	1.8%	28.0%	—	(2.2)%	30.2%

The increase in sales and marketing expenses in 2005 over 2004 in absolute dollars was due primarily to an additional \$2.6 million in compensation and benefits expenses due to the additional sales personnel from the Mobile Automation acquisition as well as the expansion of the sales organization in the EMEA region. There was also an increase of \$406,000 in marketing programs, including trade shows and promotions. The increase also included \$977,000 in compensation and benefits expenses for existing marketing personnel. The remaining portion of the increase was due to individually insignificant items. We expect that sales and

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marketing expenses will increase in absolute dollars to the extent revenues increase and/or we expand our sales force and increase marketing activities, but will remain relatively constant as a percentage of revenues.

The increase in sales and marketing expenses in 2004 over 2003 in absolute dollars was due primarily to an additional \$2.3 million in compensation and benefits expenses resulting from the expansion of the sales organization in the EMEA and Asia Pacific regions, as well as the additional sales personnel from the acquisition of Mobile Automation in the fourth quarter of 2004. The increase also included \$1.2 million of additional advertising and public relations expenses, as well as a \$410,000 increase in compensation and benefits expenses for additional marketing personnel. The remaining portion of the increase was due to individually insignificant items.

**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.

	December 31,						2003
	2005	Change		2004	Change		
		\$	%		\$	%	
	(In thousands, except percentages)						
General and administrative expenses	\$ 17,059	\$ (731)	(4.1)%	\$ 17,790	\$ 3,558	25.0%	\$ 14,232
As a percent of revenue	10.1%	—	(0.6)%	10.7%	—	0.2%	10.5%

General and administrative expenses decreased slightly in absolute dollars and remained relatively constant as a percentage of revenues from 2004 to 2005. Part of the increase in general and administrative expenses in 2005 was \$275,000 in compensation and benefits expenses offset in part by a \$937,000 decrease in bad debt expense. The remaining portion of the change from 2004 to 2005 was due to a net decrease of various individually insignificant accounts. We expect that our general and administrative expenses will increase in absolute dollars to the extent that we expand our operations, but to remain relatively constant as a percentage of revenues.

A significant part of the increase in general and administrative expenses in 2004 over 2003 was \$1.7 million in compensation and benefits expenses for additional personnel and \$1.0 million for directors and officers insurance premiums. There was also a \$1.0 million increase in legal and accounting fees. These increases were offset in part by decreases in various individually insignificant accounts.

**Amortization of Stock-Based Compensation**

We record stock-based compensation charges in the amount by which the option exercise price or the restricted stock purchase price is less than the fair value of our common stock at the date of grant. We amortize this compensation expense on an accelerated basis over the vesting period of the applicable agreements, generally four years. Amortization of stock-based compensation expense relates to stock options granted to employees prior to our initial public offering in July of 2003.

	December 31,						2003
	2005	Change		2004	Change		
		\$	%		\$	%	
	(In thousands, except percentages)						
Amortization of stock-based compensation expense	\$ 1,137	\$ (1,205)	(51.5)%	\$ 2,342	\$ (1,727)	(42.4)%	\$ 4,069
As a percent of revenue	0.7%	—	(0.7)%	1.4%	—	(1.6)%	3.0%

We expect to incur amortization of stock-based compensation expense of at least \$498,000 in 2006 and \$95,000 in 2007 and thereafter. The amount of amortization of stock-based compensation expense to be recognized in future periods could decrease if stock options for which accrued but unvested compensation

expense has been recorded are forfeited. Amortization of stock-based compensation may change upon the adaptation of SFAS No. 123R in 2006.

#### ***Amortization of Acquired Tangibles***

Amortization of acquired intangibles was \$2.4 million and \$457,000 for the years ended December 31, 2005 and 2004, respectively. The increase from 2004 to 2005 was due to the intangible assets being amortized over the entire year in 2005 as they were acquired during 2004.

#### **Non-Operating Expenses**

##### ***Other Income, Net***

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

Interest income includes interest income on cash, cash equivalents, and short-term investment balances. Interest income and other was \$3.9 million, \$2.3 million and \$1.1 million for the years ended December 31, 2005, 2004 and 2003, respectively. The increase in interest and other income in 2005 was due to an increase in the average cash, cash equivalents and short-term investment balances for the period and an increase in the rate of return on our investments as compared to the same period in 2004.

Interest expense consists of interest paid on our line of credit and loans, as well as amortization of a loan discount associated with the fair value of warrants issued in connection with our financing activities prior to 2004. Interest expense was \$620,000 in 2003. There was no interest expense for the year ended December 31, 2004 and 2005. The decrease in interest expense is due to the paying off of our line of credit and all outstanding loans payable in July and August 2003.

##### ***Provision for Income Taxes***

The provision for income taxes was \$8.9 million in 2005, compared to a provision of \$12.2 million in 2004. The decrease is due to a decrease in income before income taxes from \$31.3 million in 2004 to \$21.8 million in 2005. The increase in the provision for income taxes from \$9.0 million in 2003 was due to an increase in income before income taxes in 2004 over 2003. The effective tax rate was 41% for the year ended December 31, 2005 and 39% for the years ended December 31, 2004 and 2003. The increase in the 2005 effective tax rate was due to the recording of book to tax return true-ups in the fourth quarter of 2005.

#### **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 includes 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 line of credit.

Net cash provided by operating activities was \$32.1 million for the year ended December 31, 2005, compared to \$37.8 million for the year ended December 31, 2004 and \$23.7 million for the year ended December 31, 2003. The decrease in cash provided by operating activities in 2005 is due primarily to our total revenues increasing by approximately \$3.1 million, while operating expenses increased by \$14.1 million as compared to 2004.

Net cash used in investing activities in 2005 was \$32.5 million in 2005 compared to \$59.9 million in 2004 and \$99.2 million in 2003, respectively. Net cash used in investing activities in 2005 was from the purchases of \$170.4 million in short-term investments, offset by the maturities of short-term investments in the amount of \$141.8 million as well as \$3.9 million for the purchases of property and equipment. Net cash used in investing activities in 2004 was from the purchases of \$156.3 million in short-term investments, offset by the maturities of short-term investments in the amount of \$131.1 million. Net cash used in investing activities also included

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\$28.4 million for the acquisition of Safe3w and Mobile Automation as well as \$6.2 million for the purchases of property and equipment.

Net cash provided by financing activities in 2005 was \$3.8 million, compared to \$10.9 million and \$93.2 million in 2004 and 2003, respectively. Cash provided by financing activities in 2005 was from proceeds from the issuance of common stock for employee stock options and through the employee stock purchase program. Cash provided by financing activities in 2004 was the result of proceeds from the issuance of common stock for employee stock options plus the receipt of payment of shareholder notes receivable. In comparison, cash provided by financing activities in 2003 was primarily due to net proceeds from our initial public offering, offset in part by the payment of all outstanding balances on our line of credit and loans payable.

We anticipate that our operating expenses, as well as planned capital expenditures, will constitute a material use of our cash resources for the foreseeable future in order to execute our business plan. In addition, we may utilize cash resources to fund acquisitions of complementary businesses, technologies or product lines. We believe that our cash and cash equivalents and short-term investments on hand will be sufficient to meet our cash requirements for at least the next 18 months, including working capital requirements and planned capital expenditures.

As of December 31, 2005, our principal source of liquidity was \$184.6 million of cash, cash equivalents and short-term investments.

### ***Off-Balance Sheet Arrangements***

At December 31, 2004 and 2005, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### ***Commitments***

At December 31, 2005, we had no material commitments for capital expenditures.

We have signed contracts with some network service providers under which we have minimum purchase commitments that expire on various dates through December 2007. Other than in the approximately 24 countries in which our sole dial-up network service 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. In May 2005, we consolidated several term license agreements that were set to expire into a single, long-term operating lease with a vendor. Future minimum purchase commitments and operating lease payments under these agreements as of December 31, 2005 are as follows (in thousands):

Year ending December 31:	
2006	\$ 1,387
2007	1,066
2008	1,066
2009	266
	<u>\$ 3,785</u>

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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 December 31, 2005 are as follows (in thousands):

Year ending December 31:	
2006	\$ 4,145
2007	4,279
2008	4,374
2009	4,311
2010	1,453
	<u>\$ 18,562</u>

### *Tabular Disclosure of Contractual Obligations*

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Yr	1-3 Years	3-5 Years	More Than 5 Yrs
Operating Lease Obligations	\$ 18,562	\$ 4,145	\$ 8,653	\$ 5,764	\$ —
Purchase Obligations	3,785	1,387	2,132	266	—
Total Contractual Obligations	\$ 22,347	\$ 5,532	\$ 10,785	\$ 6,030	\$ —

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### **Foreign Currency**

Although we currently bill 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 substantially all 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 December 31, 2005, we had cash, cash equivalents, and short-term investments totaling \$184.6 million. Our investment portfolio consists of auction rate and money market securities, asset backed securities, corporate securities, and government securities, generally due within one to two years. All of our instruments are classified as available for sale. 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, 2004, we had cash and cash equivalents of \$152.3 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.

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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,			Total Cost Value	As of
	2006	2007	2008		Dec. 31, 2005
	Total Fair Value				
U.S. Government agencies	\$ 85,405	\$ 11,900	\$ 20,490	\$ 119,981	\$ 119,508
Corporate notes	15,915	—	—	16,248	16,191
Auction rate and money market securities	11,000	—	—	11,000	11,028
Total	<u>\$ 112,320</u>	<u>\$ 11,900</u>	<u>\$ 20,490</u>	<u>\$ 147,229</u>	<u>\$ 146,727</u>

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 cost of securities sold is based on the specific identification method.

**Item 8. Financial Statements and Supplementary Data**

**Financial Statements**

Our financial statements required by this item are set forth as a separate section of this report. See Item 15(a)(1) for a listing of financial statements provided in the section titled “Financial Statements.”

**Supplementary Data**

The following tables set forth unaudited quarterly supplementary data for each of the years in the two-year period ended December 31, 2005 (in thousands, except per share amounts):

	Quarter Ended			
	March 31	June 30	September 30	December 31
<b>Year Ended December 31, 2005</b>				
Revenues	\$ 44,072	\$ 43,125	\$ 41,881	\$ 40,295
Operating income	5,961	4,536	4,683	2,719
Net income	4,089	3,331	4,210	1,265
Basic net income per share	\$ 0.07	\$ 0.05	\$ 0.07	\$ 0.02
Diluted net income per share	\$ 0.06	\$ 0.05	\$ 0.06	\$ 0.02

	Quarter Ended			
	March 31	June 30	September 30	December 31
<b>Year Ended December 31, 2004</b>				
Revenues	\$ 40,695	\$ 40,394	\$ 41,912	\$ 43,318
Operating income	7,140	7,194	7,950	6,682
Net income	4,697	4,489	5,206	4,676
Basic net income per share	\$ 0.08	\$ 0.07	\$ 0.08	\$ 0.08
Diluted net income per share	\$ 0.07	\$ 0.07	\$ 0.08	\$ 0.07

**Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

**Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief 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 Chief Executive Officer and Chief 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 in the SEC's rules and the SEC reports.

**Changes in Internal Control Over Financial Reporting**

In addition, there have been no changes in our internal controls over financial reporting during the quarter ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls 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.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Our management has concluded that, as of December 31, 2005, our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, KPMG LLP, have issued an audit report on our assessment of our internal control over financial reporting, which is included herein.

**Item 9B. *Other Information***

None.

**PART III**

**Item 10. *Directors and Executive Officers of the Registrant***

Information relating to our executive officers and directors will be presented under the captions "Proposal 1 — Election of Directors" and "Executive Officers and Directors" in our definitive proxy statement in connection with our 2006 Annual Meeting of stockholders to be filed with the Securities and Exchange Commission not later than April 30, 2006 (the "Proxy Statement"). That information is incorporated into this report by reference.

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 will be presented under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement. That information is incorporated into this report by reference.

### **Code of Ethics**

We have adopted a code of conduct and ethics that applies to all of our employees, including the principal executive officer, principal financial officer and principal accounting officer. This code of conduct and ethics is posted on our website. The Internet address for our website is <http://www.ipass.com>, and the code of conduct and ethics may be found as follows:

1. From our main Web page, first click on “Investors.”
2. Next, click on “Corporate Governance.”
3. Then, click on “Code of Conduct.”
4. Finally, click on “Code of Conduct and Ethics.”

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of conduct and ethics by posting such information on our website, at the address and location specified above.

### **Item 11. *Executive Compensation***

Information relating to director and executive compensation required by this Item 11 will be presented under the captions “Compensation of Directors,” “Compensation of Executive Officers,” and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement. That information is incorporated into this report by reference.

### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information relating to the security ownership of our common stock by our management and other beneficial owners will be presented under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement. That information is incorporated into this report by reference.

Information relating to securities authorized for issuance under equity compensation plans will be presented under the caption “Securities Authorized for Issuance Under Equity Compensation Plans” in the Proxy Statement. That information is incorporated into this report by reference.

### **Item 13. *Certain Relationships and Related Transactions***

Information relating to certain relationships of our directors and executive officers and related transactions will be presented under the caption “Certain Relationships and Related Transactions” in the Proxy Statement. That information is incorporated into this report by reference.

### **Item 14. *Principal Accountant Fees and Services***

The information required by this item will be included under the captions “Proposal No. 2 — Ratification of Independent Auditors — Principal Accountant Fees and Services” in the Proxy Statement. That information is incorporated into this report by reference.

