

MULTIBAND CORP  
Form 10-Q  
May 15, 2006

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

FORM 10-Q

- (Mark One)
- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND EXCHANGE ACT OF 1934  
FOR THE PERIOD ENDING MARCH 31, 2006
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE  
TRANSITION PERIOD FROM \_\_\_\_ TO \_\_\_\_

COMMISSION FILE NUMBER 0 - 1325

MULTIBAND CORPORATION  
(Exact name of registrant as specified in its charter)

MINNESOTA  
(State or other jurisdiction of incorporation or organization)

41 - 1255001  
(IRS Employer Identification No.)

9449 Science Center Drive, New Hope, Minnesota 55428  
(Address of principal executive offices)

Telephone (763) 504-3000 Fax (763) 504-3060  
Internet: [www.multibandusa.com](http://www.multibandusa.com)  
(Registrant's telephone number, facsimile number, and Internet address)

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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 Exchange Act).

Yes  No

On May 1, 2006 there were 32,539,170 shares outstanding of the registrant's common stock, no par value, and 446,098 outstanding shares of the registrant's convertible preferred stock.

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | Three Months Ended               |                                  |
|---|----------------------------------|----------------------------------|
|   | March 31,<br>2006<br>(unaudited) | March 31,<br>2005<br>(unaudited) |
| <b>REVENUES</b>   | \$ 4,404,044                     | \$ 3,706,876                     |
| <b>COSTS AND EXPENSES</b>   |                                  |                                  |
| Cost of products and services (exclusive of depreciation and amortization shown separately below) | 2,056,527                        | 1,872,268                        |
| Selling, general and administrative   | 2,972,223                        | 2,146,912                        |
| Depreciation and amortization   | 1,302,456                        | 1,148,867                        |
| Total costs and expenses  | 6,331,206                        | 5,168,047                        |
| <b>LOSS FROM OPERATIONS</b>   | (1,927,162)                      | (1,461,171)                      |
| <b>OTHER EXPENSE</b>  |                                  |                                  |
| Interest expense  | (304,681)                        | (685,701)                        |
| Other income (expense)  | 41,437                           | 4,932                            |
| Total other expense   | (263,244)                        | (680,769)                        |
| <b>LOSS FROM CONTINUING OPERATIONS</b>  | (2,190,406)                      | (2,141,940)                      |
| <b>GAIN (LOSS) FROM DISCONTINUED OPERATIONS</b>   | 2,200                            | (441,268)                        |
| <b>NET LOSS</b>   | (2,188,206)                      | (2,583,208)                      |
| Preferred stock dividends   | 263,106                          | 931,084                          |
| <b>LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>   | \$ (2,451,312)                   | \$ (3,514,292)                   |
| <b>BASIC AND DILUTED LOSS PER COMMON SHARE:</b>   |                                  |                                  |
| <b>LOSS FROM CONTINUING OPERATIONS</b>  | \$ (.07)                         | \$ (.08)                         |
| <b>LOSS FROM DISCONTINUED OPERATIONS</b>  | \$ -                             | \$ (.01)                         |
| <b>NET LOSS</b>   | \$ (.07)                         | \$ (.09)                         |
| <b>LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>   | \$ (.08)                         | \$ (.13)                         |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED</b>                                    | 32,155,873                       | 27,216,574                       |

See notes to condensed consolidated financial statements

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*ASSETS*

|  | March 31,<br>2006<br>(unaudited) | December<br>31,<br>2005<br>(audited) |
|--|----------------------------------|--------------------------------------|
| <b>CURRENT ASSETS</b>  |                                  |                                      |
| Cash and cash equivalents  | \$ 2,100,540                     | \$ 3,100,427                         |
| Accounts receivable, net   | 2,102,391                        | 2,367,864                            |
| Inventories  | 222,698                          | 241,015                              |
| Prepaid expenses and other   | 211,525                          | 216,885                              |
| Current portion of notes receivable  | 6,000                            | 11,316                               |
| Total Current Assets   | 4,643,154                        | 5,937,507                            |
| <b>PROPERTY AND EQUIPMENT, NET</b>   | 5,235,877                        | 5,247,240                            |
| <b>OTHER ASSETS</b>  |                                  |                                      |
| Goodwill   | 954,871                          | 954,871                              |
| Intangible assets, net   | 13,061,724                       | 13,923,542                           |
| Notes receivable - long-term, net  | 65,451                           | 61,341                               |
| Other assets   | 163,744                          | 146,904                              |
| Total Other Assets   | 14,245,790                       | 15,086,658                           |
| <b>TOTAL ASSETS</b>  | <b>\$ 24,124,821</b>             | <b>\$ 26,271,405</b>                 |
| <b><i>LIABILITIES AND STOCKHOLDERS' EQUITY</i></b>   |                                  |                                      |
| <b>CURRENT LIABILITIES</b>   |                                  |                                      |
| Checks issued in excess of cash in bank  | \$ -                             | \$ 93,005                            |
| Mandatory redeemable preferred stock, 28,000 and 33,334 Class F preferred shares                             | 280,000                          | 333,334                              |
| Current portion of long-term debt  | 523,314                          | 616,260                              |
| Current portion of note payable - stockholder  | 30,000                           | 32,837                               |
| Current portion of capital lease obligations   | 179,434                          | 179,932                              |
| Accounts payable   | 1,951,326                        | 1,761,249                            |
| Accrued liabilities  | 2,860,840                        | 2,741,054                            |
| Customer deposits  | 62,685                           | 64,161                               |
| Current liabilities of discontinued operations   | 500,000                          | 500,000                              |
| Deferred service obligations and revenue   | 637,475                          | 587,093                              |
| Total Current Liabilities  | 7,025,074                        | 6,908,925                            |
| <b>LONG-TERM LIABILITIES</b>   |                                  |                                      |
| Long-term debt, net  | 3,778,088                        | 3,816,536                            |
| Capital lease obligations, net of current portion  | 416,434                          | 452,649                              |
| Long-term liabilities of discontinued operations   | -                                | 125,000                              |
| Total Liabilities  | 11,219,596                       | 11,303,110                           |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                                  |                                      |
| <b>STOCKHOLDERS' EQUITY</b>  |                                  |                                      |
| Cumulative convertible preferred stock, no par value:  |                                  |                                      |
| 8% Class A (27,651 and 27,931 shares issued and outstanding, \$290,336 and \$293,276 liquidation preference) | 416,952                          | 419,752                              |
| 10% Class B (8,300 and 8,390 shares issued and outstanding, \$87,150 and \$88,095 liquidation preference)    | 58,000                           | 58,900                               |
|  | 1,606,705                        | 1,607,605                            |

