DAVEL
COMMUNICATIONS, INC

RECEIVED
2004 SEP 17 AM 10: 23
T.R.A. DOCKET ROOM

Via U.S. Postal Service Overnight Mail

September 14, 2004

Mr Pat Miller, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

DOCKET NO.
04-00294

RE: Pending Transaction

Dear Mr Miller.

Pursuant to my conversation with David McCalahan of the telecom division of the Tennessee Regulatory Authority ("TRA") enclosed herewith are thirteen copies of the petition being filed on behalf of Telaleasing Enterprises, Inc. ("TEI") and PhoneTel Technologies, Inc ("PhoneTel") in connection with a pending transaction of its parent corporation, Davel Communications, Inc

As is outlined in the attached petition it is unclear whether the contemplated transaction falls within the parameters of Sections 65-4-112 and Sections 65-4-113 since there will be no change of control or change of ownership at the regulated entity level, and there will be no transfer of ownership of the underlying COCOT permits. In that regard, we respectfully request that the TRA expeditiously review and approve the transaction contemplated herein, or otherwise advise that formal approval by the TRA is not required The closing of the transaction contemplated herein is being delayed to facilitate the review and/or approval process as may be required by the TRA

I certainly appreciate your assistance with regard to this matter. In the event there should be any questions concerning the attached please do not hesitate to contact me at (216) 875-4200, via facsimile at (216) 875-4337 or via email at tmartin@davelcomm com

Best regards,

Davel Communications, Inc.

TMartin

Tammy L. Martin
General Counsel

Tlm/mys
Enclosures

RECEIVED
2004 SEP 17 AM 10: 23
T.R.A. DOCKET ROOM

DAVEL
COMMUNICATIONS, INC

PAID T.R.A.
Chk # 00004939
Amount $ 25.00
Rcvd By RA
Date 9/17/04

Via U.S. Postal Service Overnight Mail

September 16, 2004

Ms. Sharon Dillon
Dockets and Records Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Filing Fee

Dear Ms. Dillon:

As a follow up to your email message, enclosed please find a check in the amount of Twenty-Five Dollars ($25 00) representing the filing fee with respect to our Change of Control Petition.

In the event there should be any questions concerning this matter please do not hesitate to contact me at (216) 875-4200, via facsimile at (216) 875-4337 or via email at tmartin@davelcomm com.

Best regards,

Davel Communications, Inc.

TMartin

Tammy L. Martin
General Counsel

Tlm/mys
Enclosures

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

Petition of Telaleasing Entrerprises, Inc. and PhoneTel Technologies, Inc. for Approval of Change of Ownership Transaction	)))	Docket No. 90-05630, 93-08876

Telaleasing Enterprises, Inc. ("TEI") and PhoneTel Technologies, Inc. ("PhoneTel") petition the Tennessee Regulatory Authority ("TRA") for an approval of a change of ownership transaction pursuant to T.C.A. Sections 65-4-112 and Sections 65-4-113 or to otherwise determine that such an approval is not required. In support of this Petition, TEI and PhoneTel provide the following information:

1. TEI and PhoneTel each maintain a principal place of business at 200 Public Square, Suite 700, Cleveland, Ohio 44114.

2. On July 9, 1990, TEI was granted authority to provide pay telephone ("COCOT") services in the State of Tennessee under Docket No. 90-05630.

3. On December 17, 1993, PhoneTel was granted authority to provide COCOT services in the State of Tennessee under Docket No. 93-08876.

4. TEI and PhoneTel are each a wholly owned subsidiary of Davel Communications, Inc. ("Davel").

5. Davel, the parent corporation of both TEI and PhoneTel, is a publicly held entity that is not regulated by the TNR. Davel does not intend to become an entity regulated by the TNR.

6. Davel's secured debt and approximately 95% of Davel's publicly traded common stock (the "Majority Interest") is held by ten entities (the "Selling Shareholders").

7. The Selling Shareholders have entered into a Loan Purchase Agreement and Transfer and Assignment of Shares Agreement (the "Agreement") to sell the Majority Interest and secured debt to MobilePro Corporation ("MobilePro"). A copy of the Agreement is attached hereto as Exhibit "A". There are no additional shares of common stock being offered for sale by Davel.

8. Upon the closing of the Agreement, both TEI and PhoneTel will remain wholly owned subsidiaries of Davel. There will be no ownership change of TEI or PhoneTel; therefore, no change of control will occur with respect to the ownership of TEI and PhoneTel.

9. Each TEI and PhoneTel will continue to provide COCOT services and will retain ownership of its COCOT certificates. There will be no transfer of ownership of either certificate to provide COCOT services. As of the date of this filing, TEI provides COCOT services at approximately 1,436 installations and PhoneTel provides COCOT services at approximately 1,079 installations.

10. Each TEI and PhoneTel will continue to service its existing COCOT customers in the State of Tennessee. There will be no impact to the COCOT customers of either TEI or PhoneTel as a result of the closing of the Agreement.

11. Attached hereto as Exhibit "B" is a corporate organizational chart for TEI and PhoneTel. The corporate organizational chart will remain unchanged after the closing of the Agreement.

12. Davel's financial statements are attached hereto as Exhibit "C". There will be no change in the debt structure after the closing of the Agreement.

13. To the extent possible, TEI and PhoneTel hereby respectfully request an expedited review of this petition so that Davel can expeditiously move to close the transaction outlined hereinabove.

WHEREFORE, TEI and PhoneTel respectfully request that the TRA authorize the change of control of Davel, or otherwise determine that a formal authorization is not required.

Respectfully submitted,

Davel Communications, Inc. and its wholly owned subsidiaries Telaleasing Enterprises, Inc. and PhoneTel Technologies, Inc.

TMartin

Tammy L. Martin
General Counsel
200 Public Square, Suite 700
Cleveland, Ohio 44114
(216) 875-4200
facsimile: (216) 875-4337
email: tmartin@davelcomm com

Exhibit "A"

Loan Purchase Agreement and Transfer and Assignment of Shares Agreement

LOAN PURCHASE AGREEMENT
AND TRANSFER AND ASSIGNMENT OF SHARES

THIS LOAN PURCHASE AGREEMENT AND TRANSFER AND ASSIGNMENT OF SHARES (the "***Agreement***") is entered into as of September __, 2004 by and among MOBILEPRO CORP. ("***Parent***"), a Delaware corporation, its wholly-owned subsidiary, DAVEL ACQUISITION CORP., a Delaware corporation (the "***Buyer***"), DAVEL COMMUNICATIONS, INC, a Delaware corporation (the "***Company***"), and certain stockholders of the Company listed on Exhibit A hereto (collectively, the "***Selling Lenders***").

RECITALS

A. The Selling Lenders desire to sell, transfer and assign to the Buyer, and the Buyer desires to purchase the loans of the Company held by the Selling Lenders and enforceable against the Company in the outstanding principal amounts and for the purchase price for each such loan set forth on Exhibit B attached hereto (the "***Company Debt***").

B. Contemporaneously with the purchase of the Company Debt by the Buyer, (i) the Selling Lenders shall transfer and assign to the Buyer on the terms set forth in this Agreement all of the issued and outstanding shares of capital stock of the Company held by the Selling Lenders and their affiliates as set forth on Exhibit B attached hereto (the "***Shares***") as such Exhibit shall be updated at Closing regarding the number of Shares held by each Selling Lender and its affiliates; and (ii) in consideration for the Buyer purchasing that portion of the Company Debt held by Cerberus Partners, L.P. ("***Cerberus***"), Cerberus shall transfer and assign to the Buyer all of its right, title and interest in and to the obligations of the Company evidenced by that certain $1,000,000 Subordinated Promissory Note dated November 17, 1999, and that certain Security Agreement related thereto also dated November 17, 1999, among PhoneTel Technologies, Inc., Cherokee Communications, Inc. and Cerberus (the "***Cerberus Subordinated Debt***") and (iii) Styx Partners, L.P ("Styx") shall transfer and assign to the Buyer on the terms set forth in this Agreement all of the Shares held by Styx.

C. To facilitate the transactions contemplated herein (the "***Transactions***") and as a condition to the consummation thereof, the Buyer and the Selling Lenders require that the Company be a party to this Agreement, and the Company is willing to participate in the Transactions on the terms set forth in this Agreement for such purpose. Furthermore, as consideration for the Transactions, the Buyer is willing to covenant and agree with the Company for the benefit of stockholders of the Company who are not Selling Lenders or affiliates of the Selling Lenders (collectively, the "***Minority Stockholders***") to purchase the remaining shares of capital stock of the Company held by the Minority Stockholders on the terms set forth in this Agreement.

In consideration of the foregoing and the representations, warranties, covenants and agreements set forth in this Agreement, the parties hereto hereby agree as follows:

1. **SALE OF THE COMPANY DEBT; TRANSFER AND ASSIGNMENT OF THE SHARES; CLOSING**

1.1 **Sale of the Company Debt**. Subject to the terms and conditions of this Agreement, at the Closing (as hereinafter defined), the Selling Lenders will sell, transfer and assign the Company Debt and all documents and instruments evidencing the Company Debt to the Buyer, and the Buyer will purchase such Company Debt from the Selling Lenders. Without limiting the foregoing, the Selling Lenders will transfer and assign to the Buyer all of their right, title and interest in that certain Amended, Restated and Consolidated Credit Agreement dated as of July 24, 2002 by and among Davel Financing Company, L.L.C., PhoneTel Technologies, Inc , Cherokee Communications, Inc., Davel Communications, Inc., the domestic subsidiaries of each of the foregoing and Foothill Capital Corporation, as Agent, and the lenders set forth therein, as amended by the First Amendment and Waiver to Amended, Restated, and Consolidated Credit Agreement dated as of March 31, 2003 by and among Davel Financing Company, L.L.C , PhoneTel Technologies, Inc., Cherokee Communications, Inc., Davel Communications, Inc., the domestic subsidiaries of each of the foregoing and Foothill Capital Corporation, as Agent, and the lenders set forth therein, the Second Amendment and Waiver to Amended, Restated and Consolidated Credit Agreement dated as of February 24, 2004 and the Third Amendment and Waiver to Amended, Restated, and Consolidated Credit Agreement dated as of August 11, 2004 (collectively, the "***Credit Agreement***"), the Amended, Restated, and Consolidated Security Agreement dated as of July 24, 2002 by and among Davel Financing Company, L L.C., PhoneTel Technologies, Inc., Cherokee Communications, Inc., Davel Communications, Inc., the domestic subsidiaries of each of the foregoing and Foothill Capital Corporation, as Agent, and the lenders set forth therein (the "***Security Agreement***"), and all of the other documents, instruments and agreements between the Company and the Selling Lenders or made by the Company for the benefit of the Selling Lenders to evidence or secure the Company Debt (collectively and with the Credit Agreement and Security Agreement, the "***Loan Documents***"). Copies of each of the Credit Agreement and Security Agreement are attached hereto as Exhibit C and Exhibit D, respectively

1.2 **Transfer and Assignment of the Shares; Sale of Cerberus Subordinated Debt**.

(a) For no additional consideration, at the Closing, the Selling Lenders will transfer and assign, or cause the transfer and assignment of, the Shares that they hold to the Buyer, and the Buyer will take such assignment of the Shares from the Selling Lenders.

(b) In consideration for the Buyer purchasing that portion of the Company Debt that is held by Cerberus, and subject to the terms and conditions of this Agreement, at the Closing, (i) Cerberus will transfer and assign to the Buyer all of its right, title and interest in and to the Cerberus Subordinated Debt, and the Buyer will take such assignment of the Cerberus Subordinated Debt from Cerberus and (ii) Styx will transfer and assign to the Buyer all of its right, title and interest in and to the Shares that it holds.

1.3 **Purchase Price**. The purchase price (the "***Purchase Price***") for the Company Debt will be $14,550,000 in the aggregate, plus the Additional Adjustment Amount (as hereinafter defined) to be paid to each of the Selling Lenders. The Purchase Price will be allocated among the Selling Lenders as set forth on Exhibit B to this Agreement as such Exhibit shall be updated at Closing regarding the expenses and outstanding Company Debt. The Purchase Price allocation and the percentage for payment of the Additional Adjustment Amount correspond to each Selling Lender's respective interest in the total outstanding principal amount of the Company Debt, subject to an adjustment of the Purchase Price to compensate Wells Fargo Foothill, Inc. and Cerberus for certain expenses they have incurred on behalf of the Selling Lenders

1.4 Buyer Deposit. Within one business day of the execution of this Agreement, the Buyer will deposit $1,000,000 (the "***Buyer Deposit***") into an escrow account established with a third party escrow agent pursuant to the Buyer Deposit Escrow Agreement in the form of Exhibit J attached hereto In the event that the Closing takes place, the Buyer Deposit shall be applied against the Purchase Price and the amount of the Purchase Price required to be delivered pursuant to Section 1.6.2(a) hereunder shall be so reduced by the amount of the Buyer Deposit. In the event that the Buyer fails to consummate the Transactions contemplated by this Agreement and this Agreement is terminated by the Selling Lenders pursuant to Section 10.1(g) hereunder, the Buyer Deposit shall be paid to each of the Selling Lenders in the same allocations set forth on Exhibit B to this Agreement, subject to an adjustment of such allocation to compensate Wells Fargo Foothill, Inc. and Cerberus for certain expenses they have incurred on behalf of the Selling Lenders. In the event that this Agreement is terminated for any other reason, the Buyer Deposit shall be refunded to the Buyer.

1.5 Closing. The purchase and sale of the Company Debt and the transfer and assignment of the Shares will take place at the offices of Schiff Hardin LLP, 1101 Connecticut Avenue, NW, Suite 600, Washington, DC 20036, at 10:00 a.m. Eastern Standard Time, on a date which shall be no later than fifteen (15) days following the satisfaction or, if permissible, the waiver of the conditions set forth in Sections 7, 8 and 9 hereof (the "***Closing Date***") or at such other time and place as the Buyer, the Company and the Selling Lenders mutually agree upon (which time and place are referred to in this Agreement as the "***Closing***").

1.6 Closing Obligations. At the Closing:

1.6.1 Each Selling Lender will deliver to the Buyer:

(a) a duly executed Transfer and Assignment of Debt Obligations, Credit Agreement and Security Agreement in the form of Exhibit E attached hereto;

(b) certificates representing the number of Shares that such Selling Lender has agreed to sell hereunder as shown on Exhibit B attached hereto, duly endorsed (or accompanied by duly executed stock powers) for transfer to the Buyer;

(c) a mutual release of claims in the form of Exhibit F attached hereto (the "***Mutual Release***") executed by such Selling Lender explicitly releasing certain claims such Selling Lender may have against the Company, which Mutual Release is not intended to release the Company or its Subsidiaries from any of their respective (i) obligations created under this Agreement or the Company Ancillary Agreements, (ii) obligations under the Loan Documents, (iii) obligations under the Cerberus Subordinated Debt or (iv) obligations under a certain Agreement to Exchange Indebtedness for Personal Property between the Company and the Selling Lenders;

(d) a duly executed Registration Rights Agreement in the form of Exhibit H attached hereto;

(e) a certificate executed by each Selling Lender representing and warranting to the Buyer that each of such Selling Lender's representations and warranties in this Agreement was accurate in all material respects as of the date of this Agreement and is accurate in all material respects as of the date of the Closing Date,

(f) a duly executed Resignation and Appointment of Agent in the form of Exhibit L attached hereto; and

(g) a duly executed Stockholder Escrow Agreement in the form of Exhibit I. attached hereto.

1.6.2 The Buyer will deliver to the Selling Lenders:

(a) The Purchase Price paid by wire transfers of funds to each of the Selling Lenders (pursuant to their respective wire transfer instructions set forth on Exhibit A to this Agreement) in accordance with the allocations set forth on Exhibit B to this Agreement;

(b) a duly executed Transfer and Assignment of Debt Obligations, Credit Agreement and Security Agreement in the form of Exhibit E attached hereto for each Selling Lender;

(c) Warrants to purchase an aggregate of 5,000,000 shares of Parent's common stock at $0.30 (thirty cents) per share, in the form of Exhibit G attached hereto, which Warrants shall be allocated among the Selling Lenders as set forth in Exhibit B attached hereto;

(d) the Registration Rights Agreement in the form attached hereto as Exhibit H duly executed by Parent;

(e) a certificate executed by the Buyer and Parent representing and warranting to the Company and the Selling Lenders that each of the Buyer's and Parent's representations and warranties in this Agreement was accurate in all material respects as of the date of this Agreement and is accurate in all material respects as of the date of the Closing Date (giving full effect to any supplements to the Disclosure Letter that were delivered by the Buyer and Parent to the Selling Lenders prior to the Closing Date in accordance with Sections 8.1 and 8.2 hereof);

(f) a duly executed Resignation and Appointment of Agent in the form of Exhibit L attached hereto; and

(g) the Stockholder Escrow Agreement in the form attached hereto as Exhibit I duly executed by Parent.

1.6.3 The Company will deliver to the Buyer or the Selling Lenders as indicated:

(a) to the Selling Lenders, the Mutual Release in the form of Exhibit F attached hereto executed by the Company explicitly releasing certain claims against the Selling Lenders; which Mutual Release is not intended to release any of the Selling Lenders or their affiliates from obligations created under this Agreement or any of the Selling Lender Ancillary Agreements (as hereinafter defined);

(b) to the Buyer and Parent, at the Buyer's expense, opinions of counsel that no regulatory approvals or consents are required in advance of the Closing in connection with the Transactions in the following states: California, Florida, Georgia, Illinois, Mississippi, North Carolina, New Mexico, New York and Virginia; and

(c) to the Buyer and Parent a certificate executed by the Company representing and warranting to the Buyer and Parent that each of the Company's representations and warranties in this Agreement was accurate in all material respects as of the date of this Agreement and is accurate in all material respects as of the date of the Closing (giving full effect to any supplements to the Company Disclosure Letter that was delivered by the Company to the Buyer and Parent prior to the Closing Date in accordance with Sections 9 1 and 9.2 hereof).

1.7 **Purchase of Remaining Company Shares** The Buyer covenants and agrees with the Company for the benefit of the Minority Stockholders to purchase all of the approximately 4.8% of the shares of capital stock of the Company held by the Minority Stockholders (the "***Public Shares***") according to the following terms.

1.7.1 Not later than 180 days after the Closing Date, the Buyer or Parent shall offer to purchase the Public Shares from the Minority Stockholders by tender offer, short-form merger or such other transaction as Parent elects (the "***Tender Offer***"). The purchase price offered to the Minority Stockholders shall be an amount per share of not less than $0.015, which may be paid in cash or securities of Parent.

1.7.2 Prior to making the Tender Offer, the Buyer or Parent, at its sole expense, shall retain a reputable investment banker or other financial advisor to render an opinion as to the fairness, from a financial point of view, of the terms of the Tender Offer to the Minority Stockholders (the "***Fairness Opinion***"). In the event that such financial advisor declines to render a Fairness Opinion for the reason that the price offered to the Minority Stockholders for the Public Shares is insufficient, then the Buyer or Parent may increase the price per Public Share offered to the Minority Stockholders.

1.7.3 At the Closing, the Buyer or Parent shall deposit $450,000 (the "***Escrow Amount***") into an escrow account established with a third-party escrow agent pursuant to the Escrow Agreement in the form of Exhibit I attached hereto (the "***Stockholder Escrow Agreement***"). In the event the Buyer or Parent complete the Tender Offer as described in this Section 1.7 and purchase all Public Shares tendered by Minority Stockholders in connection with such Tender Offer, then the Escrow Amount, together with any interest earned thereon, shall be paid to the Selling Lenders In the event the Tender Offer is not made within 180 days after the Closing Date, (a) the Escrow Amount, together with any interest earned thereon, shall be paid to the Minority Stockholders in the same proportion that the number of Public Shares held by each Minority Stockholder bears to the total number of Public Shares then held by all Minority Stockholders, and (b) the Buyer and Parent shall be jointly and severally obligated to pay immediately $450,000 (the "***Additional Adjustment Amount***") to the Selling Lenders by wire transfer (pursuant to their respective wire transfer instructions set forth on Exhibit A to this Agreement) in accordance with the allocations set forth on Exhibit B to this Agreement The Buyer and Parent shall bear the costs of establishing and maintaining the escrow account until the Escrow Amount is distributed as provided in this Section 1.7.3.

1.7.4 The parties acknowledge and agree that the obligations imposed by this Section 1.7 are for the benefit of the Minority Stockholders. Accordingly, the Buyer and Parent agree that the Minority Stockholders shall be entitled to enforce the provisions of this Section 1.7 as third party beneficiaries.

1.8 **Closing Balance Sheet**. The Company covenants and agrees to provide the Buyer within thirty (30) days after the end of the month in which the Closing occurs a balance sheet reflecting the assets and liabilities of the Company as of the last day of the month in which the Closing occurs (the "***Closing Balance Sheet***"). The Closing Balance Sheet shall be reasonably detailed and shall (a) be prepared in accordance with the books and records of the Company, (b) fairly present the financial condition of the Company as of the date therein indicated consistent with past practice, and (c) be prepared in accordance with generally accepted accounting principles applied on a consistent basis.

1.9 **Further Assurances** The Selling Lenders agree that, if at any time after the Closing, the Buyer considers or is advised that any further deeds, assignments or assurances are reasonably necessary or desirable to vest, perfect or confirm in the Buyer title to any property or rights of the Selling Lenders, the Selling Lenders will execute and deliver any and all documents (including without limitation, the execution, amendment or supplementation of deeds, assignments, financing statements and continuation statements relating to any collateral securing the Company Debt for filing under the provisions of the Uniform Commercial Code or any similar statute of any applicable jurisdiction) and do all other things necessary or desirable to vest, perfect or confirm title to such property or rights in the Buyer and otherwise to carry out the purpose of this Agreement.

1.10 Regulatory Receipts. With respect to the Agreement to Exchange Indebtedness for Personal Property (the "***Exchange Agreement***") between the Company and the Selling Lenders, among other parties, the parties hereto agree as follows with respect to the payment of the Assigned Regulatory Receipts (as defined in the Exchange Agreement) by the Credit Parties (as defined in the Exchange Agreement) to the Selling Lenders, that:

1.10.1 Effective as of the Closing Date, in consideration for the sale by the Selling Lenders of the Company Debt to the Buyer, each of the Buyer and Parent shall take all commercially reasonable action necessary to cause the Credit Parties to fully comply with the terms of the Exchange Agreement.

1.10.2 Each of the Buyer and Parent shall not take any action that would materially adversely affect the Selling Lenders' right to receive payment of the Assigned Regulatory Receipts under the Exchange Agreement.

1.10.3 The obligations of the Buyer and Parent under this Section 1.10 shall be binding on each of the Buyer and Parent's respective successors and assigns.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants, except as set forth on the Company Disclosure Letter delivered to the Buyer herewith, which may be updated to reflect immaterial changes that occur after signing and prior to the Closing, as follows

2.1 Organization and Good Standing. The Company and each of its Subsidiaries (as hereinafter defined) is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation or a limited liability company duly formed, validly existing and in good standing under the laws of the state of its formation, has the corporate power and authority to own, operate and lease its properties and to carry on its business as now conducted and as proposed to be conducted, and is qualified as a foreign corporation or limited liability company in each jurisdiction listed on Section 2.1 of the Company Disclosure Letter. Except as listed on Section 2.1 of the Company Disclosure Letter, the Company does not own or lease any real property, has no employees and does not maintain a place of business in any foreign country or in any state of the United States other than Ohio in which a failure to be so qualified could reasonably be expected to have a Material Adverse Effect (as hereinafter defined) on its present or proposed operations or financial condition.

For purposes of this Agreement, the term "***Material Adverse Effect***" when used in connection with an entity means any change, event, occurrence, development, circumstance or effect, whether or not such change, event, occurrence, development, circumstance or effect is caused by or arises in connection with a breach of a representation, warranty, covenant or agreement of such entity in this Agreement, that is or is reasonably likely to be, individually or in the aggregate, materially adverse to the business, assets (including intangible assets), capitalization, financial condition, operations or results of operations, employees or prospects of such entity taken as a whole with its subsidiaries, except to the extent that any such change, event, circumstance or effect is caused by results from (i) changes in general economic conditions, (ii) changes affecting the industry generally in which such entity operates (provided that such changes do not affect such entity in a substantially disproportionate manner), (iii) changes in the trading price for such entity's capital stock, (iv) changes caused by the taking of any action required or permitted under this Agreement, or (v) any change in any law or in generally accepted accounting principles or in the interpretation thereof.

For purposes of this Agreement, the term "***knowledge***" means with respect to a party hereto, with respect to any matter in question, that any of the officers of such party has actual knowledge of such matter after reasonable inquiry.

2.2 **Power, Authorization and Validity**.

2.2.1 **Power and Capacity**. The Company has the right, power, legal capacity and authority to enter into and perform its obligations under this Agreement and the Transactions contemplated hereunder, and all agreements to which the Company is or will be a party that are required to be executed pursuant to this Agreement (the "***Company Ancillary Agreements***") The execution, delivery and performance of this Agreement and the Company Ancillary Agreements have been duly and validly approved and authorized by the Company's Board of Directors and the Selling Lenders (who collectively hold approximately 95% of the voting Common Stock of the Company), as required by applicable law and the Company's certificate of incorporation and bylaws.

2.2.2 **No Filings**. No filing, authorization or approval, governmental or otherwise, is necessary to enable the Company to enter into, and to perform its obligations under, this Agreement and the Company Ancillary Agreements, except for (a) such filings as may be required to comply with federal and state securities laws, (b) the approval of the Selling Lenders of this Agreement and the Transactions contemplated hereby, which approval has been obtained as of the date of this Agreement, and (c) the notices and approvals listed on Section 2.2.2 to the Company Disclosure Letter.

2.2.3 **Binding Obligation**. This Agreement and the Company Ancillary Agreements are, or when executed by the Company will be, valid and binding obligations of the Company enforceable in accordance with their respective terms, except as to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

2.3 **Validity of Company Debt**. The Company has not modified, amended or altered the Credit Agreement or the Security Agreement, except as expressly provided in the amendments and waivers identified in Section 1.1 of this Agreement.

2.4 **Capitalization**. The authorized capital stock of Company consists of (a) 1,000,000,000 shares of common stock, $0.01 par value per share (the "***Common Stock***"), of which (i) 615,018,963 shares are issued and outstanding, and (ii) 472,263 shares are issuable upon exercise of outstanding options and warrants, and (b) 1,000,000 shares of convertible preferred stock, $0.01 par value per share (the "***Preferred Stock***"), none of which are issued and outstanding. No other shares of capital stock or other voting securities of the Company are authorized, issued or outstanding. All issued and outstanding shares of the Common Stock have been duly authorized and were validly issued, are fully paid and nonassessable, are not subject to any right of rescission, are not subject to preemptive rights by statute, the certificate of incorporation or bylaws of the Company, or any agreement or document to which the Company is a party or by which it is bound and have been offered, issued, sold and delivered by the Company in compliance with all registration or qualification requirements (or applicable exemptions therefrom) of applicable federal and state securities laws. The Company is not under any obligation to register under the Securities Act any of its presently outstanding securities or any securities that may be subsequently issued. There is no liability for dividends accrued but unpaid with respect to the Company's outstanding securities.

2.5 **Subsidiaries**. Except as listed on Section 2.5 of the Company Disclosure Letter (collectively the "***Subsidiaries***" and each a "***Subsidiary***"), the Company does not have any subsidiaries or any interest, direct or indirect, in any corporation, partnership, joint venture or other business entity. Each of the Subsidiaries is wholly owned by the Company. The Company's interest in other business entities is listed in Section 2.5 of the Company Disclosure Letter.

2.6 **No Violation of Existing Agreements**. Neither the execution and delivery of this Agreement nor any Company Ancillary Agreement, nor the consummation of the Transactions contemplated hereby, will conflict with, or (with or without notice or lapse of time, or both) result in a termination, breach, impairment or violation of (a) any provision of the certificate of incorporation or bylaws of the Company or any Subsidiary, as currently in effect, (b) in any material respect, any material instrument or contract to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound, or (c) any federal, state, local or foreign judgment, writ, decree, order, statute, rule or regulation applicable to the Company or any Subsidiary or their respective assets or properties. Except as set forth in Section 2.6 of the Company Disclosure Letter, the consummation of the Transactions and the resulting transfer to the Buyer of control of the Company will not require the consent of any third party.

2.7 **Litigation**. Except for the matters listed in Section 2 7 of the Company Disclosure Letter, there is no action, proceeding, claim or investigation pending against the Company or any Subsidiary before any court or administrative agency that if determined adversely to the Company or any Subsidiary may reasonably be expected to have a Material Adverse Effect on the Company or any Subsidiary, nor, to the best of Company's knowledge, has any such action, proceeding, claim or investigation been threatened. There is, to the best of the Company's knowledge, no reasonable basis for any stockholder or former stockholder of the Company, or any other person, firm, corporation, or entity, to assert a claim against the Company or the Buyer based upon: (a) ownership or rights to ownership of any shares of the Company's capital stock, (b) any rights as a stockholder of the Company, including any option or preemptive rights or rights to notice or to vote, or (c) any rights under any agreement among the Company and its stockholders.

2.8 **Taxes**. The Company and each of its Subsidiaries has filed all federal and state tax returns and, to the best knowledge of the Company, all local and foreign tax returns required to be filed, has paid or established an adequate accrual or reserve for the payment of all taxes known by the Company to be due in respect of the periods for which returns have been filed, has established an adequate accrual or reserve for the payment of all taxes payable in respect of the periods subsequent to the periods covered by the most recent applicable tax returns, has made all necessary estimated tax payments known by the Company to be required to be paid, and has no material liability for taxes in excess of the amount so paid or accruals or reserves so established. Neither the Company nor any Subsidiary is delinquent in the payment of any tax or is delinquent in the filing of any tax returns known by the Company to be required to be filed, and no deficiencies for any tax have been threatened, claimed, proposed or assessed. Except for the matters listed in Section 2.8 of the Company Disclosure Letter, no tax return of the Company or any Subsidiary has ever been audited by the Internal Revenue Service or any state taxing agency or authority. The tax basis for the pay phones owned by the Company and its

Subsidiaries is set forth on Schedule 2.8 of the Company Disclosure Schedule. For the purposes of this Section 2.8, the terms "*tax*" and "*taxes*" include all federal, state, local and foreign income, gains, franchise, transaction, lease, service, excise, property, sales, use, ad valorem, withholding, employment, license, payroll, occupation, gross receipts, premium, recording, deed, value added or transfer taxes, governmental charges, fees, levies or assessments (whether payable directly or by withholding), and, with respect to such taxes, any estimated tax, interest and penalties or additions to tax and interest on such penalties and additions to tax

2.9 **Financial Statements**. The Company has delivered to the Buyer as Section 2.9 to the Company Disclosure Letter (i) the Company's audited balance sheet as of December 31, 2003 (the "***Base Balance Sheet***") and income statement and statement of cash flows for the year then ended (collectively the "***Base Financial Statements***"), and (ii) an unaudited balance sheet of the Company dated as of July 31, 2004 (the "***Interim Balance Sheet***") and the related unaudited income statement and statement of cash flows for the seven month period ended July 31, 2004 (the "***Interim Financial Statements***"). (The Base Financial Statements and the Interim Financial Statements are collectively referred to as the "***Financial Statements***.") The Financial Statements (a) are in accordance with the books and records of the Company, (b) fairly present in all material respects the financial condition of the Company as of the respective dates therein indicated and the results of operations for the respective periods therein specified, and (c) have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The Company has no material debt, liability or obligation of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due, that is not reflected or reserved against in the Financial Statements, except for those that may have been incurred after the date of the Financial Statements in the ordinary course of its business, consistent with past practice and that are not material in amount either individually or collectively

2.10 **Title to Properties**. Except as listed on Schedule 2.10 of the Company Disclosure Letter, the Company has good and marketable title to all of its assets as shown on the Interim Balance Sheet, free and clear of all liens, charges, restrictions or encumbrances (other than for (a) taxes not yet due and payable and (b) the liens and security interests in favor of the Selling Lenders under the Loan Documents and in favor of Cerberus in connection with the Cerberus Subordinated Debt). All machinery and equipment included in such properties is in good condition and repair, normal wear and tear excepted. Except for the matters listed in Section 2.10 of the Company Disclosure Letter, all leases of real or personal property to which the Company or any Subsidiary is a party are fully effective and afford the Company or the Subsidiary peaceful and undisturbed possession of the subject matter of the lease. Neither the Company nor any Subsidiary is in violation of any zoning, building, safety or environmental ordinance, regulation or requirement or other law or regulation applicable to the operation of owned or leased properties (the violation of which would have a Material Adverse Effect on its business), or has received any written notice of violation with which it has not complied.