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

(a) The following financial statements are filed as part of this report:

**1. Financial Statements**

	<u>Page</u>
<a href="#">Reports of Independent Registered Public Accounting Firm</a>	38
Consolidated Financial Statements:	
<a href="#">Balance Sheets as of December 31, 2005 and 2004</a>	40
<a href="#">Statements of Operations for the years ended December 31, 2005, 2004 and 2003</a>	41
<a href="#">Statements of Stockholders' Equity and Comprehensive Income for the years ended December 31, 2005, 2004 and 2003</a>	42
<a href="#">Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003</a>	43
<a href="#">Notes to Consolidated Financial Statements</a>	44

**2. Financial Statement Schedules**

*None.* All schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

**3. Exhibits**

<u>Exhibit Number</u>	<u>Description of Document</u>
2.1	Agreement and Plan of Merger dated October 26, 2004 by and among iPass Inc., Montage Acquisition Corp., Mobile Automation, Inc. and David Strohm, as Stockholders' Agent.(1)
2.2	Agreement of Merger among iPass Inc., Keystone Acquisition Sub, Inc. and GoRemote Internet Communications, Inc. dated December 9, 2005.(2)
3.1	Amended and Restated Certificate of Incorporation.(3)
3.2	Bylaws, as amended.(3)
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Specimen stock certificate.(3)
10.1	2003 Equity Incentive Plan and form of related agreements, as amended.(3)
10.1.1	Form of Stock Option Grant Notice under the 2003 Equity Incentive Plan (containing additional vesting terms).
10.2	2003 Non-Employee Directors Plan, as amended.(4)
10.3	1999 Stock Option Plan and form of related agreements.(3)
10.4	1997 Stock Option Plan and form of related agreements.(3)
10.5	Interim 1999 Stock Option Plan.(3)
10.6	Restricted Stock Purchase Agreement by and between the Registrant and Anurag Lal dated November 8, 1999.(3)
10.7	2003 Employee Stock Purchase Plan and form of related agreements, as amended.(3)
10.8	Lease Agreement, dated October 26, 1999, between Registrant and Westport Joint Venture (as amended).(3)
10.9	Amended and Restated Investor Rights Agreement, dated August 8, 2000, between Registrant, founders and holders of the Registrant's Preferred Stock.(3)
10.10	Form of Indemnity Agreement.(3)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.11	Employment Agreement, dated November 13, 2001, between Registrant and Kenneth D. Denman.(3)
10.12	Form of Offer Letter to Executive Officers.(3)
10.13	OEM Service Provider License Agreement, dated February 29, 2000, between RSA Security, Inc. and the Registrant, and amendments thereto.
10.14	Support Agreement, dated February 29, 2000, by and between RSA Security, Inc.
10.15	Loan and Security Agreement dated September 4, 2001 between Silicon Valley Bank and the Registrant, and modifications thereto.(3)
10.16	2006 Annual Executive Management Bonus Plan.
10.17	Outside Director Compensation Arrangement.(5)
10.18	Executive Officer Cash Compensation Arrangement.(6)
10.19	Offer Letter to Thomas Thimot dated December 9, 2005.(7)
10.20	Transition Agreement with John Thuma dated January 20, 2006.(8)
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (reference is made to the signature page of this Form 10-K).
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) Previously filed as the like-numbered exhibit to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated by reference herein.
- (2) Previously filed as exhibit 10.22 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2005, and incorporated by reference herein.
- (3) Previously filed as the like-numbered exhibit to our Registration Statement on Form S-1, as amended, originally filed with the Securities and Exchange Commission on January 24, 2003, as amended, and incorporated by reference herein.
- (4) Previously filed as exhibit 10.1 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 13, 2006, and incorporated by reference herein.
- (5) Previously disclosed under the caption "Compensation of Directors" in our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 26, 2004, and incorporated by reference herein.
- (6) Previously disclosed under the caption "Compensation of Executive Officers" in our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 26, 2004, and incorporated by reference herein.
- (7) Previously filed as exhibit 10.23 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2006, and incorporated by reference herein.
- (8) Previously filed as exhibit 10.24 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2006, and incorporated by reference herein.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
iPass Inc.:

We have audited the accompanying consolidated balance sheets of iPass Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of iPass Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of iPass Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Mountain View, California  
March 15, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
iPass Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that iPass Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of iPass is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that iPass maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by COSO. Also, in our opinion, iPass maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of iPass Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 15, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Mountain View, California  
March 15, 2006

**iPASS INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share amounts)

	<u>As of December 31,</u>	
	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 37,829	\$ 34,395
Short-term investments	146,727	117,940
Accounts receivable, net of allowance for doubtful accounts of \$2,040 and \$2,071, respectively	23,347	23,884
Prepaid expenses and other current assets	3,777	3,161
Deferred income tax assets	<u>4,555</u>	<u>8,642</u>
Total current assets	216,235	188,022
Property and equipment, net	9,210	10,111
Other assets	1,561	1,224
Acquired intangibles, net	8,776	11,143
Goodwill	<u>18,692</u>	<u>20,013</u>
Total assets	<u>\$ 254,474</u>	<u>\$ 230,513</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,669	\$ 9,154
Accrued liabilities	12,523	11,153
Deferred revenue	<u>3,031</u>	<u>2,984</u>
Total current liabilities	<u>28,223</u>	<u>23,291</u>
Total liabilities	<u>28,223</u>	<u>23,291</u>
Commitments (Note 9)		
Stockholders' equity:		
Common stock, \$.001 par value; authorized 250,000,000 shares; issued and outstanding 64,202,765 and 62,756,718 shares, respectively	64	63
Additional paid-in capital	245,456	240,629
Deferred stock-based compensation	(593)	(1,782)
Accumulated other comprehensive loss	(307)	(424)
Accumulated deficit	<u>(18,369)</u>	<u>(31,264)</u>
Total stockholders' equity	<u>226,251</u>	<u>207,222</u>
Total liabilities and stockholders' equity	<u>\$ 254,474</u>	<u>\$ 230,513</u>

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

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

	For the Year Ended December 31,		
	2005	2004	2003
Revenues	\$ 169,373	\$ 166,319	\$ 136,078
Operating expenses:			
Network access	42,109	37,339	30,121
Network operations	20,783	19,041	14,306
Research and development	17,571	13,804	9,944
Sales and marketing	50,448	46,580	41,049
General and administrative	17,059	17,790	14,232
Amortization of stock-based compensation(1)	1,137	2,342	4,069
Amortization of acquired intangibles	2,367	457	—
Total operating expenses	<u>151,474</u>	<u>137,353</u>	<u>113,721</u>
Operating income	<u>17,899</u>	<u>28,966</u>	<u>22,357</u>
Other income:			
Interest income and other	3,899	2,298	1,133
Interest expense	—	—	(620)
Total other income, net	<u>3,899</u>	<u>2,298</u>	<u>513</u>
Income before income taxes	21,798	31,264	22,870
Provision for income taxes	8,903	12,196	8,968
Net income	<u>\$ 12,895</u>	<u>\$ 19,068</u>	<u>\$ 13,902</u>
Net income per share:			
Basic	\$ 0.20	\$ 0.31	\$ 0.26
Diluted	\$ 0.19	\$ 0.29	\$ 0.23
Number of shares used in per share calculations:			
Basic	63,353,779	60,770,680	53,474,537
Diluted	66,277,342	65,645,757	60,622,040
(1) Amortization of stock-based compensation consists of:			
Network operations	\$ 163	\$ 335	\$ 551
Research and development	175	352	468
Sales and marketing	265	554	984
General and administrative	534	1,101	2,066
Total amortization of stock-based compensation	<u>\$ 1,137</u>	<u>\$ 2,342</u>	<u>\$ 4,069</u>

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

**iPASS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(In thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Notes Receivable from Stockholders	Deferred Stock-Based Compensation	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount							
Balances, December 31, 2002	35,273	35	16,013	16	119,268	(2,644)	(2,841)	—	(64,234)	49,600	<u>\$ 29,759</u>
Issuance of common stock in initial public offering, net of issuance costs of \$10,043	—	—	8,050	8	102,649	—	—	—	—	102,657	—
Conversion of convertible preferred stock into common stock	(35,273)	(35)	35,273	35	—	—	—	—	—	—	—
Exercise of stock options	—	—	662	1	962	—	—	—	—	963	—
Exercise of warrants	—	—	485	—	—	—	—	—	—	—	—
Interest earned on stockholder note receivable	—	—	—	—	—	(187)	—	—	—	(187)	—
Cancellation of unvested stock options	—	—	—	—	(282)	—	282	—	—	—	—
Deferred stock-based compensation	—	—	—	—	5,836	—	(5,836)	—	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	4,069	—	—	4,069	—
Fair value of options issued to non-employees	—	—	—	—	392	—	—	—	—	392	—
Tax benefit from employee stock option plans	—	—	—	—	201	—	—	—	—	201	—
Unrealized gain on available-for-sale investments, net	—	—	—	—	—	—	—	125	—	125	125
Net income	—	—	—	—	—	—	—	—	13,902	13,902	13,902
Balances, December 31, 2003	—	—	60,483	60	\$ 229,026	\$ (2,831)	\$ (4,326)	\$ 125	\$ (50,332)	\$ 171,722	<u>\$ 14,027</u>
Exercise of stock options	—	—	1,886	2	5,239	—	—	—	—	5,241	—
Employee stock purchase plan — common stock issued	—	—	388	1	2,735	—	—	—	—	2,736	—
Payment of stockholder notes receivable	—	—	—	—	—	2,887	—	—	—	2,887	—
Interest earned on stockholder note receivable	—	—	—	—	—	(56)	—	—	—	(56)	—
Cancellation of unvested stock options	—	—	—	—	(202)	—	202	—	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	2,342	—	—	2,342	—
Tax benefit from employee stock option plans	—	—	—	—	3,831	—	—	—	—	3,831	—
Unrealized loss on available-for-sale investments, net	—	—	—	—	—	—	—	(549)	—	(549)	(549)
Net income	—	—	—	—	—	—	—	—	19,068	19,068	19,068
Balances, December 31, 2004	—	—	62,757	63	\$ 240,629	—	\$ (1,782)	\$ (424)	\$ (31,264)	\$ 207,222	<u>\$ 18,519</u>
Exercise of stock options	—	—	1,041	1	1,960	—	—	—	—	1,961	—
Employee stock purchase plan — common stock issued	—	—	405	—	1,840	—	—	—	—	1,840	—

Cancellation of unvested stock options	—	—	—	—	(52)	—	52	—	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	—	1,137	—	—	1,137	—
Tax benefit from employee stock option plans	—	—	—	—	1,079	—	—	—	—	1,079	—
Unrealized gain on available-for-sale investments, net	—	—	—	—	—	—	—	117	—	117	117
Net income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,895</u>	<u>12,895</u>	<u>12,895</u>
Balances, December 31, 2005	<u>—</u>	<u>—</u>	<u>64,203</u>	<u>64</u>	<u>\$ 245,456</u>	<u>—</u>	<u>\$ (593)</u>	<u>\$ (307)</u>	<u>\$ (18,369)</u>	<u>\$ 226,251</u>	<u>\$ 13,012</u>

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

**iPASS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	For the Year Ended December 31,		
	2005	2004	2003
<b>Cash flows from operating activities:</b>			
Net income	\$ 12,895	\$ 19,068	\$ 13,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of stock-based compensation for employees	1,137	2,342	4,069
Amortization of warrants issued	—	—	8
Amortization of acquired intangibles	2,367	457	—
Depreciation and amortization	4,783	4,386	3,810
Stock-based compensation	—	—	392
Tax benefit from employee stock option plans	1,079	3,831	201
Deferred income taxes	5,700	10,842	6,958
Interest on shareholder notes receivable	—	(56)	(187)
Provision for doubtful accounts	163	1,100	1,176
Loss on disposals of property and equipment	—	—	45
Realized loss on investments, net	31	98	—
Changes in operating assets and liabilities:			
Accounts receivable	374	(3,433)	(7,607)
Prepaid expenses and other current assets	(616)	250	(1,991)
Other assets	(337)	30	(22)
Accounts payable	3,515	1,733	442
Accrued liabilities	1,058	(2,894)	2,486
Net cash provided by operating activities	<u>32,149</u>	<u>37,754</u>	<u>23,682</u>
<b>Cash flows from investing activities:</b>			
Purchases of short-term investments	(170,422)	(156,310)	(98,854)
Maturities of short-term investments	141,788	131,072	5,340
Purchases of property and equipment	(3,882)	(6,186)	(5,683)
Acquisition of Safe3w, net of cash acquired	—	(8,481)	—
Acquisition of Mobile Automation, net of cash acquired	—	(19,964)	—
Net cash used in investing activities	<u>(32,516)</u>	<u>(59,869)</u>	<u>(99,197)</u>
<b>Cash flows from financing activities:</b>			
Net proceeds from initial public offering	—	—	102,657
Proceeds from loans payable	—	—	1,483
Payments on loans payable	—	—	(5,064)
Payments on line of credit, net	—	—	(6,794)
Proceeds from issuance of common stock	3,801	7,977	963
Proceeds from payment of stockholder notes receivable	—	2,887	—
Net cash provided by financing activities	<u>3,801</u>	<u>10,864</u>	<u>93,245</u>
Net increase (decrease) in cash and cash equivalents	3,434	(11,251)	17,730
Cash and cash equivalents at beginning of year	34,395	45,646	27,916
Cash and cash equivalents at end of year	<u>\$ 37,829</u>	<u>\$ 34,395</u>	<u>\$ 45,646</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ —	\$ —	\$ 486
Cash paid for taxes	\$ 1,094	\$ 1,485	\$ 1,362

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

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Description of Business**

iPass Inc. (the “Company”, “iPass” or “we”) provides software-enabled enterprise connectivity services for mobile workers. Its primary service offering, iPass Corporate Access, is designed to enable enterprises to provide their employees with secure access from approximately 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.

In July 2003, the Company closed the sale of 8,050,000 shares of common stock, including the underwriters’ exercise of an over-allotment option, at a price of \$14 per share in an initial public offering (IPO). A total of \$112.7 million in gross proceeds was raised from these transactions. After deducting the underwriting discount of approximately \$7.9 million, and offering expenses of approximately \$2.1 million, net proceeds were \$102.7 million.

Upon the closing of the Company’s IPO, 35,273,169 shares of the Company’s convertible preferred stock converted into common shares.

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

***Use of Estimates***

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Principles of Consolidation***

The accompanying consolidated financial statements include the financial statements of iPass Inc. and its wholly owned subsidiaries after elimination of intercompany accounts and transactions. Certain reclassifications have been made to prior year amounts to reflect the current year presentation.

***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 Consolidated Statements of Operations. Foreign currency transaction gains and losses were not significant for the years ended December 31, 2005, 2004 and 2003.

***Comprehensive Income***

Comprehensive income 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 is

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

the total of net income and all other non-owner changes in equity. Comprehensive income includes net income and unrealized gains and losses on available-for-sale securities.

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

	<u>Year Ended December 31.</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income	\$ 12,895	\$ 19,068	\$ 13,902
Comprehensive income:			
Change in accumulated unrealized gain (loss) on available-for-sale securities	117	(549)	125
Total comprehensive income	<u>\$ 13,012</u>	<u>\$ 18,519</u>	<u>\$ 14,027</u>

***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. The cost of securities sold is based on the specific identification method.

***Concentrations of Risk***

Substantially all of the Company's cash, cash equivalents and short-term investments are held by two 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 December 31, 2005 and 2004, no individual customer represented 10% or more of accounts receivable. For the years ended December 31, 2005, 2004 and 2003, no customer represented more than 10% of total revenues.

For the three years ended December 31, 2005, 2004 and 2003, suppliers representing greater than 10% of network access expenses were as follows:

<u>Access Provider:</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
A	5.5%	6.8%	14.2%
B	9.4%	16.8%	21.3%

In addition, certain contracts the Company has entered into with these access providers contain minimum purchase commitments (see Note 9).

***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.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Property and Equipment***

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation of property and equipment and amortization of leasehold improvements 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)

***Goodwill and Other Intangible Assets***

Goodwill and intangible assets are recorded from our corporate acquisition transactions. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," our goodwill and intangible assets with indefinite useful lives are not amortized, but are instead tested for impairment at least annually, or as circumstances indicate their value may no longer be recoverable. We generally perform our annual impairment test at the end of the fiscal year. As we operate our business in one reporting segment, our goodwill is tested for impairment at the enterprise level. Goodwill impairment testing is a two-step process. For the first step, we screen for impairment, and if any possible impairment exists, we undertake a second step of measuring such impairment. Other purchased intangible assets with definite useful lives are amortized on a straight-line basis over their useful lives, and tested annually for impairment as well. No impairment losses were incurred in the years presented.