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|   |                      |                      |
|---|----------------------|----------------------|
| 10% Class C (124,960 and 125,050 shares issued and outstanding, \$1,249,600 and \$1,250,500 liquidation preference)           |                      |                      |
| 10% Class F (150,000 and 150,000 shares issues and outstanding, \$1,500,000 and \$1,500,000 liquidation preference)           | 1,500,000            | 1,500,000            |
| 8% Class G (45,245 and 45,245 shares issued and outstanding, \$452,450 and \$452,450 liquidation preference)                  | 179,897              | 179,897              |
| 6% Class H (2.0 and 2.0 shares issued and outstanding, \$200,000 and \$200,000 liquidation preference)                        | -                    | -                    |
| Variable rate % Class I (90,000 and 90,000 shares issued and outstanding, \$9,000,000 and \$9,000,000 liquidation preference) | -                    | -                    |
| Common stock, no par value (32,172,891 and 32,134,558 shares issued and outstanding)  | 22,836,072           | 22,801,405           |
| Stock subscriptions receivable  | (285,173)            | (297,105)            |
| Options and warrants  | 44,575,922           | 44,259,540           |
| Unamortized compensation  | -                    | (29,861)             |
| Accumulated deficit   | (57,983,150)         | (55,531,838)         |
| Total Stockholders' Equity  | 12,905,225           | 14,968,295           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 24,124,821</b> | <b>\$ 26,271,405</b> |

See notes to condensed consolidated financial statements

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | THREE MONTHS ENDED<br>MARCH 31, |                     |
|--|---------------------------------|---------------------|
|  | 2006<br>(unaudited)             | 2005<br>(unaudited) |
| <b>OPERATING ACTIVITIES</b>  |                                 |                     |
| Net loss   | \$ (2,188,206)                  | \$ (2,583,208)      |
| Adjustments to reconcile net loss to net cash flows from operating activities: |                                 |                     |
| Depreciation and amortization  | 1,345,846                       | 1,273,112           |
| Amortization of deferred compensation  | 29,480                          | 17,761              |
| Amortization of original issue discount  | 114,908                         | 500,098             |
| Gain on sale of segment  | -                               | (103,491)           |
| Common stock issued for services   | -                               | 19,200              |
| Increase in notes receivable allowance   | -                               | 89,051              |
| Reserve for stock subscriptions and interest receivable                        | 5,932                           | -                   |
| Stock based compensation expense   | 316,763                         | -                   |
| Change in allowance for doubtful accounts on accounts receivable               | (191,450)                       | -                   |
| Changes in operating assets and liabilities:                                   |                                 |                     |
| Accounts receivable  | 456,923                         | (515,012)           |
| Inventories  | 18,317                          | (323,069)           |
| Prepaid expenses and other   | 5,360                           | (62,252)            |
| Other assets   | (16,840)                        | -                   |
| Wholesale line of credit   | -                               | (926,201)           |
| Accounts payable and accrued liabilities                                       | (13,656)                        | (377,715)           |
| Deferred service obligations and revenue                                       | 50,382                          | 73,564              |
| Liabilities of discontinued operations   | (125,000)                       | -                   |
| Customer deposits  | (1,476)                         | 265,249             |
| Net cash flows from operating activities                                       | (192,717)                       | (2,652,913)         |
| <b>INVESTING ACTIVITIES</b>  |                                 |                     |
| Purchases of property and equipment  | (362,006)                       | (141,150)           |
| Purchase of intangible assets  | (10,750)                        | (120,000)           |
| Purchase of Ultravision  | -                               | (287,050)           |
| Proceeds from sale of business segment   | -                               | 1,682,184           |
| Collections on notes receivable  | 1,206                           | -                   |
| Net cash flows from investing activities                                       | (371,550)                       | 1,133,984           |
| <b>FINANCING ACTIVITIES</b>  |                                 |                     |
| Checks issued in excess of cash in bank  | (93,005)                        | 1,003               |
| Payments on short-term debt  | -                               | (2,295,000)         |
| Payments on long-term debt   | (246,302)                       | (2,064,077)         |
| Payments on capital lease obligations  | (36,713)                        | (27,079)            |
| Payments on note payable to stockholder  | (2,837)                         | (51,964)            |
| Payments on mandatory redeemable preferred stock                               | (53,334)                        | -                   |
| Proceeds from issuance of stock and warrants                                   | -                               | 11,116,458          |
| Payments received on stock subscriptions receivable                            | 6,000                           | 66,399              |
| Redemption of preferred stock  | (4,600)                         | (800)               |

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|  |                  |                  |
|--|------------------|------------------|
| Preferred stock dividends  | (22,829)         | (24,455)         |
| Exercise of stock options  | 18,000           | -                |
| Net cash flows from financing activities                                       | (435,620)        | 6,720,485        |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                        | <b>(999,887)</b> | <b>5,201,556</b> |
| <b>CASH AND CASH EQUIVALENTS</b>   |                  |                  |
| Beginning of period  | 3,100,427        | 726,553          |
| End of period  | \$ 2,100,540     | \$ 5,928,109     |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                        |                  |                  |
| Cash paid for interest, net of amortization of original issue discount         | \$ 132,433       | \$ 255,060       |
| <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b> |                  |                  |
| Note receivable recorded on sale of discontinued operations                    | \$ -             | \$ 339,051       |
| Conversion of preferred stock and accrued dividends into common stock          | -                | 673,335          |
| Current liabilities converted to common stock                                  | -                | 10,603           |
| Conversion of notes payable into common stock                                  | -                | 548,001          |
| Conversion of accrued dividends into common stock                              | 16,667           | 94,748           |

See notes to condensed consolidated financial statements

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

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Note 1 - Unaudited Consolidated Financial Statements

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The information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the operating results for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the operating results to be expected for the full fiscal year. The consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, previously filed with the Securities and Exchange Commission.

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**NOTE 2 - Summary of Significant Accounting Policies**

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*Nature of Business*

Multiband Corporation and subsidiaries (the Company) was incorporated in Minnesota in September 1975. The Company provides voice, data and video services to multi-dwelling unit customers. The Company's products and services are sold to customers located throughout the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the three months ended March 31, 2006 and 2005, the Company incurred net losses of \$2,188,206 and \$2,583,208, respectively. At March 31, 2006, the Company had an accumulated deficit of \$57,983,150. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability and/or raising additional capital. Management intends to obtain additional debt or equity capital to meet all of its existing cash obligations and fund commitments on planned Multiband projects; however, there can be no assurance that the sources will be available or available on terms favorable to the Company. Management anticipates that the impact of the actions listed below will generate sufficient cash flows to pay current liabilities, long-term debt and capital lease obligations and fund the Company's future operations:

1. Continued reduction of operating expenses by controlling payroll, professional fees and other general and administrative expenses.
2. Continue to market Multiband services and obtain additional multi-dwelling unit customers.
3. Control capital expenditures by contracting Multiband services and equipment through a landlord-owned equipment program or by financing equipment build-outs through a leasing program.
4. Establish market for wireless internet services.
5. Solicit additional equity investment in the Company by either issuing preferred or common stock.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Multiband Corporation (MB) and its wholly owned subsidiaries, Corporate Technologies, USA, Inc. (CTU), URON Inc.(URON), Multiband USA, Inc. (MB USA), Minnesota Digital, Inc. (MDU), Rainbow Satellite Group, LLC (Rainbow) and Multiband Subscriber Services, Inc.