2.11 **Absence of Certain Changes**. Since the date of the Interim Balance Sheet, there has not been with respect to the Company or any Subsidiary:

(a) any change in the financial condition, properties, assets, liabilities, business or operations thereof which change, by itself or in conjunction with all other such changes, whether or not arising in the ordinary course of business, has had or will have a Material Adverse Effect thereon,

(b) any contingent liability incurred thereby as guarantor with respect to the obligations of others;

(c) any material mortgage, encumbrance or lien placed on any of the material properties thereof (other than liens that may arise for taxes not yet due and payable);

(d) any material obligation or liability incurred thereby other than obligations and liabilities incurred in the ordinary course of business;

(e) any purchase or sale or other disposition, or any agreement or other arrangement for the purchase, sale or other disposition, of any of the material properties or assets thereof other than in the ordinary course of business;

(f) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the properties, assets or business thereof;

(g) any declaration, setting aside or payment of any dividend on, or the making of any other distribution in respect of, the capital stock thereof, any split, combination or recapitalization of the capital stock thereof or any direct or indirect redemption, purchase or other acquisition of the capital stock thereof;

(h) any labor dispute or claim of unfair labor practices, or any change in the compensation payable or to become payable to any of its officers, employees or agents, or bonus payment or arrangement made to or with any of such officers, employees or agents, in either case, except in the ordinary course of business, consistent with past practice;

(i) any material change with respect to the management, supervisory or other key personnel thereof other than in the ordinary course of business;

(j) any payment or discharge of a material lien or liability thereof which lien or liability was not either reflected in the Interim Balance Sheet or incurred in the ordinary course of business thereafter; or

(k) any obligation or liability incurred thereby to any of its officers, directors or stockholders or any loans or advances made thereby to any of its officers, directors or stockholders except normal compensation and expense allowances payable to officers.

2.12 <u>Contracts and Commitments</u>. Except as set forth in Section 2.12 of the Company Disclosure Letter, neither the Company nor any Subsidiary has any contract, obligation or commitment (including any purchase agreement, license, lease or franchise) which is material to the business of the Company or any Subsidiary or which involves a potential commitment in excess of $50,000 or any stock redemption or financing agreement. A copy of each agreement or document listed in Section 2.12 of the Company Disclosure Letter has been delivered to Buyer's counsel. Neither the Company nor any Subsidiary is a party to or subject to any contract containing covenants purporting to limit the Company's or any Subsidiary's freedom to compete in any line of business in any geographic area. Neither the Company nor any Subsidiary is, nor, to the knowledge of the Company is any other party thereto, in breach or default in any material respect under any contract or document so listed in Section 2.12 of the Company Disclosure Letter, which breach or default may reasonably be expected to have a Material Adverse Effect on the Company or any Subsidiary. Neither the Company nor any Subsidiary is a party to any contract or arrangement which has had or could reasonably be expected to have a Material Adverse Effect on its business or prospects. Neither the Company nor any Subsidiary has any material liability for renegotiation of government contracts or subcontracts, if any.

2.13 **Intellectual Property**. The Company and its Subsidiaries own, or have the right to use, sell or license all material Intellectual Property Rights (as defined below) necessary or required for the conduct of their respective businesses as presently conducted (such Intellectual Property Rights being hereinafter collectively referred to as the "***Company IP Rights***") and such rights to use, sell or license are reasonably sufficient for such conduct of their respective businesses. The execution, delivery and performance of this Agreement and the consummation of the Transactions contemplated hereby will not constitute a material breach of any instrument or agreement governing any Company IP Right (the "***Company IP Rights Agreements***"), will not cause the forfeiture or termination or give rise to a right of forfeiture or termination of any Company IP Right or materially impair the right of the Company or any of its Subsidiaries to use, sell or license any Company IP Right or portion thereof (except where such breach, forfeiture or termination would not have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole). Except for any Company IP Rights Agreements listed in Section 2.12 of the Company Disclosure Letter, neither the Company nor any Subsidiary has any contract, obligation or commitment to pay royalties, honoraria, fees or other payments to any person by reason of the ownership, use, license, sale or disposition of the Company IP Rights which involves a potential commitment in excess of $50,000. To the knowledge of the Company, no Intellectual Property owned by the Company or any Subsidiary infringes any Intellectual Property Right of any other party; and there is no pending or, to the best knowledge of the Company, threatened claim or litigation contesting the validity, ownership or right to use, sell, license or dispose of any Company IP Right nor, to the best knowledge of the Company, is there any basis for any such claim, nor has the Company received any notice asserting that any Company IP Right or the proposed use, sale, license or disposition thereof conflicts or will conflict with the rights of any other party, nor, to the best knowledge of the Company, is there any basis for any such assertion. The Company has taken reasonable and practicable steps designed to safeguard and maintain the secrecy and confidentiality of, and its proprietary rights in, all material Company IP Rights. As used herein, the term "***Intellectual Property Rights***" shall mean all worldwide industrial and intellectual property rights, including, without limitation, patents, patent applications, patent rights, trademarks, trademark applications, trade names, service marks, service mark applications, copyright, copyright applications, franchises, licenses, inventories, know-how, trade secrets, customer lists, proprietary processes and formulae, all source and object code, algorithms, architecture, structure, display screens, layouts, inventions, development tools and all documentation and media constituting, describing or relating to the above, including, without limitation, manuals, memoranda and records.

2.14 Compliance with Laws The Company and each of its Subsidiaries has complied, or prior to the Closing Date will have complied, and is or will be at the Closing Date in full compliance, in all material respects with all applicable laws, ordinances, regulations, and rules, and all orders, writs, injunctions, awards, judgments, and decrees applicable to it or to the assets, properties, and business thereof (the violation of which would have a Material Adverse Effect upon its business), including, without limitation: (a) all applicable federal and state securities laws and regulations, and (b) all applicable federal, state, and local laws, ordinances, regulations, and all orders, writs, injunctions, awards, judgments, and decrees pertaining to (i) the sale, licensing, leasing, ownership, or management of its owned, leased or licensed real or personal property, products and technical data, including, without limitation, Section 276 of the Telecommunications Act of 1996, as amended by the Federal Communications Commission ("*FCC*") to date, and (ii) safety, health, fire prevention, environmental protection, toxic waste disposal, building standards, zoning and other similar matters Each of the Company and its Subsidiaries has received all permits and approvals from, and has made all filings with, third parties, including the FCC and other appropriate federal or state government agencies and authorities, that are necessary in connection with its present business and that if not obtained or filed would have a Material Adverse Effect on the Company. To the best of the Company's knowledge, there are no legal or administrative proceedings or investigations pending or threatened, that, if enacted or determined adversely to the Company or any Subsidiary, would result in any Material Adverse Effect to the Company or its Subsidiaries

2.15 Interested Party Transactions. No current officer or director of the Company or, to the best of Company's knowledge, any "affiliate" or "associate" (as those terms are defined in Rule 405 promulgated under the Securities Act) of any such person has had, either directly or indirectly, a material interest in. (i) any person or entity which purchases from or sells, licenses or furnishes to the Company or any Subsidiary any material goods, property, technology or intellectual or other property rights or services; (ii) any person or entity which competes with the Company or any Subsidiary; or (iii) any contract or agreement to which the Company or any Subsidiary is a party or by which it may be bound or affected (except for normal compensation for services as an officer, director or employee thereof).

2.16 Employees, ERISA and Other Compliance.

2.16.1 Except as set forth in Section 2 16.1 of the Company Disclosure Letter, the Company and its Subsidiaries do not have any written employment contracts or consulting agreements currently in effect that limits their ability to terminate any of their employees' employment or consulting arrangements at will.

2.16.2 Neither the Company nor any Subsidiary (i) has ever been or is now subject to a union organizing effort, (ii) is subject to any collective bargaining agreement with respect to any of its employees, (iii) is subject to any other contract, written or oral, with any trade or labor union or similar organization, or (iv) to the Company's knowledge, has any current material labor disputes. The Company and each of its Subsidiaries has generally good labor relations, and has no knowledge that the consummation of the Transactions contemplated hereby will have a Material Adverse Effect on such labor relations, and has no knowledge that any of its key employees intends to leave its employ within the sixty (60) days following the Closing.

2.16.3 Section 2.16 3 of the Company Disclosure Letter identifies (i) each material written "employee benefit plan," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("***ERISA***"), and (ii) all other material written plans or agreements involving direct or indirect compensation or benefits (including any written employment agreements entered into between the Company or any Subsidiary and any employee of the Company or any Subsidiary, but excluding workers' compensation, unemployment compensation and other government-mandated programs) currently maintained or contributed to by the Company or any Subsidiary (collectively, the "***Company Employee Plans***"). For purposes of this Section 2.16.3, "***ERISA Affiliate***" shall mean any entity which is a member of (A) a "controlled group of corporations," as defined in Section 414(b) of the Code, (B) a group of entities under "common control," as defined in Section 414(c) of the Code, or (C) an "affiliated service group," as defined in Section 414(m) of the Code, any of which includes Company or any Subsidiary. Copies of all Company Employee Plans (and, if applicable, related trust agreements) and all amendments thereto and written interpretations thereof (including summary plan descriptions) have been made available to the Buyer or its counsel, together with the three most recent annual reports (Form 5500, including, if applicable, Schedule B thereto), if any, prepared in connection with any such Company Employee Plan. All Company Employee Plans which individually or collectively would constitute an "employee pension benefit plan," as defined in Section 3(2) of ERISA (collectively, the "***Company Pension Plans***"), are identified as such in Section 2.16.3 of the Company Disclosure Letter All contributions due from Company or any Subsidiary with respect to any of the Company Employee Plans have been made as required under ERISA or have been accrued on the Base Financial Statements. To the Company's knowledge, each Company Employee Plan has been maintained substantially in compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations, including, without limitation, ERISA and the Code, which are applicable to such Company Employee Plans, except as would not reasonably be expected to result in a Material Adverse Effect.

2.16.4 To the Company's knowledge, no Company Pension Plan constitutes, or has since the enactment of ERISA constituted, a "multiemployer plan," as defined in Section 3(37) of ERISA. No Company Pension Plans are subject to Title IV of ERISA. To the Company's knowledge, no "prohibited transaction," as defined in Section 406 of ERISA or Section 4975 of the Code, has occurred with respect to any Company Employee Plan which is covered by Title I of ERISA which would result in a material liability to the Company and its Subsidiaries taken as a whole, excluding transactions effected pursuant to a statutory or administrative exemption. To the Company's knowledge, nothing has been done or omitted to be done and there has been no transaction or holding of any asset under or in connection with any Company Employee Plan has or that has made Company or any officer or director of Company subject to any material liability under Title I of ERISA or liable for any material tax (as defined in Section 2.8 hereunder) or penalty pursuant to Sections 4972, 4975, 4976 or 4979 of the Code or Section 502 of ERISA.

2.16.5 The Company has made available to the Buyer or its counsel a complete and correct copy of the most recent Internal Revenue Service determination letter with respect to each Company 401(a) Plan.

2.16.6 Section 2.16.6 of the Company Disclosure Letter lists each written employment, severance or other similar written contract, arrangement or policy and each written plan or arrangement providing for insurance coverage (including any self-insured arrangements), vacation benefits, severance benefits, disability benefits, death benefits, hospitalization benefits, retirement benefits, deferred compensation, profit-sharing, bonuses, stock options, stock purchase, phantom stock, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits for employees, consultants or directors which (A) is not a Company Employee Plan, (B) is entered into, maintained or contributed to, as the case may be, by the Company or any Subsidiary and (C) covers any employee or former employee of the Company or any Subsidiary except for government mandated programs. Such contracts, plans and arrangements as are described in this Section 2.16.6 are herein referred to collectively as the "***Company Benefit Arrangements***." To the Company's knowledge, each Company Benefit Arrangement has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Company Benefit Arrangement. The Company has made available to the Buyer or its counsel a complete and correct copy or description of each material written Company Benefit Arrangement.

2.16.7 No benefit payable or which may become payable by the Company or any Subsidiary pursuant to any Company Employee Plan or any Company Benefit Arrangement or as a result of or arising under this Agreement shall constitute an "excess parachute payment" (as defined in Section 280G(b)(1) of the Code) which is subject to the imposition of an excise tax under Section 4999 of the Code or which would not be deductible by reason of Section 280G of the Code

2.16.8 To the Company's knowledge, the Company and each of its Subsidiaries is in compliance in all material respects with all applicable laws, agreements and contracts relating to employment, employment practices, wages, hours, and terms and conditions of employment, including, but not limited to, employee compensation matters, but not including ERISA, except as would not reasonably be expected to result in a Material Adverse Effect.

2.16.9 A list of all current employees, officers and consultants of the Company and the Subsidiaries and their current compensation is set forth in Section 2.16.9 of the Company Disclosure Letter.

2.17 **Corporate Documents**. The Company has made available to the Buyer for examination all documents and information listed in the Company Disclosure Letter or the Exhibits called for by this Agreement which has been requested by Buyer's legal counsel, including, without limitation, the following: (a) copies of the Company's certificate of incorporation and bylaws as currently in effect; (b) its Minute Book containing all records of all proceedings, consents, actions, and meetings of the stockholders, the board of directors and any committees thereof; (c) its stock ledger and journal reflecting all stock issuances and transfers; and (d) all permits, orders, and consents issued by any regulatory agency with respect to the Company, or any securities of the Company, and all applications for such permits, orders, and consents.

2.18 No Brokers. Except as listed in Section 2.18 of the Company Disclosure Letter, the Company is not obligated for the payment of fees or expenses of any investment banker, broker or finder in connection with the origination, negotiation or execution of this Agreement or in connection with any Transaction contemplated hereby.

2.19 Projections. The Company has delivered to the Buyer as Section 2.19 of the Company Disclosure Letter financial projections of the Company (the "Projections"). The Projections were prepared in good faith by the Company and represent the Company's best estimates of the projected financial condition and forecasted results of operations of the Company based on various assumptions and estimates made by the Company. However, the Company makes no assurance that the results contained in the Projections can be achieved or that the assumptions underlying the Projections will prove to be accurate.

2.20 Books and Records

2.20.1 The books, records and accounts of the Company and its Subsidiaries (a) are in all material respects true and complete, (b) have been maintained in accordance with good business practices on a basis consistent with prior years, (c) are stated in reasonable detail and accurately and fairly reflect in all material respects the transactions and dispositions of the assets of the Company, and (d) accurately and fairly reflect in all material respects the basis for the Base Financial Statements

2.20.2 The Company has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (a) transactions are executed in accordance with management's general or specific authorization; (b) transactions are recorded as necessary (i) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (ii) to maintain accountability for assets, and (c) the amount recorded for assets on the books and records of the Company is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

2.21 Insurance. The Company and its Subsidiaries maintain, and at all times during the prior three (3) years have maintained, fire and casualty, general liability, business interruption, product liability, and sprinkler and water damage insurance which it believes to be reasonably prudent for similarly sized and similarly situated businesses.

2.22 SEC Documents.

2.22.1 SEC Reports. The Company has furnished to the Buyer a true and complete copy of each statement, report, registration statement (together with the prospectus in the form filed pursuant to Rule 424(b) of the Securities Act of 1933, as amended (the "***Securities Act***"), if any), definitive proxy statement and other filings filed with the SEC by the Company on or after January 1, 2002 and, prior to the Closing Date, the Company will have furnished the Buyer with true and complete copies of any additional documents filed with the SEC by the Company prior to the Closing Date (collectively, the "***Company SEC Documents***"), all to the extent the Company SEC Documents are not available on EDGAR. In addition, the Company has made available to the Buyer all exhibits to the Company SEC Documents filed prior to the date hereof, and will promptly make available to the Buyer all exhibits to any additional Company SEC Documents filed prior to the Closing Date. All documents required to be filed as exhibits to the Company SEC Documents have been so filed. As of their respective filing dates, or, with respect to registration statements as of their effective dates, the Company SEC Documents complied in all material respects with the applicable requirements of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), and the Securities Act, and none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, except to the extent corrected, modified or superseded by a subsequently filed Company SEC Document. There is no requirement under the Securities Act or the Exchange Act, as the case may be, to have amended any such filing, except to the extent such filing has been amended, modified or superseded by a subsequently filed Company SEC Document.

2.22.2 Company Financial Statements. The financial statements of Company, including the notes thereto, included in the Company SEC Documents (the "***Company Financial Statements***"), complied as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto as of their respective dates, and have been prepared in accordance with generally accepted accounting principles applied on a basis consistent throughout the periods indicated and consistent with each other (except as may be indicated in the notes thereto). The Company Financial Statements fairly present in all material respects the consolidated financial condition and operating results of Company and its subsidiaries at the dates and during the periods indicated therein (subject, in the case of unaudited statements, to normal, recurring year-end adjustments). Since January 1, 2002, there has been no change in Company material accounting policies except as described in the notes to the Company Financial Statements.

2.23 Environmental Matters.

2.23.1 During the period that Company and Subsidiary have leased or owned their respective properties or owned or operated any facilities, to the best of Company's knowledge, there have been no disposals, releases or threatened releases of Hazardous Materials (as defined below) on, from or under such properties or facilities. The Company has no knowledge of any presence, disposals, releases or threatened releases of Hazardous Materials on, from or under any of such properties or facilities, which may have occurred prior to the Company or any Subsidiary having taken possession of any of such properties or facilities. For the purposes of this Agreement, the terms "***disposal,***" "***release,***" and "***threatened release***" shall have the definitions assigned thereto by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601 et seq., as amended ("***CERCLA***"). For the purposes of this Agreement "***Hazardous Materials***" shall mean any hazardous or toxic substance, material or waste which is or becomes prior to the Closing regulated under, or defined as a "hazardous substance," "pollutant," "contaminant," "toxic chemical," "hazardous materials," "toxic substance" or "hazardous chemical" under (1) CERCLA; (2) any similar federal, state or local law; or (3) regulations promulgated under any of the above laws or statutes.

2.23.2 None of the properties or facilities of the Company or any Subsidiary is in violation of any federal, state or local law, ordinance, regulation or order relating to industrial hygiene or to the environmental conditions on, under or about such properties or facilities, including, but not limited to, soil and ground water condition, other than such violations which would not reasonably be expected to have a Material Adverse Effect on the Company. During the time that the Company or any Subsidiary have owned or leased their respective properties and facilities, neither Company nor any Subsidiary nor, to the Company's knowledge, any third party, has used, generated, manufactured or stored on, under or about such properties or facilities or transported to or from such properties or facilities any Hazardous Materials.

2.23.3 During the time that the Company or any Subsidiary have owned or leased their respective properties and facilities, to the best of Company's knowledge, there has been no litigation brought or threatened against the Company or any Subsidiary by, or any settlement reached by the Company or any Subsidiary with, any party or parties alleging the presence, disposal, release or threatened release of any Hazardous Materials on, from or under any of such properties or facilities.

2.24 **Disclosure**. Neither this Agreement, its Exhibits and schedules, nor any of the certificates or documents to be delivered by the Company to the Buyer under this Agreement, taken together, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which such statements were made, not misleading.

3. REPRESENTATIONS AND WARRANTIES OF THE SELLING LENDERS

Each of the Selling Lenders, for itself but not as to any other Selling Lender, hereby represents and warrants as follows:

3.1 Power, Authorization and Validity.

3.1.1 **Power and Capacity**. The Selling Lender has the right, power, legal capacity and authority to enter into and perform the Selling Lender's obligations under this Agreement and the Transactions contemplated hereunder, and all agreements to which the Selling Lender is or will be a party that are required to be executed pursuant to this Agreement (the "***Selling Lender Ancillary Agreements***"). The execution, delivery and performance of this Agreement and the Selling Lender Ancillary Agreements have been duly and validly approved and authorized by the Selling Lender.

3.1.2 **No Filings**. No filing, authorization or approval, governmental or otherwise, is necessary to enable the Selling Lender to enter into, and to perform the Selling Lender's obligations under, this Agreement and the Selling Lender Ancillary Agreements, except for such filings as may be required to comply with federal and state securities laws.

3.1.3 **Binding Obligation**. This Agreement and the Selling Lender Ancillary Agreements are, or when executed by the Selling Lender will be, valid and binding obligations of the Selling Lender enforceable in accordance with their respective terms, except as to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

3.2 **Validity of Company Debt**. The Selling Lender has duly executed each of the Loan Documents to which the Selling Lender is a party, and the proceeds of loans made pursuant to the Loan Documents were distributed to the Company or its Subsidiaries, and such Loan Documents are valid and binding instruments enforceable by the Selling Lenders against the Company or its Subsidiaries. The Selling Lender has the right, power and authority to sell the Company Debt free and clear of any liens, mortgages, pledges, security interests, encumbrances or charges of any kind. The Selling Lender has not modified, amended or altered the Credit Agreement or the Security Agreement, except as expressly provided in the amendments and waivers identified in Section 1.1 of this Agreement. The total outstanding balance owed by the Company to the Selling Lender under the Credit Agreement and other Loan Documents as of the date of this Agreement is set forth on Exhibit B attached hereto

3.3 **Title to Shares** As of the Closing Date, the Selling Lender holds good and marketable title to the Shares listed opposite the Selling Lender's name on Exhibit B to this Agreement, free and clear of all liens, agreements, voting trusts, proxies and other arrangements or restrictions of any kind whatsoever (other than normal restrictions on transfer under applicable federal and state securities laws). The Selling Lender does not hold any options, warrants, calls, conversion rights or commitments of any kind relating to the capital stock of the Company.

3.4 **No Brokers**. The Selling Lender is not obligated to pay any fees or expenses of any investment banker, broker or finder in connection with the origination, negotiation or execution of this Agreement or in connection with any Transaction contemplated hereby.

4. REPRESENTATIONS AND WARRANTIES OF THE BUYER AND PARENT

The Buyer and Parent hereby represent and warrant, except as set forth on the Buyer Disclosure Letter delivered to Company which may be updated to reflect immaterial changes that occur after signing and prior to the Closing, as follows:

4.1 **Organization and Good Standing**. The Buyer and Parent are each corporations duly organized, validly existing and in good standing under the laws of the State of Delaware, and have the corporate power and authority to own, operate and lease its properties and to carry on its business as now conducted and as proposed to be conducted.

4.2 **Power, Authorization and Validity**.

4.2.1 The Buyer and Parent have the right, power, legal capacity and authority to enter into and perform their obligations under this Agreement, and all agreements to which the Buyer or the Parent is or will be a party that are required to be executed pursuant to this Agreement (the "*Buyer Ancillary Agreements*"). The execution, delivery and performance of this Agreement and the Buyer Ancillary Agreements have been duly and validly approved and authorized by the Buyer's and Parent's Board of Directors in compliance with applicable law and the certificate of incorporation and bylaws of the Buyer and Parent.

4.2.2 No filing, authorization or approval, governmental or otherwise, is necessary to enable the Buyer or Parent to enter into, and to perform its obligations under, this Agreement and the Buyer Ancillary Agreements, except for such filings as may be required to comply with federal and state securities laws

4.2.3 This Agreement and the Buyer Ancillary Agreements are, or when executed by the Buyer and Parent will be, valid and binding obligations of the Buyer and Parent enforceable in accordance with their respective terms, except as to the effect, if any, of (a) applicable bankruptcy and other similar laws affecting the rights of creditors generally, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

4.3 **Capitalization**. The authorized capital stock of Parent consists of (a) 600,000,000 shares of common stock, $0.001 par value per share (the "*Parent Common Stock*"), 5,000,000 shares of preferred stock, $0.001 par value per share (the "*Parent Preferred Stock*") and 35,425 shares of Series A Convertible Preferred Stock, $0.001 par value per share (the "*Series A Preferred Stock*") As of August 20, 2004, (i) 258,014,196 shares of Parent Common Stock were issued and outstanding and 35,425 shares of Series A Preferred Stock were issued and outstanding, (ii) options to purchase 8,471,037 shares of Parent Common Stock have been granted, and (iii) warrants to purchase 30,603,537 shares of Parent Common Stock have been granted. No other shares of capital stock or other equity securities (as defined in Section 3(11) of the Securities Exchange Act of 1934, as amended) of Parent are authorized, issued or outstanding. Except as set forth in Section 4.3 of the Buyer Disclosure Letter, all issued and outstanding shares of the Parent Common Stock have been duly authorized and were validly issued, are fully paid and nonassessable, are not subject to any right of rescission, are not subject to preemptive rights by statute, the certificate of incorporation or bylaws of Parent, or any agreement or document to which Parent is a party or by which it is bound and have been offered, issued, sold and delivered by Parent in compliance with all registration or qualification requirements (or applicable exemptions therefrom) of applicable federal and state securities laws. Parent is not under any obligation to register under the Securities Act any of its presently outstanding securities or any securities that may be subsequently issued. There is no liability for dividends accrued but unpaid with respect to Parent's outstanding securities.

4.4 **Warrants**. All shares of Parent Common Stock issuable upon the exercise of any Warrants granted to the Selling Lenders hereunder (i) are duly authorized by Parent's certificate of incorporation, (ii) have been duly authorized by Parent's Board of Directors, and, if necessary, Parent's stockholders, (iii) have been duly and validly reserved for issuance pursuant to the terms of the Warrant, and (iv) will, upon payment therefor in accordance with the terms of the Warrant, be duly and validly issued, fully paid and nonassessable, free of preemptive or similar rights, taxes, security interests, adverse claims or encumbrances of any nature whatsoever.

4.5 **No Violation of Existing Agreements** Neither the execution and delivery of this Agreement nor any Buyer Ancillary Agreement, nor the consummation of the Transactions contemplated hereby, will conflict with, or (with or without notice or lapse of time, or both) result in a termination, breach, impairment or violation of (a) any provision of the certificate of incorporation or bylaws of the Buyer or Parent, as currently in effect, (b) in any material respect, any material instrument or contract to which the Buyer or Parent is a party or by which the Buyer or Parent is bound, or (c) any federal, state, local or foreign judgment, writ, decree, order, statute, rule or regulation applicable to the Buyer or Parent or their assets or properties.

4.6 **Absence of Certain Changes**. Since the fiscal year ended December 31, 2003, there has not been any change in the financial condition, properties, assets, liabilities, business or operations of the Buyer or Parent which change by itself or in conjunction with all other such changes, whether or not arising in the ordinary course of business, has had or will have a Material Adverse Effect on the ability of the Buyer to perform its obligations under this Agreement.

4.7 **No Brokers**. Neither the Buyer nor Parent is obligated for the payment of fees or expenses of any investment banker, broker or finder in connection with the origin, negotiation or execution of this Agreement or in connection with any Transaction contemplated hereby.

5. COMPANY PRECLOSING COVENANTS

During the period from the date of this Agreement until the Closing Date, the Company covenants and agrees as follows:

5.1 **Advice of Changes**. The Company will promptly advise the Buyer in writing (a) of any event occurring subsequent to the date of this Agreement that would render any representation or warranty of the Company contained in this Agreement, if made on or as of the date of such event or the Closing Date, untrue or inaccurate in any material respect and (b) of any Material Adverse Effect suffered by the Company or its Subsidiaries subsequent to the date of this Agreement but prior to the Closing Date. To ensure compliance with this Section 5.1, the Company shall deliver to the Buyer within thirty (30) days after the end of each monthly accounting period ending after the date of this Agreement and before the Closing Date an unaudited balance sheet and statement of operations for such monthly accounting period, which financial statements shall be prepared in the ordinary course of business, in accordance with the Company's books and records and generally accepted accounting principles and shall fairly present the financial position of Company as of their respective dates and the results of the Company's operations for the periods then ended.

5.2 **Maintenance of Business**. The Company will use its commercially reasonable efforts to carry on and preserve its business and its relationships with customers, suppliers, employees and others in substantially the same manner as it has prior to the date hereof. If the Company becomes aware of a material deterioration in the relationship with any customer, supplier or key employee, it will promptly bring such information to the attention of the Buyer in writing and, if requested by the Buyer, will exert its commercially reasonable efforts to restore the relationship.

5.3 __Conduct of Business__ Except as provided below and except as contemplated by the Exchange Agreement, each of the Company and each of its Subsidiaries will continue to conduct its business and maintain its business relationships in the ordinary and usual course and will not, and the Selling Lenders will not cause the Company or its Subsidiaries to, without the prior written consent of the Buyer:

(a) borrow any money other than trade credit incurred in the ordinary course of business,

(b) enter into any transaction not in the ordinary course of business;

(c) encumber or permit to be encumbered any of its material assets except in the ordinary course of its business consistent with past practice and to an extent which is not material;

(d) dispose of any of its material assets except in the ordinary course of business consistent with past practice;

(e) enter into any material lease or contract for the purchase or sale of any property, real or personal, except in the ordinary course of business consistent with past practice;

(f) fail to maintain its equipment and other material assets in good working condition and repair according to the standards it has maintained to the date of this Agreement, subject only to ordinary wear and tear;

(g) pay any bonus, increased salary or special remuneration to any officer, employee or consultant (except for (i) normal salary increases consistent with past practice not to exceed 10% per year and pursuant to existing arrangements previously disclosed to and approved in writing by the Buyer and (ii) bonuses that have been accrued on the Company Interim Financial Statements) or enter into any new employment or consulting agreement with any such person;

(h) change accounting methods;

(i) declare, set aside or pay any cash or stock dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any of its capital stock;

(j) amend or terminate in any respect the Loan Documents;

(k) amend or terminate any other contract, agreement or license to which it is a party except those amended or terminated in the ordinary course of business, consistent with past practice, and which are not material in amount or effect;

(l) lend any amount to any person or entity, other than (i) advances for travel and expenses which are incurred in the ordinary course of business consistent with past practice, not material in amount and documented by receipts for the claimed amounts or (ii) any loans pursuant to the Company 401(k) Plan;

(m) guarantee or act as a surety for any obligation except for the endorsement of checks and other negotiable instruments in the ordinary course of business, consistent with past practice, which are not material in amount;

(n) waive or release any material right or claim except in the ordinary course of business, consistent with past practice;

(o) issue or sell any shares of its capital stock of any class (except upon the exercise of an option or warrant currently outstanding), or any other of its securities, or issue or create any warrants, obligations, subscriptions, options, convertible securities, or other commitments to issue shares of capital stock, or accelerate the vesting of any outstanding option or other security;

(p) split or combine the outstanding shares of its capital stock of any class or enter into any recapitalization affecting the number of outstanding shares of its capital stock of any class or affecting any other of its securities;

(q) merge, consolidate or reorganize with, or acquire any entity;

(r) amend its certificate of incorporation or bylaws,

(s) license any of its technology or intellectual property except in the ordinary course of business consistent with past practice;

(t) agree to any audit assessment by any tax authority,

(u) change any insurance coverage or issue any certificates of insurance; or

(v) agree to do, or permit any Subsidiary to do or agree to do, any of the things described in the preceding clauses 5.3(a) through 5.3(u).