***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 the fair value of the assets. 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***

The Company accounts for stock-based awards to employees and directors using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under the intrinsic value method, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's Consolidated Statements of Operations.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company is required under SFAS 123, to disclose pro forma information regarding option grants made to its employees based on specified valuation techniques that produce estimated compensation charges. The pro forma information is as follows (in thousands, except per-share amounts):

	<u>For the Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income — as reported	\$ 12,895	\$ 19,068	\$ 13,902
Add: Stock-based employee compensation expense included in the reported net income, net of related tax effects	671	1,429	2,523
Deduct: Stock-based employee compensation expense using the fair value method, net of related tax effects	<u>(3,570)</u>	<u>(3,699)</u>	<u>(3,029)</u>
Pro forma net income	<u>\$ 9,996</u>	<u>\$ 16,798</u>	<u>\$ 13,396</u>
Basic net income per common share:			
As reported	\$ 0.20	\$ 0.31	\$ 0.26
Pro forma	\$ 0.16	\$ 0.28	\$ 0.25
Diluted net income per common share:			
As reported	\$ 0.19	\$ 0.29	\$ 0.23
Pro forma	\$ 0.15	\$ 0.26	\$ 0.22

The weighted average fair value of options granted during fiscal 2005, 2004 and 2003 was \$1.54, \$2.05 and \$4.35, respectively.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants for the twelve months ended December 31, 2005, 2004 and 2003:

	<u>Employee Stock Options</u> <u>For the Year Ended December 31,</u>			<u>Employee Stock Purchase Plan</u> <u>For the Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Risk-free rate	3.9%	3.0%	2.0%	3.7%	1.6%	—
Expected dividend yield	0%	0%	0%	0%	0%	—
Expected volatility	35-41%	41-47%	43%	36-41%	32-52%	—
Expected life	3 Years	3 Years	3 Years	.5 Years	.5 Years	—

\* Note that the employee stock purchase plan commenced on July 23, 2003 with the first purchase occurring on April 30, 2004.

***Computation of Net Income per Share***

Basic net income per share is computed by dividing net income by the weighted daily average number of shares of common stock outstanding during the period. Diluted net income per share is computed using 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.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Revenue Recognition***

*Services and Fees*

The Company derives substantially all of its revenues from usage fees. The Company recognizes 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.

Revenues are recognized during the period the services are rendered to end users based on usage at negotiated rates. The Company typically requires its 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, the Company recognizes the difference between the actual usage and the minimum commitment as revenue when cash is collected because the Company cannot reasonably estimate the amount of the difference that will be collected. The Company cannot reasonably estimate the amount of the difference to be collected because it has 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 the Company has determined that it would be in its best interest to do so. Customers are not contractually entitled to use or otherwise receive benefit for unused service in subsequent periods.

The Company typically provides its customers with deployment services, technical support and additional optional services. Depending on the service provided and the nature of the arrangement, the Company may charge a one-time, annual or monthly fee. Revenues relating to one-time fees are recognized 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. Revenues relating to annual fees are recognized 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 principally 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 Position (“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 unspecified 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.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company generally performs credit reviews to evaluate the customers' ability to pay. If the Company determines that collectibility is not probable, 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. Costs of minimum purchase contracts are recognized 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 regarding such costs through December 31, 2005.

***Advertising***

Advertising and promotional costs are expensed as incurred. For the years ended December 31, 2005, 2004 and 2003 were approximately \$435,000, \$989,000 and \$1.4 million, respectively.

***Software Development Costs***

Costs related to the research and development of new software and enhancements to existing software are expensed as incurred until technological feasibility has been established. To date, the Company's software has been available for general release concurrent with the establishment of technological feasibility, and accordingly, no costs have been capitalized.

The Company capitalizes the costs of computer software developed or obtained for internal use. During the years ended December 31, 2005, 2004 and 2003, the Company had no capitalized software development costs. Development costs are amortized over the estimated useful life of the software developed. As of December 31, 2005 and 2004, the Company had no capitalized software development costs.

***Recent Accounting Pronouncements***

In December of 2004, the Financial Accounting Standards Board ("FASB") issued a revised version of Statement No. 123 *Accounting for Stock-Based Compensation* ("SFAS 123R"), which supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires recognition of the cost of employee services received in share-based payment transactions, thereby reflecting the economic consequences of those transactions in the financial statements. The accounting provisions for SFAS 123 are effective beginning with the first annual reporting period that begins after June 15, 2005, and we will be required to implement SFAS 123R beginning January 1, 2006. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. See "*Stock-Based Compensation*" above for the pro forma net income and net income per share amounts, for the years ended December 31, 2005, 2004 and 2003, as if we had used a fair-value-based method similar to the methods required under SFAS 123R to measure compensation expense for employee stock incentive awards. Although we have not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating the requirements under SFAS 123R and expect the adoption of SFAS 123R to have a significant adverse impact on our Consolidated Statements of Operations and net income per share.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("FAS 154"). FAS 154 provides guidance on the accounting for, and reporting of, a change in accounting principle, in the absence of explicit transition requirements specific to a newly adopted accounting principle. Previously, most voluntary changes in

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

accounting principles were required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. FAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. FAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. If required, the application of FAS 154 may have a material effect on our financial position on our results of operations.

**Note 3. Short-Term Investments**

The following tables summarize the Company's short-term investments as of December 31, 2005 and 2004 (in thousands):

<u>December 31, 2005</u>	<u>Short-Term Investments</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government agencies	\$ 119,981	\$ —	\$ (473)	\$ 119,508
Corporate notes	16,248	—	(57)	16,191
Auction rate and money market securities	11,000	28	—	11,028
	<u>\$ 147,229</u>	<u>\$ 28</u>	<u>\$ (530)</u>	<u>\$ 146,727</u>

<u>December 31, 2004</u>	<u>Short-Term Investments</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government agencies	\$ 103,357	\$ —	\$ (368)	\$ 102,989
Corporate notes	15,007	—	(56)	14,951
	<u>\$ 118,364</u>	<u>\$ —</u>	<u>\$ (424)</u>	<u>\$ 117,940</u>

The following table summarizes the principal amounts of the Company's short-term investments by expected maturity date (in thousands):

	<u>Expected Maturity Date for Par Value Amounts For the Year Ended December 31,</u>				<u>Total Cost Value</u>	<u>As of Dec. 31, 2005 Total Fair Value</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>			
U.S. Government agencies	\$ 85,405	\$ 11,900	\$ 20,490	\$ 119,981	\$ 119,508	
Corporate notes	15,915	—	—	16,248	16,191	
Auction rate and money market securities	11,000	—	—	11,000	11,028	
Total	<u>\$ 112,320</u>	<u>\$ 11,900</u>	<u>\$ 20,490</u>	<u>\$ 147,229</u>	<u>\$ 146,727</u>	

The Company recognized gross realized losses of \$31,000 and no gross realized gains for the year ended December 31, 2005. We recognized gross realized gains of \$17,000 and gross realized losses of \$115,000 for the year ended December 31, 2004. There were no recognized gains or losses on short-term investments for the year ended December 31, 2003. The Company has not recorded any impairment loss relating to an other-than-temporary impairment in the fair value of its short-term investments as the Company has the ability to hold the security until maturity.

The Company had unrealized losses related to its corporate and government securities at December 31, 2005. These securities are subject to interest rate risk, which resulted in the unrealized losses. There are no

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

securely impaired investments or investments that have been impaired for an extended duration as we typically purchase securities with maturities that are due within one to two years.

**Note 4. Allowance for Doubtful Accounts**

Changes in the Company's allowance for doubtful accounts for the years ended December 31, 2003, 2004 and 2005 are as follows (in thousands):

	<u>Beginning Balance</u>	<u>Provisions</u>	<u>Charge Offs</u>	<u>Ending Balance</u>
Year ended December 31, 2003	\$ 1,500	\$ 1,176	\$ (328)	\$ 2,348
Year ended December 31, 2004	\$ 2,348	\$ 1,100	\$ (1,377)	\$ 2,071
Year ended December 31, 2005	\$ 2,071	\$ 163	\$ (194)	\$ 2,040

**Note 5. Property and Equipment**

Property and equipment consisted of:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	(In thousands)	
Equipment	\$ 19,839	\$ 17,906
Furniture and fixtures	3,498	2,538
Computer software and equipment	4,919	4,312
Leasehold improvements	2,002	1,620
	<u>30,258</u>	<u>26,376</u>
Less: Accumulated depreciation and amortization	(21,048)	(16,265)
Property and equipment, net	<u>\$ 9,210</u>	<u>\$ 10,111</u>

Depreciation expense was \$4,917,000, \$4,386,000 and \$3,711,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

**Note 6. Accrued Liabilities**

Accrued liabilities consisted of:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	(In thousands)	
Accrued commissions	\$ 3,067	\$ 2,928
Accrued liabilities	3,961	3,946
Deferred rent	1,618	1,630
Paid time off payable	1,715	1,631
Income taxes payable	1,724	553
Other accrued liabilities	438	465
	<u>\$ 12,523</u>	<u>\$ 11,153</u>

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 7. Business Combinations***Safe3w*

In September 2004, the Company completed its acquisition of Safe3w, Inc., a privately-held Woodbury, New York company that has developed patented dynamic device “fingerprinting” technology. The Company acquired 100% of the interest in Safe3w in a cash transaction for approximately \$8.5 million. The Company plans to incorporate Safe3w’s technology into its existing products. The total purchase price includes \$300,000 in direct transactions costs, including legal and valuation fees.

The results of operations of Safe3w are included in the Company’s Consolidated Statement of Operations beginning September 16, 2004, 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 acquired	\$ 7
Other tangible assets acquired	96
Amortizable intangible assets:	
Existing technology	2,900
Patent/core technology	1,100
Goodwill	<u>5,785</u>
Total assets acquired	9,888
Deferred tax liability, net	(953)
Liabilities assumed	(135)
Transaction costs	<u>(300)</u>
Net assets acquired	<u>\$ 8,500</u>

Identifiable intangible assets, including existing technology and patents/core technology are being amortized over their useful lives of eight years.

Developed technology was identified and valued through interviews, analysis of data provided by Safe3w concerning development projects, their stage of development, the time and resources needed to complete them, if applicable, and their expected income generating ability and associated risks. All development projects had reached technological feasibility and were classified as developed technology with the value assigned to existing technology capitalized. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing acquired intangible assets. Key assumptions included a discount rate of 21.0% and estimates of revenue growth, operating expenses and taxes.

Uncertainties about tax bases or about preacquisition tax returns are, when resolved subsequent to the business combination, applied to reduce or increase goodwill in accordance with FAS 109, paragraph 30. In completing the preacquisition tax return of Safe3W, Inc. during 2005, additional tax basis in assets was identified and additional tax net operating loss carryforward was also identified. The net increase to deferred tax assets resulting from these items, after adjustment to valuation allowance, was credited against goodwill initially recorded as a result of the acquisition in the amount of \$491,000. Acquisition goodwill was further adjusted as a result of the utilization of acquired company tax net operating losses for which a valuation allowance was recorded upon acquisition in the amount of \$104,000.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Mobile Automation**

In October 2004, the Company completed its acquisition of Mobile Automation, Inc., a privately-held Westlake Village, California company that has developed solutions that help enterprise IT departments protect and manage their remote and mobile devices such as computers and personal data assistants (PDAs). The Company acquired 100% of the interest in Mobile Automation in a cash transaction for approximately \$20.0 million. The Company plans to enhance its product offering to its customers who use remote and mobile devices. The total purchase price includes \$187,000 in direct transactions costs, including legal and valuation fees.

The results of operations of Mobile Automation are included in the Company's Consolidated Statement of Operations beginning October 29, 2004, 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 acquired	\$ 37
Accounts receivable	893
Other tangible assets acquired	52
Amortizable intangible assets:	
Existing technology	5,000
Patent/core technology	1,700
Maintenance agreements and certain relationships	400
Customer relationships	500
Goodwill	<u>14,228</u>
Total assets acquired	22,810
Deferred tax liability, net	(1,297)
Liabilities assumed	(1,326)
Transaction costs	(187)
Net assets acquired	<u>\$ 20,000</u>

Identifiable intangible assets, including existing technology, patents/core technology and customer relationships are being amortized over their useful lives of four years. Maintenance agreements and certain relationships are being amortized over their useful lives of six years.

Developed technology was identified and valued through interviews, analysis of data provided by Mobile Automation concerning development projects, their stage of development, the time and resources needed to complete them, if applicable, and their expected income generating ability and associated risks. All development projects had reached technological feasibility and were classified as developed technology with the value assigned to existing technology capitalized. The income approach, which includes an analysis of the cash flows and risks associated with achieving such cash flows, was the primary technique utilized in valuing acquired intangible assets. Key assumptions included a discount rate of 21.2% and estimates of revenue growth, operating expenses and taxes.

In completing the preacquisition tax return of Mobile Automation, Inc. during 2005, additional tax basis in assets was identified and additional tax net operating loss carryforward was also identified. The net increase to deferred tax assets resulting from these items, after adjustment to valuation allowance, was credited against goodwill initially recorded as a result of the acquisition in the amount of \$359,000. Acquisition goodwill was further adjusted as a result of the utilization of acquired company tax net operating losses for which a valuation allowance was recorded upon acquisition in the amount of \$367,000.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***GoRemote Internet Communications***

On December 9, 2005, the Company announced the acquisition of GoRemote Internet Communications, Inc. (“GoRemote”), a publicly-traded company headquartered in Milpitas, California that provides enterprises managed broadband and connectivity services. 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 transaction value 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 approved the merger and on February 15, 2006, the certificate of merger was filed and the merger was effective. The Company paid approximately \$75.8 million in cash 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. Although we plan to complete the purchase accounting for the transaction in the quarter ended March 31, 2006, we have disclosed the information required per SFAS No. 141 to the extent it was practicable.

**Note 8. Acquired Intangibles, net**

Acquired intangibles with finite lives as of December 31, 2005 and 2004 are classified as follows:

	<u>As of December 31, 2005</u>			<u>Weighted Average Useful Life</u>
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	
	(In thousands)			
Existing technology	\$ 7,900	\$ (1,927)	\$ 5,973	5.5 Years
Patent/ Core technology	2,800	(673)	2,127	5.6 Years
Maintenance agreements and certain relationships	400	(78)	322	6.0 Years
Customer relationships	500	(146)	354	4.0 Years
Total acquired intangibles	<u>\$ 11,600</u>	<u>\$ (2,824)</u>	<u>\$ 8,776</u>	5.3 Years

	<u>As of December 31, 2004</u>			<u>Weighted Average Useful Life</u>
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	
	(In thousands)			
Existing technology	\$ 7,900	\$ (314)	\$ 7,586	5.5 Years
Patent/ Core technology	2,800	(111)	2,689	5.6 Years
Maintenance agreements and certain relationships	400	(11)	389	6.0 Years
Customer relationships	500	(21)	479	4.0 Years
Total acquired intangibles	<u>\$ 11,600</u>	<u>\$ (457)</u>	<u>\$ 11,143</u>	5.3 Years

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Aggregate amortization expense for the fiscal years (in thousands):	
2004	\$ 457
2005	\$ 2,367
Estimated amortization expense for the fiscal years (in thousands):	
2006	\$ 2,367
2007	2,367
2008	2,067
2009	567
2010	556
Thereafter	852
Total estimated amortization expense	<u>\$ 8,776</u>

Prior to the acquisition of Safe3w and Mobile Automation in 2004, the Company had no acquired intangibles balances or expenses relating to the amortization of acquired intangibles.

**Note 9. Commitments and Contingencies**

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 December 31, 2005 are as follows (in thousands):

Year ending December 31:	
2006	\$ 4,145
2007	4,279
2008	4,374
2009	4,311
2010	1,453
	<u>\$ 18,562</u>

Rent expense under operating leases for the years ended December 31, 2005, 2004, and 2003 was \$6.0 million, \$5.7 million and \$4.3 million, respectively (net of sublease income of \$111,000 in 2003).