(Multiband) which provides voice, data and video services to residential multi-dwelling units. All significant intercompany transactions and balances have been eliminated in consolidation.

On January 1, 2004, the Company merged Multiband into CTU. On April 1, 2005, the continuing operations of CTU terminated (see Note 8.)

*Discontinued Operations*

During the first quarter of 2005, the Company sold certain assets and transferred certain liabilities related to its Multiband Business Services (a/k/a CTU). In accordance with appropriate accounting rules, the Company reclassified the previously reported financial results to exclude the results of the Multiband Business Services and these results are presented on a historical basis as a separate line in the consolidated statements of operations and the consolidated balance sheets entitled "Discontinued Operations". All of the financial information in the consolidated financial statements and notes to the consolidated financial statements has been revised to reflect only the results of continuing operations (see Note 8).

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

*Revenues and Cost Recognition*

The Company recognizes revenue in accordance with the Securities Exchange Commission's Staff Accounting Bulletin No. 104 (SAB 104) "Revenue Recognition", which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence of a customer arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) product delivery has occurred or services have been rendered. The Company recognizes revenue (included in discontinued operations) as products are shipped based on FOB shipping point terms when title passes to customers.

The Company earns revenues from six sources: 1) Video and computer technology products which are sold but not installed, 2) Voice, video and data communication products which are sold and installed, 3) Service revenues related to communication products which are sold and both installed and not installed 4) Multiband user charges to multiple dwelling units 5) MB USA user charges to timeshares, and 6) MDU earns revenue primarily through the activation of and residual fees on video programming services.

Revenues from video and computer technology products, which are sold but not installed, are recognized when delivered and the customer has accepted the terms and has the ability to fulfill the terms. Product returns and customer discounts are netted against revenues. This revenue has been included with discontinued operations.

Customers contract for both the purchase and installation of voice and data networking technology products and certain video technologies products on one sales agreement, as installation of the product is essential to the functionality of the product. Revenue is recognized when the products are delivered and installed and the customer has accepted the terms and has the ability to fulfill the terms. This revenue has been included with discontinued operations. Service revenues related to technology products including consulting, training and support are recognized when the services are provided. Service revenues accounted for less than 10% of total revenues for the three months ended March 31, 2006 and 2005. The Company, if the customer elects, enters into equipment maintenance agreements for products sold once the original manufacturer's warranty has expired. Revenues from all equipment maintenance agreements are recognized on a straight-line basis over the terms of each contract. Costs for services are expensed as incurred. This revenue has been included with discontinued operations.

Revenue generated from activation on video programming services is earned in the month of activation. According to the Company's agreement with DirecTV, in the event that a customer cancels within the first 12 months of service, DirecTV has the right to chargeback the Company for a portion of the activation fees received. In accordance with Securities Exchange Commission SAB 104, the Company has estimated the potential charge back of commissions received on activation fees during the past 12 months based on historical percentages of customer cancellations and has included that amount as a reduction of revenue. Residual income is earned as services are provided by DirecTV through its system operators. As a master system operator for DirecTV, the Company earns a fixed percentage based on net cash received by DirecTV for recurring monthly services and a variable amount depending on the number of activations in a given month. The Company's master system operator contract with DirecTV also permits the Company to earn revenues through its control of other system operators who are unable to provide DirecTV video programming services without the Company's performance.

The Company has determined that the accounting policies for income recognition described above were in accordance with the Financial Accounting Standards Board Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". EITF No. 99-19 employs multi-factor tests to determine whether amounts charged to customers in respect of certain expenses incurred should be included in revenues or

netted against such expenses.

The Company reports the aforementioned voice, data, and video revenues on a gross basis based on the following factors: the Company has the primary obligation in the arrangement with its customers; the Company controls the pricing of its services; the Company performs customer service for the agreements; the Company approves customers; and the Company assumes the risk of payment for services provided. The Company reports DirecTV revenue on a net basis.

Multiband, Rainbow, MDU and MB USA user charges are recognized as revenues in the period the related services are provided in accordance with SAB 104. Any amounts billed prior to services being provided are reported as deferred service obligations and revenues.

Warranty costs incurred on new product sales are substantially reimbursed by the equipment suppliers.

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**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

*Cash and Cash Equivalents*

The Company includes as cash equivalents, investments with original maturities of three months or less when purchased, which are readily convertible into known amounts of cash. The Company deposits its cash in high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

*Goodwill and Other Intangible Assets*

Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. Goodwill related to continuing operations was \$954,871 at both March 31, 2006 and December 31, 2005.

Components of intangible assets are as follows:

|  | March 31, 2006              |                             | December 31, 2005           |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| <b>Intangible assets subject to amortization</b>     |                             |                             |                             |                             |
| Domain name  | \$ 83,750                   | \$ 76,771                   | \$ 83,750                   | \$ 72,583                   |
| Right of entry contracts                             | 9,139,778                   | 2,724,579                   | 9,129,028                   | 2,300,664                   |
| Subscriber lists                                     | 10,151,809                  | 3,662,558                   | 10,151,809                  | 3,261,483                   |
| Debt issuance costs                                  | 499,837                     | 349,542                     | 499,837                     | 306,152                     |
| <b>Total</b>   | <b>\$ 19,875,174</b>        | <b>\$ 6,813,450</b>         | <b>\$ 19,864,424</b>        | <b>\$ 5,940,882</b>         |
| <b>Intangible assets not subject to amortization</b> |                             |                             |                             |                             |
| Goodwill   | \$ 954,871                  | \$ -                        | \$ 954,871                  | \$ -                        |

The Company amortizes a domain name over its estimated useful life of five years using the straight-line method. The Company amortizes the right of entry contracts and subscriber lists, over their estimated useful lives ranging from 24 to 120 months. Debt issuance costs are amortized over the life of the loan of approximately three years using the straight-line method, which approximates the interest method.

Amortization of intangible assets was \$872,568 and \$865,123 for the three months ended March 31, 2006 and 2005, respectively. Amortization of debt issuance costs of \$43,390 and \$65,312 for the three months ended March 31, 2006 and 2005, respectively, is included in interest expense. Estimated amortization expense of intangible assets for the years ending December 31, 2006, 2007, 2008, 2009, 2010 and 2011 is \$3,471,792, \$3,206,869, \$3,023,563, \$2,897,993, \$1,106,176 and \$54,266, respectively. The weighted average remaining life of the intangibles is 5.4 years with right of entry average life of 6.5 years and subscriber lists average life of 2.5 years.

*Stock-Based Compensation*

Effective January 1, 2006, the Company adopted SFAS No. 123R *Accounting for Stock-Based Compensation* (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective transition method and therefore the Company has not restated results for prior periods. The financial statements for the three months ended March 31, 2006 recognize compensation cost for the portion of outstanding awards which have vested during the period. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. For the three months ended March 31, 2006, total stock-based compensation expense of \$316,763 (\$.01 per share) was included in selling, general and administrative expenses.