5.4 No Solicitation.

(a) From and after the date of this Agreement until the Closing Date or termination of this Agreement pursuant to Section 10, the Company and the Selling Lenders will not, nor will they authorize or permit any of their respective officers, directors, affiliates or employees or any investment banker, attorney or other advisor or representative retained by any of them to, directly or indirectly, (i) solicit, initiate, encourage or induce the making, submission or announcement of any Acquisition Proposal (as hereinafter defined), (ii) participate in any discussions or negotiations regarding, or furnish to any person any non-public information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes or may reasonably be expected to lead to, any Acquisition Proposal, (iii) engage in discussions with any person with respect to any Acquisition Proposal, except as to the existence of these provisions, (iv) approve, endorse or recommend any Acquisition Proposal, or (v) enter into any letter of intent or similar document or any contract, agreement or commitment contemplating or otherwise relating to any Acquisition Proposal, except in each case to the extent any such action is undertaken to comply with any applicable legal requirement. The Company and the Selling Lenders will immediately cease any and all existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal to the extent prohibited by the preceding sentence. Without limiting the foregoing, it is understood that any violation of the restrictions set forth in the preceding two sentences by any officer, director or employee of the Company or the Selling Lenders or any investment banker, attorney or other advisor or representative of the Company or the Selling Lenders shall be deemed to be a breach of this Section 5 4 by the Company or the Selling Lenders Notwithstanding the foregoing, the Company may, in response to an unsolicited, written Acquisition Proposal (as defined below) which the Board of Directors of the Company determines, in good faith, would reasonably be expected to lead to a Superior Proposal (as hereinafter defined) and pursuant to an executed confidentiality agreement with customary terms and conditions at least as restrictive as the confidentiality provisions of the agreement entered into among the parties hereto, (A) furnish information with respect to the Company to the person who made such unsolicited proposal and afford such person access to the properties, books, records, officers, and employees of the Company and its Subsidiaries, and (B) participate in discussions with, or accept a Superior Proposal from, such person regarding such Superior Proposal.

(b) For purposes of this Agreement, "***Acquisition Proposal***" shall mean any offer or proposal from a third party relating to: (A) any acquisition or purchase from the Company by any person or "group" (as defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder) of more than a 20% interest in the total outstanding voting securities of the Company or any of its Subsidiaries or any tender offer or exchange offer that if consummated would result in any person or "group" (as defined under Section 13(d) of the Exchange Act and the rules and regulations thereunder) beneficially owning 20% or more of the total outstanding voting securities of the Company or any of its Subsidiaries or any merger, consolidation, business combination or similar transaction involving the Company pursuant to which the stockholders of the Company immediately preceding such transaction hold less than 80% of the equity interests in the surviving or resulting entity of such transaction; (B) any sale, lease (other than in the ordinary course of business), exchange, transfer, license (other than in the ordinary course of business), acquisition, or disposition of more than 50% of the assets of the Company; (C) any sale, transfer or disposition of the Company Debt by the Selling Lenders; or (D) any liquidation or dissolution of the Company.

(c) In addition to the obligations of the Company and the Selling Lenders set forth in paragraph (a) of this Section 5.4, the Company and the Selling Lenders as promptly as practicable shall advise the Buyer orally and in writing of any request for non-public information which the Company or the Selling Lenders reasonably believes would lead to an Acquisition Proposal or of any Acquisition Proposal, or any inquiry with respect to or which the Company or the Selling Lenders reasonably believe would lead to any Acquisition Proposal, the material terms and conditions of such request, Acquisition Proposal or inquiry, and the identity of the person or group making any such request, Acquisition Proposal or inquiry. The Company and the Selling Lenders will keep the Buyer informed as promptly as practicable in all material respects of the status and details (including material amendments or proposed amendments and the results of any required meetings, consents or approvals) of any such request, Acquisition Proposal or inquiry.

5.5 **Regulatory Approvals**. The Company will execute and file, or join in the execution and filing, of any application or other document that may be necessary in order to obtain the authorization, approval or consent of the governmental authorities listed in Schedule 2.2 2 of the Company Disclosure Schedule In addition, the Company will obtain, at the Buyer's expense, opinions of counsel satisfactory to the Buyer that no regulatory approvals or consents are required in advance of the Closing in connection with the Transactions in the following states. California, Florida, Georgia, Illinois, Mississippi, North Carolina, New Mexico, New York and Virginia;

5.6 **Necessary Consents**. The Company will use its best efforts to obtain such written consents and take such other actions as may be necessary or appropriate to allow the consummation of the Transactions contemplated hereby and to allow the Buyer to carry on the Company's business after the Closing.

5.7 **Litigation**. The Company will notify the Buyer in writing promptly after learning of any material actions, suits, proceedings or investigations by or before any court, board or governmental agency, initiated by or against it or any Subsidiary, or known by it to be threatened against it or any Subsidiary

5.8 **Access to Information.** Until the Closing, the Company will allow Buyer and its agents reasonable access upon prior notice and at all reasonable times during normal business hours to the files, books, records and offices of the Company and each Subsidiary, including, without limitation, any and all information relating to the Company Debt and the Company's taxes, commitments, contracts, leases, licenses, and real, personal and intangible property and financial condition; provided that Buyer's review of such information shall be conducted in a manner not to interfere with the normal business operations of the Company and its Subsidiaries. The Company will cause its accountants to cooperate with the Buyer and its agents in making available all financial information reasonably requested, including without limitation the right to examine all working papers pertaining to all financial statements prepared or audited by such accountants.

5.9 **Satisfaction of Conditions Precedent**. The Company and the Selling Lenders will use their reasonable best efforts to satisfy or cause to be satisfied all the conditions precedent which are set forth in Section 9 hereunder, and the Company and the Selling Lenders will each use their reasonable best efforts to cause the Transactions contemplated by this Agreement to be consummated.

5.10 Blue Sky Laws. The Company shall use its best efforts to assist the Buyer to the extent necessary to comply with the securities and Blue Sky laws of all jurisdictions which are applicable in connection with the Transactions.

6. BUYER AND PARENT PRE-CLOSING AND POST-CLOSING COVENANTS

During the period from the date of this Agreement until the Closing Date, the Buyer and Parent covenant and agree as follows:

6.1 Advice of Changes The Buyer will promptly advise Company in writing (a) of any event occurring subsequent to the date of this Agreement that would render any representation or warranty of the Buyer or Parent contained in this Agreement, if made on or as of the date of such event or the Closing Date, untrue or inaccurate in any material respect and (b) of any Material Adverse Effect.

6.2 Satisfaction of Conditions Precedent. The Buyer and Parent will use its best efforts to satisfy or cause to be satisfied all the conditions precedent which are set forth in Section 8, and the Buyer and Parent will use its best efforts to cause the Transactions contemplated by this Agreement to be consummated, and, without limiting the generality of the foregoing, to obtain all consents and authorizations of third parties and to make all filings with, and give all notices to, third parties that may be necessary or reasonably required on its part in order to effect the Transactions contemplated hereby.

6.3 Blue Sky Laws. The Buyer shall take such steps as may be necessary to comply with the securities and Blue Sky laws of all jurisdictions which are applicable in connection with the Transactions.

6.4 Bankruptcy. Neither Buyer nor Parent will cause the Company to file a voluntarily petition in bankruptcy or other similar insolvency proceeding within one hundred twenty (120) days after the Closing, and the Company agrees that it will not file a voluntarily petition in bankruptcy or other similar insolvency proceeding within one hundred twenty (120) days after the Closing.

7. CONDITIONS TO EACH PARTY'S OBLIGATIONS

The obligations of each party hereunder are subject to the fulfillment or satisfaction, on or prior to the Closing Date, of each of the following conditions (any one or more of which may be waived by each party only in a writing signed by each party):

7.1 Compliance with Law. There shall be no order, decree, or ruling by any court or governmental agency or threat thereof, or any other fact or circumstance, which would prohibit or render illegal the Transactions contemplated by this Agreement.

7.2 Government Consents. There shall have been obtained at or prior to the Closing Date such permits or authorizations as may be required by the States of Louisiana, South Carolina and Tennessee, and there shall have been taken such other action, as may be required to consummate the Transactions by any regulatory authority having jurisdiction over the parties and the actions herein proposed to be taken, including but not limited to requirements under applicable federal and state securities laws.

8. CONDITIONS TO OBLIGATIONS OF THE COMPANY AND THE SELLING LENDERS

The Company's and the Selling Lenders' obligations hereunder are subject to the fulfillment or satisfaction, on and as of the Closing Date, of each of the following conditions (any one or more of which may be waived by the Company and the Selling Lenders, but only in a writing signed by the Company and all of the Selling Lenders):

8.1 **Accuracy of Representations and Warranties**. The representations and warranties of the Buyer and Parent set forth in Section 4 (as qualified by the Buyer Disclosure Letter) shall be true and accurate in every material respect on and as of the Closing with the same force and effect as if they had been made at the Closing, except for changes contemplated by this Agreement and except for those representations and warranties that address matters only as of a particular date (which shall remain true and correct as of such particular date), with the same force and effect as if they had been made at the Closing, and the Company and the Selling Lenders shall receive a certificate to such effect executed by the President of the Buyer and Parent.

8.2 **Covenants** The Buyer and Parent shall have performed and complied in all material respects with all of its covenants contained in Section 6 on or before the Closing, and the Company shall receive a certificate to such effect signed by the President of Buyer and Parent.

8.3 **Consents**. The Company shall have received duly executed copies of all material third-party consents, approvals, assignments, waivers, authorizations or other certificates contemplated by this Agreement or reasonably deemed necessary by the Company's legal counsel for the Buyer to consummate the Transactions contemplated hereby in form and substance reasonably satisfactory to the Company.

8.4 **Closing Deliveries**. The Selling Lenders shall have received the documents and items to be delivered by the Buyer pursuant to Section 1.6.2, including but not limited to, receipt of the Purchase Price on or before November 30, 2004.

8.5 **Exchange**. The Selling Lenders and the Company and its Subsidiaries shall have entered into the Agreement to Exchange Indebtedness for Personal Property in the form of Exhibit K attached hereto.

9. CONDITIONS TO OBLIGATIONS OF THE BUYER AND PARENT

The obligations of the Buyer and Parent hereunder are subject to the fulfillment or satisfaction, on and as of the Closing Date, of each of the following conditions (any one or more of which may be waived by the Buyer and Parent, but only in a writing signed by the Buyer and Parent):

9.1 **Accuracy of Representations and Warranties**. The representations and warranties of the Company set forth in Section 2 (as qualified by the Company Disclosure Letter) and of the Selling Lenders as set forth in Section 3 shall be true and accurate in every material respect on and as of the Closing Date with the same force and effect as if they had been made at the Closing, except for changes contemplated by this Agreement and except for those representations and warranties that address matters only as of a particular date (which shall remain true and correct as of such particular date), with the same force and effect as if they had been made at the Closing, and the Buyer shall receive a certificate to such effect executed by the President of the Company and each of the Selling Lenders

9.2 Covenants. The Company shall have performed and complied in all material respects with all of its covenants contained in Section 5 on or before the Closing Date, and the Buyer shall receive a certificate to such effect signed by the President of the Company and each of the Selling Lenders.

9.3 Absence of Material Adverse Effect. Since the date hereof, there shall not have been, in the reasonable judgment of the Board of Directors of the Buyer or Parent, any Material Adverse Effect on the Company and its Subsidiaries taken as a whole

9.4 Consents. The Buyer shall have received duly executed copies of all material third-party consents, approvals, assignments, waivers, authorizations or other certificates contemplated by this Agreement or reasonably deemed necessary by Buyer's legal counsel to provide for the continuation in full force and effect of any and all material contracts and leases of the Company and for the Buyer to consummate the Transactions contemplated hereby in form and substance reasonably satisfactory to the Buyer.

9.5 Closing Deliveries. The Buyer shall have received the documents and items to be delivered by the Selling Lenders pursuant to Section 1.6.1.

9.6 Exchange. The Selling Lenders and the Company and its Subsidiaries shall have entered into the Agreement to Exchange Indebtedness for Personal Property in the form of Exhibit K attached hereto.

10. TERMINATION OF AGREEMENT

10.1 Termination This Agreement may be terminated at any time prior to the Closing Date:

(a) by written consent of each of the parties,

(b) by any party if the Transactions shall not have been consummated by November 30, 2004 for any reason; *provided, however*, that the right to terminate this Agreement under this Section 10.1(b) shall not be available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the Transactions to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

(c) by any party if a governmental entity shall have issued an order, decree or ruling or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting the Transactions, which order, decree, ruling or other action is final and nonappealable;

(d) by Buyer if a Company Triggering Event (as defined below) shall have occurred; for the purposes of this Agreement, a "***Company Triggering Event***" shall be deemed to have occurred if: (i) the Board of Directors of the Company or any committee thereof fails to reaffirm its recommendation in favor of the adoption and approval of the Agreement and the approval of the Transactions within five business days after the Buyer requests in writing that such recommendation be reaffirmed at any time following the public announcement of an Acquisition Proposal; (ii) the Board of Directors of the Company or any committee thereof shall have approved or publicly recommended any Acquisition Proposal, (iii) the Company shall have entered into any letter of intent or similar document or any agreement, contract or commitment accepting any Acquisition Proposal; and (iv) a tender or exchange offer relating to securities of the Company shall have been commenced by a person unaffiliated with the Buyer, and the Company shall not have sent to its security holders pursuant to Rule 14e-2 promulgated under the Securities Act, within 10 business days after such tender or exchange offer is first published sent or given, a statement disclosing that the Company recommends rejection of such tender or exchange offer;

(e) by Buyer if a Selling Lender Triggering Event (as defined below) shall have occurred; for the purposes of this Agreement, a "***Selling Lender Triggering Event***" shall be deemed to have occurred if: (i) the Selling Lenders shall have approved or publicly recommended any Acquisition Proposal; or (ii) the Selling Lenders shall have entered into any letter of intent or similar document or any agreement, contract or commitment accepting any Acquisition Proposal;

(f) by the Company if the Board of Directors of the Company determines, in good faith, after consultation with an independent financial advisor, that (i) an Acquisition Proposal in which 100% of the outstanding capital stock of the Company is being acquired in a single transaction by a third party and (A) the compensation to the Minority Stockholders on a per share basis is more favorable, from a financial point of view, than the price per share to be offered pursuant to Section 1.7.1 hereof, or (B) the amount of total consideration to be received in such Acquisition Proposal will result in the unsecured creditors of the Company receiving immediate cash benefits ("***Superior Proposal***"), (ii) if accepted, such Superior Proposal is reasonably likely to be consummated taking into consideration, to the extent deemed reasonably appropriate, the legal, financial, regulatory and other aspects of the Superior Proposal, (iii) the Company satisfied the notice requirements in Section 5.4(c) hereof and the Buyer did not make a counteroffer for an amount per share payable to the Minority Stockholders in excess of the Superior Proposal within five business days of receiving notice of the Superior Proposal, and (iv) the Selling Lenders approved the Superior Proposal.

(g) by the Company or the Selling Lenders, upon a material breach of any representation, warranty, covenant or agreement on the part of the Buyer or Parent set forth in this Agreement, which breach (i) would give rise to a failure of the conditions set forth in Section 8, and (ii) cannot be or has not been cured within 15 days of the date of notice of such breach; provided, in each case, that neither the Company nor any of the Selling Lenders are then in material breach of any representations, warranties, covenants or agreements contained in this Agreement (after the expiration of applicable cure periods);

(h) by the Buyer or Parent, upon a material breach of any representation, warranty, covenant or agreement on the part of the Company or any Selling Lender set forth in this Agreement, which breach (i) would give rise to a failure of the conditions set forth in Section 9, and (ii) cannot be or has not been cured within 15 days of the date of notice of such breach; provided, in each case, that neither the Buyer nor Parent are then in material breach of any representations, warranties, covenants or agreements contained in this Agreement (after the expiration of applicable cure periods);

10.2 Notice of Termination. Any proper termination of this Agreement under Section 10.1 above will be effective immediately upon the delivery of written notice of the terminating party to the other parties hereto. In the event of the termination of this Agreement as provided in Section 10.1, this Agreement shall be of no further force or effect, without any liability on the part of any party hereto or its directors, officers, members, managers, partners, stockholders or affiliates, except (i) as set forth in this Section 10.2, Section 1.4, Section 10.3 and Section 12, each of which shall survive the termination of this Agreement, and (ii) nothing herein shall relieve any party from liability for any willful breach of this Agreement

10.3 **Fees and Expenses**.

(a) General. Except as set forth in Section 1.3, Section 1.4 and this Section 10.3, all fees and expenses incurred in connection with this Agreement and the Transactions contemplated hereby shall be paid by the party incurring such expenses whether or not the Transactions are consummated; provided, however, the Company Transaction expenses listed on Schedule 10.3 ("***Company Transaction Expenses***") shall be paid in the following manner: (i) first, from a certain deposit account held by Wells Fargo Foothill, Inc. originally funded with proceeds of the sale of a claim of the Company against MCI WorldCom (the "***MCI Account***"), until the MCI Account balance is exhausted; and (ii) the remaining Company Transaction Expenses shall be paid (A) by the Company in an amount equal to $50,000, and (B) the remainder from certain regulatory receipts currently held by the Company.

(b) Termination Fees. In the event that this Agreement is terminated by the Buyer pursuant to Section 10.1(d), the Company shall pay the Buyer a fee equal to $1,000,000 in immediately available funds (the "***Company Termination Fee***"). In the event that this Agreement is terminated by the Buyer pursuant to Section 10.1(e), the Selling Lenders shall, jointly and severally, pay the Buyer a fee equal to $1,000,000 in immediately available funds (the "***Selling Lender Termination Fee***"). In the event that this Agreement is terminated by the Company pursuant to Section 10.1(f), (i) the Company shall pay the Buyer a fee equal to $150,000 in immediately available funds, and (ii) the Selling Lenders shall, jointly and severally, pay the Buyer a fee equal to $850,000 in immediately available funds (the "***Joint Termination Fee***"). The Company Termination Fee, the Selling Lender Termination Fee and the Joint Termination Fee, as applicable, shall be payable to the Buyer promptly, but in no event later than two business days after the date of the termination. The Company and Selling Lenders each acknowledge and agree that the agreements contained in this Section 10.3(b) are an integral part of the Transactions contemplated by this Agreement, and that, without these agreements, the Buyer would not enter into this Agreement. Accordingly, if the Company or the Selling Lenders or both, as applicable, fail to pay in a timely manner the amounts due pursuant to this Section 10.3(b), and, in order to obtain such payment, the Buyer makes a claim that results in a judgment against either the Company or the Selling Lenders, as applicable, for the amounts set forth in this Section 10.3(b), the Company or the Selling Lenders, as applicable, shall pay to the Buyer its reasonable costs and expenses (including reasonable attorneys' fees and expenses) in connection with such suit; provided, however, in no event shall the Selling Lenders be obligated or liable to pay any portion of the Company Termination Fee, nor shall the Company be obligated or liable to pay any portion of the Selling Lender Termination Fee. Payment of the fees described in this Section 10.3(b) shall not be in lieu of damages incurred in the event of willful breach of this Agreement. To the extent that the Company Termination Fee, the Selling Lender Termination Fee or the Joint Termination Fee shall be payable hereunder, only one such fee shall be paid to the Buyer.

11. **SURVIVAL OF REPRESENTATIONS** All representations, warranties and covenants of the parties contained in this Agreement will remain operative and in full force and effect, regardless of any investigation made by or on behalf of the parties to this Agreement, until the earlier of the termination of this Agreement or the Closing Date, whereupon such representations, warranties and covenants will expire (except for covenants that by their terms survive for a longer period).

12. MISCELLANEOUS

12.1 **Governing Law**. The internal laws of the State of Delaware (irrespective of its choice of law principles) will govern the validity of this Agreement, the construction of its terms, and the interpretation and enforcement of the rights and duties of the parties hereto.

12.2 **Assignment; Binding Upon Successors and Assigns**. No party hereto may assign any of its rights or obligations hereunder without the prior written consent of the other parties hereto. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.3 **Severability**. If any provision of this Agreement, or the application thereof, will for any reason and to any extent be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provision.

12.4 **Counterparts**. This Agreement may be executed in any number of counterparts, each of which will be an original as regards any party whose signature appears thereon and all of which together will constitute one and the same instrument.

12.5 **Amendment and Waivers**. Any term or provision of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a writing signed by the party or parties to be bound thereby. The waiver by a party of any breach hereof or default in the performance hereof will not be deemed to constitute a waiver of any other default or any succeeding breach or default.

12.6 No Waiver. The failure of any party to enforce any of the provisions hereof will not be construed to be a waiver of the right of such party thereafter to enforce such provisions. This provision shall survive the closing of the Transactions contemplated by this Agreement.

12.7 Attorneys' Fees. Should suit be brought to enforce or interpret any part of this Agreement, the prevailing party will 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). The prevailing party will be entitled to recover its costs of suit, regardless of whether such suit proceeds to final nonappealable judgment

12.8 Notices. Any notice or other communication required or permitted to be given under this Agreement will be in writing, will be delivered (i) upon receipt, when delivered personally, (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), or (iii) one (1) business day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same, to the following addresses (or to such other address as a party may have furnished to the other parties in writing pursuant to this Section 12.8):

(a) If to the Buyer:

Mobilepro Corp.
6701 Democracy Blvd., Suite 300
Bethesda, MD 20817
Attention: Jay O. Wright, President and CEO
Facsimile: (301) 315-9040

With a copy (which will not constitute notice) to:

Schiff Hardin LLP
1101 Connecticut Ave., N.W., Suite 600
Washington, D.C. 20036
Attention: Ernest M. Stern, Esq.
Facsimile: (202) 778-6460

(b) If to the Company:

Davel Communications
200 Public Square
Suite 700
Cleveland, OH 44114
Attention: President

With a copy (which will not constitute notice) to:

Hahn Loeser & Parks LLP
3300 BP Tower
200 Public Square
Cleveland, Ohio 44114
Attention: F Ronald O'Keefe, Esq.
Facsimile: (216) 241-2824

(c) If to the Selling Lenders, to the names and addresses for each Selling Lender as set forth in Exhibit A to this Agreement or as subsequently provided by such Selling Lender to the other parties in writing.

12.9 Construction of Agreement. This Agreement has been negotiated by the respective parties hereto and their attorneys and the language hereof will not be construed for or against any party. A reference to a Section or an Exhibit will mean a Section in, or Exhibit to, this Agreement unless otherwise explicitly set forth. The titles and headings herein are for reference purposes only and will not in any manner limit the construction of this Agreement which will be considered as a whole.

12.10 No Joint Venture. Nothing contained in this Agreement will be deemed or construed as creating a joint venture or partnership between any of the parties hereto. No party is by virtue of this Agreement authorized as an agent, employee or legal representative of any other party. No party will have the power to control the activities and operations of any other and their status is, and at all times, will continue to be, that of independent contractors with respect to each other. No party will have any power or authority to bind or commit any other. No party will hold itself out as having any authority or relationship in contravention of this Section.

12.11 Absence of Third Party Beneficiary Rights. No provisions of this Agreement are intended, nor will be interpreted, to provide or create any third party beneficiary rights or any other rights or remedies of any kind in any client, customer, affiliate, stockholder, partner or any party hereto or any other person or entity unless specifically provided otherwise herein, and, except as so provided, all provisions hereof will be personal solely between the parties that are signatories to this Agreement.

12.12 Public Announcement. Upon execution of this Agreement, the Buyer and the Company will issue a joint press release approved by both parties announcing the Transactions; provided that in the event the parties are unable to agree on the text of a joint press release, each party may make such public announcement regarding the execution of this Agreement and the Transactions as such party may be required by applicable law to make.

12.13 Confidentiality. Each party hereto recognizes that they have received and will receive confidential information concerning the other parties during the course of the negotiations and preparations. Accordingly, each party agrees (a) to use its respective reasonable best efforts to prevent the unauthorized disclosure of any confidential information concerning the other that was or is disclosed during the course of such negotiations and preparations and (b) to not make use of or permit to be used any such confidential information other than for the purpose of effectuating the Transactions. The obligations of this section will not apply to information that (i) is or becomes part of the public domain, (ii) is disclosed by the disclosing party to third parties without restrictions on disclosure, (iii) is received by the receiving party from a third party without breach of a nondisclosure obligation to the other party or (iv) is required to be disclosed by law. If this Agreement is terminated, all copies of documents containing confidential information shall be returned by the receiving party to the disclosing party. The obligations of the parties under this Section 12.13 shall survive the Closing or the termination of this Agreement for a period of two years from the date of this Agreement. The Company, the Buyer and Parent acknowledge and agree that this Section 12.13 is not intended and shall not be construed to limit the respective rights and obligations of each of them under that certain Mutual Confidentiality Agreement dated June 3, 2004.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

THE BUYER:

MOBILEPRO ACQUISITION CORP.

By:____________________
Name:__________________
Title:___________________

PARENT:

MOBILEPRO CORP.

By:____________________
Name:__________________
Title:___________________

THE COMPANY:

DAVEL COMMUNICATIONS, INC.

By:____________________
Name:__________________
Title:___________________

THE SELLING LENDERS:

WELLS FARGO FOOTHILL, INC.

By:____________________
Name:__________________
Title:___________________

FOOTHILL PARTNERS III, L.P.

By:____________________
Name:__________________
Title:___________________

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

THE BUYER:

DAVEL ACQUISITION CORP.

By:____________________
Name:____________________
Title:____________________

PARENT:

MOBILEPRO CORP.

By:____________________
Name:____________________
Title:____________________

THE COMPANY:

DAVEL COMMUNICATIONS, INC.

By: W M McGee
Name: W. M. McGEE
Title: Chairman/CEO

THE SELLING STOCKHOLDERS

WELLS FARGO FOOTHILL, INC.

By: Amy Lam

Name: Amy Lam
Title: Vice President

FOOTHILL PARTNERS III, L.P.

By: ______________________

Name:
Title:

ABLECO FINANCE LLC

By: ______________________

Name:
Title:

CERBERUS PARTNERS, L.P.

By Cerberus Associates, LLC, as General Partner

By: ______________________
Name:
Title:

THE SELLING STOCKHOLDERS:

WELLS FARGO FOOTHILL, INC.

By: ____________________________
Name:
Title:

FOOTHILL PARTNERS III, L.P.

By Dennis R. Ascher
Name: DENNIS R. ASCHER
Title: MANAGING GENERAL PARTNER

ABLECO FINANCE LLC

By: ____________________________
Name.
Title:

CERBERUS PARTNERS, L.P.

By Cerberus Associates, LLC, as General Partner

By: ____________________________
Name:
Title:

THE SELLING STOCKHOLDERS:

WELLS FARGO FOOTHILL, INC.

By: ____________________________
Name:
Title:

FOOTHILL PARTNERS III, L.P.

By: ____________________________
Name:
Title:

ABLECO FINANCE LLC

By: ____________________________
Name: Kevin Genda
Title: SVP

CERBERUS PARTNERS, L.P.

By: Cerberus Associates, LLC, as General Partner

By: ____________________________
Name: Kevin Genda
Title: Managing Director

ARK CLO 2000-1, LIMITED

By: Patriarch Partners, LLC
its Collateral Manager

By: ______________________
Name:
Title:

PNC BANK, NATIONAL ASSOCIATION

By: ______________________
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

By: ______________________
Name:
Title:

BNP PARIBAS

By: ______________________
Name:
Title:

MORGAN STANLEY PRIME INCOME TRUST

By: ______________________
Name:
Title:

ARK CLO 2000-1, LIMITED

By. Patriarch Partners, LLC
its Collateral Manager

By.________________________
Name.
Title:

PNC BANK, NATIONAL ASSOCIATION

By Frank P. Devine
Name: FRANK P. DEVINE
Title: Vice President

U.S. BANK NATIONAL ASSOCIATION

By: ________________________
Name:
Title:

BNP PARIBAS

By. ________________________
Name:
Title:

MORGAN STANLEY PRIME INCOME TRUST

By: ________________________
Name:
Title:

ARK CLO 2000-1, LIMITED

By: Patriarch Partners, LLC
its Collateral Manager

By. ______________________
Name
Title.