As of December 31, 2005, the Company had minimum purchase commitments with network service providers that expire at various dates through 2009. Future minimum purchase commitments and operating lease payments under all agreements are as follows (in thousands):

Year ending December 31:	
2006	\$ 1,387
2007	1,066
2008	1,066
2009	266
	<u>\$ 3,785</u>

**Legal Actions**

Beginning on January 14, 2005, three purported class action complaints were filed against us and certain of our executive officers in United States District Court for the Northern District of California. On March 2,

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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 us are Kenneth D. Denman, Donald C. McCauley, Anurag Lal and Jon M. Russo. The Consolidated Amended Complaint 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 our revenue, earnings and growth prospects. iPass and the individual defendants moved to dismiss the complaint. The motion was heard on January 23, 2006, and the motion was granted on February 27, 2006. The court granted plaintiffs leave to file an amended complaint, which shall be due by March 30, 2006. The case is at an early stage and no trial date has been set. No discovery is expected to take place unless and until plaintiffs file a complaint that survives the individual defendants’ motion to dismiss. iPass and the individual defendants intend to take all appropriate actions to defend the suit. We cannot estimate any possible loss at this time.

On March 25, 2005, a stockholder purporting to act on our behalf filed a lawsuit entitled *Narendar Gupta, et al. v. Kenneth Denman, et al.*, Case No. CIV445765 in the California Superior Court for the County of San Mateo against our directors and certain officers. iPass was also named as a nominal defendant solely in a derivative capacity. On April 6, 2005, a similar lawsuit entitled *Eugene Danielson v. Kenneth D. Denman, et al.*, No. CIV446034 was filed in that same court. Both lawsuits were consolidated into a single action by stipulation and order dated April 26, 2005. The derivative action is based on the same factual allegations and circumstances as the purported securities class actions and alleges state law claims for insider trading, breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment and seeks monetary damages on behalf of iPass to be proven at trial. On May 5, 2005, the actions were consolidated as *In re iPass, Inc. Derivative Litigation*, Case No. CIV445765. Plaintiffs filed a consolidated complaint on February 21, 2006, and the defendants have until March 28, 2006 within which to respond to the complaint. The case is at an early stage, no discovery has occurred and no trial date has been set. iPass and the individual defendants intend to take all appropriate actions to defend the suit. We cannot estimate any possible loss at this time.

We may be subject to various other claims and legal actions arising in the ordinary course of business from time to time.

**Note 10. 401(k) Plan**

Substantially all of the Company’s employees are eligible to participate in the Company’s 401(k) plan, which provides for discretionary Company matching contributions. There were no matching contributions for the years ended December 31, 2005, 2004 or 2003. Beginning January 1, 2006, the Company will provide a 50% match to employee contributions up to 6% of an employee’s total compensation.

**Note 11. Income Taxes**

Income before income taxes includes net income from foreign operations of approximately \$120,000, \$968,000 and \$736,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The provision for income taxes consisted of the following for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Current</b>			
U.S. federal	\$ 1,972	\$ 584	\$ 518
State	828	583	1,285
Foreign	<u>402</u>	<u>187</u>	<u>207</u>
	3,203	1,354	2,010
<b>Deferred</b>			
U.S. federal	5,182	9,371	7,451
State	<u>518</u>	<u>1,471</u>	<u>(493)</u>
	<u>5,700</u>	<u>10,842</u>	<u>6,958</u>
Total provision for income taxes	<u>\$ 8,903</u>	<u>\$ 12,196</u>	<u>\$ 8,968</u>

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net loss carryforwards. A partial valuation allowance was placed on the deferred tax assets relating to the net operating loss carryforwards obtained as a result of the acquisition of Safe3w and Mobile Automation in 2004, a portion of which were subsequently released in 2005. The components of deferred tax assets (liabilities) consisted of the following as of December 31, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
<b>Deferred tax liabilities:</b>		
Acquired intangibles	\$ (3,689)	\$ (4,520)
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	5,777	11,461
Reserves and accruals	4,304	3,293
Other	<u>1,745</u>	<u>1,624</u>
Total deferred tax assets	<u>11,826</u>	<u>16,378</u>
Valuation allowance	<u>(3,582)</u>	<u>(3,216)</u>
Net deferred tax assets	<u>8,244</u>	<u>13,162</u>
Total net deferred income tax assets	<u>\$ 4,555</u>	<u>\$ 8,642</u>

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

For the years ended December 31, 2005, 2004 and 2003, the provision for income taxes differed from the amounts computed by applying the U.S. federal income tax rate to pretax income before income taxes as a result of the following:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Federal statutory rate	35%	34%	34%
State taxes, net of federal benefit	5	6	2
Foreign taxes	2	—	—
Amortization of stock-based compensation	1	(1)	6
Research and development benefit	(4)	(2)	(3)
Other	2	2	—
Provision for income taxes	<u>41%</u>	<u>39%</u>	<u>39%</u>

As of December 31, 2005, the Company had gross cumulative net operating loss carryforwards for federal and state tax reporting purposes of approximately \$15.0 million and \$16.0 million, respectively, which expire in various periods through 2021. Under current tax law, net operating loss carryforwards available in any given year may be limited upon the occurrence of certain events, including significant changes in ownership interest such as an IPO.

The Company also has research and development tax credit carryforwards of approximately \$1.9 million and \$1.6 million for federal and state income tax purposes, respectively. If not utilized, the federal carryforwards will expire in various amounts through 2025. The state tax credits can be carried forward indefinitely.

In 2005, a portion of the valuation allowance placed on acquired company net operating losses in the amount of \$471,000 was reversed as a result of the utilization of those net operating losses, with the offset going against goodwill.

**Note 12. Common Stock**

***Stock Option 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. 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 December 31, 2005, there were no shares of common stock subject to repurchase.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Stock option activity under the Plans for the three years ended December 31, 2005 is summarized below:

	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2002	1,148,945	7,008,318	\$ 2.60
Authorized	8,859,026	—	—
Granted	(1,792,200)	1,792,200	6.00
Exercised	—	(661,550)	4.55
Cancelled	251,395	(251,395)	2.79
Balance as of December 31, 2003	8,467,166	7,887,573	3.46
Authorized	3,024,171	—	—
Granted	(4,497,933)	4,497,933	6.10
Exercised	—	(1,885,253)	2.75
Cancelled	385,267	(385,267)	3.11
Balance as of December 31, 2004	7,378,671	10,114,986	4.78
Authorized	3,637,835	—	—
Granted	(1,045,300)	1,045,300	5.88
Exercised	—	(1,041,176)	1.88
Cancelled	771,085	(771,085)	6.09
Balance at December 31, 2005	10,742,291	9,348,025	\$ 5.12
Exercisable as of December 31, 2003		3,891,821	\$ 3.45
Exercisable as of December 31, 2004		4,055,123	\$ 3.83
Exercisable as of December 31, 2005		4,945,870	\$ 4.39

The following table summarizes the options outstanding as of December 31, 2005:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$0.14-2.10	2,278,661	6.34	\$ 1.07	1,923,927	\$ 0.99
\$2.50-5.05	2,392,966	6.59	\$ 4.69	1,422,786	\$ 4.57
\$5.26-5.58	1,955,800	8.60	\$ 5.35	659,797	\$ 5.35
\$5.75-20.02	2,720,598	8.14	\$ 8.73	939,360	\$ 10.42
	<u>9,348,025</u>	7.40	\$ 5.12	<u>4,945,870</u>	\$ 4.39

The Company's board of directors adopted the 2003 Employee Stock Purchase Plan, the 2003 Equity Incentive Plan and the 2003 Non-employee Directors Plan on January 15, 2003.

***Stock-Based Compensation***

The Company records stock-based compensation charges in the amount, if any, by which the option exercise price or the restricted stock purchase price is less than the deemed fair value of common stock at the date of grant. Prior to the Company's IPO, the Company's board of directors determined the fair value of our

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

common stock based upon several factors, including operating performance, issuances of convertible preferred stock, liquidation preferences of preferred stockholders, and valuations of other publicly-traded companies. The Company recorded deferred stock-based compensation totaling approximately \$8,136,000 prior to July of 2003 that is being amortized on an accelerated basis over the corresponding vesting period, using the method outlined in FASB Interpretation No. 28. There was no deferred stock-based compensation recorded for the years ended December 31, 2005 or 2004. Deferred stock-based compensation was decreased by approximately \$52,000, \$202,000 and \$282,000 for the years ended December 31, 2005, 2004 and 2003, due to forfeiture of accrued but unvested deferred stock-based compensation arising from the termination of employees. Amortization of deferred compensation expense for the years ended December 31, 2005, 2004 and 2003, was approximately \$1,137,000, \$2,342,000 and \$4,069,000, respectively. Non-employee equity transactions were accounted for at fair value at each grant date pursuant to SFAS No. 123. The amount of deferred stock-based compensation expense to be recorded in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

**Note 13. 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 operating decision maker is considered to be the Company's chief executive officer (CEO). 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 consolidated statements of operations. Therefore, the Company has determined that it operates in a single reportable segment.

International revenue is determined by the location of the customer's headquarters. International revenue accounted for approximately 45%, 41% and 39% of total revenues for the years ended December 31, 2005, 2004 and 2003, respectively. Revenues in the United Kingdom accounted for 14% and 11% of total revenues for the years ended December 31, 2005 and 2004, respectively. No individual foreign country accounted for 10% or more of total revenues in 2003.

Substantially all of the Company's long-lived assets are located in the United States. Revenues in the United States were \$93.2 million for the year ended December 31, 2005.

**Note 14. Net Income Per Common Share**

In accordance with SFAS 128, "Earnings Per Share," basic net income per share is computed by dividing net income 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. As such, basic net income per share excludes 352,778, 635,113 and 1,467,190 shares subject to repurchase for the years ended December 31, 2005, 2004 and 2003, respectively. These shares have been included in diluted net income per share to the extent that the inclusion of such shares is not anti-dilutive. Diluted net income per share is based upon the weighted daily average number of shares of common stock outstanding for the period plus dilutive potential common shares, including stock options using the treasury-stock method.

**iPASS INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

	<u>For the Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Numerator:</b>			
Net income	\$ 12,895	\$ 19,068	\$ 13,902
<b>Denominator:</b>			
Denominator for basic net income per common share			
Weighted average shares outstanding	63,353,779	60,770,680	53,474,537
Effect of dilutive securities:			
Stock options	2,923,563	4,875,077	7,147,503
Denominator for diluted net income per common share — adjusted	<u>66,277,342</u>	<u>65,645,757</u>	<u>60,622,040</u>
Basic net income per common share	<u>\$ 0.20</u>	<u>\$ 0.31</u>	<u>\$ 0.26</u>
Diluted net income per common share	<u>\$ 0.19</u>	<u>\$ 0.29</u>	<u>\$ 0.23</u>

The following potential shares of 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:

	<u>For the Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Options to purchase common stock	<u>1,904,406</u>	<u>804,250</u>	<u>351,200</u>

The weighted-average exercise price of options to purchase common stock excluded from the computation was \$10.00, \$14.56 and \$18.12 for the years ended December 31, 2005, 2004 and 2003, respectively.

**Note 15. Related Party Transactions**

During 2002, the Company entered into two full recourse notes receivable for \$1,484,675 with two executive officers for the exercise of stock options. The notes as well as any accrued interest were paid in full during 2004.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Frank E. Verdecanna

Frank E. Verdecanna  
Vice President and Chief Financial Officer  
(duly authorized officer and principal financial officer)

Date: March 15, 2006

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Frank E. Verdecanna and Bruce K. Posey, and each or any one of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ KENNETH D. DENMAN</u> Kenneth D. Denman	Chairman, President, Chief Executive Officer and Director	March 15, 2006
<u>/s/ FRANK E. VERDECANNA</u> Frank E. Verdecanna	Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2006
<u>/s/ A. Gary Ames</u> A. Gary Ames	Director	March 15, 2006
<u>/s/ Cregg B. Baumbaugh</u> Cregg B. Baumbaugh	Director	March 15, 2006
<u>/s/ John D. Beletic</u> John D. Beletic	Director	March 15, 2006
<u>/s/ Peter G. Bodine</u> Peter G. Bodine	Director	March 15, 2006
<u>/s/ Arthur C. Patterson</u> Arthur C. Patterson	Director	March 15, 2006
<u>/s/ Allan R. Spies</u> Allan R. Spies	Director	March 15, 2006

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
2.1	Agreement and Plan of Merger dated October 26, 2004 by and among iPass Inc., Montage Acquisition Corp., Mobile Automation, Inc. and David Strohm, as Stockholders' Agent.(1)
2.2	Agreement of Merger among iPass Inc., Keystone Acquisition Sub, Inc. and GoRemote Internet Communications, Inc. dated December 9, 2005.(2)
3.1	Amended and Restated Certificate of Incorporation.(3)
3.2	Bylaws, as amended.(3)
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Specimen stock certificate.(3)
10.1	2003 Equity Incentive Plan and form of related agreements, as amended.(3)
10.1.1	Form of Stock Option Grant Notice under the 2003 Equity Incentive Plan (containing additional vesting terms).
10.2	2003 Non-Employee Directors Plan, as amended.(4)
10.3	1999 Stock Option Plan and form of related agreements.(3)
10.4	1997 Stock Option Plan and form of related agreements.(3)
10.5	Interim 1999 Stock Option Plan.(3)
10.6	Restricted Stock Purchase Agreement by and between the Registrant and Anurag Lal dated November 8, 1999.(3)
10.7	2003 Employee Stock Purchase Plan and form of related agreements, as amended.(3)
10.8	Lease Agreement, dated October 26, 1999, between Registrant and Westport Joint Venture (as amended).(3)
10.9	Amended and Restated Investor Rights Agreement, dated August 8, 2000, between Registrant, founders and holders of the Registrant's Preferred Stock.(3)
10.10	Form of Indemnity Agreement.(3)
10.11	Employment Agreement, dated November 13, 2001, between Registrant and Kenneth D. Denman.(3)
10.12	Form of Offer Letter to Executive Officers.(3)
10.13	OEM Service Provider License Agreement, dated February 29, 2000, between RSA Security, Inc. and the Registrant, and amendments thereto.
10.14	Support Agreement, dated February 29, 2000, by and between RSA Security, Inc.
10.15	Loan and Security Agreement dated September 4, 2001 between Silicon Valley Bank and the Registrant, and modifications thereto.(3)
10.16	2006 Annual Executive Management Bonus Plan.
10.17	Outside Director Compensation Arrangement.(5)
10.18	Executive Officer Cash Compensation Arrangement.(6)
10.19	Offer Letter to Thomas Thimot dated December 9, 2005.(7)
10.20	Transition Agreement with John Thuma dated January 20, 2006.(8)
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (reference is made to the signature page of this Form 10-K).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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<b>Exhibit Number</b>	<b>Description of Document</b>
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) Previously filed as the like-numbered exhibit to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated by reference herein.
- (2) Previously filed as exhibit 10.22 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2005, and incorporated by reference herein.
- (3) Previously filed as the like-numbered exhibit to our Registration Statement on Form S-1, as amended, originally filed with the Securities and Exchange Commission on January 24, 2003, as amended, and incorporated by reference herein.
- (4) Previously filed as exhibit 10.1 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 13, 2006, and incorporated by reference herein.
- (5) Previously disclosed under the caption "Compensation of Directors" in our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 26, 2004, and incorporated by reference herein.
- (6) Previously disclosed under the caption "Compensation of Executive Officers" in our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 26, 2004, and incorporated by reference herein.
- (7) Previously filed as exhibit 10.23 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2006, and incorporated by reference herein.
- (8) Previously filed as exhibit 10.24 on our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2006, and incorporated by reference herein.

**iPass Inc.  
2003 Equity Incentive Plan**

**Stock Option Grant Notice  
(Special Change of Control Vesting Provisions)**

**iPass Inc.** (the “Company”), pursuant to its 2003 Equity Incentive Plan (the “Plan”), hereby grants to Optionholder an option to purchase the number of shares of the Company’s Common Stock set forth below. This option is subject to all of the terms and conditions as set forth herein and in the Stock Option Agreement, the Plan and the Notice of Exercise, all of which are attached hereto and incorporated herein in their entirety.