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to its stock-based employee compensation for the three months ended March 31, 2005.

|  | Three<br>months<br>ended<br>March 31,<br>2005 |
|--|---|
| Loss attributable to common stockholders                           | \$ (3,514,292)                                |
| Pro forma loss attributable to common stockholders                 | (3,814,386)                                   |
| <b>Basic and diluted loss attributable to common stockholders:</b> |   |
| As reported  | \$ (.13)                                      |
| Pro forma loss attributable to common stockholders                 | (.14)   |
| <b>Stock-based compensation:</b>                                   |   |
| As reported  | \$ 0  |
| Pro forma  | 300,094                                       |

In determining the compensation cost of the options granted during the three months ended March 31, 2006 and 2005, as specified by SFAS No. 123, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions used in these calculations are summarized as follows:

|                                  | Three<br>months<br>ended<br>March 31,<br>2006 | Three<br>months<br>ended<br>March 31,<br>2005 |
|----------------------------------|---|---|
| Risk-free interest rate          | 4.50%   | 3.38%   |
| Expected life of options granted | 10 Years                                      | 10 Years                                      |
| Expected volatility range        | 214%  | 203%  |
| Expected dividend yield          | 0%  | 0%  |

The Company uses the Black-Scholes option-pricing model (Black-Scholes model) for the Company's pro forma information required under SFAS 123 and stock based compensation expense recognized under SFAS 123(R). The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of variables. These variables include, but are not limited to the Company's expected stock price volatility, and actual and projected stock option exercise behaviors and forfeitures.

*Net Loss per Common Share*

Basic net loss per common share is computed by dividing the loss attributable to common stockholders by the weighted average number of common shares outstanding for the reporting period. Diluted net loss per common share is computed by dividing loss attributable to common stockholders by the sum of the weighted average number of common shares outstanding plus all additional common stock that would have been outstanding if potentially dilutive

common shares related to common share equivalents (stock options, stock warrants, convertible preferred shares, and issued but not outstanding restricted stock) had been issued. All options, warrants, convertible preferred shares, and restricted stock outstanding during the three months ended March 31, 2006 and 2005 were excluded from the calculation as their effects were anti-dilutive.

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

*Segment Reporting*

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Management believes that the Company has two operating segments: 1) MCS, which acts as a principal in billing voice, data and cable revenues to subscribers; and 2) MDU, Inc. which collects net revenue from DirecTV.

*Reclassifications*

Certain accounts in the prior quarters' consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current quarter consolidated financial statements. These reclassifications had no effect on net loss or stockholders' equity.

**NOTE 3 - Business Acquisitions**

Effective April 1, 2005, the Company purchased certain video assets (equipment and video subscribers) from Ultravision, Inc. for \$287,050 cash including a finder's fee of \$12,050.

On August 26, 2005, the Company completed its acquisition of certain assets of Dinamo Entertainment, Inc. for \$2,074,225, \$652,500 of which was paid for in Company stock, valued at \$1.50 per share (as negotiated between buyer and seller), \$475,000 of which was paid for in cash, and the remaining balance of \$600,000 as a note payable to the former owner payable in monthly payments of \$14,091 including interest at 6% with a balloon payment of \$317,933 due in November 2007. The note is collateralized by the sellers assets acquired as part of the purchase. The Company also assumed debt of \$170,200 of which \$75,000 in cash was paid at closing and 40,000 shares of Company stock were issued at fair market value of \$50,000 to the debtor. The Company has assumed the lease payments for the remaining balance of \$45,200. The Company assumed monthly payments on the remaining \$45,200 balance outstanding related to ceased equipment. The Company has agreed to repurchase the 40,000 shares one year from closing if the fair market value in the 5 consecutive trading days immediately subsequent to the one year period falls below \$1.25. In connection with the acquisition, the Company incurred a \$176,525 finder's fee paid in cash at closing. The consideration paid was based on the Company's analysis of the value of the acquired video equipment and related video subscribers totaling about 3,000.

|  | <b>Dinamo</b> |
|--|---------------|
| <u>Allocation of Purchase Price:</u>         |               |
| Total Cash/Stock/Notes Payable Consideration | \$ 1,727,500  |
| Add: Transaction Costs                       | 176,525       |
| Add: Liabilities assumed                     | 170,200       |
| Total Consideration                          | 2,074,225     |
| Less: Tangible assets                        | 1,450,000     |
| Less: Goodwill                               | 150,000       |
| Intangible assets                            | \$ 474,225    |



Effective September 30, 2005, the Company sold certain video subscriber assets located in Ohio, Oklahoma and Texas to Satellite Broadcasting Corporation (SBC). The Company sold 152 video subscribers for \$167,000; \$91,500 in cash and the balance in a three year note. Terms of this note include variable monthly payments at 7% with a balloon payment in October 2008. Effective the same date, the Company purchased approximately 550 video subscribers in Minnesota from SBC for a total purchase price of \$420,125, paid as follows: \$200,000 cash at closing; \$105,000 in Company common stock valued at \$1.50 per share (as negotiated by buyer and seller); and the assumption of a capital lease obligation. Terms of this capital lease obligation include monthly payments of \$3,223 including interest at 7% through November 2008 and are collateralized by assets purchased. Included in the purchase price is \$10,125 related to a finder's fee. The purchase price was allocated to the acquired assets based on the estimated fair values as of the acquisition date. The Company allocated the purchase price to intangibles of a right of entry contracts with a value of \$315,125 and equipment of \$105,000. The rights of entry contract will be amortized over its estimated useful life of 108 months.

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

The unaudited pro forma results of operations for the three months ended March 31, 2005 as a result of the SBC, Ultravision, and Dinamo acquisitions of video subscribers and video equipment is not material to the historical financial statements.

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**NOTE 4 - Stockholder Equity**

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Stock warrants activity is as follows for the three months ended March 31, 2006:

|                                | Number of<br>Warrants | Weighted -<br>Average<br>Exercise<br>Price |
|--------------------------------|-----------------------|--|
| Outstanding, December 31, 2005 | 18,715,979            | \$ 1.68                                    |
| Granted                        | -                     | -  |
| Exercised                      | -                     | -  |
| Cancelled/Expired              | (375,000)             | (4.00)                                     |
| Outstanding, March 31, 2006    | 18,340,979            | \$ 1.63                                    |

No warrants were granted during the quarter ended March 31, 2006.