PNC BANK, NATIONAL ASSOCIATION

By. ______________________
Name
Title:

U.S. BANK NATIONAL ASSOCIATION

By: James P. Cecil
Name: James P. Cecil
Title: Vice President

BNP PARIBAS

By. ______________________
Name:
Title:

MORGAN STANLEY PRIME INCOME TRUST

By: ______________________
Name:
Title:

ARK CLO 2000-1, LIMITED

By: Patriarch Partners, LLC
its Collateral Manager

By:________________________
Name:
Title:

PNC BANK, NATIONAL ASSOCIATION

By: ________________________
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

By: ________________________
Name:
Title:

BNP PARIBAS

By: ________________________ ________________
Name: BROCK T. HARRIS
Title: DIRECTOR

MORGAN STANLEY PRIME INCOME TRUST

By: ________________________
Name:
Title:

ARK CLO 2000-1, LIMITED

By: Patriarch Partners, LLC
its Collateral Manager

By: ______________________
Name:
Title:

PNC BANK, NATIONAL ASSOCIATION

By: ______________________
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION

By: ______________________
Name:
Title:

BNP PARIBAS

By: ______________________
Name:
Title:

MORGAN STANLEY PRIME INCOME TRUST

By: ______________________
Name: Kevin Egan
Title: Vice President

AVENUE SPECIAL SITUATIONS FUND II, LP

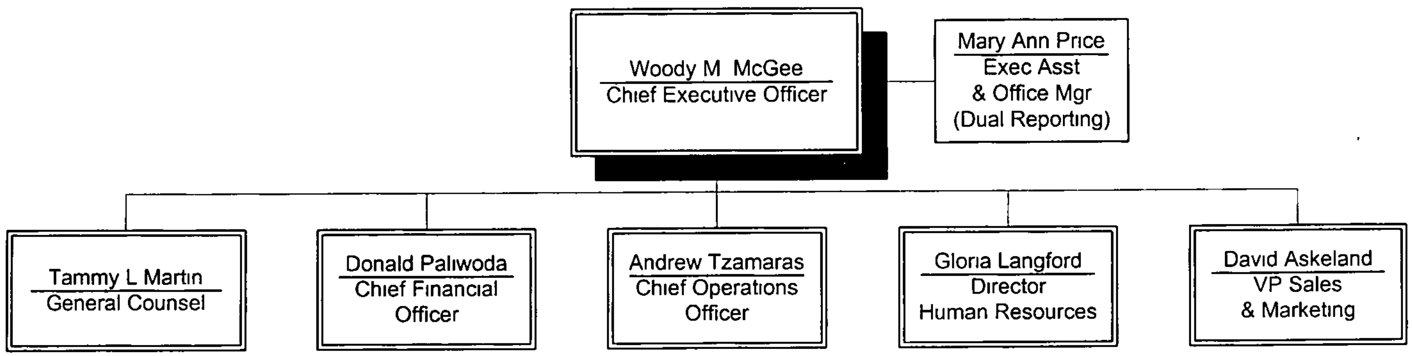
By:________________________________

Name: MARC LASRY, MANAGING MEMBER
Title.
By: Avenue Capital Partners II, LLC, General Partner
By: GL Partners II, LLC, Managing Member of the General Partner

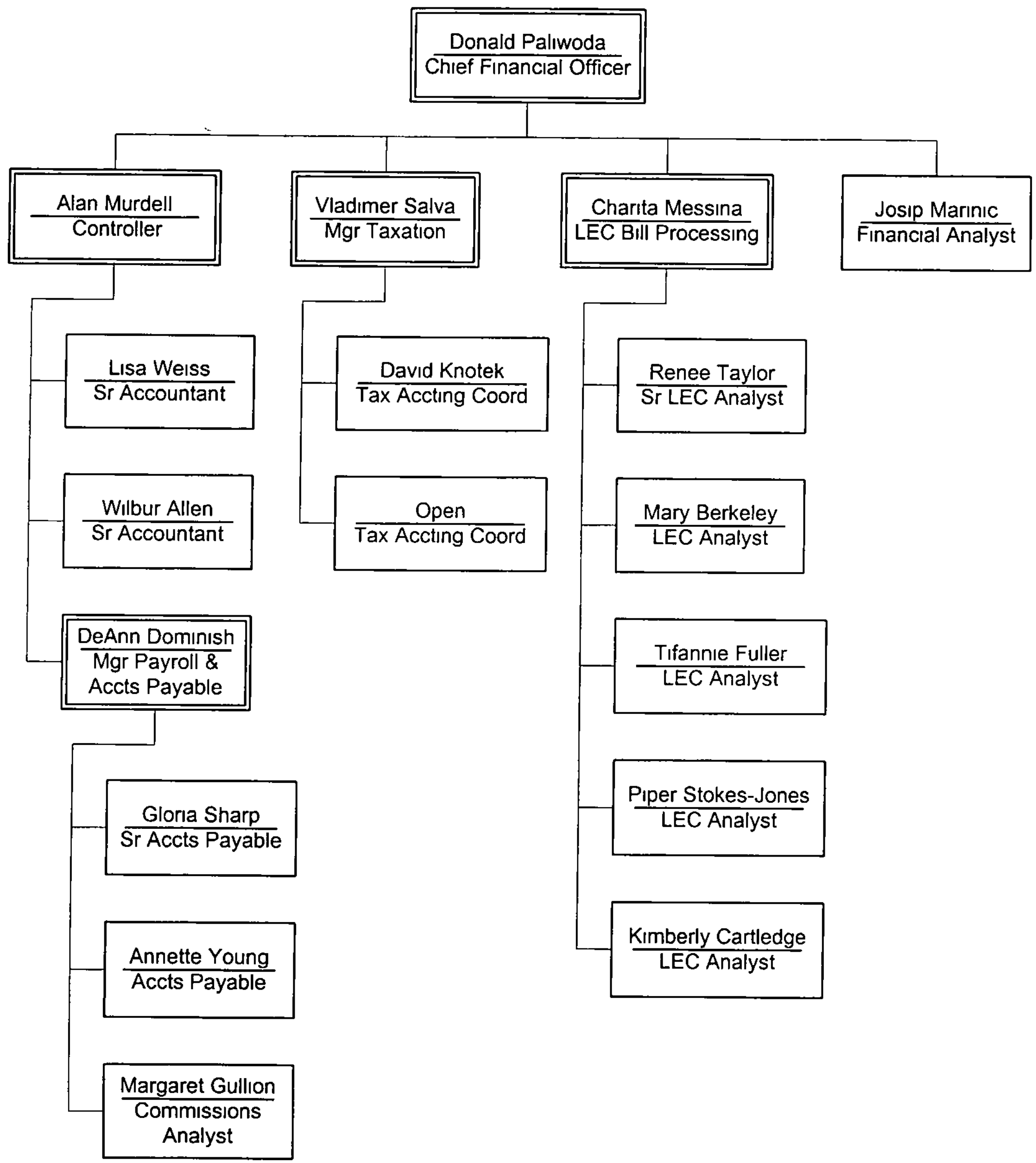
LIST OF EXHIBITS

Exhibit "B"
Organizational Chart of both TEI and PhoneTel

Executive Staff - Direct Reports

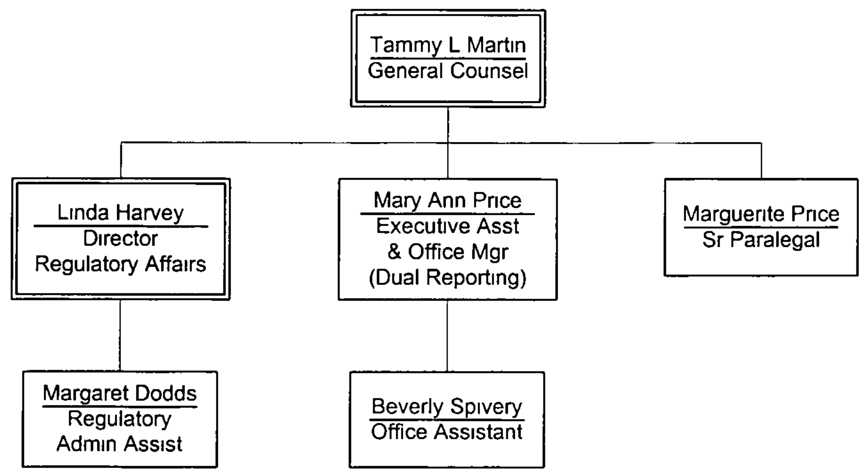


Finance

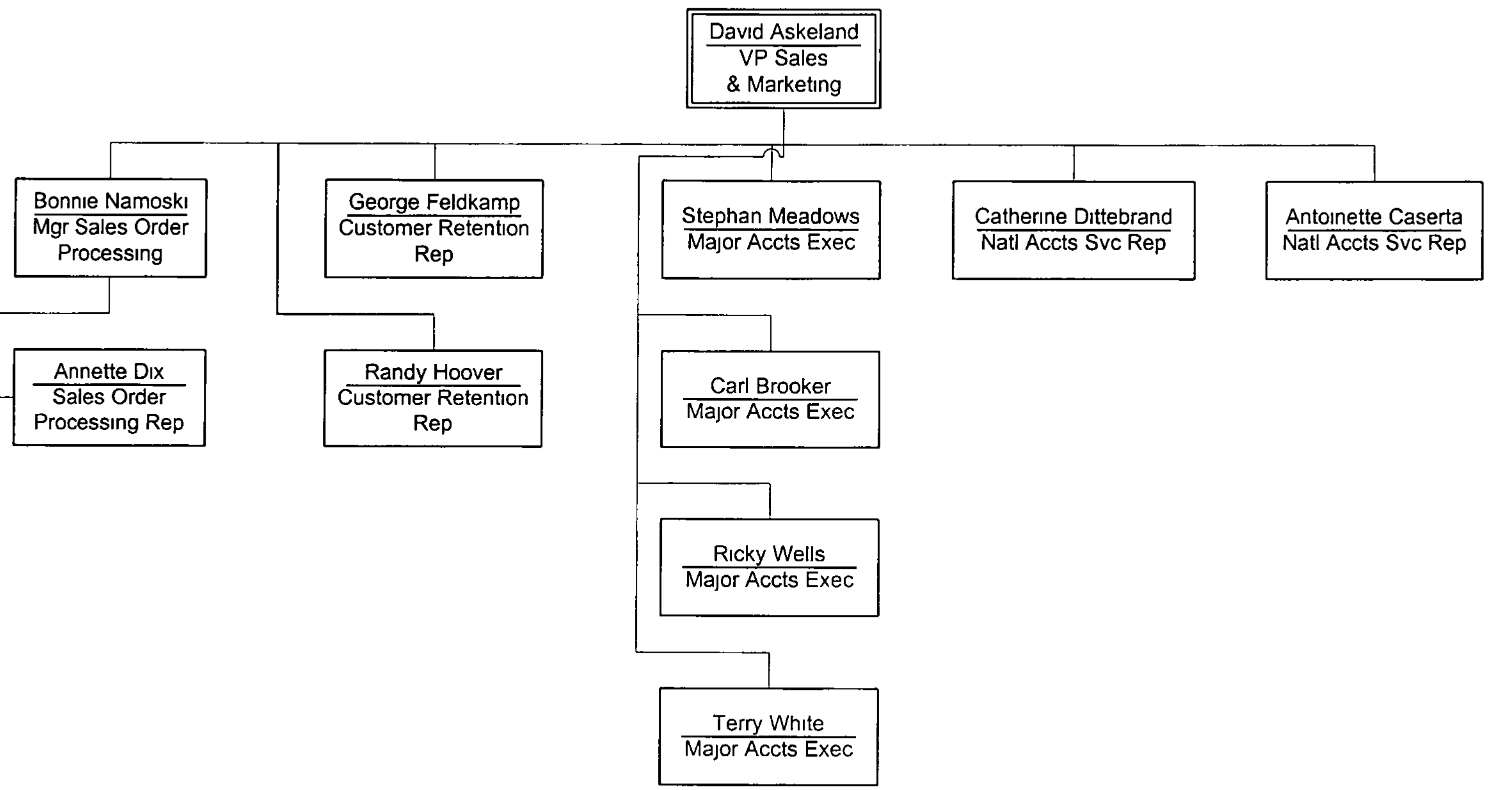


Donald Paliwoda
Chief Financial Officer
Alan Murdell
Controller
Lisa Weiss
Sr Accountant
Wilbur Allen
Sr Accountant
DeAnn Dominish
Mgr Payroll & Accts Payable
Gloria Sharp
Sr Accts Payable
Annette Young
Accts Payable
Margaret Gullion
Commissions Analyst
Vladimer Salva
Mgr Taxation
David Knotek
Tax Acctng Coord
Open
Tax Acctng Coord
Charita Messina
LEC Bill Processing
Renee Taylor
Sr LEC Analyst
Mary Berkeley
LEC Analyst
Tifannie Fuller
LEC Analyst
Piper Stokes-Jones
LEC Analyst
Kimberly Cartledge
LEC Analyst
Josip Marinic
Financial Analyst

Legal

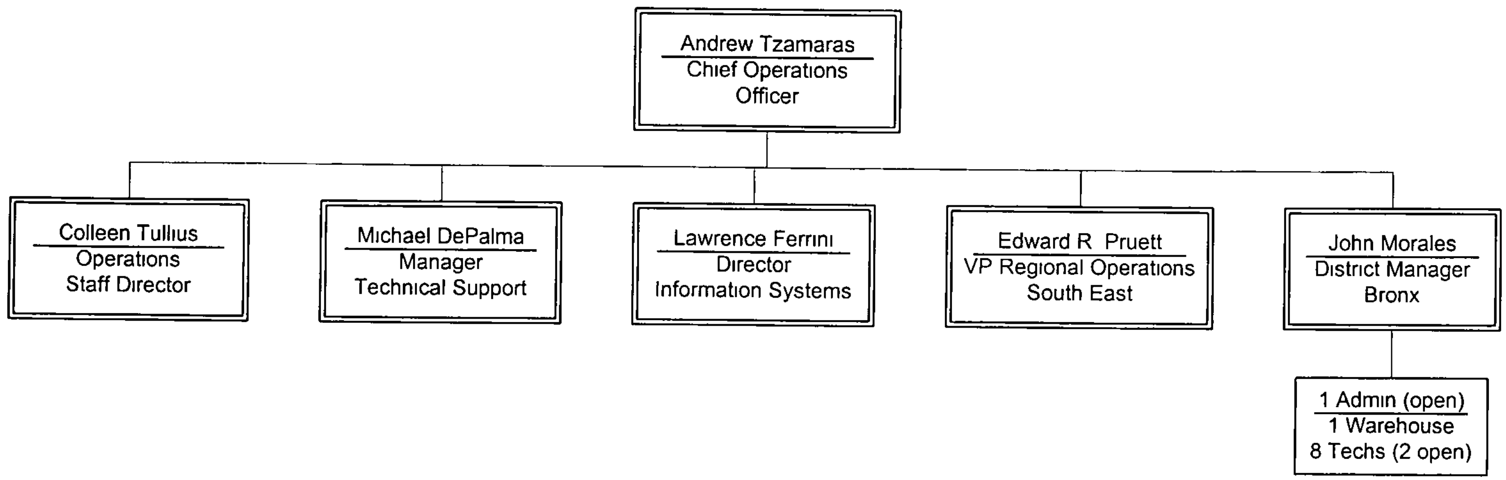

Tammy L Martin
General Counsel
Linda Harvey
Director
Regulatory Affairs
Mary Ann Price
Executive Asst
& Office Mgr
(Dual Reporting)
Marguerite Price
Sr Paralegal
Margaret Dodds
Regulatory
Admin Assist
Beverly Spivery
Office Assistant

Sales

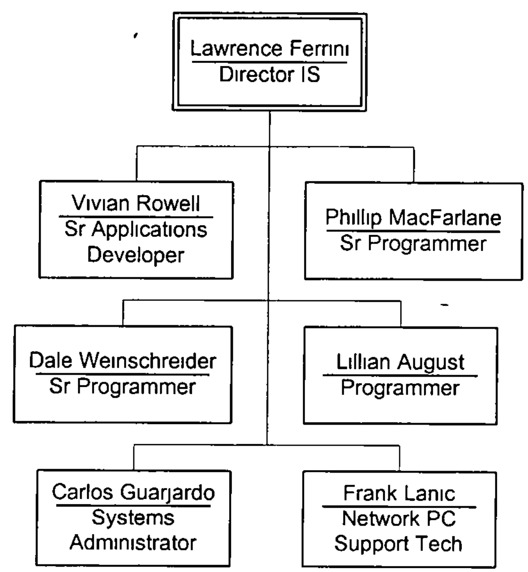


David Askeland
VP Sales
& Marketing
Bonnie Namoski
Mgr Sales Order
Processing
Annette Dix
Sales Order
Processing Rep
George Feldkamp
Customer Retention
Rep
Randy Hoover
Customer Retention
Rep
Stephan Meadows
Major Accts Exec
Carl Brooker
Major Accts Exec
Ricky Wells
Major Accts Exec
Terry White
Major Accts Exec
Catherine Dittebrand
Natl Accts Svc Rep
Antoinette Caserta
Natl Accts Svc Rep

Operations Management

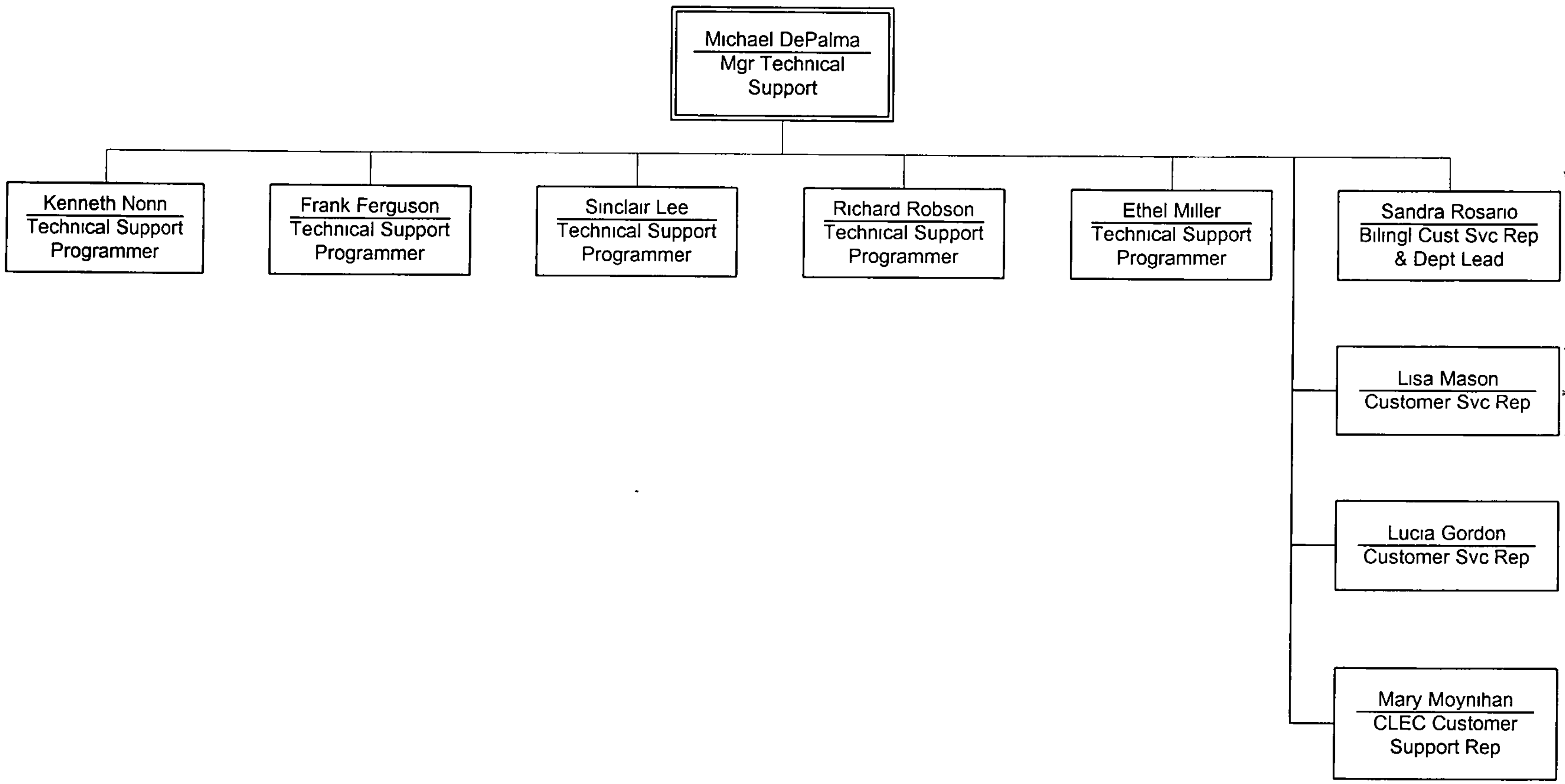


MIS



Lawrence Ferrini
Director IS
Vivian Rowell
Sr Applications Developer
Phillip MacFarlane
Sr Programmer
Dale Weinschreider
Sr Programmer
Lillian August
Programmer
Carlos Guarjardo
Systems Administrator
Frank Lanic
Network PC Support Tech

Technical Support



South Eastern and North Eastern Regional Operations

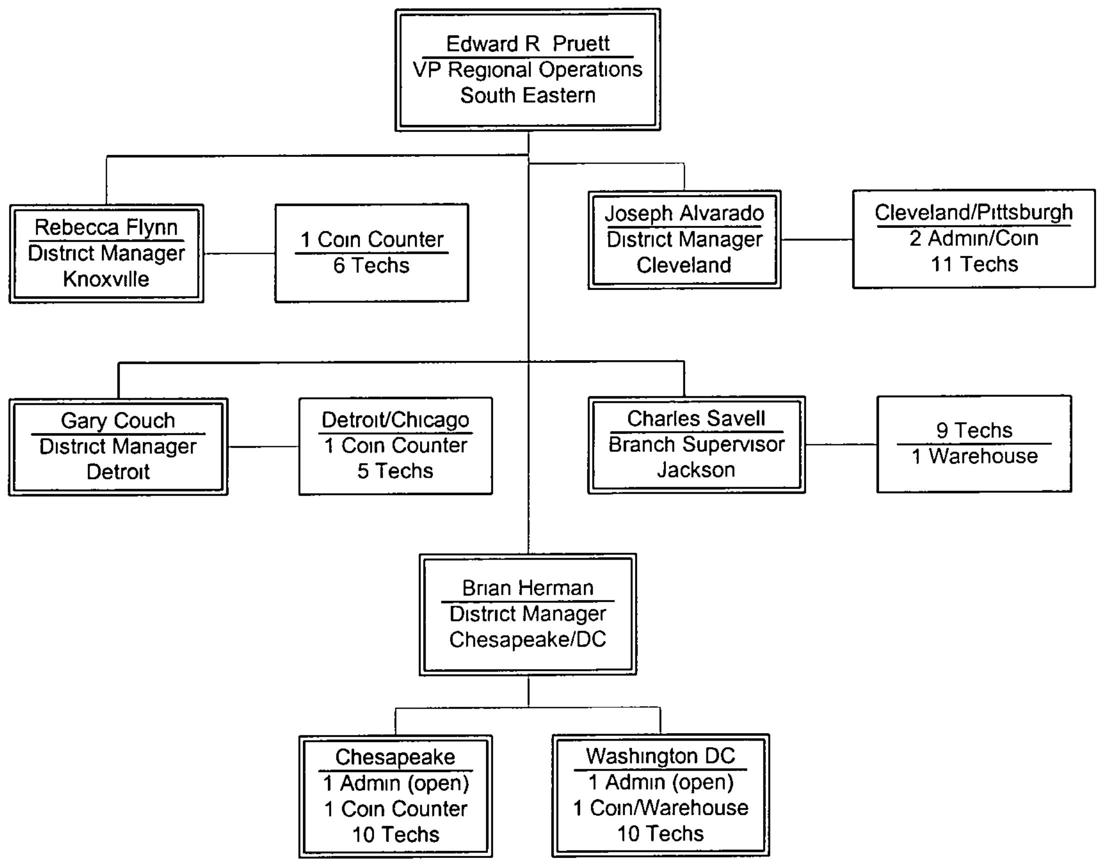


Exhibit "C"
Davel Financial Statements

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

FORM 10-K

(Mark one)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

[ ] 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 000-25207

DAVEL COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**59-3538257**
(State or other jurisdiction of incorporation or organization)	*(I R S Employer Identification No)*
200 Public Square, Suite 700, Cleveland, OH	**44114**
(address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(216) 241-2555

Securities registered pursuant to Section 12(b) of the act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value per share
(Title of class)

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 x 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 an accelerated filer (as defined in Rule 12b-2 of the Act) Yes __No x

As of June 30, 2003 the aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant was approximately $1,308,310 based upon the closing price on June 30, 2003 of $0 01 As of March 19, 2004, there were 615,018,963 shares of the registrant's Common Stock outstanding

DOCUMENTS INCORPORATED BY REFERENCE

None

DAVEL COMMUNICATIONS, INC.
FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934:

Certain of the statements contained in the body of this Report are forward-looking statements (rather than historical facts) that are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements In the preparation of this Report, where such forward-looking statements appear, the Company has sought to accompany such statements with meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those described in the forward-looking statements A description of the principal risks and uncertainties inherent in the Company's business is included herein under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations " Readers of this Report are encouraged to read these cautionary statements carefully

ITEM 1. BUSINESS

General Overview

Davel Communications, Inc ("Davel" or the "Company") was incorporated on June 9, 1998 under the laws of the State of Delaware The Company is the largest independent payphone service provider in the United States The Company operates in a single business segment within the telecommunications industry, operating, servicing, and maintaining a system of payphones throughout the United States The Company's headquarters is located in Cleveland, Ohio (having been relocated from Tampa, Florida after completion of the merger of its wholly owned subsidiary with PhoneTel Technologies, Inc ("PhoneTel" and the "PhoneTel Merger" — see Note 5 to the consolidated financial statements for acquisition activities and for exit and disposal activities), with field service offices in 17 geographically dispersed locations

As of December 31, 2003, the Company owned and operated a network of approximately 47,000 payphones in 46 states and the District of Columbia, providing it with one of the broadest geographic ranges of coverage of any payphone service provider ("PSP") in the country The Company's installed payphone base generates revenue through both coin calls (local and long-distance), non-coin calls (calling card, credit card, collect, and third-party billed calls using the Company's preselected operator services providers such as Opticom) and dial-around calls (utilizing a 1-800, 1010XXX or similar "toll free" dialing method to select a carrier other than the Company's pre-selected carrier) A significant portion of the Company's payphones are located in high-traffic areas such as convenience stores, shopping centers, truck stops, service stations, and grocery stores

As part of the Telecommunications Act of 1996 ("1996 Telecom Act"), Congress directed the Federal Communications Commission ("FCC") to ensure widespread access to payphones for use by the general public The most recent estimates of payphone deployment released by the FCC suggest that there are approximately 1 5 million payphones currently operating in the United States, of which approximately 0 8 million are operated by the Regional Bell Operating Companies ("RBOCs") and approximately 0 1 million are operated by the smaller independent local exchange carriers ("LECs") The remaining approximately 0 6 million payphones are owned or managed by the major long distance carriers such as Sprint and AT&T and more than 1,000 independent payphone providers ("IPPs") currently operating in the United States

Effective as of February 19, 2002, certain lenders entered into a credit agreement (the "Senior Credit Facility") with Davel Financing Company, L L C , PhoneTel and Cherokee Communications, Inc , a wholly owned subsidiary of PhoneTel On that date, the existing junior lenders of the Company and PhoneTel also agreed to a substantial debt-for-equity exchange with respect to their outstanding indebtedness (see Note 4 to the consolidated financial statements — Debt Restructuring) The Senior Credit Facility provided for a combined $10 million line of credit which the Company and PhoneTel shared $5 million each The Company and PhoneTel each borrowed the amounts available under their respective lines of credit on February 20, 2002, which amounts were used to pay merger related expenses and accounts payable

On July 24, 2002, a wholly owned subsidiary of Davel merged with and into PhoneTel pursuant to the Agreement and Plan of Reorganization and Merger, dated February 19, 2002, between the Company and PhoneTel and its subsidiary PhoneTel was a payphone service provider, based in Cleveland, Ohio, that operated an installed base of approximately 28,000 payphones in 45 states and the District of Columbia Management believes the PhoneTel Merger has reduced operating costs by leveraging the combined infrastructure of the companies

In connection with the PhoneTel Merger, 100% of the voting shares in PhoneTel were acquired and each share of common stock of PhoneTel was converted into 1 8233 shares of common stock of the Company, or an aggregate of 223,236,793 shares with a fair value of approximately $8 0 million The fair value of the Davel common stock was derived using an average market price per share of Davel common stock of $0 036, which was based on an average of the closing prices for a range of trading days (July 19, 2002 through July 29, 2002) around the closing date of the acquisition In addition 1,077,024 warrants and 339,000 options of PhoneTel were converted into 1,963,738 warrants and 618,107 stock options of the Company, respectively, with an aggregate value of $6,000 The warrants subsequently expired by their terms in November 2002 Direct costs and expenses of the merger amounted to $1 1 million and were included in the purchase price — See Note 5 to the consolidated financial statements for acquisition activities

In connection with the merger, the Company and PhoneTel effectuated the debt exchanges, and amended, restated, and consolidated their respective junior credit facilities into a combined restructured junior credit facility with a face value of $101 0 million due December 31, 2005 (the "Debt Restructuring" and the "Junior Credit Facility") See Note 4 to the consolidated financial statements — Debt Restructuring and Note 10 — Long-term Debt and Obligations under Capital Leases

The Company had net loss of $46 2 million, net income of $151 8 million, and net loss of $43 4 million, for the years ended December 31, 2003, 2002, and 2001, respectively The net income in 2002 was the result of a $181 0 million gain on debt restructuring associated with the PhoneTel Merger on July 24, 2002, partially offset by operating losses of $29 2 million which, along with the losses in 2003 and 2001, were primarily attributable to increased competition from providers of wireless communication services and the impact on the Company's revenue of certain changes in customer calling patterns in favor of 1-800 type calls In addition, the Company was not in compliance with certain financial covenants under its Junior Credit Facility and did not make certain debt payments totaling $5 1 million that were due in July through November 2003

On November 11, 2003 the Company executed an agreement with its Junior Lenders (the "Forbearance Agreement") that granted forbearance with respect to certain financial covenant defaults and cash payments due under the terms of the Junior Credit Facility through January 30, 2004 Thereafter, on February 24, 2004, the Company executed an amendment to the Junior Credit Facility (the "Second Amendment") that waives all defaults existing through the date of the Second Amendment, reduces the minimum amount of earnings (as defined in the agreement) that the Company is required to maintain, and reduces the minimum payments due under the Junior Credit Agreement to $130,000 per month through December 31 2005, including the monthly agent fee, plus 100% of any regulatory receipts, as defined in the agreement, received by the Company Further, the Company has also engaged in discussions with its Junior Lenders regarding the possibility of restructuring its outstanding debt Any such restructuring could potentially include a debt-for-equity exchange that may substantially dilute the interests of the Company's existing shareholders There can be no assurance that the Company will be successful in negotiating a reduction in the outstanding balance of its Junior Credit Facility See Note 10 to the consolidated financial statements – Long-term Debt and Obligations under Capital Leases

In July 2003, a special committee of independent members of the Company's Board of Directors (the "Special Committee") was formed to identify and evaluate the strategic and financial alternatives available to the Company to maximize value for the Company's stakeholders Thereafter, the Board of Directors appointed a new chief executive officer who has been actively engaged with management in the execution of a plan to improve the operating results of the Company Significant elements of the plan executed or planned for 2003 and 2004 include (i) continuing cost savings and efficiencies resulting from the merger with PhoneTel discussed in Note 5, (ii) the continued removal of unprofitable payphones, (iii) reductions in telephone charges by changing to competitive local exchange carriers ("CLECs") or alternative carriers, (iv) the evaluation, sale or closure of unprofitable district operations, (v) outsourcing payphone collection, service and maintenance activities to reduce such costs, and (vi) the further curtailments of operating expenses The Company is also working toward the implementation of new business initiatives and other strategic opportunities available to the Company

Notwithstanding these activities and plans, the Company may continue to face liquidity shortfalls and, as a result, might be required to dispose of assets to fund its operations or curtail its capital and other expenditures to meet its debt service and other obligations There can be no assurances as to the Company's ability to execute such dispositions, or the timing thereof, or the amount of proceeds that the Company could realize from such sales As a result, doubt exists about the Company's ability to continue as a going concern

Industry Overview

Today's telecommunications marketplace was principally shaped by the 1984 court-approved divestiture by AT&T of its local telephone operations (the "AT&T Divestiture") and the many regulatory changes adopted by the FCC and state regulatory authorities in response to and subsequent to the AT&T Divestiture, including the authorization of the connection of competitive or independently owned payphones to the public switched network The "public switched network" is the traditional domestic landline public telecommunications network used to carry, switch and connect telephone calls The connection of independently owned payphones to the public switched network has resulted in the creation of additional business segments in the telecommunications industry Prior to these developments, only the consolidated Bell system or independent LECs were permitted to own and operate payphones Following the AT&T Divestiture and subsequent FCC and state regulatory rulings, the independent payphone sector developed as a competitive alternative to the consolidated Bell system and other LECs by providing more responsive customer service, lower cost of operations and higher commissions to the owners or operators of the premises at which a payphone is located ("Location Owners")

Prior to the AT&T Divestiture, the LECs could refuse to provide payphone service to a business operator or, if service was installed, would typically pay no or relatively small commissions for the right to place a payphone on the business premises Following the AT&T Divestiture and the FCC's authorization of payphone competition, IPPs began to offer Location Owners higher commissions on coin calls made from the payphones in order to obtain the contractual right to install the equipment on the Location Owners' premises Initially, coin revenue was the only source of revenue for the payphone operators because they were unable to participate in revenues from non-coin calls However, the operator service provider ("OSP") industry emerged and enabled the competitive payphone operators to compete more effectively with the regulated telephone companies by paying commissions to payphone owners for non-coin calls. For the first time, IPPs were able to receive non-coin call revenue from their payphones With this incremental source of revenue from non-coin calls, IPPs were able to compete more vigorously on a financial basis with RBOCs and other LECs for site location agreements, as a complement to the improved customer service and more efficient operations provided by the IPPs As part of the AT&T Divestiture, the United States was divided into Local Access Transport Areas ("LATAs") RBOCs were authorized to provide telephone service that both originates and terminates within the same LATA ("intraLATA") pursuant to tariffs filed with and approved by state regulatory authorities RBOCs typically provide payphone service primarily in their own respective territories, and are now authorized to share in the payphone revenues generated from telecommunications services between LATAs ("interLATA") Long-distance companies, such as Sprint, AT&T and WorldCom, provide interLATA services, and in some circumstances, also provide local or long-distance service within LATAs. An interLATA long-distance telephone call generally begins with an originating LEC transmitting the call from the originating payphone to a point of connection with a long-distance carrier The long-distance carrier, through its owned or leased switching and transmission facilities, transmits the call across its long-distance network to the LEC servicing the local area in which the recipient of the call is located The terminating LEC then delivers the call to the recipient

Business Strategy

Rationalization Of Low-Revenue Phones In recent years, the Company has experienced revenue declines as a result of increased competition from cellular and other telecommunications products As a result of declining revenues, the Company's strategy is to remove low revenue payphones that do not meet the Company's minimum criteria of profitability and to promote improved density of the Company's payphone routes During the most recent two years ending December 31, 2003 and 2002, the Company removed approximately 24,800 and 14,900 payphones respectively Although a portion of these removals resulted from competitive conditions or decisions not to renew contracts with Location Owners under unfavorable terms, a large portion of these removals were to eliminate unprofitable payphones The Company has an ongoing program to identify additional payphones to be removed in 2004 based upon low revenue performance and route density considerations

Outsourcing Service, Maintenance and Collection Activities Notwithstanding improvements in payphone route densities and other efficiencies achieved following the PhoneTel Merger, the Company continues to examine its cost structure to identify additional ways to improve the profitability of the business During 2003, the Company outsourced the assembly and repair of its payphone equipment and closed its warehouse and repair facility in Tampa, Florida to reduce the cost to repair, maintain and store its replacement payphone equipment The Company incurred a loss from exit and disposal activities relating to this facility of approximately $0 3 million In the fourth quarter of 2003, the Company outsourced the collection, service and maintenance of its payphones in the western region of the United States to reduce the cost of servicing its geographically disbursed payphones in this area The Company closed eleven district offices and incurred a loss from exit and disposal activities of approximately $0 5 million relating to these facilities Subsequent to December 31, 2003, the Company outsourced the servicing of additional payphones and closed three additional district offices in Texas to further reduce its operating costs Although there were costs associated with the outsourcing of these activities, the Company believes future savings will more than offset these costs and have a favorable impact on the operating results of the Company The Company plans to continue to identify additional outsourcing opportunities and to implement those strategies that can further reduce its operating costs