Optionholder: \_\_\_\_\_  
 Date of Grant: \_\_\_\_\_  
 Vesting Commencement Date: \_\_\_\_\_  
 Number of Shares Subject to Option: \_\_\_\_\_  
 Exercise Price (Per Share): \_\_\_\_\_  
 Total Exercise Price: \_\_\_\_\_  
 Expiration Date: \_\_\_\_\_

**Type of Grant:**  Nonstatutory Stock Option

**Exercise Schedule:**  Same as Vesting Schedule  Early Exercise Permitted

**Vesting Schedule:** [insert vesting schedule]; *provided, however*, that if within eighteen (18) months following the closing of a “Corporate Transaction,” (i) your employment by the Company, or an affiliate of the Company, is terminated by the Company without “Cause” or (ii) if you resign your employment for “Good Reason,” then all of your then outstanding unvested shares underlying this option shall vest in full upon the date of such termination (the “Change of Control Provisions”).

For purposes of this option:

“Cause” shall mean the occurrence of any of the following (and only the following): your conviction of any felony involving fraud or act of dishonesty against the Company or its parent corporation or subsidiary corporation (whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Internal Revenue Code (“Affiliates”)); (ii) your conduct which, based upon good faith and reasonable factual investigation and determination of the Board of Directors of the Company, demonstrates gross unfitness to serve; or (iii) your intentional, material violation of any statutory or fiduciary duty you have to the Company or its Affiliates;

“Corporate Transaction” shall mean (i) the sale of all or substantially all of the assets of the Company or (ii) a merger of the Company with or into another entity in which the stockholders of the Company immediately prior to the closing of the transaction own less than a majority of the ownership interest of the Company immediately following such closing. For purposes of determining whether the stockholders of the Company prior to the occurrence of a transaction described above own less than fifty percent (50%) of the voting securities of the relevant entity afterwards, only the lesser of the voting power held by a person either before or after the transaction shall be counted in determining that person’s ownership afterwards; and

“Good Reason” shall mean your resignation of your employment because (i) the Company requires that you relocate to a worksite that is more than 60 miles from its current principal executive office, unless you agree in writing to such relocation; or (ii) the Company reduces your monthly salary below the gross rate of the then-existing rate at the time of the closing of the Corporate Transaction, unless you agree in writing to such reduction.

**Payment:** By one or a combination of the following items (described in the Stock Option Agreement):

- By cash or check
- Pursuant to a Regulation T Program if the Shares are publicly traded
- By delivery of already-owned shares if the Shares are publicly traded

**Additional Terms/Acknowledgements:** The undersigned Optionholder acknowledges receipt of, and understands and agrees to, this Grant Notice, the Stock Option Agreement and the Plan. Optionholder further acknowledges that as of the Date of Grant, this Grant Notice, the Stock Option Agreement and the Plan set forth the entire understanding between Optionholder and the Company regarding the acquisition of stock in the Company and supersede all prior oral and written agreements on that subject with the exception of (i) options previously granted and delivered to Optionholder under the Plan, and (ii) the following agreements only:

**Other Agreements:**

\_\_\_\_\_  
\_\_\_\_\_

**iPass Inc.**

**Optionholder:**

By: \_\_\_\_\_

\_\_\_\_\_

Signature

Signature

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**Attachments:** Stock Option Agreement, 2003 Equity Incentive Plan and Notice of Exercise

**OEM SERVICE PROVIDER LICENSE AGREEMENT  
RSA SECURITY, INC.**

Thank you for choosing to do business with us. This Agreement has the purpose of licensing you the right to (i) incorporate the RSA Software into your products and (ii) use and/or distribute to end users the RSA Software solely as incorporated into such products for the purpose of providing Your service. In return, You agree to pay RSA the license fees described in this Agreement (or its attachments) which typically comprise an initial payment of license fees, plus ongoing royalties, but, alternatively may consist of annual license fee amount, paid-up license fee amounts or other arrangements as described in this Agreement. This license is for object code only. Maintenance and support for the RSA Software licensed, if elected, is under separate terms and conditions. This License Agreement is to be construed and interpreted in accordance with this general purpose, though any conflict between this general purpose and the express terms found in this Agreement shall be resolved in favor of the express terms.

**Enterprise Name (“You”):** iPass Inc.

**Jurisdiction of Incorporation:** California

**Street Address:** 3800 Bridge Parkway

**State & Zip Code:** California 94065

**City:** Redwood Shores

**Enterprise Legal Contact (Name & Title):**

**Agreement Number:** 0200-iPA-SER-2

This LICENSE AGREEMENT (the “Agreement”), effective as of the later date of execution (“Effective Date”), is entered into by and between RSA Security, Inc., a Delaware corporation (“RSA”), having a principal address at 2955 Campus Drive, Suite 400, San Mateo, CA 94403-2507, and the Enterprise identified above.

## 1. DEFINITIONS

The following terms when used in this Agreement shall have the following meanings:

**1.1 “Distributor”** means a dealer or distributor in the business of relicensing or distributing Client Licensed Products to End User Customers, directly or through one or more Distributors, by virtue of authority granted by You for the purpose of providing the Licensed Service. Client Licensed Products relicensed or distributed by a Distributor shall bear Your trademarks and service marks and shall not be privately labeled by such Distributor or other parties. A Distributor shall have no right to add to or modify any part of a Licensed Product.

**1.2 “End User Customer”** means a person or an entity receiving the RSA Software as part of a Client Licensed Product from You or a Distributor for personal or internal use to

obtain the Licensed Service and primarily not for resale, redistribution or other transfer of such Client Licensed Product to any other person or entity.

**1.3 “Licensed Product(s)”** means one or more of Your products or product groups identified in the attached “License/Product Schedule Exhibit” which has been or will be developed by You and which incorporates in any manner any portion of the RSA Software. A Licensed Product (i) must represent a significant functional and value enhancement to the RSA Software, (ii) shall not expose or, directly or indirectly, pass through any APIs, and (iii) shall not be a security add-on or “bolt-on,” the primary purpose of which is providing security to a third party’s product. A Licensed Product consists of a client component (“Client Licensed Product”) and a server component (“Server Licensed Product”). Each component of a Licensed Product shall be capable of operating only in conjunction with the other component. The Server Licensed Product must be owned and operated by You at Your site, and You shall have no right to change a license fee or comparable fee for distribution of the Client Licensed Product.

**1.4 “Licensed Service(s)”** means one or more of Your services identified in the attached “License/Product Schedule Exhibit” which has been or will be developed by You and which uses or is supported by the Licensed Products. The Licensed Service must represent a significant functional and value enhancement to the RSA Software, such that the primary reason for an End User Customer to obtain the Licensed Service is other than the right to use the RSA Software. Only You may provide the Licensed Service.

**1.5 “RSA Software”** means RSA’s proprietary software identified on the attached “License/Product Schedule Exhibit” (and including only those algorithms listed therewith), as further described in the User Manual(s) associated therewith.

**1.6 “Updates”** means any new version of the RSA Software designated by a progressing of the release number (either right or left of the decimal point) following the version initially shipped hereunder.

**1.7 “User Manual”** means the most current version of the user manual and/or reference manual customarily supplied by RSA to entities who license the RSA Software.

**1.8 “Subscriber”** means a person or entity to whom a copy/unit of the Client Licensed Product has been distributed and who has paid You any cash or in-kind consideration at any time for the Licensed Service, whether as use, transaction, subscription, or service fees or any comparable fees based on or involving the use of the Licensed Service. You shall have no right to charge a license fee or comparable fee for distribution of the Client Licensed Product.

## **2. LICENSES**

**2.1 License Grant.** During the term of this Agreement and within the Field of Use limitation set forth in the “License/Product Schedule Exhibit” attached hereto RSA hereby grants You a non-exclusive, non-transferable license to:

**2.1.1** (i) incorporate the RSA Software in object or byte code format into a Licensed Product; (ii) reproduce and have reproduced the RSA Software in object or byte code format as incorporated in a License Product and as reasonably needed for inactive backup or

archival purposes; (iii) license or otherwise distribute the RSA Software in the Territory as incorporated in a Client Licensed Product (if distribution of such Licensed Product is not prohibited in the attached "Licensed/Product Schedule Exhibit") to End User Customers, directly or indirectly through one or more Distributors; and (iv) reproduce, have reproduced and distribute the RSA Software in the Territory as incorporated in a Licensed Product to Your employees at Your site(s) and for use by such employees solely for the purpose of providing the Licensed Service to End User Customers or supporting the Licensed Service.

**2.1.2** (i) use the User Manual to support End User Customers and the Licensed Service; (ii) modify and incorporate any or all of the User Manual in Licensed Product and Licensed Service documentation; (iii) reproduce, have reproduced and distribute in the Territory such portions of the User Manual as incorporated in Licensed Product documentation to Your employees at Your site(s) and for use by such employees solely for the purpose of providing the Licensed Service to End User Customers or supporting the Licensed Service; and (iv) reproduce and have reproduced and distribute in the Territory such portions of the User Manual as incorporated in Licensed Product and Licensed Service documentation to End User Customers.

**2.2 Limitations on Licenses.** Notwithstanding the generality of the foregoing: You may not in any way sell, lease, rent, license, sublicense or otherwise distribute the RSA Software, except as part of a Client Licensed Product whose distribution is not prohibited on the attached "License/Product Schedule Exhibit". Such distribution must be for the sole purpose of providing the Licensed Service. The RSA Software may only be accessed by the functionality of the Licensed Product in which it is included, and a Licensed Product shall not make the RSA Software directly accessible to End User Customers or to products other than the Licensed Product, or otherwise expose an API. Nothing in this Agreement grants You any rights, license or interest with respect to source code of the RSA Software. You shall not modify, translate reverse engineer, decompile or disassemble the RSA Software or any part thereof or otherwise attempt to derive source code or create derivative works therefrom, and shall not authorize any third party to do any of the foregoing.

### **3. OWNERSHIP/PROPRIETARY RIGHTS**

**3.1 RSA Software Title.** Except for the limited licenses expressly granted in Section 2.1 and as further limited by Section 2.2, RSA does not by this Agreement grant You any right, title or ownership interest in or to the RSA Software or in any related patents, trademarks, copyrights of proprietary or trade secret rights. Similarly, RSA receives no right, title or ownership interest in any of Your products by way of this Agreement.

**3.2 RSA Copyright Notices.** You agree not to remove, alter or destroy any proprietary, trademark or copyright markings or notices placed upon or contained within the RSA Software, User Manuals or any related materials or documentation. You further agree to insert and maintain within every Licensed Product and any related materials or documentation a copyright notice in Your name.

**3.3 Trademarks.** Except as provided in Section 6.1, You shall acquire no rights of any kind in or to any RSA trademark, trade name, logo or product designation under which the RSA Software was or is marketed and shall not make any use of the same for any reason except

as expressly authorized by this Agreement or otherwise authorized in writing by RSA. You shall cease to use the markings, or any similar markings, in any manner on the expiration or other termination of this Agreement.

#### 4. LICENSE FEES

**4.1 License Fees.** In consideration of RSA's granting you the license rights in this Agreement, You agree to pay RSA the license fees and ongoing royalties (collectively, "License Fees") set forth in the "License/Product Schedule Exhibit" attached hereto.

**4.2 Terms of Payment — General.** License Fees due RSA hereunder shall be paid to the attention of the Software Licensing Department at RSA's address set forth above. Payments of all License Fees shall be made in lawful United States currency and shall in no case be refundable. A late payment penalty on any License Fees not paid when due shall be assessed at the rate of one percent (1%) per thirty (30) days, beginning on the thirty-first (31<sup>st</sup>) day after the delayed payment was due. All taxes, duties, fees and other governmental charges of any kind (including sales and use taxes, but excluding taxes based on the gross revenues or net income of RSA) which are imposed by or under the authority of any government or any political subdivision thereof on the License Fees or any aspect of this Agreement shall be borne by You and shall not be considered a part of, a deduction from, or an offset against License Fees.

**4.3 Licenses with Ongoing Royalties.** In the event You have elected to pay License Fees based on ongoing royalties, as indicated on the attached "License/Product Schedule Exhibit," You agree to pay the prepaid License Fees and ongoing royalties as described therein and in accordance with the following:

**4.3.1 Prepayments and Ongoing Royalty Payment.** All prepaid license fees ("Prepayments") may be offset against on-going royalties accrued until the Prepayments are exhausted. You shall show the application or Prepayments in the licensing reports provided to RSA pursuant to Section 4.3.2. Ongoing royalties shall be paid on or before the thirtieth (30<sup>th</sup>) day after the close of the calendar quarter during which such royalties accrued. Ongoing royalties shall accrue with respect to the Licensed Service upon the date of invoice for the Licensed Service to an End User Customer or the date payment therefor was first payable to You, whichever occurs first. To the extent the License Fees described in the "License/Product Schedule Exhibit" are based on Service Revenue, "Service Revenue" means the gross amount of all cash, in-kind or other consideration receivable by You at any time in consideration of providing the Licensed Service, whether as use, transaction, subscription, or service fees, or any comparable fees based on or involving the use of the Licensed Service. For the purposes of determining Service Revenue, the amount of in-kind or other non-cash consideration receivable by You shall be deemed to have a dollar value equal to the standard price (as listed in Your published price schedule on the date the Licensed Service is provided) for the Licensed Service, less all cash paid.

**4.3.2 Licensing Report and Records.** You agree to provide to RSA on or before the thirtieth (30<sup>th</sup>) day after the close of each calendar quarter during the term of this Agreement (even if no royalty amounts have accrued or are to be paid in such period) a report in reasonable detail setting forth the calculation of License Fees due hereunder and signed by a

responsible officer. The report shall include, at a minimum, the following information with respect to the relevant quarter: (i) the total Service Revenue accrued; (ii) the relevant royalty rate applied to the Service Revenue; (iii) credit taken against any Prepayments; and (iv) the total License Fees payable. Whether or not You have elected to pay License Fees based on ongoing royalties, You agree to maintain reasonable records relating to the Licensed Products distributed, License Services provided and License Fees accrued and paid for a period of five (5) years following the relevant dates. RSA shall have the right, at its sole cost and expense, to have an independent certified public accountant conduct during normal business hours (but not more than once in any twelve (12) month period) an audit of Your records to verify compliance with the terms of this Agreement. In the event such an audit discloses a discrepancy between the amounts owed and the License Fees actually paid, You will be invoiced or credited for any future amounts owed by You, as applicable. If any deficiency in License Fees paid exceeds five percent (5%) of the License Fees reported by You for any period, You agree to pay the reasonable expenses associated with such audit, in addition to the deficiency.

**4.3.3 Evaluation Copies.** You may deliver copies of Client Licensed Products whose distribution is not prohibited in the attached "License/Product Schedule Exhibit" to prospective End User Customers on a trial basis for evaluation purposes only (each, an "Evaluation Copy"). No License Fees shall be reportable or payable with respect to Evaluation Copies unless and until (i) the Licensed Service is activated using the applicable Client Licensed Product; (ii) the End User Customer pays for or is invoiced for the Licensed Service; or (iii) the End User Customer's use of the Evaluation Copy, for any reason, continues beyond sixty (60) days, whichever occurs first.