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**NOTE 5 - Accrued Liabilities**

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Accrued liabilities consisted of the following:

|                                       | March 31,<br>2006   | December<br>31,<br>2005 |
|---------------------------------------|---------------------|-------------------------|
| Payroll and related taxes             | \$ 428,374          | \$ 391,707              |
| Accrued preferred stock dividends     | 730,146             | 506,535                 |
| Accrued liability-vendor charge backs | 1,347,673           | 1,347,673               |
| Other                                 | 354,647             | 495,139                 |
| <b>Total</b>                          | <b>\$ 2,860,840</b> | <b>\$ 2,741,054</b>     |

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**NOTE 6 - Business Segments**

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The Company has the following business segments. Multiband Corp. includes corporate expenses (e.g. corporate administrative costs), interest income, interest expense, depreciation and amortization. The MDU segment represents results as the master service operator for DirecTV. The MCS segment provides voice, data and video services to

residential multi-dwelling units as the principal to subscribers. The discontinued operations segment includes the Multiband Business Services segment which was sold effective after the close of business March 31, 2005 (see Note 8).

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**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

Segment disclosures are as follows:

|   | Multiband<br>Corp. | MDU          | MCS          | Discontinued<br>Operations | Total        |
|---|--------------------|--------------|--------------|----------------------------|--------------|
| <b>Three months ended March 31, 2006:</b> |                    |              |              |                            |              |
| Revenues                                  | \$ -               | \$ 2,512,172 | \$ 1,891,872 | \$ -                       | \$ 4,404,044 |
| Income (loss) from operations             | (1,144,181)        | 904,943      | (1,687,924)  | -                          | (1,927,162)  |
| Total assets                              | 4,455,981          | 7,578,677    | 12,090,163   | -                          | 24,124,821   |
| Depreciation and amortization             | 59,797             | 401,076      | 841,583      | -                          | 1,302,456    |
| Capital expenditures                      | 23,809             | -            | 338,197      | -                          | 362,006      |

|   | Multiband<br>Corp. | MDU          | MCS          | Discontinued<br>Operations | Total        |
|---|--------------------|--------------|--------------|----------------------------|--------------|
| <b>Three months ended March 31, 2005:</b> |                    |              |              |                            |              |
| Revenues                                  | \$ -               | \$ 1,911,505 | \$ 1,795,371 | \$ -                       | \$ 3,706,876 |
| Income (loss) from operations             | (560,301)          | 352,083      | (1,252,953)  | -                          | (1,461,171)  |
| Total assets                              | 9,653,316          | 9,377,707    | 12,390,479   | -                          | 31,421,502   |
| Depreciation and amortization             | 7,843              | 401,079      | 739,945      | -                          | 1,148,867    |
| Capital expenditures                      | -                  | -            | 102,792      | 38,358                     | 141,150      |

Segment disclosures are provided by entity to the extent practicable under the Company's accounting system. Depreciation and amortization above does not include depreciation and amortization related to discontinued operations. The cash flow statements presentation of depreciation and amortization includes the depreciation and amortization from discontinued operations.

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## **NOTE 7 - Commitments and Contingencies**

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### *Legal Proceedings*

The Company is involved in legal actions in the ordinary course of its business. As of March 31, 2006, management believes that there are no pending legal proceedings against or involving the Company for which the outcome is likely to have a material adverse effect upon the Company's consolidated financial position, results of operations, or cash flows.

### *Significant Relationship*

The Company is a master agent for DirecTV pursuant to a system operator agreement with DirecTV dated August, 2005. The initial term of the agreement is for three years and provides for two additional two-year renewals if the Company has a minimum number of paying video subscribers in its system operator network. Termination of the Company's DirecTV agreement would have a material adverse impact on the Company's on-going operations. Revenues generated from DirecTV were 57.0% and 51.6% of total revenue for the three months ended March 31, 2006 and 2005, respectively.



**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

*Guaranty*

On March 1, 2006, Corporate Technologies, LLC (CTLLC), a subsidiary of North Central Equity, LLC, the purchaser of the MBS business segment, signed a lease with Lexstar Tower I Limited Partnership whereby CTLLC assumed the lease obligation for substantially all of the first floor space the Company is renting in Fargo, North Dakota for the period beginning March 1, 2006 to February 28, 2011. Pursuant to the aforementioned lease, the Company entered into a guaranty whereby the Company, in the event of a default or early termination of the lease by CTLLC, is obligated to perform CTLLC's lease obligation during months 43-60 of the lease. The Company remains obligated to provide free rent to CTLLC through March 31, 2007 as defined in the purchase agreement of MBS (see Note 8). This guaranty has no effect on the Company's consolidated financial statements for the period ended March 31, 2006. However, should Multiband eventually have to perform on the guaranty in the future, it could be liable for \$348,881 worth of rent payments plus any associated charges such as property taxes and common area maintenance.

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**NOTE 8 - Sale of Multiband Business Services segment**

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After the close of business on March 31, 2005, the Company completed the sale of certain assets and liabilities relating to its Multiband Business Services (MBS, a/k/a Corporate Technologies USA) division. The buyer was North Central Equity LLC ("Buyer").

The original purchase price paid by the Buyer was \$2,550,000 which consisted of \$1,682,184 in cash at closing, \$349,817 in assumed vacation pay and warranty liabilities, and the balance of \$517,999 in the original note receivable at 7% interest due on December 31, 2005. The amount of the note receivable was subject to adjustment based on certain representations and warranties and estimated presale customer service obligations the Buyer assumed liability for in the purchase agreement. Due to the aforementioned representations and warranties and estimated liabilities, the Company, at the notes inception established a reserve of \$178,948 against the collectibility of the note receivable. In November 2005, the note was paid by the buyer in the amount of \$400,000 which included the net adjustment for the actual amount of presale customer service obligations. The Company's gain on sale was increased \$149,865 accordingly as of September 30, 2005 to reflect this prepayment and the resolution of estimated assumed liabilities.

In connection with the purchase agreement, the Company entered into an interim services agreement whereby the Buyer is able to sublease space at no charge at the Company's Minneapolis and Fargo locations and obtain access to certain aspects of the Company's information technology resources for one year. Services provided will be charged by either party at fair value and is estimated by management to be insignificant. In addition, the services agreement is explicit that the Company has no control over the buyer's operations. The buyer also receives additional free rent for a second year due to the results of a post closing inventory appraisal (see Note 7).

**MULTIBAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006 AND 2005**

The gain on sale of MBS business services segment is as follows as adjusted at December 31, 2005:

| <b><u>Sale Price</u></b>                             |                   |
|--|-------------------|
| Cash proceeds  | \$ 1,682,184      |
| Note receivable                                      | 400,000           |
| Assumed liabilities                                  | 438,868           |
| <b>Total sale price</b>                              | <b>2,521,052</b>  |
| <b><u>Assets sold</u></b>                            |                   |
| Inventory, net of reserve                            | 1,045,110         |
| Property and equipment                               | 52,351            |
| <b>Net assets sold</b>                               | <b>1,097,461</b>  |
| <b><u>Less costs and expenses</u></b>                |                   |
| Broker's fee   | 122,500           |
| Other selling expense                                | 10,135            |
| Sublease for one year at no charge                   | 500,000           |
| Additional free rent related to inventory adjustment | 500,000           |
| Legal and accounting costs                           | 37,600            |
| <b>Total costs</b>                                   | <b>1,170,235</b>  |
| <b>Net gain on sale</b>                              | <b>\$ 253,356</b> |

The following are condensed statements of operations of the discontinued operations for the three months ended March 31:

| <b>Statement of Operations</b>                    | 2006            | 2005                |
|---|-----------------|---------------------|
| Revenues  | \$ -            | \$ 3,684,875        |
| Cost of sales                                     | -               | 2,712,781           |
| Selling, general and administrative               | (2,200)         | 1,414,410           |
| Depreciation and amortization                     | -               | 56,188              |
| <b>Income (loss) from operations</b>              | <b>2,200</b>    | <b>(498,504)</b>    |
| Other income (expense)                            | -               | (46,255)            |
| <b>Net income (loss)</b>                          | <b>2,200</b>    | <b>(544,759)</b>    |
| Gain on sale                                      | -               | 103,491             |
| <b>Income (loss) from discontinued operations</b> | <b>\$ 2,200</b> | <b>\$ (441,268)</b> |

The Company has recorded \$1 million in deferred rent liability in relation to the sale of the MBS business segment. This liability is amortized over the 24 month term of the sublease. Amortization has been netted with rent expense and the resulting income of \$16,100 is included in other income (expense) included in continuing operations for the three months ended March 31, 2006.

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**NOTE 9 - Subsequent Events**

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As of May 1, 2006, certain Multiband shareholders of record and certain contingent rights holders became eligible for a distribution of URON common stock based on the holder's ownership of Multiband shares or rights as of that date. The holders will receive .05 shares of URON common stock for each share or right to a share of Multiband common stock held on the record date.

In May 2006, 25,000 shares of Class I preferred stock with a value of \$2.5 million were converted into 1,666,667 shares of common stock.



## **FORWARD-LOOKING STATEMENTS**

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, product pricing, management for growth, integration of acquisitions, technological developments, new products, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements including those made in this statement. In order to comply with the terms of the Private Securities Litigation Reform Act, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or Company's forward-looking statements.

The risks and uncertainties that may affect the operations, performance, developments and results of the Company's business include the following: national and regional economic conditions; pending and future legislation affecting IT and telecommunications industries; market acceptance of the Company's products and services; the Company's products and services; the Company's continued ability to provide integrated communication solutions for customers in a dynamic industry; and other competitive factors.

Because these and other factors could affect the Company's operating results, past financial performance should not necessarily be considered as a reliable indicator of future performance and anticipated future period results.

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

### **OUR COMPANY**

Multiband Corporation (Multiband), is a Minnesota corporation formed in September 1975. Multiband has two operating segments: 1) Multiband Consumer Services (MCS, legally known as Multiband Subscriber Services, Inc.), which encompasses the subsidiary corporations, Multiband USA, Inc., URON, Inc., and Rainbow Satellite Group, LLC; and 2) Minnesota Digital Universe, Inc. (MDU).

Multiband completed an initial public offering in June 1984. In November 1992, Multiband became a non-reporting company under the Securities Exchange Act of 1934. In July 2000, Multiband regained its reporting company status. In December, 2000, Multiband stock began trading on the NASDAQ stock exchange under the symbol VICM. In July 2004, the symbol was changed to MBND concurrent with the Company's name change from Vicom, Incorporated to Multiband Corporation.

Multiband's website is located at: [www.multibandusa.com](http://www.multibandusa.com).

From its inception until December 31, 1998, Multiband operated as a telephone interconnect company only. Effective December 31, 1998, Multiband acquired the assets of the Midwest region of Enstar Networking Corporation (ENC), a data cabling and networking company. In late 1999, in the context of a forward triangular merger, Multiband to expand its range of computer products and related services, purchased the stock of Ekman, Inc. d/b/a Corporate Technologies, and merged Ekman, Inc. into the newly formed surviving corporation, Corporate Technologies, USA, Inc. (MBS). MBS provided voice, data and video systems and services to business and government. The MBS business segment was sold effective April 1, 2005. All references to financial information and descriptions of business in this registration have been revised to reflect only our continuing operations and all references to our now discontinued Multiband Business Services have been eliminated from the Management's Discussion and Analysis of Financial Condition and Results of Operation. MCS segment began in February 2000. MCS, the Company's continuing operating division, provides voice, data and video services to multiple dwelling units (MDU), including apartment buildings, condominiums and time share resorts. During 2004, the Company purchased video subscribers in

a number of separate transactions, the largest one being Rainbow Satellite Group, LLC. During 2004, the Company also purchased the stock of Minnesota Digital Universe, Inc., (MDU segment) which made the Company the largest master service operator in MDU's for DirecTV satellite television in the United States.

At March 31, 2006, MCS had 42,167 subscriptions for its services (1,341 voice subscriptions, 36,673 video subscriptions and 4,153 internet subscriptions). At March 31, 2006, MDU had approximately 75,331 video subscriptions managed through its network of system operators.

**SELECTED CONSOLIDATED FINANCIAL DATA**DOLLAR AMOUNTS AS A  
PERCENTAGE OF REVENUES  
THREE MONTHS ENDED

|  | March 31,<br>2006<br>(unaudited) | March 31,<br>2005<br>(unaudited) |
|--|----------------------------------|----------------------------------|
| REVENUES   | 100%                             | 100%                             |
| COST OF PRODUCTS & SERVICES<br>(Exclusive of depreciation and<br>amortization shown below) | 46.7%                            | 50.7%                            |
| SELLING, GENERAL &<br>ADMINISTRATIVE   | 67.5%                            | 57.9%                            |
| DEPRECIATION & AMORTIZATION  | 29.5%                            | 31.0%                            |
| LOSS FROM OPERATIONS   | -43.7%                           | -39.6%                           |
| INTEREST EXPENSE & OTHER, NET  | -6.0%                            | -18.2%                           |
| LOSS FROM CONTINUING<br>OPERATIONS   | -49.7%                           | -57.8%                           |
| INCOME (LOSS) FROM<br>DISCONTINUED OPERATIONS  | -                                | -11.9%                           |
| NET LOSS   | -49.7%                           | -69.7%                           |

**RESULTS OF OPERATIONS***Revenues*

Total revenues increased 18.8% to \$4,404,044 for the quarter ended March 31, 2006 as compared to \$3,706,876 for the quarter ended March 31, 2005. This increase is primarily due to an increase in agent fees and revenue generating subscriptions during the comparable periods. The Company expects revenues to continue to increase in 2006 over 2005 as the Company adds additional services and thus additional revenue generating subscriptions to new and existing properties.

Revenues in the first quarter of fiscal year 2006, for the MCS segment, increased 5.4% to \$1,891,872 as compared to \$1,795,371 in the first quarter of fiscal 2005. This increase is primarily due to an increase in revenue generating subscriptions during the comparable periods.

Revenues in the first quarter of 2006 for the MDU segment increased 34.6% to \$2,512,172 as compared to \$1,911,505 in the first quarter of fiscal 2005. This increase is primarily due to the number of managed subscribers and a related increase in agent fees during the comparable period.