Utilize Advanced Payphone Technology The Company's payphones utilize "smart" technology which provides voice synthesized calling instructions, detects and counts coins deposited during each call, informs the caller at certain intervals of the time remaining on each call, identifies the need for and the amount of an additional deposit in order to continue the call, and provides other functions associated with the completion of calls Through the use of a non-volatile, electronically erasable, programmable memory chip, the payphones can also be programmed and reprogrammed from the Company's central computer facilities to update rate information or to direct different types of calls to particular carriers The Company's payphones can also distinguish coins by size and weight, report to its central host computer the total amount of coin in the coin box, perform self-diagnosis and automatically report problems to a pre-programmed service number

Apply Sophisticated Monitoring and Management Information Systems The Company utilizes a blend of enterprise-class proprietary and non-proprietary software that continuously tracks coin and non-coin revenues from each payphone, as well as expenses relating to each payphone, including commissions payable to the Location Owners The Company's technology also allows it to efficiently track and facilitate the activities of its field technicians via interactions from the pay telephone with the Company's computer systems and technical support personnel at the Company's headquarters

Provide Outstanding Customer Service The technology used by the Company enables it to (i) respond quickly to equipment malfunctions and (ii) maintain accurate records of payphone activity which can be verified by customers The Company strives to minimize "downtime" on its payphones by identifying service problems as quickly as possible The Company employs both advanced telecommunications technology and trained field technicians as part of its commitment to provide superior customer service The records generated through the Company's technology also allow for the more timely and accurate payment of commissions to Location Owners

Consolidation of Carrier Services As part of its strategy to reduce costs and improve service quality, the Company has consolidated its coin and non-coin services with a limited number of major carriers This enables the Company to maximize the value of its traffic volumes and has translated into more favorable economic and service terms and conditions in these key aspects of its business

Pursue Regulatory Improvements The Company continues to actively pursue regulatory changes that will enhance its near and long-term performance and viability Notably, the Company is pressing, through regulatory channels, the reduction in line and related charges and improvements to the dial around compensation collection system that are critical to the economic viability of the payphone industry generally and the Company's operations specifically

Operations

As of December 31, 2003 and December 31, 2002, the Company owned and operated approximately 47,000 and 69,000 payphones, respectively

Coin Calls

The Company's payphones generate coin revenues primarily from local calls Historically, the maximum rate that LECs and IPPs could charge for local calls was generally set by state regulatory authorities and in most cases was $0 25 through October 6, 1997 In ensuring "fair compensation" for all calls, the FCC determined that local coin rates from payphones should be generally deregulated by October 7, 1997, but provided for possible modifications or exemptions from deregulation upon a detailed demonstration by an individual state that there are market failures within the state that would not allow market-based rates to develop On July 1, 1997, a federal court issued an order which upheld the FCC's authority to deregulate local coin call rates In accordance with the FCC's ruling and the court order, certain LECs and IPPs, including the Company, began to increase rates for local coin calls from $0 25 to $0 35 after October 7, 1997 and, beginning in November 2001, to $0 50 See "Regulation—Effect of Federal Regulation of Local and Dial-Around Calls "

Long distance coin calls are typically carried by long distance carriers that have contracted to provide transmission services to the Company's payphones The Company pays a charge to the long-distance carrier each time the carrier transports a long-distance call for which the Company receives coin revenue from an end user

Non-Coin Calls

The Company also receives revenues from non-coin calls made from its payphones Traditional non-coin calls include credit card, calling card, prepaid calling card, collect and third-party billed calls where the caller dials "0" plus the number or simply dials "0" for an operator

The services needed to complete a non-coin call include providing an automated or live operator to answer the call, verifying billing information, validating calling cards and credit cards, routing and transmitting the call to its destination, monitoring the call's duration and determining the charge for the call, and billing and collecting the applicable charge The Company has contracted with operator service providers to handle these calls and perform all associated functions, while paying the Company a commission on the revenues generated thereby

The Company realizes additional non-coin revenue from various carriers pursuant to the 1996 Telecom Act and FCC regulations thereunder as compensation for "dial-around" non-coin calls made from its payphones A dial-around call is made by dialing an access code for the purpose of reaching a long distance carrier company other than the one designated by the payphone operator or using a traditional "toll free" number, generally by dialing a 1-800/888/877/866 number, a 950-XXXX number or a seven-digit "1010XXXX" code

Payphone Base

The Company selects locations for its payphones where there is typically high demand for payphone service, such as convenience stores, truck stops, service stations, grocery stores and shopping centers For many locations, historical information regarding an installed payphone is available because payphone operators are often obligated pursuant to agreements to provide this information to Location Owners for their payphones In locations where historical revenue information is not available, the Company relies on its site survey to examine geographic factors, population density, traffic patterns and other factors in determining whether to install a payphone The Company's marketing staff attempts to obtain agreements to install the Company's payphones ("Location Agreements") at locations with favorable historical data regarding payphone revenues. The Company recognizes, however, that recent changes in payphone traffic volumes and usage patterns being experienced on an industry-wide basis warrant a continued assessment of the locational deployment of its payphones

The following table sets forth, for the last three fiscal years, the number of Company payphones acquired, installed and removed during the year as well as the net decrease in Company payphones in operation

	2003	2002	2001
Acquired	—	28,000	—
Installed	2,830	880	1,507
Removed	(24,830)	(14,880)	(13,507)
Net Increase/(Decrease)	(22,000)	14,000	(12,000)
Total payphones in service (approximately)	47,000	69,000	55,000

The Company had approximately 47,000 payphones in operation in forty-six states and the District of Columbia as of December 31, 2003, compared with approximately 69,000 in operation as of December 31, 2002 The five states possessing the greatest numbers of installed telephones as of December 31, 2003 were Florida (6,460), Texas (4,047), New York (3,371), Virginia (2,936), and Georgia (2,812)

In 2003, the Company continued its aggressive monitoring of the payphone base, which began in 1999, and removed under-performing payphones, which are available for relocation at sites with greater potential for profitability

Location Agreements generally provide for revenue sharing with the applicable Location Owner The Company's Location Agreements generally provide commissions based on fixed percentages of revenues and have three-to-five year terms The Company can generally terminate a Location Agreement on 30 days' notice to the Location Owner if the payphone does not generate sufficient revenue

Service and Maintenance

The Company employs a system of field service technicians and independent contractors, each of whom collects coin boxes and cleans and maintains a route of payphones The technicians and contractors also respond to trouble calls made by Location Owners, by users of payphones or by the telephone itself as part of its internal diagnostic procedures Some technicians are also responsible for the installation of new payphones Due to the Company's polling and electronic tracking and trouble reporting systems and the ability of the field service technicians to perform on-site service and maintenance functions, the Company is able to limit the frequency of trips to the payphones as well as the number of employees needed to service the payphones

Customers, Sales and Marketing

The Location Owners with whom the Company contracts are a diverse group of small, medium and large businesses which are frequented by individuals needing payphone access The majority of the Company's payphones are located at convenience stores, truck stops, service stations, grocery stores and shopping centers As of December 31, 2003, corporate payphone accounts of 50 or more payphones represented more than 30 percent of the Company's installed payphone base

Service and Equipment Suppliers

The Company's primary suppliers provide payphone components, local line access, and long-distance transmission and operator services In order to promote acceptance by end users accustomed to using LEC-owned payphone equipment, the Company utilizes payphones designed to be similar in appearance and operation to payphones owned by LECs

The Company purchases some parts and equipment from various manufacturers and otherwise utilizes parts from payphones removed from field service for repair and installation of payphones The Company has historically obtained local line access from various LECs, including Verizon, SBC Communications, Qwest and various other incumbent and competitive suppliers of local line access New sources of local line access have emerged as competition continues to develop in local service markets The Company currently utilizes a number of CLECs to provide local line access at rates that are lower than the rates that could be obtained from incumbent LECs As part of the Company's strategy to further reduce line costs, during the fourth quarter of 2003, the Company entered into an agreement with a CLEC that will provide line access for a minimum of 10,500 of its payphones The Company is also searching for additional opportunities to further reduce line costs and is evaluating the rates of other competitive local access carriers The Company believes it will be able to substantially reduce its telephone charges through these efforts Long-distance services are provided to the Company by various long-distance and operator service providers, including Opticom, AT&T, and others

The Company expects the basic availability of such products and services to continue in the future, however, the continuing availability of alternative sources at existing or lower rates cannot be assured Although the Company is not aware of any current circumstances that would require the Company to seek alternative suppliers for any material portion of the products or services used in the operation of its business, transition from the Company's existing suppliers, if necessary, could have a disruptive effect on the Company's operations and could give rise to unforeseen delays, additional expenses or loss of revenue

Assembly and Repair Of Payphones

Historically, the Company assembled and repaired payphone equipment for its own use The assembly of payphone equipment provided the Company with technical expertise used in the operation, service, maintenance and repair of its payphones The Company assembled, refurbished or replaced payphones from standard payphone components either obtained from the Company's sizable inventory or purchased from component manufacturers These components include a metal case, an integrated circuit board incorporating a microprocessor, a handset and cord, and a coin box and lock On the occasion when components are not available from inventory, the components can be purchased by the Company from several suppliers The Company does not believe that the loss of any single supplier would have a material adverse effect on its assembly operations

In March 2003 the Company closed its refurbishing facility located in Tampa, Florida and has outsourced the assembly and repair of payphone equipment to a third party provider The Company believes that given its sizable inventory of refurbished payphone equipment and other component parts, it can more effectively deploy the cash resources to other portions of the Company's business, which had previously been utilized in connection with the Tampa refurbishing facility See Note 5 to the consolidated financial statements for exit and disposal activities

The Company's payphones comply with all material regulatory requirements regarding the performance and quality of payphone equipment and have all of the operating characteristics required by the applicable regulatory authorities, including free access to local emergency ("911") telephone numbers, dial-around access to all available carriers, and automatic coin return capability for incomplete calls

Technology

The payphone equipment installed by the Company makes use of microprocessors to provide voice synthesized calling instructions, detect and count coin deposits during each call, inform the caller at certain intervals of the time remaining on each call, identify the need for and the amount of an additional deposit and other functions associated with completion of calls Through the use of non-volatile, electronically erasable, programmable read-only memory chips, the payphones can also be programmed and reprogrammed from the Company's central computer facilities to update rate information or to direct different kinds of calls to particular carriers

The Company's payphones can distinguish coins by size and weight, report to a remote location the total coin in the coin box, perform self-diagnosis and automatically report problems to a pre-programmed service number, and immediately report attempts at vandalism or theft Many of the payphones operate on power available from the telephone lines, thereby avoiding the need for and reliance upon an additional power source at the installation location

The Company utilizes proprietary and non-proprietary software that tracks the coin and non-coin revenues from each payphone as well as expenses relating to that payphone, including commissions payable to the Location Owners

The Company provides all technical support required to operate the payphones, such as computers and software and hardware specialists, at its headquarters in Cleveland, Ohio The Company's assembly and repair support operations located in Tampa, Florida previously provided materials, equipment, spare parts and accessories to the field In 2003, this function was outsourced to one of the Company's suppliers and the Tampa facility was closed (See Note 5 to the consolidated financial statements for exit and disposal activities) Each of the Company's division offices and/or each of the technician's vans maintain inventories for immediate deployment in the field

Regulation

The FCC and state regulatory authorities have traditionally regulated payphone and long-distance services, with regulatory jurisdiction being determined by the interstate or intrastate character of the service and the degree of regulatory oversight varying among jurisdictions On September 20 and November 8, 1996, the FCC adopted initial rules and policies to implement Section 276 of the 1996 Telecom Act The 1996 Telecom Act substantially restructured the telecommunications industry, included specific provisions related to the payphone industry and required the FCC to develop rules necessary to implement and administer the provisions of the 1996 Telecom Act on both an interstate and intrastate basis Among other provisions, the 1996 Telecom Act granted the FCC the power to preempt state payphone regulations to the extent that any state requirements are inconsistent with the FCC's implementation of Section 276

Federal Regulation Of Local Coin and Dial-Around Calls

The Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA") established various requirements for companies that provide operator services and for call aggregators, including PSPs, who send calls to those OSPs The requirements of TOCSIA as implemented by the FCC included call branding, information posting, rate quotations, the filing of informational tariffs and the right of payphone users to access any OSP to make non-coin calls TOCSIA also required the FCC to take action to limit the exposure of payphone companies to undue risk of fraud upon providing this "open access" to carriers

TOCSIA further directed the FCC to consider the need to provide compensation for IPPs for dial-around calls Accordingly, the FCC ruled in May 1992 that IPPs were entitled to dial-around compensation Because of the complexity of establishing an accounting system for determining per call compensation for these calls, and for other reasons, the FCC temporarily set this compensation at $6 00 per payphone per month based on an assumed average of 15 interstate carrier access code dial-around calls per month and a rate of $0 40 per call The failure by the FCC to provide compensation for 800 "toll free" dial-around calls was challenged by the IPPs, and a federal court subsequently ruled that the FCC should have provided compensation for these toll free calls

In 1996, recognizing that IPPs had been at a severe competitive disadvantage under the existing system of regulation and had experienced substantial increases in dial-around calls without a corresponding adjustment in compensation, Congress enacted Section 276 to promote both competition among payphone service providers and the widespread deployment of payphones throughout the nation Section 276 directed the FCC to implement rules by November 1996 that would:

- create a standard regulatory scheme for all public payphone service providers,
- establish a per call compensation plan to ensure that all payphone service providers are fairly compensated for each and every completed intrastate and interstate call, except for 911 emergency and telecommunications relay service calls,
- terminate subsidies for LEC payphones from LEC regulated rate-base operations,
- prescribe, at a minimum, nonstructural safeguards to eliminate discrimination between LECs and IPPs and remove the LEC payphones from the LEC's regulated asset base,
- provide for the RBOCs to have the same rights that IPPs have to negotiate with Location Owners over the selection of interLATA carrier services, subject to the FCC's determination that the selection right is in the public interest and subject to existing contracts between the Location Owners and interLATA carriers,

- provide for the right of all PSPs to choose the local, intraLATA and interLATA carriers subject to the requirements of, and contractual rights negotiated with, Location Owners and other valid state regulatory requirements,

- evaluate the requirement for payphones which would not normally be installed under competitive conditions but which might be desirable as a matter of public policy, and establish how to provide for and maintain such payphones if it is determined they are required, and

- preempt any state requirements which are inconsistent with the FCC's regulations implementing Section 276

In September and November 1996, the FCC issued its rulings implementing Section 276 (the "1996 Payphone Order") In the 1996 Payphone Order, the FCC determined that the best way to ensure fair compensation to independent and LEC PSPs for each and every call was to deregulate, to the maximum extent possible, the price of all calls originating from payphones For local coin calls, the FCC mandated that deregulation of the local coin rate would not occur until October 1997 in order to provide a period of orderly transition from the previous system of state regulation

To achieve fair compensation for dial-around calls through deregulation and competition, the FCC in the 1996 Payphone Order directed a two-phase transition from a regulated market In the first phase, November 1996 to October 1997, the FCC prescribed flat-rate compensation payable to the PSPs by the interexchange carriers ("IXCs") in the amount of $45 85 per month per payphone This rate was arrived at by determining that the deregulated local coin rate was a valid market-based surrogate for dial-around calls The FCC applied a market-based, deregulated coin rate of $0 35 per call to a finding from the record that there was a monthly average of 131 compensable dial-around calls per payphone This total included both carrier access code calls dialed for the purpose of reaching a long distance company other than the one designated by the PSP as well as 800 "toll free" calls The monthly, per phone flat-rate compensation of $45 85 was to be assessed only against IXCs with annual toll-call revenues in excess of $100 million and allocated among such IXCs in proportion to their gross long-distance revenues During the second phase of the transition to deregulation and market-based compensation (initially from October 1997 to October 1998, but subsequently extended in a later order by one year to October 1999), the FCC directed the IXCs to pay the PSPs on a per-call basis for dial-around calls at the assumed deregulated coin rate of $0 35 per call At the conclusion of the second phase, the FCC set the market-based local coin rate, determined on a payphone-by-payphone basis, as the default per-call compensation rate in the absence of a negotiated agreement between the PSP and the IXC To facilitate per-call compensation, the FCC required the PSPs to transmit payphone-specific coding digits which would identify each call as originating from a payphone and required the LECs to make such coding available to the PSPs as a tariffed item included in the local access line service

In July 1997, a federal court (the "Court") responded to an appeal of the 1996 Payphone Order, finding that the FCC erred in (1) setting the default per-call rate at $0 35 without considering the differences in underlying costs between dial-around calls and local coin calls, (2) assessing the flat-rate compensation against only the carriers with annual toll-call revenues in excess of $100 million, and (3) allocating the assessment of the flat-rate compensation based on gross revenues rather than on a factor more directly related to the number of dial-around calls processed by the carrier The Court also assigned error to other aspects of the 1996 Payphone Order concerning inmate payphones and the accounting treatment of payphones transferred by an RBOC to a separate affiliate

In response to the Court's remand, the FCC issued its modified ruling implementing Section 276 (the "1997 Payphone Order") in October of 1997 The FCC determined that distinct and severable costs of $0 066 were attributable to coin calls that did not apply to the costs incurred by the PSPs in providing access for dial-around calls Accordingly, the FCC adjusted the per call rate during the second phase of interim compensation to $0 284 (which is $0 35 less $0 066) While the FCC tentatively concluded that the $0 284 default rate should be utilized in determining compensation during the first phase and reiterated that PSPs were entitled to compensation for each and every call during the first phase, it deferred a decision on the precise method of allocating the initial interim period (November 1996 through October 1997) flat-rate payment obligation among the IXCs and the number of calls to be used in determining the total amount of the payment obligation

On March 9, 1998, the FCC issued a Memorandum Opinion and Order, FCC 98-481, which extended and waived certain requirements concerning the provision by the LECs of payphone-specific coding digits which identify a call as originating from a payphone Without the transmission of payphone-specific coding digits, some of the IXCs have claimed they are unable to identify a call as a payphone call eligible for dial-around compensation With the stated purpose of ensuring the continued payment of dial-around compensation, the FCC's Memorandum and Order issued on April 3, 1998 left in place the requirement for payment of per-call compensation for payphones on lines that do not transmit the requisite payphone-specific coding digits but gave the IXCs a choice for computing the amount of compensation for payphones on LEC lines not transmitting the payphone-specific coding digits of either accurately computing per-call compensation from their databases or paying per-phone, flat-rate compensation computed by multiplying the $0 284 per call rate by the nationwide average number of 800 subscriber and access code calls placed from RBOC payphones for corresponding payment periods Accurate payments made at the flat rate are not subject to subsequent adjustment for actual call counts from the applicable payphone

On May 15, 1998, the Court again remanded the per-call compensation rate to the FCC for further explanation without vacating the $0 284 per call rate The Court opined that the FCC had failed to explain adequately its derivation of the $0 284 default rate The Court stated that any resulting overpayment may be subject to refund and directed the FCC to conclude its proceedings within a six-month period from the effective date of the Court's decision

In response to the Court's second remand, the FCC conducted further proceedings and sought additional comment from interested parties to address the relevant issues posed by the Court On February 4, 1999, the FCC released the Third Report and Order and Order on Reconsideration of the Second Report and Order (the "1999 Payphone Order"), in which the FCC abandoned its efforts to derive a "market-based" default dial-around compensation rate and instead adopted a "cost-based" rate of $0 24 per dial-around call, which will be adjusted to $0 238 effective April 21, 2002 Both PSPs and IXCs petitioned the Court for review of the 1999 Payphone Order's determination of the dial-around compensation rate On June 16, 2000, the Court affirmed the 1999 Payphone Order setting a 24-cent dial-around compensation rate On all the issues, including those raised by the IXCs and the payphone providers, the Court applied the "arbitrary and capricious" standard of review and found that the FCC's rulings were lawful and sustainable under that standard The new 24-cent rate became effective April 21, 1999 The 24-cent rate will also be applied retroactively to the period beginning on October 7, 1997 and ending on April 20, 1999 (the "intermediate period"), less a $0 002 amount to account for FLEX ANI payphone tracking costs, for a net compensation of $0 238

In a decision released January 31, 2002 (the "2002 Payphone Order") the FCC partially addressed the remaining issues concerning the "true-up" required for the earlier dial-around compensation periods The FCC adjusted the per-call rate to $ 229, for the interim period only, to reflect a different method of calculating the delay in IXC payments to PSPs for the interim period, and determined that the total interim period compensation rate should be $33 89 per payphone per month ($ 229 times an average of 148 calls per payphone per month) The 2002 Payphone Order deferred to a later order its determination of the allocation of this total compensation rate among the various carriers required to pay compensation for the interim period In addition to addressing the rate level for dial-around compensation, the FCC has also addressed the issue of carrier responsibility with respect to dial-around compensation payments

On October 23, 2002 the FCC released its Fifth Order on Reconsideration and Order on Remand (the "Interim Order"), which resolved all the remaining issues surrounding the interim/intermediate period true-up and specifically addressed how flat rate monthly per-phone compensation owed to PSPs would be allocated among the relevant dial-around carriers The Interim Order also resolved how certain offsets to such payments would be handled and a host of other issues raised by parties in their remaining FCC challenges to the 1999 Payphone Order and the 2002 Payphone Order In the Interim Order, the FCC ordered a true-up for the interim period and increased the adjusted monthly rate to $35 22 per payphone per month, to compensate for the three-month payment delay inherent in the dial-around payment system The new rate of $35 22 per payphone per month is a composite rate, allocated among approximately five hundred carriers based on their estimated dial-around traffic during the interim period The FCC also ordered a true-up requiring the PSPs, including the Company, to refund an amount equal to $ 046 (the difference between the old $ 284 rate and the current $ 238 rate) to each carrier that compensated the PSP on a per-call basis during the intermediate period Interest on additional payments and refunds is to be computed from the original payment date at the IRS prescribed rate applicable to late tax payments. The FCC further ruled that a carrier claiming a refund from a PSP for the Intermediate Period must first offset the amount claimed against any additional payment due to the PSP from that carrier Finally, the Interim Order provided that any net claimed refund amount owing to carriers cannot be offset against future dial-around payments without (1) prior notification and an opportunity to contest the claimed amount in good faith (only uncontested amounts may be withheld), and (2) providing PSPs an opportunity to "schedule" payments over a reasonable period of time

The Company and its billing and collection clearinghouse have reviewed the order and prepared the data necessary to bill or determine the amount due to the relevant dial-around carriers pursuant to the Interim Order Based upon available information, the Company recorded a $3 8 million charge as an adjustment to revenues from dial-around compensation in the fourth quarter of 2002 representing the estimated amount due by the Company to certain dial-around carriers under the Interim Order Of this amount, $3 6 million and $3 8 million is included in accounts payable and other accrued expenses in the accompanying consolidated balance sheets at December 31, 2003 and 2002, respectively In January 2004, certain carriers deducted approximately $0 7 million from their current dial-around compensation payments, thus reducing this liability The remaining amount outstanding is expected to be deducted from future quarterly payments of dial-around compensation to be received from the applicable dial-around carriers during 2004

In March 2003, the Company received $4 9 million relating to the sale of a portion of the Company's accounts receivable bankruptcy claim for dial-around compensation due from WorldCom, of which $3 9 million relates to the amount due from WorldCom under the Interim Order (see Note 16 to the consolidated financial statements) In accordance with the Company's policy on regulated rate actions, this revenue from dial-around compensation was recognized in the first quarter of 2003, the period such revenue was received The Company also received $4 0 million and $0 4 million of net receipts from other carriers under the Interim Order that was recognized as revenue in the third and fourth quarters of 2003, respectively Such revenues totaling $8 3 million have been reported as dial-around compensation adjustments in the accompanying consolidated statements of operations for the year ended December 31, 2003 The Company also estimates that it is entitled to receive in excess of $10 0 million of additional dial-around compensation from certain carriers, of which $1 2 million was received and will be recognized as revenue subsequent to December 31, 2003 under the Company's accounting policy However, the amount the Company will ultimately be able to collect is dependent upon the willingness and ability of such carriers to pay, including the resolution of any disputes that may arise under the Interim Order In addition, there can be no assurance that the timing or amount of such receipts, if any, will be sufficient to offset the liability to certain other carriers that will be deducted from future dial-around payments

On August 2, 2002 and September 2, 2002 respectively, the APCC and the RBOCs filed petitions with the FCC to revisit and increase the dial around compensation rate level Using the FCC's existing formula and adjusted only to reflect current costs and call volumes, the APCC and RBOCs' petitions support an approximate doubling of the current $0 24 rate In response to the petitions, on September 2, 2002 the FCC placed the petitions out for comment and reply comment by interested parties, seeking input on how the Commission should proceed to address the issues raised by the filings On October 28, 2003 the FCC adopted an Order and Notice of Proposed Rulemaking (the "October 2003 Rulemaking") to determine whether a change to the dial-around rate is warranted, and if so, to determine the amount of the revised rate In the October 2003 Rulemaking, the FCC tentatively concluded that the methodology adopted in the Third Report and Order is the appropriate methodology to use in reevaluating the default dial-around compensation rate and requested comments on, among other things, the cost studies presented in the petitions The Company believes that the "fair compensation" requirements of Section 276 of the Telecom Act mandate that the FCC promptly review and adjust the dial around compensation rate level While no assurances can be given as to the timing or amount of any increase in the dial around rate level, the Company believes an increase in the rate is reasonably likely given the significant reduction in payphone call volumes, continued collection difficulties and other relevant changes since the FCC set the $0 24 rate level

Regulatory actions and market factors, often outside the Company's control, could significantly affect the Company's dial-around compensation revenues These factors include (i) the possibility of administrative proceedings or litigation seeking to modify the dial-around compensation rate, and (ii) ongoing technical or other difficulties in the responsible carriers' ability and willingness to properly track or pay for dial-around calls actually delivered to them

Effect of Federal Regulation of Local Coin and Dial-Around Calls

Dial-Around Calls Based on the FCC's tentative conclusion in the 1997 Payphone Order, the Company during 1997 adjusted the amounts of dial-around compensation previously recorded for the period November 7, 1996 to June 30, 1997 from the initial $45 85 rate to $37 20 ($0 284 per call multiplied by 131 calls) As a result of this adjustment, the provision recorded for the year ended December 31, 1997, related to reduced dial-around compensation, is approximately $3 3 million Based on the reduction in the per-call compensation rate in the 1999 Payphone Order, the Company further reduced non-coin revenues by $9 0 million during 1998 The adjustment included approximately $6 0 million to adjust revenue recorded during the period November 7, 1996 to October 6, 1997 from $37 20 per-phone per-month to $31 18 per phone per month ($0 238 per call multiplied by 131 calls) The remaining $3 0 million of the adjustment was to adjust revenues recorded during the period October 7, 1997 through December 31, 1998 to actual dial-around call volumes for the period multiplied by $0 238 per call Based upon the Company's estimate of the liability to certain carriers under the Interim Order, the Company recorded an adjustment to reduce revenues from dial-around compensation by $3 8 million for the year ended December 31, 2002 In 2003, the Company recognized additional revenues of $8 3 million for adjustments to dial-around compensation relating to the Interim Order

The Company recorded dial-around compensation revenue, including adjustments under the Interim Order, of approximately $21 5 million for the year ended December 31, 2003, $11 5 million for the year ended December 31, 2002, and $19 1 million for the year ended December 31, 2001

The Company believes that it is legally entitled to fair compensation under the 1996 Telcom Act for dial-around calls the Company delivered to any carrier during the period November 7, 1996 to October 6, 1997 While the amount of $0 24 per call ($0 238 before April 21, 2002) constitutes the current level of "fair" compensation, as determined by the FCC, certain carriers have asserted in the past, are asserting and are expected to assert in the future that the appropriate level of fair compensation should be lower than $0 24 per call If the level of fair compensation is ultimately determined to be an amount less than $0 24 per call, such determination could have a material adverse effect on the Company's results of operations and financial position

Local Coin Call Rates To ensure "fair compensation" for local coin calls, the FCC previously determined that local coin rates from payphones should be generally deregulated by October 7, 1997, but provided for possible modifications or exemptions from deregulation upon a detailed showing by an individual state that there are market failures within the state that would not allow market-based rates to develop On July 1, 1997, a federal court issued an order that upheld the FCC's authority to deregulate local coin call rates In accordance with the FCC's ruling and the court order, certain LECs and IPPs, including the Company, have increased rates for local coin calls Initially, when the Company increased the local coin rate to $0 35, the Company experienced a large drop in call volume, which coincides with the Cellular "one-rate" plan introduction When the Company subsequently raised its local coin rates to $0 50, it did not experience call volume declines at the same levels The Company has experienced, and continues to experience, lower coin call volumes on its payphones resulting not only from increased local coin calling rates, but from the growth in wireless communication services, changes in call traffic and the geographic mix of the Company's payphones, as well

Other Provisions of The 1996 Telecom Act and FCC Rules

As a whole, the 1996 Telecom Act and FCC Rules significantly altered the competitive framework of the payphone industry The Company believes that implementation of the 1996 Telecom Act has addressed certain historical inequities in the payphone marketplace and has, in part, led to a more equitable and competitive environment for all payphone providers However, there remain several key areas of implementation of the 1996 Telecom Act yet to be fully and properly implemented such that the 1996 congressional mandate for widespread deployment of payphones is not being realized This circumstance creates an uncertain environment in which the Company and the industry must operate The Company has identified the following such uncertainties

- Various matters pending in several federal courts and raised before the Congress which, while not directly challenging Section 276, relate to the validity and constitutionality of the 1996 Telecom Act, as well as other uncertainties related to the impact, timing and implementation of the 1996 Telecom Act

- The 1996 Payphone Order required that LEC payphone operations be removed from the regulated rate base on April 15, 1997 The LECs were also required to make the access lines that are provided for their own payphones equally available to IPPs and to ensure that the cost to payphone providers for obtaining local lines and services met the FCC's new services test guidelines, which require that LECs price payphone access lines at the direct cost to the LEC plus a reasonable allocation of overhead Proceedings are still pending in various stages and formats before the FCC and numerous state regulatory bodies across the nation to implement these provisions

- In the past, RBOCs were allegedly impaired in their ability to compete with the IPPs because they were not permitted to select the interLATA carrier to serve their payphones Recent changes to the FCC Rules remove this restriction Under the existing rules, the RBOCs are now permitted to participate with the Location Owner in selecting the carrier of interLATA services to their payphones, effective upon FCC approval of each RBOC's Comparably Efficient Interconnection plans Existing contracts between Location Owners and payphone or long-distance providers that were in effect as of February 8, 1996 were grandfathered and will remain in effect pursuant to their terms

- The 1996 Payphone Order preempts state regulations that may require IPPs to route intraLATA calls to the LEC by containing provisions that allow all payphone providers to select the intraLATA carrier of their choice Outstanding questions still exist with respect to 0+ local and 0– call routing, whose classification will await the outcome of various state regulatory proceedings or initiatives and potential FCC action

- The 1996 Payphone Order determined that the administration of programs for maintaining public interest payphones should be left to the states within certain guidelines Various state proceedings have been undertaken in reviewing this issue, but no widespread or effective actions have been taken to stem the tide of payphone removal around the nation The FCC has pending various "universal service" proposals under consideration which may impact the Company, both positively and negatively

Billed Party Preference and Rate Disclosure

On January 29, 1998, the FCC released its Second Report and Order on Reconsideration entitled In the Matter of Billed Party Preference for InterLATA 0+ Calls, Docket No 92-77 Effective July 1, 1998, all carriers providing operator services were required to give consumers using payphones the option of receiving a rate quote before a call is connected when making a 0+ interstate call The system appears to be functioning adequately to meet its designated goals