**4.4 Maintenance and Support Service.** You may elect to receive updates and other support services for the RSA Software licensed hereunder under a separate maintenance and support agreement by executing such an agreement and paying the applicable fee. All Updates provided to You pursuant to such maintenance and support agreement shall constitute licensed RSA Software under this Agreement, and such Updates shall be governed by the terms hereof.

## 5. LIMITED WARRANTY

**5.1 Limited Warranty.** During the initial ninety (90) day term of this Agreement, RSA warrants that the RSA Software will operate in material conformance to RSA's published specifications for the RSA Software. RSA does not warrant that the RSA Software or any portion thereof is error-free. Your exclusive remedy, and RSA's entire liability shall be correction of any warranted nonconformity as provided in Section 5.2. This limited warranty and any obligations of RSA hereunder shall not apply to nonconformities caused by any unauthorized modification made to the RSA Software.

**5.2 Error Correction.** In the event You discover an error in the RSA Software which causes the RSA Software not to operate in material conformance to RSA's published specifications therefor, You shall submit to RSA a written report describing such error in sufficient detail to permit RSA to reproduce such error. Upon receipt of any such written report, RSA will use its reasonable business judgment to classify a reported error as either (i) a "Level 1 Severity" error, meaning an error that causes the RSA Software to fail to operate in a material manner or to produce materially incorrect results and for which there is no workaround or only a

difficult workaround; or (ii) a “Level 2 Severity” error, meaning an error that produces a situation in which the RSA Software is usable but does not function in the most convenient or expeditious manner, and the use or value of the RSA Software suffers no material impact. RSA will acknowledge receipt of a conforming error report within two (2) business days and will use its reasonable efforts to (A) provide a correction for any Level 1 Severity error to You as early as practicable, and (B) include a correction for any Level 2 Severity error in the next release of the RSA Software.

**5.3 DISCLAIMER. EXCEPT FOR THE EXPRESS LIMITED WARRANTY PROVIDED IN THIS SECTION 5, THE RSA SOFTWARE IS PROVIDED “AS IS” WITHOUT ANY WARRANTY WHATSOEVER. RSA DISCLAIMS ALL WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, AS TO ANY MATTER WHATSOEVER, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY, UNLESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT OF THIRD PARTY RIGHTS. YOU SHALL NOT (AND SHALL TAKE ALL MEASURES NECESSARY TO INSURE THAT YOUR AGENTS AND EMPLOYEES DO NOT) MAKE OR PASS THROUGH ANY WARRANTY ON BEHALF OF RSA TO ANY DISTRIBUTOR, END USER CUSTOMER OR OTHER THIRD PARTY.**

## **6. YOUR ADDITIONAL OBLIGATIONS**

**6.1 Use of “RSA Seal”.** You agree to insert and maintain within Licensed Products and marketing materials for the Licensed Products and Licensed Service, in the manner described in this Section, the “RSA Secure” seal (the “RSA Seal”) depicted in the “Logo Usage Guide,” which shall be delivered to You within ten (10) days of execution of this Agreement. You shall ensure display of the RSA Seal within any Licensed Product such that users thereof are exposed to the RSA Seal during normal operation of such Licensed Product as follows: In a software Licensed Product, the RSA Seal shall be featured in such Licensed Product’s startup splash screen and within any security-related dialog windows visible in the normal operation of the product (e.g., password dialog window). In a hardware Licensed Product, the RSA Seal shall be visible on the panel of such Licensed Product most normally viewed by the user. You agree to include the RSA Seal within related marketing materials including but not limited to printed and electronic data sheets, direct mail, user documentation, product packaging and advertisements for the Licensed Products and Licensed Service.

**6.2 Representations Regarding RSA Software.** You are authorized to represent to Distributors and End User Customers only such facts about the RSA Software as RSA states in its published product descriptions, advertising and promotional materials or as may be stated in other non confidential written material furnished by RSA.

**6.3 Customer Support.** You agree that all support, if any, provided to End User Customers of the Licensed Service shall be at Your expense.

**6.4 License Agreements.** You agree to use with each Distributor and End User Customer receiving a Client Licensed Product a license agreement which shall contain, at a minimum, substantially all of the limitations of rights and the protections for RSA which are

contained in Sections 2.2, 3.2, 3.3, 8, 12.6 and 12.7 of this Agreement. You agree to use Your reasonable efforts to enforce the terms of such agreements.

## **7. CONFIDENTIALITY**

The parties agree to treat as confidential the terms of this Agreement and any License Fee or accounting information provided by one party to the other in performance hereof, and the parties agree to use their reasonable efforts to prevent disclosure thereof to any third party except with the prior written consent of the other party, or as required by law. This obligation of confidentiality shall extend for a period of three years following termination or expiration of this Agreement. Notwithstanding the generality of the foregoing, either party may disclose the existence of this Agreement and that You are an OEM of the RSA Software and that any publicly-announced Licensed Service uses the RSA Software.

## **8. LIMITATION OF LIABILITY**

**IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO LOST PROFITS, BUSINESS INTERRUPTION OR LOSS OF BUSINESS INFORMATION, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. REGARDLESS OF THE CAUSE OR FORM OF ACTION, NEITHER PARTY'S AGGREGATE LIABILITY ARISING OUT OF OR RELATED TO THIS AGREEMENT SHALL EXCEED, EXCEPT FOR RSA'S LIABILITY ARISING UNDER SECTION 9 AND YOUR LIABILITY ARISING UNDER SECTIONS 2 AND 9 OF THIS AGREEMENT.**

## **9. INTELLECTUAL PROPERTY INDEMNITY**

**9.1 Duty to Defend.** RSA agrees that it shall at its own expense, defend, or at its option settle, any action instituted against You, and pay any award or damages assessed against You or agreed by RSA to be paid in settlement resulting from such action, insofar as the same is based upon a claim that any RSA Software used in accordance with the terms of this Agreement infringes any United States copyright, United States trade secret, or a claim that RSA has no right to license the RSA Software hereunder, provided that You give RSA: (i) prompt notice in writing of such action; (ii) the right to control and direct the investigation, preparation, defense and settlement of the action; and (iii) reasonable assistance and information.

**9.2 RSA Options.** If such an action is made or RSA reasonably determines in its discretion that such a claim is likely to be made, RSA shall have the option to (i) obtain the right for you to continue use of the RSA Software; or (ii) replace or modify the RSA Software so that it is no longer infringing but functionally equivalent. If RSA determines that neither of these alternatives is reasonably available, RSA shall have the option to refund the License Fees paid by You hereunder less depreciation for use assuming straight line depreciation over a five (5) year useful life and terminate this Agreement.

**9.3 Claims for Which RSA is Not Responsible.** Notwithstanding the foregoing, RSA shall have no liability under this Section 9 if the alleged infringement arises from (i) the use

of other than the current unaltered release of the RSA Software or other than in the manner specified in the relevant User Manual; or (ii) the combination of the RSA Software with other equipment or software not provided by RSA, if such action would have been avoided but for such use or combination. You agree that You shall at Your expense, defined, or at Your option settle, and hold RSA harmless from any action instituted against RSA resulting from any infringement claim based upon either of the foregoing.

**9.4 Exclusive Remedy.** NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, THE FOREGOING STATES RSA'S ENTIRE LIABILITY AND YOUR EXCLUSIVE REMEDY FOR PROPRIETARY RIGHTS INFRINGEMENT.

## **10. PRESS RELEASE**

**10.1 Joint Press Release.** The parties shall issue a joint press release announcing their relationship no later than sixty (60) days following the execution of this Agreement. This joint press release will include quotes from senior management members (title of Vice President or higher) of each company and will emphasize the RSA Security-enabled aspects of your Licensed Products. Notwithstanding the foregoing, the parties agree that any press, marketing or advertising releases or similar promotional materials, including on-line promotion, of either party that refer to the other party or the other party's products shall not be released or disseminated without the prior written approval of the other party.

## **11. TERM AND TERMINATION**

**11.1 Term.** This Agreement shall be effective as of the Effective Date and shall continue in full force and effect unless and until sooner terminated pursuant to the terms of this Agreement.

**11.2 Termination.** Either party shall be entitled to terminate this Agreement at any time on written notice to the other in the event of a material default by the other party and a failure to cure such default within a period of thirty (30) days following receipt of written notice specifying that a default has occurred. The parties acknowledge and agree that You may at any time delay, interrupt or cease use of the RSA Software, but this Agreement shall continue in full force, including any obligations to make quarterly reports. You may elect to terminate this Agreement upon ninety (90) days' written notice and it is expressly understood that such termination shall not discharge payment obligations accrued as of the date of such termination, even if such obligation is payable after the termination date, or entitle You to a refund of any amounts previously paid to RSA.

**11.3 Insolvency.** Upon (i) the institution of any proceedings by or against either party seeking relief, reorganization or arrangement under any laws relating to insolvency, which proceedings are not dismissed within sixty (60) days; (ii) the assignment for the benefit of creditors, or the appointment of a receiver, liquidator or trustee, of any of either party's property or assets; or (iii) the liquidation, dissolution or winding up of either party's business, then and in any such events this Agreement may immediately be terminated by the other party upon written notice.

**11.4 Effect of Termination.** Upon the termination of this Agreement, you shall cease making copies of, using or licensing the RSA Software, User Manual and Licensed Products. You shall destroy all copies of the RSA Software, User Manual and Licensed Products in your possession or control and all information and documentation provided by RSA to you.

**11.5 Survival of Certain Terms.** The following provisions shall survive any expiration or termination of this Agreement: 2.2, 3, 4.3.2, 5.3, 8, 9, 11.5 and 12.

## 12. MISCELLANEOUS PROVISIONS

**12.1 Governing Law and Jurisdiction.** This Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, irrespective of its choice of law principles. All disputes arising out of this Agreement shall exclusively be brought in a court of competent jurisdiction in Massachusetts. The parties agree that the United Nations Convention on Contracts for the international Sale of Goods shall not apply to this Agreement.

**12.2 Assignability.** This Agreement is personal to you and shall not be assignable by you, by operation of law or otherwise, without the prior written consent of RSA. RSA may withhold its consent to the assignment of this Agreement, at its sole discretion, if the Agreement provides for paid-up License Fees. Any purported assignment or delegation without RSA's written consent shall be void and of no effect.

**12.3 Entire Agreement.** This Agreement and any exhibits or attachments hereto constitute the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, representations and understandings between the parties regarding the subject matter hereof. Any term or provision of this Agreement may be amended, and the observance of any term of this Agreement may be waived, only by a writing signed by the party to be bound. If any provision of this Agreement is found to be invalid or unenforceable, such provision shall be severed from the Agreement and the remainder of this Agreement shall be interpreted so as best to reasonably effect the intent of the parties hereto.

**12.4 Remedies Non-Exclusive.** Except as otherwise expressly provided, any remedy provided for in this Agreement is deemed cumulative with, and not exclusive or, any other remedy provided for in this Agreement or otherwise available at law or in equity. The exercise by a party or any remedy shall not preclude the exercise by such party of any other remedy. Should suit be brought to enforce or interpret any part of this Agreement, the prevailing party shall be entitled to recover, as an element of the costs of suit and not as damages, reasonable attorneys' fees to be fixed by the court (including without limitation, costs, expenses and fees on any appeal).

**12.5 Notices.** Any notice, demand, or request with respect to this Agreement shall be in writing and shall be effective only if it is delivered by hand or mailed, certified or registered mail, postage prepaid, return receipt requested, addressed to the appropriate party at its address set forth on page 1. Notice to RSA shall be addressed to "RSA Legal Department." Such communications shall be effective when they are received by the addressee; but if sent by certified or registered mail in the manner set forth above, they shall be effective not later than ten

(10) days after being deposited in the mail. Any party may change its address for such communications by giving notice to the other party in conformity with this Section.

**12.6 Export Compliance and Foreign Reshipment Liability.** THE RSA SOFTWARE AND TECHNOLOGIES WHICH ARE LICENSED UNDER THIS AGREEMENT, WHETHER OR NOT INCORPORATED INTO LICENSED PRODUCTS, ARE SUBJECT TO UNITED STATES EXPORT CONTROL LAWS AND REGULATIONS WHICH RESTRICT EXPORTS, REEXPORTS AND DISCLOSURES TO FOREIGN PERSONS OF CRYPTOGRAPHIC ITEMS AND ARE ALSO SUBJECT TO CERTAIN FOREIGN LAWS WHICH MAY RESTRICT THE EXPORT, REEXPORT, IMPORT AND/OR USE OF SUCH ITEMS. PERFORMANCE OF THIS AGREEMENT IS EXPRESSLY MADE SUBJECT TO ANY EXPORT LAWS, REGULATIONS, ORDERS OR OTHER RESTRICTIONS IMPOSED BY THE UNITED STATES OF AMERICA, OR BY ANY OTHER COUNTRY OR GOVERNMENTAL ENTITY ON THE RSA SOFTWARE OR LICENSED PRODUCTS OR OF INFORMATION RELATING TO EITHER OF THE FOREGOING. NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT TO THE CONTRARY, YOU SHALL NOT IMPORT, EXPORT, OR REEXPORT, DIRECTLY OR INDIRECTLY, ANY RSA SOFTWARE OR LICENSED PRODUCTS OR INFORMATION PERTAINING THERETO TO ANY COUNTRY OR FOREIGN PERSON TO WHICH SUCH COUNTRY, GOVERNMENT OR ANY AGENCY THEREOF REQUIRES AN EXPORT LICENSE OR OTHER GOVERNMENTAL APPROVAL AT THE TIME OF IMPORT, EXPORT, OR REEXPORT WITHOUT FIRST OBTAINING SUCH LICENSE OR APPROVAL. YOU UNCONDITIONALLY ACCEPT FULL RESPONSIBILITY FOR YOUR COMPLIANCE WITH THESE REQUIREMENTS.

**12.7 Federal Government License.** You and each of your Distributors shall in all proposals and agreements with the United States government or any contractor of the United States government identify and license the Licensed Product, including the RSA Software incorporated therein, as follows: (i) for acquisition by or on behalf of civilian agencies, as necessary to obtain protection as “commercial computer software” and related documentation in accordance with the terms of Your or such Distributor’s customary license, as specified in 48 C.F.R. 12.212 of the Federal Acquisition Regulations and its successor regulations; or (ii) for acquisition by or on behalf of units of the Department of Defense, as necessary to obtain protection as “commercial computer software” as defined in 48 C.F.R. 252 227-7014(a)(1) of the Department of Defense Federal Acquisition Regulation Supplement (DFARS) and related documentation in accordance with the terms of your or such Distributor’s customary license, as specified in 48 C.F.R. 227 7202.1 of DFARS and its successor regulations.

**In Witness Whereof**, the parties have executed this Agreement as of the date of the last signature below.

**iPass, Inc.**

By: /s/ Donald C. McCauley

Printed Name: Donald C. McCauley

Title: Vice President and Chief Financial Officer

Date: 2/28/2000

**RSA Security Inc.**

By: /s/ Narendra Goel

Printed Name: Narendra Goel

Title: Director, Finance and OPS

Date: 2/29/2000

**License Product/Service Schedule Exhibit**

**RSA Security, Inc.**

**(Solely for the use with any combination of RSA Software that includes the SSL-C Software)**

This License Product/Service Schedule Exhibit (“LPS1”) is an Exhibit to the OEM Service Provider License Agreement between You and RSA (“Agreement”).