*Cost of Products and Services (Exclusive of depreciation and amortization)*

The Company's cost of products and services, exclusive of depreciation and amortization, increased by 9.8% to \$2,056,527 for the quarter ended March 31, 2006 as compared to \$1,872,268 for the similar quarter last year. Costs of

products and services for the MCS segment for the quarter were \$1,011,436 compared to \$916,032 in the same quarter last year, a 10.4% increase. Costs of products and services for the MDU segment for the quarter were \$1,045,091 compared to \$956,236 in the same quarter last year, a 9.3% increase. The increase in costs of services in both segments is directly related to the increase in services revenues. The Company anticipates that, on a percentage basis, revenues throughout 2006 will increase slightly ahead of costs due to the expectation that customer penetrations in given properties will grow as additional services are added to those properties. The Company's past operating performance indicates that performance on a property level improves when the Company offers two or three services at a property versus a single service.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 38.4% to \$2,972,223 in the quarter ended March 31, 2006, compared to \$2,146,912 in the prior year quarter. Selling, general and administrative expenses were, as a percentage of revenues, 67.5% for the quarter ended March 31, 2006 and 57.9% for the similar period a year ago. This increase is primarily a result of increased expenses related to an increase in revenue and due to stock option expense of \$316,763 required to be recognized in the current quarter versus \$0 stock option in expense in the comparable period. The Company anticipates that selling, general and administrative expenses, exclusive of stock option expenses, will remain relatively constant in future periods as the Company has now largely integrated various billing and customer service activities related to its acquisitions in 2004 and 2005.

*Interest Expense*

Interest expense was \$304,681 for the quarter ended March 31, 2006, versus \$685,701 for the similar period a year ago, primarily reflecting a decrease in the Company's debt and original issue discount expense. Amortization of original issue discount was \$114,908 and \$500,098 for the three months ended March 31, 2006 and 2005.

*Loss from Operations*

The Company, in the first quarter of 2006, incurred a loss from operations for its combined operating business segments of \$1,927,162 versus a loss of \$1,461,171 during the prior year's period. The MDU segment showed a profit from operations of \$904,943 during the first quarter of 2006 versus profits of \$352,083 for the three months ended March 31, 2005. For the first quarter of 2006, the MCS segment showed a loss from operations of \$1,687,924 versus a loss of \$1,252,953 for the prior year period. The Multiband Corporation segment, which has no revenues, showed a loss from operations of \$1,144,181 for the three months ended March 31, 2006 versus a loss of \$560,301 for the same period last year.

*Net Loss*

In the first quarter of fiscal 2006, the Company incurred a net loss of \$2,188,206 compared to a net loss of \$2,583,208 for the first fiscal quarter of 2005.

*Liquidity and Capital Resources*

During the three months ended March 31, 2006 and 2005, the Company recorded a net loss of \$2,188,206 and \$2,583,208, respectively. Net cash used by operations during the three months ended March 31, 2006 was \$192,717 as compared to cash used by operations during the three months ended March 31, 2005 of \$2,652,913. Operating cash flows improved significantly during the comparable periods. This improvement in cash flows is primarily due to a reduction of accounts payable and accrued liabilities and retirement of a wholesale line of credit for the three months ended March 31, 2005 related to the Company's sale of the MBS segment. Management believes that over the next 12 months there will be a decrease in accrued liabilities and no significant change in accounts payable. Principal payments on current long-term debt over the next 12 months is expected to be \$799,630.

Cash and cash equivalents totaled \$2,100,540 at March 31, 2006 versus \$3,100,427 at December 31, 2005. Available working capital deficit for the three months ended March 31, 2006 increased to \$2,381,920 as compared to \$971,418, at December 31, 2005, primarily due to funds invested in project build-outs and the operating loss for the quarter. Total debt was reduced in the three months ended March 31, 2006 as the Company continued to retire financing debt and debt related to acquisitions. The Company had a material increase in accounts receivables for the period ended March 31, 2006 reflecting increased revenues over the comparable quarter ended March 31, 2005. Net cash flows from investing activities totaled (\$371,550) compared to \$1,133,984 for the comparable period reflecting the sale of

the MBS segment.

The Company continues to experience growth, primarily due to increased subscribers and recurring revenues acquired from the various transactions previously mentioned herein.

Management of Multiband believes that cash on hand, capital resources and cash from operations as of March 31, 2006, will be adequate to meet the anticipated liquidity and capital resource requirements of its business for the next 12 months.

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### *Capital Expenditures*

The Company used \$362,006 for capital expenditures during the three months ended March 31, 2006, as compared to \$141,150 in the similar period last year. Capital expenditures consisted of project build-outs and equipment acquired for internal use. We estimate capitalized expenditures for the remainder of 2006 will be approximately \$500,000.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### Impairment of Long-Lived Assets

The Company's long-lived assets include property, equipment and leasehold improvement. At March 31, 2006, the Company had net property and equipment of \$5,235,877, which represents approximately 22% of the Company's total assets. The estimated fair value of these assets is dependent on the Company's future performance. In assessing for potential impairment for these assets, the Company considers future performance. If these forecasts are not met, the Company may have to record an impairment charge not previously recognized, which may be material. During the three months ended March 31, 2006 and 2005, the Company did not record any impairment losses related to long-lived assets.

### Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. During the three months ended March 31, 2006 and 2005, the Company did not record any impairment losses related to goodwill.

### Amortization of Intangible Assets

The Company amortizes a domain name over its estimated useful life of five years using the straight-line method. The Company amortizes right of entry contracts and subscriber lists over their estimated useful lives ranging from 24 to 120 months.

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

Multiband is not subject to any material interest rate risk as any current lending agreements are at a fixed rate of interest except for the notes payable to Laurus Master Fund, Ltd., which is three percent over the prime interest rate and the Convergent Capital note of \$2,500,000, which varies from 11% to 14%, dependent on the Company's common stock price. Multiband also has variable rate % of Class I convertible preferred stock which pays dividends on a basis of prime rate.

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

As of the end of the period covered by this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14(c) of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely basis to material information relating to the Company required to be disclosed in the Company's periodic SEC reports. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.





## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

As of March 31, 2006, Multiband was not engaged in any pending legal proceedings where, in the opinion of the Company, the outcome is likely to have a material adverse effect upon the business, operating results and financial condition of the Company.

### **ITEM 1A. RISK FACTORS**

Our operations and our securities are subject to a number of risks, including but not limited to those described below. If any of the following risks actually occur, the business, financial condition or operating results of Multiband and the trading price or value of our common stock could be materially adversely affected.

#### **General**

Multiband, since 1998, has taken several significant steps to reinvent and reposition itself to take advantage of opportunities presented by a shifting economy and industry environment.