State and Local Regulation

State regulatory authorities have been primarily responsible for regulating the rates, terms and conditions for intrastate payphone services Regulatory approval to operate payphones in a state typically involves submission of a certification application and an agreement by the Company to comply with applicable rules, regulations and reporting requirements The states and the District of Columbia have adopted a variety of state-specific regulations that govern rates charged for coin and non-coin calls, as well as a broad range of technical and operational requirements The 1996 Telecom Act contains provisions that require all states to allow payphone competition on fair terms for both LECs and IPPs State authorities also in most cases regulate LEC tariffs for interconnection of independent payphones, as well as the LECs' own payphone operations and practices

The Company is also affected by state regulation of operator services Most states have capped the rates that consumers can be charged for coin toll calls and non-coin local and intrastate toll calls made from payphones In addition, the Company must comply with regulations designed to afford consumers notice at the payphone location of the long-distance company or companies servicing the payphone and the ability to access alternate carriers The Company believes that it is currently in material compliance with all such regulatory requirements

In accordance with requirements under the 1996 Telecom Act, state regulatory authorities are currently reviewing the rates that LECs charge IPPs for local line access and associated services Local line access charges have been reduced in certain states, and the Company believes that selected states' continuing review of local line access charges, coupled with competition for local line access service resulting from implementation of the 1996

Telecom Act, may lead to more options available to the Company for local line access at competitive rates The Company cannot provide assurance, however, that such options or local line access rates will become available in all states

The Company believes that an increasing number of municipalities and other units of local government have begun to impose taxes, license fees and operating rules on the operations and revenues of payphones The Company believes that some of these fees and restrictions may be in violation of provisions of the 1996 Telecom Act prohibiting barriers to entry into the business of operating payphones and the policy of the Act to encourage wide deployment of payphones However, in at least one instance, involving a challenge to a payphone ordinance adopted by the Village of Huntington Park, California, the FCC declined to overturn a total ban on payphones in a downtown area The proliferation of local government licensing, restriction, taxation and regulation of payphone services could have an adverse affect on the Company and other PSPs unless the industry is successful in resisting or moderating this trend

Major Customers

No individual customer accounted for more than 10% of the Company's consolidated revenues in 2003, 2002 or 2001

Competition

The Company competes for payphone locations directly with LECs and other IPPs The Company also competes, indirectly, with long-distance companies, which can offer Location Owners commissions on long-distance calls made from LEC-owned payphones Most LECs and long-distance companies against which the Company competes and some IPPs may have substantially greater financial, marketing and other resources than the Company In addition, many LECs, faced with competition from the Company and other IPPs, have increased their compensation arrangements with Location Owners to offer more favorable commission schedules

The Company believes that the competitive factors among payphone providers are (1) the commission payments to a Location Owner, (2) the ability to serve accounts with locations in several LATAs or states, (3) the quality of service and the availability of specialized services provided to a Location Owner and payphone users, and (4) responsiveness to customer service needs The Company believes it is currently competitive in each of these areas

The Company competes with long-distance carriers that provide dial-around services which can be accessed through the Company's payphones Certain national long-distance operator service providers and prepaid calling card providers have implemented extensive advertising promotions and distribution schemes which have increased dial-around activity on payphones owned by LECs and IPPs, including the Company, thereby reducing traffic to the Company's primary providers of long-distance service

Notwithstanding the foregoing, the Company believes that its principal competition is from providers of wireless communications services for both local and long distance traffic Certain providers of wireless communication services have introduced rate plans that are competitively priced with certain of the products offered by the Company and have negatively impacted the usage of payphones throughout the nation

Employees

As of December 31, 2003, the Company had 293 full-time employees, none of whom are the subject of a collective bargaining agreement The Company believes that its relationship with its employees is good

ITEM 2. PROPERTIES

The Company leases approximately 16,668 square feet of space in Cleveland, Ohio for executive office space The Company also leases space for its 17 district offices for payphone operations in various geographic locations across the country. In the fourth quarter of 2003 and the first quarter of 2004, the Company has closed 14 field offices and the payphones previously managed by those offices are now being serviced by sub-contractors (see Note 5 to the consolidated financial statements for exit and disposal activities)

ITEM 3. LEGAL PROCEEDINGS

In March 2000, the Company and its affiliate Telaleasing Enterprises, Inc were sued in Maricopa County, Arizona Superior Court by CSK Auto, Inc ("CSK") The suit alleges that the Company breached a location agreement between the parties CSK's complaint alleged damages in excess of $5 million The Company removed the case to the U S District Court for Arizona and moved to have the matter transferred to facilitate consolidation with the related case in California brought by TCG and UST On October 16, 2000, the U S District Court for Arizona denied the Company's transfer motion and ordered the case remanded back to Arizona state court On February 27, 2003 the parties agreed to a settlement of this case, pursuant to which the case will be dismissed with prejudice in exchange for four quarterly payments to the plaintiff in the amount of $131,250, the total of which was recorded in the fourth quarter of 2002 As of December 31, 2003, the Company has fully satisfied the obligation

In February 2001, Picus Communications, LLC ("Picus"), a debtor in Chapter 11 bankruptcy in the United States Bankruptcy Court for the Eastern District of Virginia, brought suit against Davel and its wholly owned subsidiary, Telaleasing Enterprises, Inc , in the United States District Court for the Eastern District of Virginia, claiming unpaid invoices of over $600,000 for local telephone services in Virginia, Maryland, and the District of Columbia The various pleadings and claims in this matter were consolidated in an adversary proceeding and set for trial to begin on October 21, 2002 Prior to the commencement of the trial, on October 9, 2002 Picus filed a motion in the bankruptcy court to seek court approval of a settlement of all outstanding claims between the parties The settlement provides that (i) Picus will cooperate with the Company to recover certain dial-around compensation potentially owed to the Company for the calendar year of 2000 and the first calendar quarter of 2001, (ii) within ten days after entry of an order approving the settlement and December 15, 2002, the Company was required to and has paid Picus $79,500, (iii) the Company paid Picus an additional $150,000 that was due no later than May 15, 2003, and (iv) the Company will pay Picus forty percent (40%) of the dial-around compensation for the calendar year of 2000 attributable to the Picus lines, if any If any of the aforementioned payments are not timely paid by the Company, Picus will be entitled to obtain a judgment against Davel for the full amount of its claim against the Company, plus interest, less any amounts actually paid to Picus under the settlement agreement As of December 31, 2003, the Company has fully satisfied the obligation

On or about October 15, 2002, Davel was served with a complaint, in an action captioned Sylvia Sanchez et al v Leasing Associates Service, Inc , Armored Transport Texas, Inc , and Telaleasing Enterprises, Inc Plaintiffs claim that the Company was grossly negligent or acted with malice and such actions proximately caused the death of Thomas Sanchez, Jr a former Davel employee On or about January 8, 2002, the Plaintiffs filed their first amended complaint adding a new defendant LAI Trust and on or about January 21, 2002 filed their second amended complaint adding new defendants Davel Communications, Inc , DavelTel, Inc and Peoples Telephone Company DavelTel, Inc and Peoples Telephone Company are subsidiaries of the Company The original complaint was forwarded to Davel's insurance carrier for action, however, Davel's insurance carrier denied coverage based upon the workers compensation coverage exclusion contained in the insurance policy The Company answered the complaint on or about January 30, 2003 The second amended complaint has been forwarded to Davel's insurance carrier for action The parties are currently engaged in the discovery process and the trial is scheduled for June 2004 While Davel believes that it has meritorious defenses to the allegations contained in the second amended complaint and intends to vigorously defend itself, Davel cannot at this time predict its likelihood of success on the merits

The Company is also a party to a contract with Sprint Communications Company, L P ("Sprint") that provides for the servicing of operator-assisted calls. Under this arrangement, Sprint has assumed responsibility for tracking, rating, billing and collection of these calls and remits a percentage of the gross proceeds to the Company in the form of a monthly commission payment, as defined in the contract The contract also requires the Company to achieve certain minimum gross annual operator service revenue, measured for the twelve-month period ended June 30 of each year In making its June 30, 2002 compliance calculation under the minimum gross annual operator service revenue provision, the Company identified certain discrepancies between its calculations and the underlying call data information provide directly by Sprint If the data, as presented by Sprint, is utilized in the calculation, a shortfall could result The Company has provided Sprint with notification of its objections to the underlying data, and upon further investigation, has discovered numerous operational deficiencies in Sprint's provision of operator services that have resulted in a loss of revenue to the Company, thus negatively impacting the Company's performance relating to the gross annual operator service revenue requirement set forth in the contract Furthermore, the Company advised Sprint that its analysis indicated that not only had it complied with the provisions of the gross annual operator service revenue requirement it also believed that Sprint had underpaid commissions to the Company during the same time period The Company notified Sprint of the details surrounding the operational deficiencies and advised that its failure to correct such operational deficiencies would result in a material breach of the contract

Notwithstanding the Company's objections, Sprint advised the Company, based upon its calculation of the Company's performance in connection with the gross annual operator services revenue requirement, it would retroactively reduce the percentage of commission paid to the Company in connection with the contract for the twelve-month period ended June 30, 2002 Sprint withheld $418,000 from the commission due and owing the Company in the month of September 2002 and failed to address the operational deficiencies discovered by the Company As a result of these actions, during the month of October 2002, the Company advised Sprint that the contract was terminated due to Sprint's continuing and uncured breaches and the Company shifted its traffic to an alternative operator service provider In response, Sprint withheld $380,170 from the commissions due and owing the Company in the month of October 2002 Thereafter, the Company made a demand for any and all amounts due it under the terms of the contract In response, Sprint has asserted its claim for payment of approximately $5 9 million representing the amount it had calculated as owing under the gross annual operator services revenue requirement for the twelve-month period ended June 30, 2002

While the Company believes that its objections to Sprint's calculation of the gross annual operator service revenue requirement are justifiable and has not recorded any amounts associated with any minimum liability, it is possible that some liability or receivable for this matter may ultimately be determined as a result of the dispute, the amount of which, if any, is not presently determinable

The Company is involved in other litigation arising in the normal course of its business which it believes will not materially affect its financial position or results of operations

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year ended December 31, 2003, no matters were submitted to a vote of the Company's shareholders

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Information Davel Common Stock trades on the NASDAQ over-the-counter bulletin board under the symbol 'DAVL OB' The following table sets forth, for the periods indicated, the high and low closing prices of Davel Common Stock on the NASDAQ National Market System, or bulletin board system, from January 1, 2002 through December 31, 2003

	High	Low
2002		
First Quarter	$ 0 05	$ 0 02
Second Quarter	0 04	0 02
Third Quarter	0 05	0 03
Fourth Quarter	0 04	0 01
2003		
First Quarter	$ 0 01	$ 0 01
Second Quarter	0 02	0 01
Third Quarter	0 03	0 01
Fourth Quarter	0 05	0 02

As of March 25, 2004, there were approximately 1,623 holders of record of the Common Stock, not including stockholders whose shares were held in "nominee" or "street" name The closing sale price of the Company's Common Stock on March 25, 2004 was $0 015 per share

Dividends The Company did not pay any dividends on its Common Stock during 2002 and 2003 and does not intend to pay any Common Stock dividends in the foreseeable future It is the current policy of the Company's Board of Directors to retain cash to repay indebtedness and to finance the growth and development of the Company's business The payment of dividends is effectively prohibited by the Company's Junior Credit Facility Payment of cash dividends, if made in the future, will be determined by the Company's Board of Directors based on the conditions then existing, including the Company's financial condition, capital requirements, cash flow, profitability, business outlook and other factors

Recent Sales of Unregistered Securities In the year ended December 31, 2003, the Company did not sell any securities that were not registered under the Securities Act of 1933

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are derived from the consolidated financial statements of the Company The data should be read in conjunction with the consolidated financial statements, related notes thereto and other financial information included herein

	Year Ended December 31 (In thousands except per share amounts)				
	2003	2002 (2)	2001	2000	1999
Statement of Operations Data:					
Revenue	$ 81,773	$ 76,952	$ 90,618	$ 126,271	$ 175,846
Expenses	94,166	93,385	106,620	168,581	184,011
Asset Impairment Charges (1)	27,141	—	—	42,032	48,924
Operating loss	(39,534)	(16,433)	(16,002)	(84,342)	(57,089)
Interest and other expense, net	(6,657)	(12,793)	(27,412)	(27,138)	(23,412)
Income taxes	—	—	—	—	1,755
Gain from extinguishment of debt	—	180,977	—	—	—
Net income (loss)	$ (46,191)	$ 151,751	$ (43,414)	$(111,480)	$ (78,746)
Basic and diluted income (loss) per share					
Net income (loss)	$ (0 08)	$ 0 56	$ (3 89)	$ (10 02)	$ (7 40)
Weighted average common shares outstanding, basic and diluted	615,019	272,598	11,169	11,126	10,660
Balance Sheet Data:					
Total assets	$ 50,322	$ 106,616	$ 68,325	$ 93,187	$ 180,761
Current maturities of long-term debt and obligations under capital leases	1,994	11,449	237,726	239,083	21,535
Long-term debt and obligations under capital leases, less current maturities	125,962	118,229	308	839	206,509
Shareholders' deficit	(102,501)	(56,310)	(229,813)	(186,392)	(75,079)

(1) The years ended December 31, 2003, 2000, and 1999 include asset impairment charges associated with goodwill and fixed assets of $27,141, $42,032, and $48,924, respectively

(2) The year ended December 31, 2002 includes the results of PhoneTel Technologies, Inc from the date of the PhoneTel acquisition, July 24, 2002

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere herein

Certain of the statements contained below are forward-looking statements (rather than historical facts) that are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements

General

During 2003, the Company derived its revenues from two principal sources coin calls and non-coin calls Coin calls represent calls paid for by callers with coins deposited in the payphone Coin call revenues are recorded in the amount of coins deposited in the payphones

Non-coin calls include credit card, calling card, collect, and third party billed calls, handled by operator service providers selected by the Company Non-coin call revenues are recognized based upon the commission received by the Company from the carriers of these calls

The Company also recognizes non-coin revenues from calls that are dialed from its payphones to gain access to a long distance company other than the one pre-programmed into the telephone or to make a traditional "toll free" call (dial-around calls) Revenues from dial-around calls are recognized based on estimates of calls made using most recent actual historical data and the Federal Communications Commission mandated dial-around compensation rate in effect This is commonly referred to as "dial-around" access See "Business — Regulation "

The principal costs related to the ongoing operation of the Company's payphones include telephone charges, commissions, service, maintenance and network costs Telephone charges consist of payments made by the Company to LECs and long distance carriers for line charges and use of their networks Commission expense represents payments to Location Owners Service, maintenance and network costs represent the cost of servicing and maintaining the payphones on an ongoing basis

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain information from the Company's Consolidated Statements of Operations, included elsewhere in this Annual Report on Form 10-K, expressed as a percentage of total revenues

	Years Ended December 31		
	2003	2002	2001
REVENUES			
Coin calls	61 3%	74 0%	68 1%
Non-coin calls	28 5	31 0	31 9
Dial-around compensation adjustments	10 2	(5 0)	—
Total revenues	100 0	100 0	100 0
COSTS AND EXPENSES			
Telephone charges	28 2	25 2	32 6
Commissions	16 6	20 5	24 5
Service, maintenance and network costs	29 4	29 9	26 0
Depreciation and amortization	26 3	26 5	21 2
Selling, general and administrative	13 7	15 5	13 4
Asset impairment charges	33 2	—	—
Exit and disposal activities	1 0	3 8	—
Total operating costs and expenses	148 4	121 4	117 7
Operating loss	(48 4)%	(21 4)%	(17 7)%

Critical Accounting Policies and Estimates

The Company's reported results of operations can be affected by the use of estimates and the Company's critical accounting policies The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period Such estimates, among others, include amounts relating to the carrying values of the Company's accounts receivable, payphone assets and location contracts and the related revenues and expenses applicable to dial-around compensation and asset impairment Actual results could differ from those estimates

Revenues from coin calls, reselling operator assisted and long distance services, and compensation for dial-around calls are recognized in the period in which the customer places the related call The recognition of dial-around revenues require complex and often subjective estimation processes that are largely predicated on the Company's historical operating experience In addition certain costs and expenses, such as commissions, require the use of revenue estimates in the accounting process Significant differences in our actual dial-around experience could affect these estimates The FCC has the authority pursuant to the Telecommunications Act of 1996 to affect rates related to revenue from dial-around compensation, including retroactive rate adjustments and refunds (See "Business - Regulation") Rate adjustments arising from FCC rate actions that require refunds to interexchange or other carriers are recorded in the first period that they become both probable of payment and estimable in amount Rate adjustments that result in payments to the Company by interexchange or other carriers are recorded when received

Under the Company's accounting policy relating to asset impairment, the Company periodically reviews long-lived assets to be held and used and goodwill for impairment whenever events or changes in circumstances indicate the asset may be impaired and, as to goodwill, at least annually. The Company evaluates potential impairment of long-lived assets, other than goodwill, based upon the cash flows derived from each of the Company's operating districts, the lowest level for which operating cash flows for such asset groupings are identifiable. A loss relating to an impairment of assets occurs when the aggregate of the estimated undiscounted future cash inflows expected to be generated by the Company's asset groups (including any salvage values) are less than the related assets' carrying value. Impairment is measured based on the difference between the higher of the fair value of the assets or present value of the discounted expected future cash flows and the assets' carrying value. The Company considers impairment of goodwill whenever the carrying value of the Company's net assets, after taking into account any impairment charges described above, exceeded the fair value of the Company, which amount is based upon the present value of expected future cash flows of the Company. In the event that the fair value of the Company including goodwill exceeds the carrying value, the Company calculates the implied value of the goodwill following the methodology provided in Statements on Financial Accounting Standards No. 142, "Intangible Assets". The excess carrying value of goodwill over its implied value, if any, results in an impairment charge. No impairment was incurred in 2002 and 2001. The Company incurred asset impairment losses relating to its payphones, location contracts and goodwill of $27.1 million in 2003 (see Note 3 to the consolidated financial statements).

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

On July 24, 2002, the Company acquired approximately 28,000 payphones in connection with the PhoneTel Merger. Operating results for 2002 include the revenues and expenses associated with these payphones for the period following July 24, 2002. Operating results for 2003 include the revenues and expenses relating to these payphones for the full twelve months of 2003. Offsetting the additional revenue and expense amounts in the later part of 2002 and in 2003 arising from the acquisition of PhoneTel is the reduction in revenues and expenses resulting from the decline in the Company's phone count and cost containment efforts. The Company's had approximately 47,000 phones in service on December 31, 2003 and approximately 69,000 phones in service on December 31, 2002. However, the average number of payphones in service for the years ended December 31, 2003 and 2002 was approximately 59,800 and 62,000, respectively. This decrease in the average number of payphones in 2003 is partly due to the Company's increasingly aggressive program to remove low revenue phones and partly due to a loss in customer locations.

Total revenues increased approximately $4.8 million, or 6.2%, from approximately $77.0 million in the year ended December 31, 2002 to approximately $81.8 million in the year ended December 31, 2003. This increase was primarily attributable to the dial-around compensation adjustments offset by lower coin and non-coin call revenues as discussed below.

Coin call revenues decreased approximately $6.9 million, or 12.1%, from approximately $57.0 million in the year ended December 31, 2002 to approximately $50.1 million in the year ended December 31, 2003. The decrease in coin call revenues was due to the reduction in the average number of payphones in service in 2003 and lower call volumes. Notwithstanding the PhoneTel Merger, the average number of payphones declined due to the removal of unprofitable phone locations and lower call volumes resulted from the increased competition from wireless and other public communication services.

Non-coin call revenues, which is comprised primarily of dial-around revenue and operator service revenue, decreased approximately $0.5 million, or 2.1%, from approximately $23.8 million in the year ended December 31, 2002 to approximately $23.3 million in the year ended December 31, 2003. This decrease was primarily attributable to a decrease in dial-around revenues offset by an increase in operator service and other revenues. Dial-around revenue decreased approximately $2.1 million, from approximately $15.3 million in the year ended December 31, 2002 to approximately $13.2 million in the year ended December 31, 2003. The dial-around decrease is primarily attributable to reductions the average number of payphones and the average number of dial-around calls due to competition from wireless communication services and the continuing underpayments of dial-around revenues by IXCs caused by deficiencies in the established payment and tracking process. Long-distance revenues increased approximately $0.5 million, from approximately $7.3 million in the year ended December 31, 2002 to approximately $7.8 million in the year ended December 31, 2003. This increase is primarily due to a change in operator service providers for a portion of the Company's payphone base that pays commission on gross billings at a higher rate than the Company's former operator service provider Non-coin call revenues also includes other revenue, which increased approximately $1 1 million from approximately $1 2 million in the year ended December 31, 2002 to approximately $2 3 million in the year ended December 31, 2003 This increase relates primarily to telephone installation and repair services provided to a former related party, which services were discontinued in October 2003

During the year ended December 31, 2003, the Company recorded $8 3 million of dial-around revenue adjustments from various carriers relating to the industry-wide true-up required under the FCC's Interim Order (see Note 15 to the consolidated financial statements) This adjustment included the sale of a portion of the Company's accounts receivable bankruptcy claim due from WorldCom Of the proceeds received in 2003, $3 9 million related to the amount due from WorldCom under the Interim Order applicable to dial-around compensation (see Note 16 to the consolidated financial statements) In 2002, the Company recorded a $3 8 million charge as a dial-around compensation adjustment for estimated overpayments made by certain dial-around carriers under the FCC's Interim Order Although the Company estimates that it is entitled to receive additional amounts in excess of $10 0 million relating to underpayments made by other carriers, there can be no assurance that the Company will be able to collect these amounts from those carriers Any such refunds will be recognized as revenue in the period such revenues are received

Telephone charges increased approximately $3 6 million, or 18 6%, from approximately $19 4 million in the year ended December 31, 2002 to approximately $23 0 million in the year ended December 31, 2003 This increase is primarily due to a reduction in regulatory refunds from LECs relating to the "New Services Test" and end user common line charges ("EUCL charges") that are classified as reductions in telephone charges in the Company's consolidated statements of operations (see Note 16) The Company recorded $2 2 million of such refunds in 2003 compared to $7 7 of regulatory refunds in 2002 Without these refunds telephone charges would have declined by $1 9 million, or 7 0%, primarily due to a reduction in the average number payphones in service and lower line charges resulting from the use of competitive local exchange carriers ("CLECs") The Company has executed additional contracts with LECs and CLECs and is pursuing additional regulatory relief that it believes will further reduce local access charges on a per-phone basis, but is unable to estimate the impact of further telephone charge reductions at this time

Commissions decreased approximately $2 2 million, or 13 9%, from approximately $15 8 million in the year ended December 31, 2002 to approximately $13 6 million in the year ended December 31, 2003 The decrease was primarily attributable to lower commissionable revenues (as a result, in part, to a decline in the average number of payphones) in 2003 and management actions to re-negotiate contracts with lower rates upon renewal The Company continues to actively review its strategies related to contract renewals in order to maintain its competitive position while retaining its customer base

Service, maintenance and network costs increased approximately $1 0 million, or 4 3%, from approximately $23 0 million in the year ended December 31, 2002 to approximately $24 0 million in the year ended December 31, 2003 This increase was primarily attributable to the additional cost associated with the combined field organizations following the PhoneTel Merger Field operating costs of PhoneTel were included in service, maintenance and network costs for twelve months in 2003 compared to five months in 2002 In 2003, the Company implemented several cost reduction measures, including a substantial reduction in the Company's workforce In the fourth quarter of 2003 and the first quarter of 2004, the Company also began to outsource the service, collection and maintenance of its payphones in certain higher cost districts While the Company believes these changes will have a favorable impact on operating results in 2004, no assurances can be given regarding such effect

Depreciation and amortization expenses increased $1 1 million, or 5 4%, from $20 4 million in the year ended December 31, 2002 to $21 5 million in the year ended December 31, 2003 This increase in expense is primarily a result of depreciation and amortization of the assets acquired in the PhoneTel Merger offset in part by lower depreciation and amortization due to the removal of unprofitable payphones and the write-down in asset value relating to the impairment charges described below

Selling, general and administrative expenses decreased approximately $0 8 million, or 6 7%, from approximately $12 0 million in the year ended December 31, 2002 to approximately $11 2 million in the year ended December 31, 2003 The decrease was primarily attributable to a reduction in expenses relating to the relocation of the Company's

Corporate headquarters from Tampa, Florida to Cleveland, Ohio following the PhoneTel Merger offset by an increase in professional fees of approximately $1 0 million An increase in professional fees was due in part to legal and financial advisory fees incurred in 2003 in connection with the evaluation of financial and strategic alternatives available to the Company

The cost relating to exit and disposal activities decreased by $2 1 million, or 72 4%, from $2 9 million in the year ended December 31, 2002 to approximately $0 8 million in the year ended December 31, 2003 In connection with the Company's plans to outsource certain payphone service, repair and warehousing functions, the Company closed its warehouse and repair facility in Tampa, Florida and eleven district office facilities during 2003 The Company incurred lease termination, severance and other closing costs relating to these facilities In connection with the PhoneTel Merger in 2002, the Company relocated it corporate headquarters from Tampa, Florida to Cleveland, Ohio In September 2002, the Company terminated its former headquarters facility lease, abandoned or disposed of certain furniture, fixtures and leasehold improvements, and incurred severance costs related to the termination of certain employees All exit activities relating to the Company's former headquarters were completed prior to December 31, 2002

Asset impairment losses totaling $27 1 million were incurred in the year ended December 31, 2003 The loss consisted of a $9 6 million write-down in the carrying value of the Company's payphone assets and location contracts and a $17 5 million write-off of goodwill in accordance with SFAS No 144 and SFAS No 142, respectively (see Note 3 to the consolidated financial statements) These impairment charges were recorded in the second quarter of 2003 Management reevaluated the Company's projected performance and reached the conclusion that financial results would not be sufficient to support the full carrying amount of the assets No comparable loss was incurred in the year ended December 31, 2002

Interest expense in the year ended December 31, 2003 decreased approximately $6 4 million, or 49 2%, from approximately $13 0 million in the year ended December 31, 2002 to approximately $6 6 million in the year ended December 31, 2003 This decrease is primarily due to the reduction in indebtedness resulting from the debt restructuring described below (see Note 4 to the consolidated financial statements) In addition, no interest is recognized on the Davel portion of the Company's Junior Credit Facility as a result of accounting for the debt-for-equity exchange as a troubled debt restructuring and recording all future payments at the time of the restructuring In connection with this debt restructuring, the Company also recognized a gain of approximately $181 0 million in 2002 resulting from the extinguishment of the Company's former credit facility (the "Old Credit Facility")

Other income (expense) decreased approximately $342,000 to $98,000 in expense in the year ended December 31, 2003 from $244,000 of income in the year ended December 31, 2002 The decrease is primarily due to losses attributable to the sale of assets in 2003, including a $192,000 loss on the sale of payphone assets relating to three unprofitable districts in the northern Midwest states

For the year ended December 31, 2003, the Company had a net loss of $46 2 million compared to net income of $151 8 million for the year ended December 31, 2002 The 2003 net loss included asset impairment charges of $27 1 million relating to the write-down in the carrying value of the Company's payphone assets and goodwill Net income in 2002 included a gain on debt extinguishment totaling $181 0 million relating to the debt restructuring described above Without these items, the Company would have had a net loss of $19 1 million in 2003 compared to $29 2 million in 2002

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

On July 24, 2002, the Company acquired approximately 28,000 phones in the PhoneTel Merger The revenues and expenses associated with these phones for the period of July 24 to December 31, 2002 are included in the results of operations for the year ended December 31, 2002 Offsetting these revenue and expense increases in the latter part of 2002 is the reduction in revenues and expenses resulting from the impact of the Company's ongoing program to remove unprofitable phones and the effects of implementing the PhoneTel Merger servicing agreement The servicing agreement, which was implemented in the third quarter of 2001 in anticipation of the PhoneTel Merger, was designed to commence cost savings prior to the merger by combining field service operations on a geographic basis to gain efficiencies resulting from the increased concentration of payphone service routes

The Company operated approximately 14,000 more phones on December 31, 2002 than on December 31, 2001, net of the phones acquired in the PhoneTel Merger and the program to remove unprofitable phones The Company's had approximately 69,000 phones in service on December 31, 2002 and approximately 55,000 phones in service on December 31, 2001 However, the average number of phones in service for the years ended December 31, 2002 and 2001 was approximately 62,000 for both the years due to the 2001 reduction in phones resulting from the Company's ongoing program to remove low revenue phones

Total revenues decreased approximately $13 6 million, or 15 1%, from approximately $90 6 million in the year ended December 31, 2001 to approximately $77 0 million in the year ended December 31, 2002 This decrease was primarily attributable to the removal of unprofitable phone locations, lower call volumes on the Company's payphones resulting from the growth in wireless and other public communication services, and changes in call traffic This decrease was also due to the dial-around compensation adjustment described below

Coin call revenues decreased approximately $4 7 million, or 7 7%, from approximately $61 7 million in the year ended December 31, 2001 to approximately $57 0 million in the year ended December 31, 2002 The decrease in coin call revenues was primarily attributable to lower call volumes on the Company's payphones due to increased competition from wireless and other public communication services and the impact of increasing the coin call rate from $0 35 to $0 50 beginning November 2001 The decrease in call volume was partially offset by the increase in the coin call rate

Non-coin call revenues, which is comprised primarily of dial-around revenue and operator service revenue, decreased approximately $5 2 million, or 17 8%, from approximately $29 0 million in the year ended December 31, 2001 to approximately $23 8 million in the year ended December 31, 2002 This decrease was primarily attributable to lower call volumes on the Company's payphones resulting from the growth in wireless communication services and changes in call traffic Dial-around revenue decreased approximately $3 8 million, from approximately $19 1 million in the year ended December 31, 2001 to approximately $15 3 million in the year ended December 31, 2002 The dial-around decrease is primarily attributable to reductions in the number of dial-around calls due to competition from wireless communication services and the continuing underpayments of dial-around revenues caused by deficiencies in the established payment and tracking process The decrease in dial-around revenue is also due to a $0 9 million reduction relating to the WorldCom bankruptcy filing in July 2002 Long-distance revenues decreased approximately $2 5 million, from approximately $9 8 million in the year ended December 31, 2001 to approximately $7 3 million in the year ended December 31, 2002 due to lower call volumes for the reasons stated above Operator services are provided by third parties that pay Davel a commission on their gross billings Non-coin call revenues also includes other revenue, which increased approximately $1 1 million from approximately $0 1 million in the year ended December 31, 2001 to approximately $1 2 million in the year ended December 31, 2002 This increase relates primarily to telephone installation and repair services provided to a former related party

In 2002, the Company recorded a $3 8 million dial-around compensation adjustment for estimated overpayments by certain IXCs that were received by the Company in prior years There was no comparable charge in 2001 relating to the industry-wide true-up among payphone providers and long-distance carriers pursuant to the FCC's Interim Order See Note 15 to the consolidated financial statements

Telephone charges decreased approximately $6 4 million, or 22 7%, from approximately $29 6 million in the year ended December 31, 2001 to approximately $23 2 million in the year ended December 31, 2002 The decrease is due lower line charges resulting from the use of competitive local exchange carriers ("CLECs"), regulatory changes resulting in lower rates charged by LECs, and other management actions to attain lower rates Telephone charges in 2002 were also impacted by refunds totaling $3 1 million received from BellSouth for prior period charges pursuant to a recently adopted "New Service Test" in Tennessee, $3 8 million of "New Services Test" refunds in North Carolina and Maryland, other LEC refunds from prior periods resulting from regulatory rulings of $0 8 million, and a favorable adjustment related to a litigation settlement of $0 8 million LEC refunds received as a result of regulatory rulings in 2001 totaled $2 4 million A $1 3 million charge in 2002 and a $0 7 million charge in 2001 associated with the settlement of a dispute with MCI partially offset these savings