Enterprise Name (“You”)	iPass Inc.
RSA Software	BSAFE® SSL-Cv. 1.1, consisting of all algorithms, provided by the Affiliate from its facilities in Australia on platforms that include, but are not limited to, Windows NT, Solaris and Linux.
Field of Use Limitation:	No rights are granted with respect to the use of RSA Software to issue digital certificates except for supporting Licensed Products or Services and their internal use by Your Customers. You shall not directly or indirectly expose the “SSL-C Utility Application” (defined below) executable program as contained in the RSA Software within the Licensed Service. For the purpose of this Field of Use Limitation, “SSL-C Utility Application” shall mean a command-line utility executable program, (i.e., SSL-C.) included in the SSL-C toolkit. Such utility application includes the following utilities; SSL certificate, general diagnostic, key, and cipher (the “Utilities”). The Utilities shall be used solely for your developer’s testing and validation of the SSL functionality within the Licensed Service and shall not be licensed or included with any distribution of the Licensed Service.

**Exhibit Number:** 0200-iPA-LPS-1

**Agreement Number:** 0200-iPA-SER-2

**Licensed Service.** Your Service, currently known as “I-Pass Service” which provides a global virtual network for remote internet access and network settlement services for Internet Service Providers, corporate users and individual users.

**Three Year Annual License Fees:** \$475,000.00

Year One: \$200,000.00 payable as follows: \$100,000 due upon execution of this LPS1 and \$100,000 due no later than sixty (60) days after the execution date of this LPS1.

Year Two: \$125,000.00 due on or before the anniversary of the execution date of this LPS1

Year Three: \$150,000.00 due on or before the applicable anniversary of the execution date of this LPS1

All Annual License Fees subsequent to Year Three: \$150,000 per year due on or before the applicable anniversary of the execution date of this LPS1.

In the event You terminate this License Agreement in accordance with its terms prior to the end of the third year after execution, any and all of the remaining Three Year Annual License Fees shall become immediately due and payable.

### **Special Terms and Conditions**

1. For the purpose of this LPS, Affiliate shall mean RSA Security Australia PTY, Ltd. a majority owned subsidiary of RSA, having a principal address at Level 35, Riverside Centre, 123 Eagle Street, Brisbane, Queensland 4000, Australia.
2. As soon as practicable, but in no event later than December 2, 2000. You shall incorporate the RSA Software into Your Licensed Service (the "New Version") and make such New Version available to all of Your new customers acquired after incorporation of the RSA Software. You shall provide RSA with a copy of the New Version for its review and inspection (for the sole purposes of verifying Your compliance set forth hereunder and Your compliance with the terms and conditions of the Agreement) prior to Your release to Your new customers but in no event later than November 18, 2000. In the event RSA does not notify You within ten (10) business days of any problems or concerns with the New Version relating to the purposes set forth above, such New Version shall be deemed to be approved by RSA.
3. As soon as practicable, but in no event later than September 1, 2001. You shall make the New Version available to all new or existing customers and You shall use commercially reasonable efforts to cause Your existing customers to upgrade to the New Version.
4. You shall discontinue shipping any and all versions of the Licensed Service containing RSA \*Ref and/or SSLeay as soon as the New Version is available, but in no event later than December 2, 2000.
5. Section 1.1 of the Agreement is hereby modified by deleting such Section in its entirety and replacing it with the following "Distributor" means an Internet service provider, dealer or distributor in the business of relicensing or distributing the Licensed Service to End User Customers, directly or through one or more Distributors by virtue of authority granted by You. Licensed Products offered by a Distributor shall bear Your trademarks and service marks and shall not be privately labeled by such Distributor or other parties. A Distributor shall have no right to add to or modify any part of a Licensed Product.
6. Section 1.2 of the Agreement is hereby modified by deleting such Section in its entirety and replacing it with the following: "End User Customer" means a person or entity receiving the Licensed Service from You or a Distributor for personal or internal use and primarily not for resale, redistribution or other transfer of such Licensed Service to any other person or entity.

7. Section 1.3 of the Agreement is hereby modified by deleting the third, fourth and fifth sentence of such Section and replacing them with the following: A Licensed Product shall consist of a component installed at a Distributor location (a "Distributor Copy") and a component installed at Your facilities (an "iPass Copy"). Each component of a Licensed Product shall be capable of operating only with other components, but Distributor Copies can operate only with an iPass Copy and not with other Distributor Copies. The iPass Copies must be owned and operated solely by You at Your sites.
8. Section 1.4 of the Agreement is hereby modified by deleting the last sentence of such Section in its entirety and replacing it with the following: "Only You or Your Distributors through You, may provide the Licensed Service."
9. Section 1.8 of the Agreement is hereby modified by deleting such Section in its entirety.
10. Section 2.1.1 of the Agreement is hereby modified by (a) deleting "in a Client Licensed Product" from subsection (iii) of such Section and replacing it with the following: "in a Distributor Copy"; (b) adding after any reference to "employees" in subsection (iv) "or contractors"; and (c) adding the following to the end of such Section: "provided that you agree to assume liability for any material breach caused by the acts or omissions of Your contractors."
11. Section 2.2 of the Agreement is hereby modified by deleting "Client Licensed Product" from the first sentence of such Section and replacing it with the following: "Distributor Copy".
12. Section 4.3.3 of the Agreement is hereby modified by deleting "copies of Client Licensed Products" from the first sentence of such Section and replacing it with the following: "Distributor Copies".
13. Section 5.1 of the Agreement is hereby modified by deleting the first sentence of such Section in its entirety and replacing it with the following: "During the first ninety (90) days following implementation of the RSA Software in accordance with the Licensed Product/Service Schedule Exhibit", but in no event later than December 2, 2000, RSA shall warrant that the RSA Software will operate in material conformance to RSA's published specifications for the RSA Software provided that You notify RSA of such implementation date.
14. Section 6.1 of the Agreement is hereby modified by deleting "in such Licensed Product's start-up splash screen and" from the second sentence of such Section.
15. Section 6.4 of the Agreement is hereby modified by deleting "Client Licensed Product" from the first sentence of such Section and replacing it with the following: "Distributor Copy".
16. Section 7 of the Agreement is hereby modified by deleting such Section in its entirety and replacing it with the following: "Each party agrees to maintain all "Confidential Information" received from the other party, both orally and in writing, in confidence and agrees not to disclose or otherwise make available such information to any third party

without the prior written consent from the Disclosing Party. For the purpose of this Agreement, "Confidential Information" shall mean the terms of this Agreement, any License Fees or accounting information provided by one party to the other in performance hereof and information clearly marked confidential if given in writing or if given orally, identified as confidential orally prior to disclosure. Each party may at its option, reduce oral Confidential Information to writing, mark as Confidential Information and forward such writing to the other party. Each party further agrees to use the Confidential Information only for the purpose of performing the Agreement. No information shall be deemed confidential unless so marked if given in writing or, if given orally, identified as confidential orally prior to disclosure. The Receiving Party's obligations of non-disclosure under this Agreement shall not apply the information which (a) is or becomes a matter of public knowledge through no fault of or action by the Receiving Party; (b) was rightfully in the Receiving Party's possession prior to receipt from the Disclosing Party; (c) subsequent to disclosure, is rightfully obtained by the Receiving Party from a third party who is lawfully in possession of such Confidential Information without restriction; (d) is independently developed by the Receiving Party without resort to Confidential Information which is confidential under this Agreement, and can so be proven by written records; or (e) is required by law or judicial order, provided that prior written notice of such required disclosure is furnished to the Disclosing Party as soon as practicable in order to afford the Disclosing Party an opportunity to seek a protective order and that if such order cannot be obtained disclosure may be made without liability. The obligation of confidentiality shall extend for a period of five (5) years following termination or expiration of this Agreement. The parties agree that either party may disclose the existence of this Agreement, and that You are an OEM of the RSA Software and that any publicly announced Licensed Service uses the RSA Software. Notwithstanding the any of the foregoing, in the event a Disclosing Party discloses a trade secret to the other party, the Confidential provisions set forth in this Section shall survive the Agreement in perpetuity provided that the trade secret is clearly marked confidential if given in writing and forwarded to the other party within thirty (30) days following disclosure.

17. Section 9.1 of the Agreement is hereby modified by (a) deleting "and pay any award" from the first sentence of such Section and replacing it with the following: "and pay in full any award"; (b) adding "United States Patent." After "United States Copyright" in the first sentence of such Section; (c) adding "full" before "settlement" in the first sentence of such Section; and (d) adding "upon RSA's reasonable request and RSA's reasonable expense" to the end of subsection (iii).
18. Section 9.3 of the Agreement is hereby modified by adding "provided that RSA gives You, (i) prompt notice in writing of such action; (ii) the right to control and direct the investigation, preparation, defense and settlement of the action; and (iii) reasonable assistance and information upon Your reasonable request and Your reasonable expense."
19. Section 10 of the Agreement is hereby modified by deleting such Section in its entirety.
20. Section 11.1 is hereby modified by deleting such Section in its entirety and replacing it with the following: "This Agreement shall be effective as of the Effective Date and shall

continue in full force and effect for a period of three (3) years, and shall automatically renew for each successive period unless and until sooner terminated pursuant to the terms of this Agreement.”

21. Section 11.2 of the Agreement is hereby amended to grant You the right to terminate the Agreement upon sixty (60) days written notice to RSA prior to the applicable anniversary of the Effective Date.
22. Section 11.4 of the Agreement is hereby modified by deleting such Section in its entirety and replacing it with the following: “Upon termination of this Agreement, You shall cease making copies of and distributing the RSA Software, User Manual and Licensed Products, and shall within one hundred eighty (180) days following termination, cease using or permitting use of Licensed Products and at such time destroy all copies of the RSA Software, User Manuals, and Licensed Products in Your possession or control and all information and documentation provided by RSA to You.”
23. Section 11.5 of the Agreement is hereby modified by deleting such Section in its entirety and replacing it with the following: “The following provisions shall survive any expiration or termination of this Agreement: 2.2, 3, 4.3.2, 5.3. 8, 9, 11.5, 12 and to the extent necessary.”
24. Section 12.1 of the Agreement is hereby modified by deleting the second sentence of such Section in its entirety.
25. Section 12.2 of the Agreement is hereby modified by adding “which will not be unreasonably withheld or delayed” after “without the prior written consent of RSA” in the first sentence of such Section. Section 12.2 is further modified by adding the following to the end of such Section: “Notwithstanding any of the foregoing, You shall not be obligated to obtain RSA’s consent for an assignment pertaining to a change of state incorporation.”

Note: By signing this agreement You represent that Services hereunder are being published and distributed (physically or via remote access) for a consideration to third parties. Any internal usage will be reported, as needed, directly by You, to the appropriate sales tax agency.

**iPass, Inc.**

By: /s/ Donald C. McCauley

Printed Name: Donald C. McCauley

Title: Vice President & Chief Financial Officer

Date: February 28, 2000

**RSA Security Inc.**

By: /s/ Narendra Goel

Printed Name: Narendra Goel

Title: Director, Finance & OPS

Date: 2/29/2000

**AMENDMENT NUMBER ONE TO OEM SERVICE PROVIDE LICENSE  
AGREEMENT**

This Amendment One to OEM Service Provider License Agreement, effective as of the later date of executive, is entered into by and between RSA Security, Inc., a Delaware corporation, having a principal address at 2955 Campus Drive, Suite 400, San Mateo, CA 94403-2507 ("RSA") and iPass, Inc., a corporation located at 3800 Bridge Parkway, Redwood Shores, CA 94065 ("OEM").

**BACKGROUND**

RSA and OEM have entered into an OEM Service Provide License Agreement, and accompanying Support Agreement, both dated February 29, 2000. The parties wish to modify the Agreement as follows:

**AGREEMENT**

1. Definitions. Capitalized terms used and not otherwise defined in this Agreement shall have the meanings designated in the License Agreement.
2. Three-year extension. The current term of the License Agreement set to expire on February 28, 2003, shall be extended for three years (to expire February 28, 2006).
3. License Fees. In consideration of the above, OEM shall pay RSA License Fees in the amount of \$200,000.00 (Two Hundred Thousand Dollars) as follows; (1) \$150,000.00 for use of the RSA Software in the Licensed Service through February 28, 2006; and (2) \$50,000.00 for unlimited distribution of the RSA Software as embedded in the Licensed Product through February 28, 2006. License Fees are payable upon execution below, net 30 days of receipt of invoice.
4. Support Fees. The parties agree that, beginning February 29, 2003, all renewal annual Support Fee pursuant to the Support Agreement entered into between the parties shall be \$12,000.00 (Twelve Thousand Dollars) per year.
5. Termination. Section 11.4 of the Agreement shall be replaced in its entire with the following: "Upon termination of this Agreement, OEM shall cease distributing new installation of the Licensed Product containing any RSA Software and make reasonable efforts to replace the RSA Software in OEM's existing customer implementations. Additionally, OEM shall destroy all copies of the RSA Software, User Manual and Licensed Products containing any RSA Software in OEM's possession or control."
6. Effect of Amendment. Except as amended and provided herein, the License and Support Agreements shall remain in full force and effect. In the event of any inconsistency between the terms of the License and Support Agreements and this Amendment, the terms of this Amendment shall govern.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date of the last signature below.

**IPASS INC.**

By: /s/ Donald C. McCauley

Printed Name: Donald C. McCauley

Title: CFO

Date: December 19, 2002

**RSA SECURITY, INC.**

By: /s/ Elizabeth M. Wee

Printed Name: Elizabeth M. Wee

Title: Corporate Counsel

Date: December 20, 2002

**RSA  
SECURITY  
AMENDMENT NUMBER TWO  
TO OEM SERVICE PROVIDER LICENSE AGREEMENT**

This Amendment Number Two (the "Amendment") to the OEM Service Provider License Agreement, effective as of the later date of execution below (the "Effective Date"), is entered into by and between RSA Security Inc. having a principal place of business at 174 Middlesex Turnpike, Bedford, MA 01730 ("RSA") and iPass Inc., with a principal place of business at 3800 Bridge Parkway, Redwood Shores, CA 94065 ("OEM").

**RECITALS**

- A. RSA and OEM entered into OEM Service Provider License Agreement (Agreement No. 0200-iPA-SER-2), dated February 29<sup>th</sup>, 2000; including License/product Schedule 1 (Agreement No. 0200-iPA-LPS-1); as amended by Amendment Number One to OEM Service Provider License Agreement, dated December 20<sup>th</sup>, 2002; and also including License/Product Schedule 2 (collectively, the "Agreement") pursuant to which RSA granted to OEM certain limited rights in RSA Software;
- B. RSA and OEM now wish to amend the Agreement as set forth below.

**AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and covenants hereinafter set forth, the parties hereby intending to be legally bound, agree as follows:

1. Definitions. Capitalized terms used and not otherwise defined in this Amendment shall have the meanings designated in the Agreement.
2. License Fees. Whereas the Agreement is scheduled to expire on February 28<sup>th</sup>, 2006, OEM has elected to amend the Agreement from a term license to a perpetual agreement, in consideration of payment of a non-refundable license fee in the amount of USD \$313,000, due within thirty (30) days from OEM's receipt of RSA's invoice, for a perpetual license to use the RSA Software in accordance with the Agreement, as amended herein.
3. Platforms. For the avoidance of doubt, use of the RSA BSAFB SSL-J and RSA BASAFE SSL-C software is limited solely to object code for use on the Windows, Solaris, HP-UK and AIX platforms and any "commercially available" Linux platforms generally supported by RSA for all of its customers, provided such RSA customers and OEM have a current and valid support agreement in place with RSA. For purposes of this Amendment, a commercially available platform excludes platforms that (i) are customized platforms that were created through a RSA professional services engagement for an additional fee; or (ii) any platform developed by a third-party and bearing a royalty

- fee to RSA. In either event, the parties agree to negotiate a subsequent amendment for a license for such platform.
4. Field of Use. This replaces the Field of Use in the License Product/Services Schedule Exhibit [Number: 0200-iPA-LPS-1] dated February 17, 2000. The RSA BSAFE SSL-J and RSA BSAFE SSL-C software may be used solely to provide secure network connectivity between the components in the Licensed Service. The Licensed Service may also use the utilities offered by the SSL-C toolkit.
  5. Licensing Service. Licensed Service shall mean OEM's Licensed Service currently known as "iPass Service" which provides a global virtual network for internet access and network settlement services for Internet Service Providers, corporate users and individual users.
  6. SecurCare Support Fee. The parties agree that it is mandatory that OEM renews SecurCare Support for an additional annual term, such term to start on February 28<sup>th</sup>, 2006 and expire one year thereafter, for an annual SecurCare Support fee of USD \$12,000, as set forth in Amendment Number One to the Agreement. As set forth in Amendment Number One to the Agreement, all subsequent renewal annual SecurCare Support fees shall be USD \$12,000 per year. SecurCare Support shall be governed by the parties Support Agreement, and all SecurCare Support fees shall be due within thirty (30) from OEM's receipt of RSA's invoice.
  7. Expiration. The terms and conditions offered herein shall expire and become null and void if this Amendment is not executed on or before December 16<sup>th</sup>, 2005.
  8. Conflict. Except as amended herein, the Agreement shall remain in full force and effect. In the event of any inconsistency between the terms of the Agreement and this Amendment, the terms of this Amendment shall control.

IN WITNESS WHEREOF, the parties have executed this Amendment by their duly authorized representatives.

iPASS Inc.

RSA SECURITY INC.

By: /s/ Bennett Barouch

By: /s/ Patricia J. Guay

Printed Name: Bennett Barouch

Printed Name: Patricia Guay

Title: Vice President of Engineering

Title: VP Sales Cyst PS

Date: 12/13/05

Date: 12/13/05

**SUPPORT AGREEMENT  
RSA SECURITY INC.**

This SUPPORT AGREEMENT (“Support Agreement”) is entered into by and between RSA Security Inc., a Delaware corporation (“RSA”), having a principal address at 2855 Campus Drive, Suite 400, San Mateo, CA 94403-2507, and:

**Enterprise Name (“You”):** iPass Inc.

**Jurisdiction of Incorporation:** California

**Street Address:** 3800 Bridge Parkway

**State & Zip Code:** California 94065

**City:** Redwood Shores

**Enterprise Legal Contact (Name & Title):**

**Maintenance and Support Program Elected**      Standard       Premier

**Initial Support Fee:** \$12,000.00 for a period of twelve (12) months from the Effective Date of this Support Agreement.

This Support Agreement provides support and maintenance services for the RSA Software licensed under the Exhibit. The Effective Date of this Support Agreement shall be contingent upon the execution of License/Product Schedule Exhibit 0200-iPA-LPS-1 (the “Exhibit”) and payment of the Initial Support Fee of \$12,000.00. In the event You elect to renew this Support Agreement for subsequent twelve (12) month terms, the Support Fee for year two shall be \$15,000.00 and the Support Fee for year three shall be \$18,000.00. Thereafter, subsequent renewals of this Support Agreement shall be set at the then current rate for standard maintenance and support in effect at the time of renewal. Fees for all renewal terms shall be due on or before the applicable anniversary of the Effective Date of this Support Agreement.

**1. DEFINITIONS**

All capitalized terms used and not defined herein shall have the meanings set forth in the License Agreement or the following meanings:

- 1.1 “**License Agreement**” means License Agreement Number 0200-iPA-OEM-2 between RSA and You.
- 1.2 “**RSA Software**” means RSA proprietary software identified as RSA Software on page 1 of the License Agreement.

**2. MAINTENANCE AND SUPPORT SERVICES**

**2.1 General.** This Support Agreement sets forth the terms under which RSA will provide support to You for the RSA Software licensed to You for the Licensed Products, as set



forth under the License Agreement. The use of and license to any Fixes and Updates provided to you hereunder shall be governed by the terms of the License Agreement.

**2.2 Support and Maintenance.** RSA agrees to provide the maintenance and support specified in this Support Agreement and You agree to pay RSA's then-current annual support fee ("Support Fee").

**2.3 Support Provided by RSA.** For the annual period commencing on the Effective Date hereof, and for future annual periods for which You have paid the Support Fee, RSA will provide You with the following services in accordance with the program You have elected above:

**2.3.1 Support Under Standard Program.** In the event You have elected the Standard program, RSA will provide telephone support to You from 6:00 a.m. to 5:00 p.m. (Pacific Time) Monday through Friday, excluding locally observed holidays. Upon the receipt of a request for support services, RSA shall respond within one (1) business day from the time of the request. RSA shall provide the support specified in this Section to Your employees responsible for developing and maintaining the Licensed Products licensed under the License Agreement and providing support to End User Customers thereof. No more than two (2) of Your employees may obtain such support from RSA at any one time. Upon RSA's request, You will provide a list with the names of the employees designated to receive support from RSA. You may provide on-site support reasonably determined to be necessary by RSA at Your location specified on page 1 hereof.

**2.3.2 Support Under Premier Program.** In the event that You have elected the Premier program, RSA will provide telephone support to You 24 hours a day, 7 days a week. Upon the receipt for a request for support services, RSA shall respond within two hours from the time of the request. RSA shall provide the support specified in this Section to Your employees responsible for developing and maintaining the Licensed Products licensed under the License Agreement and providing support to End User Customers thereof. No more than five (5) of Your employees may obtain such support from RSA at any one time. Upon RSA's request, You will provide a list with the names of the employees designated to receive support from RSA. You may change the names on the list at any time by providing written notice to RSA. Upon Your request, RSA may provide on-site support reasonably determined to be necessary by RSA at Your location specified on page 1 hereof.

**2.4 Error Correction.** In the event You discover an error in the RSA Software which causes the RSA Software not to operate in material conformance to RSA's published specifications therefor, You shall submit to RSA a written report describing such error in sufficient detail to permit RSA to reproduce such error. Upon receipt of any such written report, RSA will use its reasonable efforts to correct such an error or to provide a software patch or bypass around such an error (collectively, "Fixes") as early as practicable. All Fixes provided to You shall constitute RSA Software under the License Agreement and shall be governed by the terms thereof. Under no circumstances does RSA warrant or represent all errors can or will be corrected. Furthermore, RSA shall not be responsible for correcting any error if You fail to incorporate in Your Licensed Product any Fixes or Update that RSA has provided to You.

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**2.5 Updates.** RSA will from time to time offer You, at no additional cost, Updates of the RSA Software during the term of this Support Agreement. You understand, however, that RSA is not obligated to provide any Update. Absent any restriction to Your right to use the algorithms contained in RSA Software, as set forth in the applicable License Agreement in force at the time of execution of this Support Agreement. Your license rights to any Updates shall also extend to any new algorithms contained in such Updates. Any Updates acquired by You shall be governed by all of the terms and provisions of the License Agreement.

### **3. MAINTENANCE AND SUPPORT FEES**

**3.1 Support Fees.** In consideration of RSA's providing the maintenance and support services described herein, You agree to pay RSA the initial Support Fee set forth on the first page hereof. Such amount shall be payable for the first year upon the execution of this Support Agreement, and for each subsequent year in advance of the commencement of such year. The Support Fee may be modified by RSA for each renewal term by written notice to You at least ninety (90) days prior to the end of the then-current term. If You elect not to renew this Support Agreement for successive terms (as provided in Section 6.1 below), You may re-enroll only upon payment of the annual Support Fee for the coming year and for all Support Fees that would have been paid had You not ceased maintenance and support.

**3.2 Additional Charges.** In the event RSA is required to take actions to correct a difficulty or defect which is traced to Your errors, modifications, enhancements, software or hardware, then You shall pay to RSA its time and materials charges at RSA's rates then in effect. In the event that you have requested RSA's personnel to travel to perform maintenance or on-site support, You shall reimburse RSA for any reasonable out-of-pocket expenses incurred, including travel to and from Your sites, lodging, meals and shipping, as may be necessary in connection with duties performed under this Section 2 by RSA.

**3.3 Taxes.** All taxes, duties, fees and other governmental charges of any kind (including sales and use taxes, but excluding taxes based on the gross revenues or net income of RSA) which are imposed by or under the authority of any government or any political subdivision thereof on the Support Fees or any aspect of this Support Agreement shall be borne by You and shall not be considered a part of, a deduction from or an offset against Support Fees.

**3.4 Terms of Payment.** Support Fees due RSA hereunder shall be paid by You to the attention of the Software Licensing Department at RSA's address set forth above upon execution and, in the case of renewal terms, prior to the each anniversary thereof. A late payment penalty on any Maintenance Fees not paid when due shall be assessed at the rate of one percent (1%) per thirty (30) days. In no event shall Support Fees paid be refundable.

**3.5 U.S. Currency.** All payments hereunder shall be made in lawful United States currency.

### **4. CONFIDENTIALITY**

The parties agree that all obligations and conditions respecting confidentiality, use of the Source Code (if licensed to You) and publicity in the License Agreement shall apply to the parties' performance of this Support Agreement.

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## **5. USE LIMITATIONS; TITLE; INTELLECTUAL PROPERTY INDEMNITY; LIMITATION OF LIABILITY**

Any and all Upgrades and Fixes provided to You pursuant to this Support Agreement shall constitute RSA Software under the License Agreement. As such the parties' respective interests and obligations relating to the RSA Software, including but not limited to license and ownership rights thereto, use limitations (if any), intellectual property indemnity and limitation of liability, shall be governed by the terms of the License Agreement.

## **6. TERM AND TERMINATION**

**6.1 Term.** This Support Agreement shall commence on the Effective Date hereof and shall remain in full force and effect for an initial period of one (1) year, unless sooner terminated in accordance with this Support Agreement. Upon expiration of the initial period and each successive period, this Support Agreement shall automatically renew for an additional one (1) year period, unless either party has notified the other of its intent to terminate as set forth in Section 6.2.3 herein.

### **6.2 Termination.**

**6.2.1** Either party shall be entitled to terminate this Support Agreement at any time on written notice to the other in the event of a material default by the other party of this Support Agreement and a failure to cure such default within a period of thirty (30) days following receipt of written notice specifying that a default has occurred.

**6.2.2** This Support Agreement shall automatically terminate in the event that the License Agreement is terminated in accordance with its terms.

**6.2.3** This Support Agreement may also be terminated by You for any or no reason by providing written notice of such intent at least ninety (90) days prior to the end of the then-current term. RSA may cease to offer support and maintenance for future maintenance terms by notice delivered to You ninety (90) days or more before the end of the then-current maintenance term.

**6.2.4** Upon (i) the institution of any proceedings by or against either party seeking relief, reorganization or arrangement under any laws relating to insolvency, which proceedings are not dismissed within sixty (60) days; (ii) the assignment for the benefit of creditors, or upon the appointment of a receiver, liquidator or trustee, of any of either party's property or assets; or (iii) the liquidation, dissolution or winding up of either party's business, then and in any such events this Support Agreement may immediately be terminated by either party upon written notice.

**6.3 Survival of Certain Terms.** The following provisions shall survive any expiration or termination of this Support Agreement: Section 3.1, 4, 5, 6 and 7.

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**7. MISCELLANEOUS PROVISIONS**

This Support Agreement is not an amendment to the License Agreement, but instead is a separate binding agreement which incorporates certain terms of the License Agreement for the purposes of brevity and assured consistency. This Agreement incorporates by this reference the "Miscellaneous Provisions" Section of the License Agreement in its entirety.

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the date of the later signature below.

**iPass, Inc.**

By: /s/ Donald C. McCauley

Printed Name: Donald C. McCauley

Title: VP & CFO

Date: 2/28/2000

**RSA Security Inc.**

By: /s/ Narendra Goel

Printed Name: Narendra Goel

Title: Director, Finance & OPS

Date: 2/29/2000

**iPass Inc. 2006 Annual Executive Management Bonus Plan**

Each Executive Officer is a participant in the 2006 Annual Management Bonus Plan, and has an annual target bonus. Quarterly target bonuses are 25% of the annual target bonuses. Quarterly target bonuses for 2006 are as follows:

<b>Officer</b>	<b>Title</b>	<b>Quarterly Target Bonus</b>
Kenneth D. Denman	Chairman and CEO	\$ 37,500
Roy Albert	Chief Technology Officer	\$ 25,000
John Charters	Chief Operating Officer	\$ 30,000
Anurag Lal	Senior Vice President, Business Development	\$ 30,000
Bruce K. Posey	Senior Vice President, Gen. Counsel and Corp. Sec.	\$ 25,000
John P. Thuma	Vice President, Sales Integration	\$ 31,250
Frank E. Verdecanna	Vice President and Chief Financial Officer	\$ 25,000
Joel B. Wachtler	Vice President, Marketing and Strategy	\$ 25,000

Target bonus is paid out 20% based on individual objectives, and 80% on corporate objectives, with the exception of Mr. Denman. Mr. Denman's bonus is based 100% on corporate objectives.

With respect to the corporate objectives portion of the bonus, the target bonus is paid out based on how iPass performs on a quarterly basis against established performance metrics. These performance metrics are: broadband revenues (including mobile data); new services revenues (including Endpoint Policy Management, FlexConnect); total iPass revenues; non-GAAP earnings per share; and contract minimum commitments. Each performance metric is given a weighting, and they all add up to 100%. In the event the target metric is met, target bonus is paid out at 100% of that component of the bonus. A lower and an upper boundary is also set on each side of each target metric. In the event only the lower boundary is met, target bonus is paid out at 50% of that component of the bonus. No payment is made for performance under the lower boundary. In the event the upper boundary is met, target bonus is paid out at 150% of that component of the bonus. Performance between the boundaries and target levels are paid based on a straight-line calculation. Above the upper boundary, additional bonus is paid on a straight-line basis.

**Subsidiaries**

<b><u>Name</u></b>	<b><u>Jurisdiction</u></b>
iPass U.K., Limited	United Kingdom
iPass Asia, Pte., Ltd.	Singapore
iPass Holdings, Pty, Ltd.	Australia
iPass France, SAS	France
iPass Japan, K.K.	Japan
iPass, Ltd.	Israel
Safe3w, Inc.	Delaware
Mobile Automation, Inc.	Delaware
GoRemote Internet Communications, Inc.	Delaware

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
iPass, Inc.:

We consent to the incorporation by reference in the Registration Statements (Nos. 333-107315, 333-118295, 333-130064, and 333-131879) on Form S-8 of iPass, Inc. of our reports dated March 15, 2006, with respect to the consolidated balance sheets of iPass, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of iPass, Inc.

/s/ KPMG LLP

Mountain View, California  
March 15, 2006

**CERTIFICATION**

I, Kenneth D. Denman, certify that:

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

Date: March 15, 2006

/ s / Kenneth D. Denman

Kenneth D. Denman  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION**

I, Frank E. Verdecanna, certify that:

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

Date: March 15, 2006

/ s / Frank E. Verdecanna

Frank E. Verdecanna  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 18 U.S.C SECTION 1350**

In connection with the Annual Report of iPass Inc. (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth D. Denman, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2006

/ s / Kenneth D. Denman

Kenneth D. Denman  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of iPass Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 18 U.S.C SECTION 1350**

In connection with the Annual Report of iPass Inc. (the "Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank E. Verdecanna, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2006

/ s / Frank E. Verdecanna

Frank E. Verdecanna  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of iPass Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

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