Recognizing that voice, data and video technologies in the late twentieth century were beginning to systematically integrate as industry manufacturers were evolving technological standards from "closed" proprietary networking architectures to a more "open" flexible and integrated approach, Multiband, between 1998 and 2001, purchased three competitors which, in the aggregate, possessed expertise in data networking, voice and data cabling and video distribution technologies.

In early 2000, Multiband created its MCS division, employing the aforementioned expertise, to provide communications and entertainment services (local dial tone, long distance, high-speed internet and expanded satellite television services) to residents in MDUs on one billing platform, which the Company developed internally.

The specific risk factors, as detailed below, should be analyzed in the context of the Company's anticipated MCS related growth.

#### **Net Losses**

The Company had net losses of \$2,188,206 for the three months ended March 31, 2006, \$7,475,000 for the year ended December 31, 2005, \$9,783,962 for the year ended December 31, 2004. Multiband may never be profitable.

The prolonged effects of generating losses without additional funding may restrict our ability to pursue our business strategy. Unless our business plan is successful, an investment in our common stock may result in a complete loss of an investor's capital.

If we cannot achieve profitability from operating activities, we may not be able to meet:

- o our capital expenditure objectives;
- o our debt service obligations; or
- o our working capital needs.

## **Goodwill**

In June 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets" which changed the amortization rules on recorded goodwill from a monthly amortization to a periodic "impairment" analysis for fiscal years beginning after December 15, 2001. As of December 31, 2005, the Company had remaining recorded goodwill of \$954,871 primarily related to the purchase of Rainbow Satellite Group, LLC. and the purchase of certain assets of Dinamo Entertainment, Inc. At March 31, 2006, the Company did not note any indications of impairment related to goodwill.

## **Deregulation**

Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced that address issues affecting operations and those of our competitors, which may cause significant changes to our industry. We cannot predict the outcome of these developments, nor can we assure you that these changes will not have a material adverse effect on us. Historically, we have been a reseller of products and services, not a manufacturer or carrier requiring regulation of its activities. Pursuant to Minnesota statutes, our Multiband activity is specifically exempt from the need to tariff our services in MDU's. However, the Telecommunications Act of 1996 provides for significant deregulation of the telecommunications industry, including the local telecommunications and long-distance industries. This federal statute and the related regulations remain subject to judicial review and additional rule-makings of the Federal Communications Commission, making it difficult to predict what effect the legislation will have on us, our operations, and our competitors.

## **Dependence on Strategic Alliances**

Several suppliers or potential suppliers of Multiband, such as McLeod, WorldCom, WS Net, XO Communications and others have filed for bankruptcy in recent years. While the financial distress of its suppliers or potential suppliers could have a material adverse effect on Multiband's business, Multiband believes that enough alternate suppliers exist to allow the Company to execute its business plans. The Company is also highly dependent on its Master System Operator agreement with DirecTV. The initial term of the agreement, which expires in August 2008, is for three years and provides for two additional two-year renewals if the Company has a minimum number of paying video subscribers in its system operator network. Although an alternate provider of satellite television services, Echostar, exists, the termination of its agreements with DirecTV could have a material adverse effect on Multiband's business.

## **Changes in Technology**

A portion of our projected future revenue is dependent on public acceptance of broadband and expanded satellite television services. Acceptance of these services is partially dependent on the infrastructure of the internet and satellite television which is beyond Multiband's control. In addition, newer technologies, such as video-on-demand, are being developed which could have a material adverse effect on the Company's competitiveness in the marketplace if Multiband is unable to adopt or deploy such technologies.

## **Attraction and Retention of Employees**

Multiband's success depends on the continued employment of certain key personnel, including executive officers. If Multiband were unable to continue to attract and retain a sufficient number of qualified key personnel, its business, operating results and financial condition could be materially and adversely affected. In addition, Multiband's success depends on its ability to attract, develop, motivate and retain highly skilled and educated professionals with a wide variety of management, marketing, selling and technical capabilities. Competition for such personnel is intense and is expected to increase in the future.



## **Intellectual Property Rights**

Multiband relies on a combination of trade secret, copyright, and trademark laws, license agreements, and contractual arrangements with certain key employees to protect its proprietary rights and the proprietary rights of third parties from which Multiband licenses intellectual property. Multiband also relies on agreements with owners of MDUs which grant the Company rights of access for a specific period to MDU premises whereby Multiband is allowed to offer its voice, data, and video services to individual residents of the MDUs. If it was determined that Multiband infringed the intellectual property rights of others, it could be required to pay substantial damages or stop selling products and services that contain the infringing intellectual property, which could have a material adverse effect on Multiband's business, financial condition and results of operations. Also, there can be no assurance that Multiband would be able to develop non-infringing technology or that it could obtain a license on commercially reasonable terms, or at all. Multiband's success depends in part on its ability to protect the proprietary and confidential aspects of its technology and the products and services it sells. There can be no assurance that the legal protections afforded to Multiband or the steps taken by Multiband will be adequate to prevent misappropriation of Multiband's intellectual property.

## **Variability of Quarterly Operating Results**

Variations in Multiband's revenues and operating results occur from quarter to quarter as a result of a number of factors, including customer engagements commenced and completed during a quarter, the number of business days in a quarter, employee hiring and utilization rates, the ability of customers to terminate engagements without penalty, the size and scope of assignments and general economic conditions. Because a significant portion of Multiband's expenses are relatively fixed, a variation in the number of customer projects or the timing of the initiation or completion of projects could cause significant fluctuations in operating results from quarter to quarter.

## **Certain Anti-Takeover Effects**

Multiband is subject to Minnesota statutes regulating business combinations and restricting voting rights of certain persons acquiring shares of Multiband. These anti-takeover statutes may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of Multiband's securities, or the removal of incumbent management.

## **Volatility of Multiband's Common Stock**

The trading price of our common stock has been and is likely to be volatile. The stock market has experienced extreme volatility, and this volatility has often been unrelated to the operating performance of particular companies. We cannot be sure that an active public market for our common stock will continue. Investors may not be able to sell the common stock at or above the price they paid for their common stock, or at all. Prices for the common stock will be determined in the marketplace and may be influenced by many factors, including variations in our financial results, changes in earnings estimates by industry research analysts, investors' perceptions of us and general economic, industry and market conditions.

## **Future Sales of Our Common Stock May Lower Our Stock Price**

If our existing shareholders sell a large number of shares of our common stock, the market price of the common stock could decline significantly. The perception in the public market that our existing shareholders might sell shares of common stock could depress our market price.

## **Competition**

We face competition from others who are competing for a share of the MDU market, including other satellite companies, cable companies and telephone companies. Some of these companies have significantly greater assets and resources than we do.

**ITEM 6. EXHIBITS**

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.

31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

**SIGNATURES**

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

MULTIBAND CORPORATION  
Registrant

Date: May 15, 2006

By:

/s/ James L. Mandel  
*Chief Executive Officer*

Date: May 15, 2006

By:

/s/ Steven M. Bell  
*Chief Executive Officer*  
*(Principal Financial and Accounting Officer)*