Commissions decreased approximately $6 4 million, or 28 9%, from approximately $22 2 million in the year ended December 31, 2001 to approximately $15 8 million in the year ended December 31, 2002 The decrease was primarily attributable to lower commissionable revenues and management actions to re-negotiate contracts with lower rates upon renewal Commissions for the year ended December 31, 2002 were also favorably impacted by lower commission rates relating to PhoneTel location contracts and favorable adjustments of $0 6 million resulting from contract terminations The Company continues to actively review its strategies related to contract renewals in order to maintain its competitive position while retaining its customer base

Service, maintenance and network costs decreased approximately $0 5 million, or 2 2%, from approximately $23 5 million in the year ended December 31, 2001 to approximately $23 0 million in the year ended December 31, 2002 The decrease was primarily attributable to the additional payphones and related expenses resulting from the PhoneTel Merger offset by the effects of savings generated from rationalization of field offices, increased geographic and route density of the payphones, and the Company's ability to improve efficiency on servicing the Company's payphones Decreases in network billing costs (primarily payphone polling costs) of $0 9 million and district office expenses of $0 4 million were offset by an increase in vehicle insurance expense of $1 1 million Net decreases of $0 3 million in a variety of other expense items comprised the remaining changes

Depreciation and amortization expenses increased $1 2 million, or 6 2%, from $19 2 million in the year ended December 31, 2001 to $20 4 million in the year ended December 31, 2002 The increase in expense is primarily a result of depreciation and amortization of the assets acquired in the PhoneTel Merger offset by lower depreciation and amortization due to the program to remove unprofitable payphones and, to a lesser extent, the write-off of assets upon relocation of the Company's former headquarters from Tampa, Florida to Cleveland, Ohio following the PhoneTel Merger

Selling, general and administrative expenses decreased approximately $0 1 million, or 1 3%, from approximately $12 1 million in the year ended December 31, 2001 to approximately $12 0 million in the year ended December 31, 2002 The decrease in expense was primarily attributable to a reduction in salaries and salary-related expenses of approximately $1 0 million, which occurred as a result of continued reductions in headcount in light of the lower number of payphones in service, and a decrease in professional fees of approximately $1 2 million These decreases were offset by an increase in insurance (primarily directors and officers and general liability insurance) of $1 0 million and a $0 5 million charge relating to the settlement of a lawsuit A variety of other expense items provided a net increase in selling, general and administrative expenses of $0 6 million compared to 2001

In connection with the PhoneTel Merger, the Company relocated it corporate headquarters from Tampa, Florida to Cleveland, Ohio and incurred a loss of approximately $2 9 million relating to exit and disposal activities In September 2002, the Company terminated its headquarters facility lease, abandoned or disposed of certain furniture, fixtures and leasehold improvements, and incurred severance costs related to the termination of certain employees All exit activities relating to the Company's former headquarters were completed prior to December 31, 2002 No comparable expense was incurred in the year ended December 31, 2001

Interest expense in the year ended December 31, 2002 decreased approximately $14 6 million, or 52.9%, from approximately $27.7 million in the year ended December 31, 2001 to approximately $13 0 million in the year ended December 31, 2002 This decrease is primarily due to the reduction in indebtedness resulting from the debt restructuring described above (see "Business---General Overview" and "Liquidity, Capital Resources and Management's Plans") In addition, no interest is recognized on the Davel portion of the Company's Junior Credit Facility as a result of accounting for the debt-for-equity exchange as a troubled debt restructuring In connection with this debt restructuring, the Company also recognized a gain of approximately $181 0 million in 2002 resulting from the extinguishment of the Company's Old Credit Facility

Other income decreased approximately $16,000 to $244,000 in the year ended December 31, 2002 from $260,000 in the year ended December 31, 2001

For the year ended December 31, 2002, net income of $151 8 million was $195 2 greater than the net loss of $43 4 million for the year ended December 31, 2001, primarily due to the $181 0 million gain on debt extinguishment discussed above Excluding the gain on debt extinguishment and $2 9 million of exit and disposal activity costs, the Company's net loss would have been $26 3 million in the year ended December 31, 2002, a reduction of $17 1 million from the net loss of $43 4 million in the prior year This decrease in net loss occurred because efforts to reduce operating expenses, as noted above, exceeded the decline in revenues

Liquidity, Capital Resources and Management's Plans

Cash Flows

Historically, the Company's primary sources of liquidity have been cash from operations and borrowings under various credit facilities The Company's revenues and cash flows from its payphone operating regions are affected by seasonal variations, geographic distribution of payphones, removal of unprofitable payphones, and type of location Because many of the payphones are located outdoors, weather patterns have differing effects on the Company's results depending on the region of the country where the payphones are located Payphones located in the southern United States produce substantially higher call volume in the first and second quarters than at other times during the year The Company's payphones throughout the midwestern and eastern United States produce their highest call volumes, and therefore generate the highest level of cash flow, during the second and third quarters

Although the Company had a net loss of approximately $46 2 million during the year ended December 31, 2003, the Company generated approximately $8 8 million of net cash from operating activities The net cash generated by operating activities in 2003 was principally due to approximately $13 4 million of regulatory receipts received in 2003 (dial-around compensation adjustments, New Services Test refunds and EUCL refunds), of which $3 8 million was included in accounts receivable at December 31, 2002 Approximately $1 1 million of the net cash from operating activities was used for capital expenditures and other investing activities, $5 8 million was used to pay the remaining balance due under the Company's Senior Credit Facility, and $0 9 million was used for other debt and capital lease payments

During the year ended December 31, 2002, the Company had net income of approximately $151 8 million which included a non-cash gain from debt extinguishment of approximately $181 0 million Net of other non-cash items and changes in working capital, operating activities used approximately $0 5 million of net cash in 2002 In February 2002, the Company received $4 8 million from borrowings under its Senior Credit Facility, net of the $0 2 million cost of issuing that debt, that was used for working capital purposes and to fund acquisition costs related to the PhoneTel Merger The Company also made principal payments of $3 8 million and $0 5 million on its long-term debt and capital lease obligations, respectively, during 2002

During the year ended December 31, 2002, the Company had net cash from operating activities of approximately $2 3 million, including approximately $5 6 million of New Services Test refunds Approximately $3 2 million of this amount was deferred and recognized as a reduction of telephone expense in 2002, pending appeal by the LEC Operating cash and cash provided by operating activities was used for the payment of approximately $1 9 million of debt and capital lease obligations, as well as $0 5 million of capital expenditures and $0 6 million of location contracts

Subsequent to December 31, 2003, the Company received $1 2 million of dial-around compensation from Qwest resulting from the FCC's Interim Order The amount received after December 31, 2003 was used to pay the Company's outstanding debt, as required under the terms of Company's Junior Credit Facility, as amended. The Company expects to receive additional regulatory receipts, the proceeds of which are required to be paid to the Junior Lenders The timing and amount of such receipts, which could be substantial, cannot be determined due to the uncertainty regarding the willingness and ability of the carriers to pay such amounts

Capital expenditures for 2003 were $1 1 million compared to $0 4 million for 2002 and $0 5 million for 2001 These capital expenditures were primarily for the purchase of payphone components and equipment, computers and software equipment The on-going strategy of removing underperforming phones, combined with the existence of an extensive inventory of phone components, allows for minimal capital equipment expenditures The Company has no material commitments for equipment purchases

Junior Credit Facility

On July 24, 2002, immediately prior to the PhoneTel Merger, Davel and PhoneTel amended, restated and consolidated their respective junior credit facilities The combined restructured Junior Credit Facility of $101 0 million due December 31, 2005 (the "maturity date") consists of. (i) a $50 0 million cash-pay term loan ("Term

Note A") with interest payable in kind monthly through June 30, 2003, and thereafter to be paid monthly in cash from a required payment of $1 25 million commencing on August 1, 2003, with such monthly payment increasing to $1 5 million beginning January 1, 2005, and the unpaid balance to be repaid in full on the maturity date, and (ii) a $51 0 million payment-in-kind term loan (the "PIK term loan" or "Term Note B") to be repaid in full on the maturity date Amounts outstanding under the term loans accrue interest from and after the closing date at the rate of ten percent (10%) per annum Interest on the PIK term loan accrues from the closing date and will be payable in kind All interest payable in kind is added to the principal amount of the respective term loan on a monthly basis and thereafter treated as principal for all purposes (including the accrual of interest upon such amounts) During the years ended December 31, 2003 and 2002, approximately $11 3 million and $4 6 million of interest, respectively, was added to the principal balances as a result of the deferred payment terms Upon the occurrence and during the continuation of an event of default, interest, at the option of the holders, accrues at the rate of 14% per annum

At December 31, 2003, the Company was not in compliance with the minimum Adjusted EBITDA covenant under the Junior Credit Agreement On February 24, 2004, the Company executed an amendment (the "Second Amendment") that waives all defaults through the date of the amendment, reduces the minimum amount of EBITDA and Adjusted EBITDA that the Company is required to maintain through December 31, 2004, and provides for the negotiation of revised quarterly covenant levels for EBITDA and Adjusted EBITDA in 2005 Beginning December 1, 2003, the Second Amendment reduces the minimum payments due under the Junior Credit Facility to $100,000 per month plus the monthly Agent fee through the maturity date on December 31, 2005 The Company is also required to make additional payments equal to 100% of any "Regulatory Receipts" received by the Company (prior year EUCL charge and New Services Test refunds from LECs and net dial-around true-up refunds from long-distance carriers, as defined in the agreement)

The Company has been engaged in discussions with its Junior Lenders regarding the possibility of restructuring the debt outstanding under the Junior Credit Facility Any such restructuring could potentially include a debt-for-equity exchange that may substantially dilute the interests of the Company's existing shareholders There can be no assurance that the Company will be successful in negotiating a reduction in the outstanding balance of its Junior Credit Facility

Senior Credit Facility

Effective as of February 19, 2002, Madeleine L L C and ARK CLO 2000-1, Limited (the "Senior Lenders") entered into a credit agreement (the "Senior Credit Facility") with Davel Financing Company, L L C , PhoneTel and Cherokee Communications, Inc , a wholly owned subsidiary of PhoneTel On that date, the existing junior lenders of the Company and PhoneTel also agreed to a substantial debt-for-equity exchange with respect to their outstanding indebtedness (see Note 4) The Senior Credit Facility provided for a combined $10 million line of credit which the Company and PhoneTel shared $5 million each The Company and PhoneTel each borrowed the amounts available under their respective lines of credit on February 20, 2002, which amounts were used to pay merger related expenses and accounts payable Davel and PhoneTel agreed to remain jointly and severally liable for all amounts due under the Senior Credit Facility

Interest on the funds loaned pursuant to the Senior Credit Facility accrued at the rate of fifteen percent (15%) per annum and was payable monthly in arrears A principal amortization payment in the amount of $833,333 was due on the last day of each month, beginning July 31, 2002 and ending on the maturity date of June 30, 2003 On May 2, 2003, the Company paid the remaining balance, including interest, due under the Senior Credit Facility

Financial Condition and Management's Plans

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business Excluding the gain on debt extinguishment of $181 0 million in 2002, the Company has incurred losses of approximately $46 2 million, $29 2 million and $43.4 million for the years ended December 31, 2003, 2002 and 2001, respectively These losses were primarily attributable to increased competition from providers of wireless communication services and the impact on the Company's revenue of certain regulatory changes In addition, as of December 31, 2003, the Company had a working capital deficit of $8 2 million and its liabilities exceeded it assets by $102 5 million Although the Company's lenders have waived all defaults, the Company was not in compliance with certain financial covenants and did not make certain debt payments that were originally due under its Junior Credit Facility (see Note 10 to the consolidated financial statements) These conditions raise substantial doubt about the Company's ability to continue as a going concern

In July 2003, a special committee of independent members of the Company's Board of Directors (the "Special Committee") was formed to identify and evaluate the strategic and financial alternatives available to the Company to maximize value for the Company's stakeholders Thereafter, the Board of Directors appointed a new chief executive officer who has been actively engaged with management to improve the operating results of the Company Significant elements of the plan executed or planned for 2003 and 2004 include (i) continuing cost savings and efficiencies resulting from the merger with PhoneTel discussed in Note 5 to the consolidated financial statements, (ii) the continued removal of unprofitable payphones, (iii) reductions in telephone charges by changing to competitive local exchange carriers ("CLECs") and other alternative carriers, (iv) the evaluation, sale or closure of unprofitable district operations, (v) outsourcing payphone collection, service and maintenance activities to reduce such costs, and (vi) the further curtailments of operating expenses The Company is also working toward the implementation of new business initiatives and other strategic opportunities available to the Company

Notwithstanding these activities and plans, the Company may continue to face liquidity shortfalls and, as a result, might be required to dispose of assets to fund its operations or curtail its capital and other expenditures to meet its debt service and other obligations There can be no assurances as to the Company's ability to execute such dispositions, or the timing thereof, or the amount of proceeds that the Company could realize from such sales The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

Contractual Obligations

The Company's principal contractual obligations at December 31, 2003 are (in thousands)

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long Term Debt (1)	$ 143,058	$ 2,843	$ 140,215	$ -	$ -
Capital Lease Obligation	98	95	3	-	-
Operating Leases	2,022	832	1,057	133	-
Purchase Obligation (2)	6,475	4,975	1,500	-	-
Total	$ 151,653	$ 8,745	$ 142,775	$ 133	$ -

(1) Long-Term Debt includes amounts payable for principal and interest
(2) Purchase obligation includes minimum amounts expected to be paid in connection with contracts to purchase local line access and payphone service contracts

Impact of Inflation

Inflation is not a material factor affecting the Company's business General operating expenses such as salaries, employee benefits and occupancy costs are, however, subject to normal inflationary pressures

Seasonality

The Company's revenues from its payphone operating regions are affected by seasonal variations, geographic distribution of payphones and type of location Because many of the Company's payphones are located outdoors, weather patterns have differing effects on the Company's results depending on the region of the country where the payphones are located Most of the Company's payphones in Florida produce substantially higher call volume in the first and second quarters than at other times during the year, while the Company's payphones throughout the Midwestern and eastern United States produce their highest call volumes during the second and third quarters While the aggregate effect of the variations in different geographical regions tend to counteract the effect of one another, the Company has historically experienced higher revenue and income in the second and third quarters than in the first and fourth quarters Changes in the geographical distribution of its payphones may in the future result in different seasonal variations in the Company's results

New Accounting Pronouncements

During December 2002, the FASB issued SFAS No 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" Statement No 148 establishes standards for two alternative methods of transition to the fair value method of accounting for stock-based employee compensation of SFAS No 123, "Accounting for Stock-Based Compensation" SFAS No 148 also amends and augments the disclosure provisions of SFAS No 123 and APB No 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies for all companies of the effects of an entity's accounting policy with respect to stock based employee compensation on reported net income and earnings per share in annual and interim financial statements The transitions standards and disclosure requirements of SFAS No 148 are effective for fiscal years and interim periods ending after December 15, 2002

SFAS No 148 does not require the Company to transition from the intrinsic value approach provided in APB Opinion No 25, "Accounting for Employee Stock Based Compensation" In addition, the Company does not currently plan to transition to the fair value approach in SFAS No 123 However, the Company has adopted the additional disclosure requirements of SFAS No 148 in this annual report

In November 2002, the FASB issued Interpretation No 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Interpretation No 45") Under Interpretation No 45, guarantees, contracts and indemnification agreements are required to be initially recorded at fair value Current practice provides for the recognition of a liability only when a loss is probable and reasonably estimable, as those terms are defined under SFAS No 5, "Accounting for Contingencies" In addition, Interpretation No 45 requires significant new disclosures for all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002 The initial recognition and measurement provisions of Interpretation No 45 are applicable on a prospective basis to guarantees, contracts or indemnification agreements issued or modified after December 31, 2002

The Company currently has no guarantees, contracts or indemnification agreements that would require fair value treatment under the new standard The Company's current policy is to disclose all material guarantees and contingent arrangements, similar to the disclosure requirements of Interpretation No 45, which provide for disclosure of the approximate term, nature of guarantee, maximum potential amount of exposure, and the nature of recourse provisions and collateral

In April 2003, the FASB issued SFAS No 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" The statement amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities This statement is designed to improve financial reporting such that contracts with comparable characteristics are accounted for similarly The statement is generally effective for contracts entered into or modified after June 30, 2003 The Company currently has no such financial instruments outstanding or under consideration and does not expect the adoption of this standard to effect the Company's financial position or results of operations

In May 2003, the FASB issued SFAS No 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity This statement is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003 The Company currently has no such financial instruments outstanding or under consideration and therefore adoption of this standard currently has no financial reporting implications

In January 2003, the FASB issued FASB Interpretation No 46, "Consolidation of Variable Interest Entities" ("FIN No 46") This interpretation clarifies rules relating to consolidation where entities are controlled by means

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Davel Communications, Inc

We have audited the accompanying consolidated balance sheets of Davel Communications, Inc (the "Company") and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity (deficit) and other comprehensive loss and cash flows for the three years in the period ended December 31, 2003 These financial statements are the responsibility of the Company's management Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Davel Communications, Inc and Subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America

As discussed in Note 2 to the financial statements, the Company has incurred recurring operating losses, has a substantial working capital deficiency and has been unable to comply with the terms of its debt agreements These conditions raise substantial doubt about the Company's ability to continue as a going concern Management's plans in regard to these matters are also discussed in Note 2 The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

AIDMAN PISER & COMPANY, P A

Tampa, Florida
March 19, 2004

Davel Communications, Inc and Subsidiaries

Consolidated Balance Sheets

(In thousands except share and per share amounts)

	December 31			
	2003		2002	
Assets				
Current assets				
Cash and cash equivalents	$	7,775	$	6,854
Accounts receivable, net of allowance for doubtful accounts of $1,870 at December 31, 2002		7,975		16,807
Other current assets		2,922		3,286
Total current assets		18,672		26,947
Property and equipment, net		22,878		41,855
Location contracts, net		6,746		18,043
Goodwill		-		17,455
Other assets, net		2,026		2,316
Total assets	$	50,322	$	106,616
Liabilities and Shareholders' Deficit				
Current liabilities				
Current maturities of long-term debt and obligations under capital leases	$	1,994	$	11,449
Accrued commissions payable		9,020		11,986
Accounts payable and other accrued expenses		15,847		21,262
Total current liabilities		26,861		44,697
Long-term debt and obligations under capital leases		125,962		118,229
Total liabilities		152,823		162,926
Commitments and contingencies (Note 19)		-		-
Shareholders' deficit				
Preferred stock - $0 01 par value, 1,000,000 share authorized, no shares outstanding		-		-
Common Stock - $0 01 par value, 1,000,000,000 shares authorized, 615 018,963 shares issued and outstanding		6,150		6,150
Additional paid-in capital		144,210		144,210
Accumulated deficit		(252,861)		(206,670)
Total shareholders' deficit		(102,501)		(56,310)
Total liabilities and shareholders' deficit	$	50,322	$	106,616

The accompanying notes are an integral part of these financial statements

Davel Communications, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands except for share and per share amounts)

	Year Ended December 31 2003	2002	2001
Revenues			
Coin calls	$ 50,132	$ 56,952	$ 61,668
Non-coin calls	23,335	23,807	28,950
Dial-around compensation adjustments	8,306	(3,807)	-
Total revenues	81,773	76,952	90,618
Operating expenses			
Telephone charges	23,029	19,350	29,577
Commissions	13,584	15,767	22,168
Service, maintenance and network costs	24,028	22,998	23,519
Depreciation and amortization	21,523	20,392	19,241
Selling, general and administrative	11,216	11,959	12,115
Asset impairment charges	27,141	-	-
Exit and disposal activities	786	2,919	-
Total costs and expenses	121,307	93,385	106,62
Operating loss	(39,534)	(16,433)	(16,00
Other income (expense).			
Interest expense (net)	(6,559)	(13,037)	(27,67
Gain on debt extinguishment	-	180,977	-
Other	(98)	244	26
Total other income (expense)	(6,657)	168,184	(27,41
Net income (loss)	$ (46,191)	$ 151,751	$ (43,41
Earnings (loss) per share			
Net income (loss) per common share, basic and diluted	$ (0.08)	$ 0.56	$ (3.8
Weighted average number of shares, basic and diluted	615,018,963	272,598,189	11,169,48

The accompanying notes are an integral part of these financial statements

Davel Communications, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity (Deficit) and Other Comprehensive Loss
(In thousands except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity (Deficit)	Comprehensive Loss
	Shares	Amount					
Balances December 31 2000	11,169,540	$ 112	$ 128,503	$ (315,007)	$ -	$ (186,392)	$ -
Rescission of common stock	(100)	-	-	-	-	-	-
Market change on interest collar	-	-	-	-	(7)	(7)	(
Net loss	-	-	-	(43,414)	-	(43,414)	(43,41
Balances December 31, 2001	11,169,440	112	128,503	(358,421)	(7)	(229,813)	$ (43,42
Issuance of common stock - debt exchange	380,612,730	3,806	9,896	-	-	13,702	$ -
Issuance of common stock - PhoneTel merger	223,236,793	2,232	5,805	-	-	8,037	-
Issuance of stock options - PhoneTel merger	-	-	6	-	-	6	-
Market change on interest collar	-	-	-	-	7	7	
Net income	-	-	-	151,751	-	151,751	151,75
Balances December 31, 2002	615,018 963	6,150	144,210	(206,670)	-	(56,310)	$ 151,75
Net loss	-	-	-	(46,191)	-	(46,191)	$ (46,19
Balances December 31, 2003	615,018,963	$ 6,150	$ 144,210	$ (252,861)	$ -	$ (102,501)	$ (46,19

The accompanying notes are an integral part of these financial statements

Davel Communications, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31		
	2003	2002	2001
Cash flows from operating activities.			
Net income (loss)	$ (46,191)	$ 151,751	$ (43,414)
Adjustments to reconcile net income (loss) to net cash flow from operating activities			
Depreciation and amortization	21,523	20,392	19,241
Amortization of deferred financing costs and non-cash interest	5,207	11,711	3,681
Gain from debt extinguishment	-	(180,977)	-
Non-cash exit and disposal activities	-	1,309	-
Loss (gain) on disposal of assets	295	(71)	272
Increase in allowance for doubtful accounts	156	1,241	-
Deferred revenue	(150)	(188)	(188)
Asset impairment charges	9,686	-	-
Goodwill impairment	17,455	-	-
Changes in assets and liabilities, net of assets acquired			
Accounts receivable	8,676	(1,679)	2,378
Other current assets	364	(1,105)	(351)
Accrued commissions payable	(2,966)	(2,879)	1,286
Accounts payable and accrued expenses	(5,161)	(177)	(3,931)
Accrued interest	(104)	138	23,281
Net cash from operating activities	8,790	(534)	2,255
Cash flows from investing activities.			
Cash received in PhoneTel merger, net of acquisition costs	-	2,784	-
Proceeds from sale of assets	334	116	-
Capital expenditures	(1,130)	(371)	(521)
Payment of acquisition costs	-	(611)	-
Payments for location contracts	(276)	(321)	(618)
Increase in other assets	(43)	(332)	-
Net cash from investing activities	(1,115)	1,265	(1,139)
Cash flows from financing activities			
Proceeds from Senior Credit Facility	-	5,000	-
Payments on long-term debt	(6,544)	(3,750)	(941)
Payments on revolving line of credit	-	-	(159)
Principal payments under capital leases	(210)	(460)	(787)
Net cash from financing activities	(6,754)	790	(1,887)
Net increase (decrease) in cash and cash equivalents	921	1,521	(771)
Cash and cash equivalents, beginning of period	6,854	5,333	6,104
Cash and cash equivalents, end of period	$ 7,775	$ 6,854	$ 5,333
Supplemental Cash Flow Information			
Interest Paid	$ 885	$ 1,441	$ -
Non-cash investing and financing transactions:			
PhoneTel Merger			
Common stock and options issued	$ -	$ (8,043)	$ -
Net assets acquired, net of cash and acquisition costs	-	4,159	-
Debt-for-equity exchange			
Common stock issued	-	(13,702)	-
Issuance of Junior Credit Facility	-	(88,245)	-
Retirement of Old Credit Facility	-	237,255	-
Accrued interest - Old Credit Facility	-	45,704	-
Property and equipment acquired under capital leases	-	-	29

The accompanying notes are an integral part of these financial statements

DAVEL COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Davel Communications, Inc and subsidiaries, (the "Company" or "Davel") was incorporated on June 9, 1998 under the laws of the State of Delaware The Company is the largest domestic independent payphone service provider in the United States of America The Company operates in a single business segment within the telecommunications industry, operating, servicing, and maintaining a system of approximately 47,000 payphones in 46 states and the District of Columbia The Company's headquarters is located in Cleveland, Ohio with field service offices in 17 geographically dispersed locations

On July 24, 2002, the Company restructured its long-term debt by completing the debt-for-equity exchange described in Note 4 Immediately thereafter, on that same date, the Company and PhoneTel Technologies, Inc ("PhoneTel") completed the merger described in Note 5 (the "PhoneTel Merger"), which has been accounted for as a purchase business combination Accordingly, the results of operations of PhoneTel are included in the accompanying financial statements since the date of acquisition

2. LIQUIDITY AND MANAGEMENT'S PLANS

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business Excluding the gain on debt extinguishment of $181 0 million in 2002, the Company has incurred losses of approximately $46 2 million, $29 2 million and $43 4 million for the years ended December 31, 2003, 2002 and 2001, respectively These losses were primarily attributable to increased competition from providers of wireless communication services and the impact on the Company's revenue of certain regulatory changes In addition, as of December 31, 2003, the Company had a working capital deficit of $8 2 million and its liabilities exceeded it assets by $102 5 million Although the Company's lenders have waived all defaults, the Company was not in compliance with certain financial covenants and did not make certain debt payments that were originally due under its Junior Credit Facility (see Note 10) These conditions raise substantial doubt about the Company's ability to continue as a going concern

In July 2003, a special committee of independent members of the Company's Board of Directors (the "Special Committee") was formed to identify and evaluate the strategic and financial alternatives available to the Company to maximize value for the Company's stakeholders Thereafter, the Board of Directors appointed a new chief executive officer who has been actively engaged with management to improve the operating results of the Company Significant elements of the plan executed or planned for 2003 and 2004 include (i) continuing cost savings and efficiencies resulting from the merger with PhoneTel discussed in Note 5, (ii) the continued removal of unprofitable payphones, (iii) reductions in telephone charges by changing to competitive local exchange carriers ("CLECs") or other alternative carriers, (iv) the evaluation, sale or closure of unprofitable district operations, (v) outsourcing payphone collection, service and maintenance activities to reduce such costs, and (vi) the further curtailments of operating expenses The Company is also working toward the implementation of new business initiatives and other strategic opportunities available to the Company

As discussed in Note 10, the Company has been engaged in discussions with its Junior Lenders regarding the possibility of restructuring its outstanding debt Any such restructuring could potentially include a debt-for-equity exchange that may substantially dilute the interests of the Company's existing shareholders There can be no assurance that the Company will be successful in negotiating a reduction in the outstanding balance of its Junior Credit Facility

Notwithstanding these activities and plans, the Company may continue to face liquidity shortfalls and, as a result, might be required to dispose of assets to fund its operations or curtail its capital and other expenditures to meet its debt service and other obligations There can be no assurances as to the Company's ability to execute such dispositions, or the timing thereof, or the amount of proceeds that the Company could realize from such sales The

the Company, no implied value could be attributed to goodwill As a result, the Company recorded a $17 5 million non-cash impairment loss in the second quarter of 2003 to write-off the carrying value of the goodwill

Asset impairment charges were as follows for the year ended December 31, 2003 (in thousands)

Payphone Assets	$ 9,686
Goodwill	17,455
Total impairment charges	$ 27,141

Management exercised considerable judgment to estimate undiscounted and discounted future cash flows The amount of future cash flows the Company will ultimately realize remains under continuous review, but could differ materially from the amounts assumed in arriving at the impairment loss

Revenue Recognition

The Company derives its revenues from two principal sources coin calls and non-coin calls Coin calls represent calls paid for by callers with coins deposited into the payphone Coin call revenues are recorded in the amount of coins deposited in the payphones and in the period deposited Revenue from non-coin calls, which includes dial-around compensation, as discussed in Note 15, and operator service revenue is recognized in the period in which the customer places the call

Operator Service Revenue Non-coin operator service calls are serviced by independent operator service providers These carriers assume billing and collection responsibilities for operator-assisted calls originating on the Company's payphone network and pay "commissions" to the Company based upon gross revenues The Company recognizes operator service revenues in amounts equal to the commission that it is entitled to receive during the period the service is rendered

Dial-around Revenue The Company also recognizes non-coin dial-around revenues from calls that are dialed from its payphones to gain access to a long distance company or to make a traditional "toll free" call (dial-around calls) Revenues from dial-around calls are recognized based on estimates using the Company's historical collection experience because a) the interexchange carriers ("IXCs") have historically paid for fewer dial-around calls than are actually made (due to the reasons discussed in Note 15 to the financial statements) and b) the collection period for dial-around revenue may be as long as a year Davel's estimate of revenue is based on historical analyses of calls placed versus amounts collected These studies are updated on a continuous basis Recorded amounts are adjusted to actual amounts received and estimates are updated once the applicable dial-around compensation has been collected

Regulated Rate Actions

The Federal Communications Commission ("FCC") possesses the authority pursuant to the Telecommunications Act of 1996 (the "Telecom Act") to effect rate actions related to dial-around compensation, including retroactive rate adjustments and refunds (See Note 15), and other telecommunication revenues and expenses Rate adjustments arising from FCC rate actions that require refunds to dial-around carriers are recorded in the first period that they become both probable of payment and estimable in amount Rate adjustments that result in payments to the Company by dial-around or other carriers are recorded when received

Telephone Charges

Telephone charges consist of payments made to local exchange carriers ("LECs") and IXCs for local and long-distance line and transmission services In 2003, 2002 and 2001, the Company recognized $0 8 million, $7 1 million and $1 9 million of refunds of prior period telephone charges, respectively, relating to the recently adopted "New Services Test" in certain states Under the Telecom Act and related FCC Rules, LECs are required to make access lines that are provided for their own payphones equally available to independent payphone providers to ensure that the cost to payphone providers for obtaining local lines and service met the FCCs new services test guidelines Such guidelines require LECs to price payphone access lines at the direct cost to the LEC plus a reasonable allocation of overhead Refunds pursuant to the "New Services Test" are recorded as reductions in telephone charges in the Company's consolidated statements of operations

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes Deferred tax assets and liabilities are measured using enacted tax rates for the periods such taxes are expected to be recovered or settled The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period in which the change is enacted Deferred tax assets are reduced by a valuation allowance when it is deemed more likely than not that the asset will not be utilized

Stock-based compensation

The Company accounts for compensation costs associated with stock options issued to employees under the provisions of Accounting Principles Board Opinion No 25 ("APB No 25") whereby compensation is recognized to the extent the market price of the underlying stock at the date of grant exceeds the exercise price of the option granted The Company has adopted the disclosure provisions of Financial Accounting Standard No 123 — Accounting for Stock-Based Compensation ("SFAS No 123"), which requires disclosure of compensation expense that would have been recognized if the fair-value based method of determining compensation had been used for all arrangements under which employees receive shares of stock or equity instruments Stock-based compensation to non-employees is accounted for using the fair-value based method prescribed by SFAS No 123

The following table reflects supplemental financial information related to stock-based employee compensation, as required by SFAS No 148 (See "Recent Accounting Pronouncements", below, in thousands, except per share amounts)

	2003	2002	2001
Net income (loss), as reported	$ (46,191)	$ 151,751	$ (43,414)
Net income (loss) per share, as reported	(0 08)	0 56	(3 89)
Stock-based employee compensation costs used in the determination of net income (loss)	—	—	—
Stock-based employee compensation costs that would have been included in the determination of net income (loss) if the fair value method had been applied to all awards	—	(767)	(1,659)
Unaudited pro forma net income (loss), as if the fair value method had been applied to all awards	(46,191)	150,984	(45,073)
Unaudited pro forma net income (loss) per share, as if the fair value method had been applied to all awards	(0 08)	0 55	(4 04)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates, among others, include amounts relating to the carrying value of the Company's accounts receivable and payphone location contracts and the related revenues and expenses applicable to dial-around compensation and asset impairment Actual results could differ from those estimates

Recent Accounting Pronouncements

During December 2002, the FASB issued SFAS No 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" Statement No 148 establishes standards for two alternative methods of transition to the fair value method of accounting for stock-based employee compensation of SFAS No 123, "Accounting for Stock-Based Compensation" SFAS No 148 also amends and augments the disclosure provisions of SFAS No 123 and APB No 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies for all companies of the effects of an entity's accounting policy with respect to stock based employee compensation on reported net income and earnings per share in annual and interim financial statements The transitions standards and disclosure requirements of SFAS No 148 are effective for fiscal years and interim periods ending after December 15, 2002

SFAS No 148 does not require the Company to transition from the intrinsic value approach provided in APB Opinion No 25, "Accounting for Employee Stock Based Compensation" In addition, the Company does not currently plan to transition to the fair value approach in SFAS No 123 However, the Company has adopted the additional disclosure requirements of SFAS No 148 in this annual report

In November 2002, the FASB issued Interpretation No 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Interpretation No 45") Under Interpretation No 45, guarantees, contracts and indemnification agreements are required to be initially recorded at fair value Current practice provides for the recognition of a liability only when a loss is probable and reasonably estimable, as those terms are defined under SFAS No 5, "Accounting for Contingencies" In addition, Interpretation No 45 requires significant new disclosures for all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002 The initial recognition and measurement provisions of Interpretation No 45 are applicable on a prospective basis to guarantees, contracts or indemnification agreements issued or modified after December 31, 2002

The Company currently has no guarantees, contracts or indemnification agreements that would require fair value treatment under the new standard The Company's current policy is to disclose all material guarantees and contingent arrangements, similar to the disclosure requirements of Interpretation No 45, which provide for disclosure of the approximate term, nature of guarantee, maximum potential amount of exposure, and the nature of recourse provisions and collateral

In April 2003, the FASB issued SFAS No 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" The statement amends and clarifies accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities This statement is designed to improve financial reporting such that contracts with comparable characteristics are accounted for similarly The statement is generally effective for contracts entered into or modified after June 30, 2003 The Company currently has no such financial instruments outstanding or under consideration and does not expect the adoption of this standard to effect the Company's financial position or results of operations

In May 2003, the FASB issued SFAS No 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity This statement is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003 The Company currently has no such financial instruments outstanding or under consideration and therefore adoption of this standard currently has no financial reporting implications

In January 2003, the FASB issued FASB Interpretation No 46, "Consolidation of Variable Interest Entities" ("FIN No 46") This interpretation clarifies rules relating to consolidation where entities are controlled by means other than a majority voting interest and instances in which equity investors do not bear the residual economic risks This interpretation is effective immediately for variable interest entities created after January 31, 2003 and, for interim periods beginning after December 15, 2003, for interests acquired prior to February 1, 2003 The Company does not currently have relationships with entities meeting the criteria set forth in FIN No 46 and is not required to include any such entities in its consolidated financial statements pursuant to the provisions of FIN No 46

Reclassification

Certain reclassifications have been made to prior year balances to conform to the current year presentation

4. DEBT RESTRUCTURING

On July 24, 2002 (the "closing date"), immediately prior to the merger discussed in Note 5, the existing PhoneTel junior lenders exchanged an amount of indebtedness that reduced the junior indebtedness of PhoneTel to $36 5 million for 112,246,511 shares of PhoneTel common stock, which was subsequently exchanged for 204,659,064 shares of the Company in the PhoneTel Merger Also, on this date, the existing Davel junior lenders exchanged $237 2 million of outstanding indebtedness and $45 7 million of related accrued interest for 380,612,730 shares of common stock (with a value of $13 7 million, based upon market prices around the closing date), which reduced Davel's junior indebtedness to $63 5 million Upon completion of the debt exchanges, Davel and PhoneTel amended, restated and consolidated their respective junior credit facilities into a combined restructured junior credit facility with a principal balance, excluding fees, of $100 0 million (the "Junior Credit Facility") due December 31, 2005 (the "maturity date")

Davel has accounted for its debt-for-equity exchange as a troubled debt restructuring Accordingly, the Company has recognized a gain on extinguishment of the old debt based upon the difference between the carrying value of its old credit facility (including accrued interest) and the amount of the equity interest and new debt, including interest, issued by Davel to its lenders The gain on debt extinguishment, included in other income (expense) in the accompanying consolidated statements of operations, is as follows (in thousands)

Old Credit Facility	
Principal balance	$ 237,255
Accrued interest	45,704
Carrying value	282,959
Common stock issued (380,612,730 shares at $0 036)	(13,702)
Principal balance of new debt	(63,500)
Interest, costs and fees on new debt (payable through maturity)	(24,780)
Gain on debt extinguishment	$ 180,977

Following the PhoneTel Merger and the debt exchanges, the combined junior indebtedness of the Company has a face value of $101 0 million, which amount may be prepaid without penalty However, for accounting and reporting purposes, with respect to Davel's portion of the debt exchange, all future cash payments under the modified terms will be accounted for as reductions of indebtedness and no interest expense will be recognized for any period between the closing date and the maturity date

In addition, the remaining amounts payable with respect to the PhoneTel portion has been recorded at the net present value of such payments in accordance with the purchase method of accounting Interest expense is recognized on the PhoneTel portion of the restructured debt over the term of the debt using the interest method of accounting at a fair market rate of 15%

Following the exchange and the merger, the creditors of the Company in the aggregate own 95 2% of the outstanding common stock of the Company

5. ACQUISITION

On July 24, 2002, a wholly owned subsidiary of Davel merged with and into PhoneTel pursuant to the Agreement and Plan of Reorganization and Merger, dated February 19, 2002, between the Company and PhoneTel and its subsidiary PhoneTel was a payphone service provider, based in Cleveland, Ohio, that operated an installed base of approximately 28,000 payphones in 45 states and the District of Columbia Management believes the PhoneTel Merger has and will continue to result in the expansion of its market presence and further reduce its operating costs by leveraging the combined infrastructure In accordance with Statement of Financial Accounting Standards ("SFAS") No 141, "Business Combinations", the results of operations of PhoneTel are included in the accompanying financial statements since the date of acquisition

In connection with the PhoneTel Merger, 100% of the voting shares in PhoneTel were acquired and each share of common stock of PhoneTel was converted into 1 8233 shares of common stock of the Company, or an aggregate of 223,236,793 shares with a fair value of approximately $8 0 million The fair value of the Davel common stock was derived using an average market price per share of Davel common stock of $0 036, which was based on an average of the closing prices for a range of trading days (July 19, 2002 through July 29, 2002) around the closing date of the acquisition In addition 1,077,024 warrants and 339,000 options of PhoneTel were converted into 1,963,738 warrants and 618,107 stock options of the Company, respectively, with an aggregate value of $6,000 The warrants subsequently expired by their terms in November 2002 Direct costs and expenses of the merger amounted to $1 1 million and were included in the purchase price

In accordance with SFAS No 141, Davel allocated the purchase price of PhoneTel to tangible assets and liabilities and identifiable intangible assets acquired based on their estimated fair values at the time of the PhoneTel Merger The excess of the purchase price over those fair values was recorded as goodwill The fair value assigned to intangible assets acquired was based upon estimates and assumptions of management The goodwill recorded is not expected to be deductible for income tax purposes In accordance with SFAS No 142, the goodwill acquired has not been amortized but was reviewed annually for impairment The first impairment review was completed as of September 30, 2002 and no impairment was present The Company subsequently reviewed goodwill for impairment and wrote-off the carrying value (see Note 3) Purchased intangibles are amortized on a straight-line basis over their respective useful lives

The PhoneTel Merger has been accounted for as a purchase business combination and the purchase price has been allocated as follows (in thousands)

Cash and cash equivalents	$ 3,884
Accounts receivable	4,612
Other current assets	1,552
Property and equipment	11,347
Intangible assets (location contracts)	19,821
Goodwill	17,455
Other assets	765
Assets acquired	59,436
Accounts payable and other accrued expenses	(9,238)
Accrued commissions payable	(3,367)
Senior credit facility (See Note 10)	(4,583)
Junior credit facility (See Note 10)	(32,206)
Other long-term debt (See Note 10)	(928)
Liabilities assumed	(50,322)
Net assets acquired	$ 9,114

Amortizable intangible assets

Of the total purchase price, $19 8 million has been allocated to amortizable intangible assets for commission agreements with owners of facilities where the Company's payphones are located ("Location Contracts") The

Company is amortizing the fair value of these assets over the weighted average estimated remaining term of these contracts, including certain renewals, of approximately 5 years (see Note 3 for Asset Impairment Charges)

Unaudited pro forma results

The following unaudited pro forma financial information (in thousands of dollars, except for per share amounts) gives effect to the PhoneTel Merger and the debt exchanges described in Note 4 and above as if they had occurred at the beginning of the periods presented Pro forma financial information is not intended to be indicative of the results of operations that the Company would have reported had the transactions been consummated as of the beginning of the respective periods

	Unaudited Pro Forma Information For the Years Ended December 31	
	2002	2001
Revenue	$ 100,382	$ 135,589
Loss from operations before gain on debt extinguishment	(31,490)	(35,866)
Gain on debt extinguishment	171,480	169,244
Net income	$ 139,990	$ 133,378
Net income per common share, basic and diluted	$ 0 23	$ 0 22

Exit and disposal activities

In connection with the PhoneTel Merger, the Company terminated its Tampa, FL headquarters facility lease, abandoned or disposed of certain furniture, fixtures and leasehold improvements and incurred severance costs related to terminated employees Exit activities related to the Company's Tampa headquarters were expensed as incurred or as otherwise provided in SFAS No 146, "Accounting Costs Associated with Exit or Disposal Activities" Substantially all exit activities relating to the former Tampa headquarters were completed prior to December 31, 2002 The following table reflects the components of exit and disposal activities shown as a separate line item in the Company's consolidated statements of operations (in thousands)

Abandonment or disposals of property and equipment	$ 1,308
Lease termination	600
Employee severance	667
Other merger related expenses	344
	$ 2,919

The Company also began to outsource the assembly and repair of its payphone equipment and closed its warehouse and repair facility in Tampa, Florida that was previously utilized for such purpose The Company incurred a loss from exit and disposal activities relating to this facility of approximately $0 3 million in the first quarter of 2003 In the fourth quarter of 2003, the Company outsourced the collection, service and maintenance of its payphones in the western region of the United States to reduce the cost servicing its geographically disbursed payphones in this area The Company closed eleven district offices and incurred a loss from exit and disposal activities of approximately $0 5 million relating to these facilities Subsequent to December 31, 2003, the Company outsourced the servicing of additional payphones and closed three additional district offices in Texas to further reduce its operating costs

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Activity in the allowance for doubtful accounts is summarized as follows for the years ended December 31 (in thousands)

	2003	2002	2001
Balance, at beginning of period	$ 1,870	$ —	$ 1,515
Charged to revenue or expense	156	1,241	—
PhoneTel acquisition	—	629	—
Uncollected balances written off, net of recoveries	(2,026)	—	(1,515)
Balance, at end of period	$ —	$ 1,870	$ —

On July 21, 2002, WorldCom, Inc and its subsidiary MCI, both of whom are major payors of dial-around revenue to the Company, filed for protection under Chapter 11 of the United States Bankruptcy Code As a result of this filing, the Company increased its allowance for doubtful accounts and reduced its accrual of dial-around revenues for the second quarter of 2002 by $0 9 million from the amount it would have normally accrued, as the bankruptcy impaired the Company's ability to receive pre-petition dial-around payments for the quarter from WorldCom In addition, approximately $0 6 million of the addition to the allowance for doubtful accounts relating to the PhoneTel acquisition relates to PhoneTel's dial-around receivable from WorldCom at the date of acquisition The Company does not believe that the WorldCom bankruptcy filing has materially impaired or will materially impair the Company's ability to continue to collect dial-around payments from WorldCom post-petition For post-petition periods, the Company has resumed its normal accrual of dial-around revenue attributable to WorldCom On March 10, 2003, the Company sold a portion of its WorldCom bankruptcy claim and recovered a portion of the pre-petition revenues from dial-around compensation (see Note 16)

During 2003 and 2001, the Company evaluated the allowance for doubtful accounts and determined that certain amounts related to dial-around revenue were uncollectible, and accordingly these amounts were written off against the allowance for doubtful accounts

7. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at December 31, 2003 and 2002 (in thousands)

	Estimated Useful Life in Years	2003	2002
Installed payphones and related equipment	5-10	$ 99,373	$ 113,125
Furniture, fixtures and office equipment	5-7	1,703	1,566
Vehicles, equipment under capital leases and other equipment	4-10	2,001	2,014
Leasehold improvements	3-5	490	334
		103,567	117,039
Less — Accumulated depreciation		(86,588)	(82,738)
		16,979	34,301
Uninstalled payphone equipment		5,899	7,554
Net property and equipment		$ 22,878	$ 41,855

Depreciation expense was $16 8 million, $16 0 million and $17 7million for the years ended December 31, 2003, 2002 and 2001, respectively

8. OTHER ASSETS

Other assets, net of accumulated amortization, consist of the following at December 31, 2003 and 2002 (in thousands)

	2003	2002
Non-compete agreements	$ 211	$ 356
Deposits	1,742	1,786
Other	73	174
	$ 2,026	$ 2,316

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at December 31, 2003 and 2002 (in thousands)

	2003	2002
Accounts payable	$ 1,617	$ 2,216
Taxes payable	4,614	4,757
Deferred revenue	38	188
Accrued telephone bills	3,165	7,387
Accrued compensation	1,004	1,282
Other	5,409	5,432
	$ 15,847	$ 21,262

10. LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES

Following is a summary of long-term debt and obligations under capital leases as of December 31, 2003 and 2002 (in thousands)

	2003	2002
Junior Credit Facility, due December 31, 2005		
Term Note A, ($50,000 face value) plus unamortized premium, discount and capitalized interest of $11,644 at December 31, 2003	$ 61,644	$ 59,869
Term Note B, ($51,000 face value) plus unamortized premium, discount and capitalized interest of $14,077 at December 31, 2003	65,077	62,681
Senior Credit Facility, originally due in monthly installments of $833 3 plus interest at 15% through June 30, 2003	—	5,833
Note Payable, ($1,233 face value) due November 16, 2004	1,137	987
Capital lease obligations with various interest rates and maturity dates through 2005	98	308
	127,956	129,678
Less — Current maturities	(1,994)	(11,449)
	$ 125,962	$ 118,229

Maturities of long-term debt during each of the next two years consist of (amounts in thousands) $1,994 in 2004 and $125,962 in 2005.

Junior Credit Facility

On July 24, 2002, immediately prior to the PhoneTel Merger, Davel and PhoneTel amended, restated and consolidated their respective junior credit facilities. The combined restructured Junior Credit Facility of $101 0 million due December 31, 2005 (the "maturity date") consists of (i) a $50 0 million cash-pay term loan ("Term Note A") with interest payable in kind monthly through June 30, 2003, and thereafter to be paid monthly in cash from a required payment of $1 25 million commencing on August 1, 2003, with such monthly payment increasing to $1 5 million beginning January 1, 2005, and the unpaid balance to be repaid in full on the maturity date, and (ii) a $51 0 million payment-in-kind term loan (the "PIK term loan" or "Term Note B") to be repaid in full on the maturity date Amounts outstanding under the term loans accrue interest from and after the closing date at the rate of ten percent (10%) per annum Interest on the PIK term loan accrues from the closing date and will be payable in kind All interest payable in kind is added to the principal amount of the respective term loan on a monthly basis and thereafter treated as principal for all purposes (including the accrual of interest upon such amounts) During the years ended December 31, 2003 and 2002, approximately $11 3 million and $4 6 million of interest, respectively, was added to the principal balances as a result of the deferred payment terms Upon the occurrence and during the continuation of an event of default, interest, at the option of the holders, accrues at the rate of 14% per annum

As discussed in Note 4, the Company has accounted for the debt exchange as a troubled debt restructuring and recorded a $181 0 million gain relating to the extinguishments of its Old Credit Facility and the issuance of additional common stock to the creditors For accounting and reporting purposes, with respect to Davel's portion of the new Junior Credit Facility ($64 1 million), all cash payments under the modified terms will be accounted for as reductions of indebtedness, and no interest expense will be recognized for any period between the closing date and the maturity date as it relates to that portion In addition, amounts payable with respect to the PhoneTel portion of the new Junior Credit Facility ($36 9 million) have been recorded at the net present value of such payments in accordance with the purchase method of accounting Interest expense is recognized on the PhoneTel portion of the restructured debt over the term of the debt using the interest method of accounting at a fair market rate of 15% The following tabular presentation summarizes the establishment and current carrying value of the Junior Credit Facility (amounts in thousands)

	Davel	PhoneTel	Total
Face value of credit facilities	$ 64,135	$ 36,865	$ 101,000
Premium interest capitalization in 2002	24,122	—	24,122
Discount present value of acquired debt in 2002	—	(4,658)	(4,658)
Subtotal	88,257	32,207	120,464
Payment-in-kind interest in 2002	2,928	1,693	4,621
Amortization of premiums and discounts in 2002	(2,982)	447	(2,535)
Carrying value on December 31, 2002	88,203	34,347	122,550
Payment-in-kind interest in 2003	7,165	4,118	11,283
Principal and interest payments in 2003	(709)	(408)	(1,117)
Amortization of premiums and discounts in 2003	(7,247)	1,252	(5,995)
Carrying value on December 31, 2003	$ 87,412	$ 39,309	$ 126,721

The Junior Credit Agreement is secured by substantially all assets of the Company and was subordinate in right of payment to the Senior Credit Facility The Junior Credit Facility also provides for the payment of a 1% loan fee, payment of a $30,000 monthly administrative fee to Wells Fargo Foothill, Inc , as Agent for the Junior Lenders, and advanced payments of principal from excess cash flow and certain types of cash receipts The Junior Credit Facility includes covenants that require the Company to maintain a minimum level of combined earnings (EBITDA and Adjusted EBITDA, as defined in the Junior Credit Facility) and limits the incurrance of cash and capital expenditures, the payment of dividends and certain asset disposals

The Company was not in compliance with certain financial covenants under its Senior Credit Facility and, as a result, was in default under its Junior Credit Facility from August 31, 2002 through January 31, 2003 In addition, the Company was not in compliance with the minimum EBITDA and Adjusted EBITDA financial covenants under the Junior Credit Agreement at December 31, 2002 On March 31, 2003, the Company executed an amendment to its Junior Credit Facility (the "First Amendment") that reduced the minimum amount of EBITDA and Adjusted EBITDA that the Company was required to maintain through December 31, 2003 and waived all defaults through the date of the amendment It also amended the timing and amount of individual payments (but not the aggregate amount) due under Junior Credit Facility during 2003 to coincide with the anticipated early retirement of the Senior Credit Facility resulting from the prepayment described below Under the First Amendment, the Company was required to make monthly payments of $1,041,667 from July 1 through December 1, 2003 Payments due after December 31, 2003 were not affected by the First Amendment

Notwithstanding the March 31, 2003 Amendment and waiver, the Company was not in compliance with the new minimum Adjusted EBITDA covenant under the Junior Credit Agreement, as amended, as of June 30 and September 30, 2003 In addition, the Company did not make the $1,041,667 monthly payments that were due on August 1, 2003 through November 1, 2003 and only made a partial payment ($100,000) toward the monthly payment of $1,041,667 that was due on July 1, 2003 On November 11, 2003 the Company executed an agreement with its Junior Lenders (the "Forbearance Agreement") that granted forbearance with respect to defaults and cash payments due under the terms of the Junior Credit Facility through January 30, 2004 Under the Forbearance Agreement, the Company was required to make a $600,000 cash payment to be applied against interest due under the Junior Credit Facility and to make additional interest payments of $100,000 on December 1, 2003 and January 1, 2004, which payments were made by the Company

At December 31, 2003, the Company was not in compliance with the minimum Adjusted EBITDA covenant under the Junior Credit Agreement and was in default under this agreement On February 24, 2004, the Company executed an amendment (the "Second Amendment") that waived all defaults through the date of the amendment, reduces the minimum amount of EBITDA and Adjusted EBITDA that the Company is required to maintain through December 31, 2004, and provides for the negotiation of revised quarterly covenant levels for EBITDA and Adjusted EBITDA in 2005 Beginning December 1, 2003, the Second Amendment reduces the minimum payments due under the Junior Credit Facility to $100,000 per month plus the monthly Agent fee through the maturity date on December 31, 2005 The Company is also required to make additional payments equal to 100% of any "Regulatory Receipts" received by the Company (prior year end user common line charge and new services test refunds from LECs and net dial-around true-up refunds from long-distance carriers, as defined in the agreement)

The Company has been engaged in discussions with its Junior Lenders regarding the possibility of restructuring the debt outstanding under the Junior Credit Facility Any such restructuring could potentially include a debt-for-equity exchange that may substantially dilute the interests of the Company's existing shareholders There can be no assurance that the Company will be successful in negotiating a reduction in the outstanding balance of its Junior Credit Facility

Senior Credit Facility

Effective as of February 19, 2002, Madeleine L.L C and ARK CLO 2000-1, Limited (the "Senior Lenders") entered into a credit agreement (the "Senior Credit Facility") with Davel Financing Company, L L C , PhoneTel and Cherokee Communications, Inc , a wholly owned subsidiary of PhoneTel On that date, the existing junior lenders of the Company and PhoneTel also agreed to a substantial debt-for-equity exchange with respect to their outstanding indebtedness (see Note 4) The Senior Credit Facility provided for a combined $10 million line of credit which the Company and PhoneTel shared $5 million each The Company and PhoneTel each borrowed the amounts available under their respective lines of credit on February 20, 2002, which amounts were used to pay merger related expenses and accounts payable Davel and PhoneTel agreed to remain jointly and severally liable for all amounts due under the Senior Credit Facility

Interest on the funds loaned pursuant to the Senior Credit Facility accrued at the rate of fifteen percent (15%) per annum and was payable monthly in arrears A principal amortization payment in the amount of $833,333 was due on the last day of each month, beginning July 31, 2002 and ending on the maturity date of June 30, 2003 On May 2, 2003, the Company paid the remaining balance, including interest, due under the Senior Credit Facility

Note Payable

In connection with the PhoneTel Merger, the Company assumed a $1 1 million note payable to Cerberus Partners, L P that provides for payment of principal, together with deferred interest at 5% per annum, on November 16, 2004 Cerberus Partners, L P and its affiliates are also lenders under the Senior and Junior Credit Facilities and a major shareholder of the Company The note is secured by substantially all of the assets of PhoneTel and is subordinate in right of payment to the Company's Junior Credit Facility The note has been recorded at the net present value of the note, including capitalized interest, in accordance with the purchase method of accounting Interest expense is recognized over the term of the note using the interest method of accounting at a fair market rate of 15% The note also includes a cross default provision that permits the holder to declare the note immediately due and payable if payments due under the Junior Credit Facility are accelerated as a result of default

Old Credit Facility

In connection with the merger with Peoples Telephone Company in 1998, the Company entered into a secured credit facility ("Old Credit Facility") with Bank of America, formerly known as NationsBank, N A (the original "Administrative Agent"), and the other lenders named therein Effective March 23, 2001, PNC Bank, National Association became the Administrative Agent The Old Credit Facility originally provided for borrowings by the Company's wholly owned subsidiary, Davel Financing Company, L L C , from time to time of up to $245 0 million, including a $45 million revolving facility, for working capital and other corporate purposes

The Company's borrowings under the original Old Credit Facility bore interest at a floating rate and could be maintained as Base Rate Loans (as defined in the Old Credit Facility, as amended) or, at the Company's option, as Eurodollar Loans (as defined in the Old Credit Facility, as amended) Base Rate Loans bore interest at the Base Rate (defined as the higher of (i) the applicable prime lending rate of Bank of America or (ii) the Federal Reserve reported certificate of deposit rate plus 1%) Eurodollar Loans bore interest at the Eurodollar Rate (as defined in the Old Credit Facility, as amended) On July 24, 2002, the Old Credit Facility was restructured in connection with the debt-for-equity exchange and Junior Credit Facility described above

11. LEASE COMMITMENTS

The Company conducts a portion of its operations in leased facilities under noncancellable operating leases expiring at various dates through 2008 Some of the operating leases provide that the Company pay taxes, maintenance, insurance and other occupancy expenses applicable to leased premises The Company also maintains certain equipment under noncancellable capital leases expiring at various dates through 2005

The annual minimum rental commitments under operating and capital leases are as follows (in thousands)

Year ended December 31	Operating	Capital	Total
2004	$ 832	$ 95	$ 927
2005	517	3	520
2006	327	—	327
2007	213	—	213
2008	133	—	133
	$ 2,022	98	$ 2,120
Less current capital lease obligations		(95)	
Long-term capital lease obligations		$ 3	

Rent expense for operating leases for the years ended December 31, 2003, 2002, and 2001 was $1,856,000, $2,062,000, and $2,640,000, respectively

12. INCOME TAXES

No provision for income taxes was required and no income taxes were paid for the years ended December 31, 2003, 2002 and 2001 because of operating losses generated by the Company. In 2002, the Company had a taxable loss of approximately $17.9 million as a result of the Federal tax exclusion relating to the gain on debt extinguishment recognized in connection with the debt-for-equity exchange described in Note 4. Under Section 108 of the Internal Revenue Code ("IRC"), special tax rules apply to cancellation of indebtedness income ("COD Income") for companies that are insolvent (as defined in the IRC) immediately prior to the discharge of indebtedness. COD Income of $181.0 million is excluded from taxable income but must be applied to reduce the 2002 taxable loss, tax net operating loss carryforwards, and other tax attributes.

A reconciliation of federal statutory income taxes to the Company's effective tax provision is as follows (in thousands):

	2003	2002	2001
Provision for federal income tax at the statutory rate (35%)	$ (16,167)	$ 51,595	$ (14,761)
State income taxes net of federal benefit	(1,022)	5,509	(1,560)
Change in deferred tax asset valuation allowance, net of amounts relating to the PhoneTel acquisition in 2002	6,696	(57,577)	15,107
Write-off of Goodwill	6,109	—	—
Other, net	4,384	473	1,214
Income tax provision (benefit)	$ —	$ —	$ —

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows (in thousands):

	2003	2002
Deferred Tax Assets:		
Net operating loss carryforward	$ 38,592	$ 29,549
Capital loss carryforward	550	550
Amortization of location contracts and goodwill	11,236	16,925
Alternative minimum tax credit carryforward	192	192
Impairment charge	21,497	17,852
Investment write-off	9,033	9,033
Allowance for doubtful accounts	—	704
Unamortized debt premium, net	4,073	6,295
Other	1,672	1,756
Total deferred tax assets	86,845	82,856
Valuation allowance	(75,219)	(68,523)
Net deferred tax assets	11,626	14,333
Deferred Tax Liabilities:		
Depreciation	(11,626)	(14,333)
Total deferred tax liabilities	(11,626)	(14,333)
Net deferred tax liability	$ —	$ —

Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods that temporary differences and carryforwards are expected to be available to reduce taxable income. The Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets which may not be realized due to the expiration of its operating loss and capital loss carryforwards.

At December 31, 2003, the Company had tax net operating loss carryforwards of approximately $180.2 million, including $22.2 million of loss carryforwards relating to PhoneTel, that expire in various amounts in the years 2004 to 2021. Following the debt-for-equity exchange described in Note 4, utilization of net operating loss carryforwards incurred prior to 2002 are subject to an annual limitation of approximately $2.9 million for Davel and $1.7 million for PhoneTel under the rules of IRC Section 382 Under IRC Section 382, the maximum amount of pre-2002 net operating losses that can be utilized by the Company during the loss carryforward period is limited to approximately $77 2 million The Company's deferred tax asset of $38 6 million is based upon this limitation The tax net operating loss carryforwards of PhoneTel can only be utilized against future taxable income of PhoneTel, if any, determined as if this acquired company continued to file a separate income tax return

The Company's aggregate net operating loss carryforward includes a $25 4 million tax loss in 2003 which is not subject to the limitations described above Together with the prior losses, the maximum amount of net operating loss carry forwards that can be utilized in the future is limited to $102 6 million

13. CAPITAL STOCK TRANSACTIONS

Preferred Stock

The Company's certificate of incorporation authorizes 1,000,000 shares of preferred stock, par value $ 01 per share The Company does not have any immediate plans to issue any shares of preferred stock

Common Stock

On July 11, 2002, the Company received shareholder approval to increase the number of authorized shares of common stock, $0 01 par value, from 50,000,000 to 1,000,000,000 shares to effect the debt-for-equity exchange and the PhoneTel Merger described in Notes 4 and 5

Stock Options and Warrants

On October 4, 2000, the board of directors approved the Davel Communications, Inc 2000 Long-Term Equity Incentive Plan (the "Plan") The Plan was approved by the Company's stockholders at its 2000 Annual Meeting on November 2, 2000 The Plan provides for the grants of stock options, stock appreciation rights, restricted stock, performance awards and any combination of the foregoing to employees, officers and directors of, and certain other individuals who perform significant services for the Company and its subsidiaries On February 11, 2002, the Plan was amended to increase the number of shares of common stock available for issuance pursuant to the Plan from 1,000,000 to 26,780,208 shares to allow the Company to grant equity based compensation to employees of the Company after the PhoneTel Merger The maximum number of stock options granted to any individual in any fiscal year cannot exceed 10% of the authorized shares

On January 10, 2002, the Company granted options to purchase 72,000 shares of Common Stock, valued at $2,000, to its Directors In addition, the outstanding options and warrants of PhoneTel were converted into 618,107 stock options and 1,963,738 warrants of the Company with an aggregate value of $6,000 All of the warrants expired unexercised on November 19, 2002 No shares or options were issued under the Plan during the years ended December 31, 2001 or 2003

At December 31, 2003, approximately 26,708,208 shares of Common Stock were reserved for issuance pursuant to the Plan If all shares reserved under the Plan were issued pursuant to stock options, such shares would constitute 4% of the outstanding common stock of the Company No awards have been granted under the Plan since January 10, 2002 The Company also had 64,624 warrants to purchase Common Stock outstanding at December 31, 2003, all of which were exercisable

The Company has several pre-existing stock option plans under which options to acquire up to 2,948,615 shares were available to be granted to directors, officers and certain employees of the Company, including the stock option plans acquired in the PhoneTel and Peoples Telephone Mergers Vesting periods for options issued under these plans range from immediate vesting up to 10 years and generally expire after 5 to 10 years The plans also provide for the issuance of restricted common stock In 2003, 2002, and 2001, no shares of restricted stock were issued The

Company's policy is to record compensation based on the fair market value of the Company's Common Stock on the day the restricted shares are granted This compensation expense is recorded ratably over the vesting period of the restricted stock

The exercise price of options generally equals the market price of the Company's stock on the date of grant Accordingly, no compensation cost has been recognized for options granted to employees under the plans See Note 3 for the effect on net income (loss) and related per share amounts had compensation cost for the plans been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No 123, "Accounting for Stock-Based Compensation"

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing method with the following weighted-average assumptions used for grants in 2002 dividend yield of 0%, expected volatility of 275 0%, risk-free interest rates of 2 0%, and expected life of approximately five years

A summary of the status of the Company's stock option plans as of December 31 and changes during the years ending on those dates is presented below (shares in thousands)

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,174	$ 4 45	835	$ 12 55	1,405	$ 11 55
Granted	—	—	690	0 54	—	—
Expired	(211)	7 89	(351)	16 03	(219)	14 88
Cancelled	(195)	0 75	—	—	(351)	7 07
Outstanding at end of year	768	4 44	1,174	4 45	835	12 55
Options exercisable at end of year	768	4 44	1,174	4 45	829	12 60
Weighted-average fair value of options granted during the year		$ —		$ 0 03		$ —

The following information applies to options outstanding at December 31, 2003

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
$0 03 to $0 078	132,000	2 5	$ 0 052	132,000	$ 0 052
0 85 to 0 86	176,867	1 2	0 86	176,867	0 86
3 88 to 6 50	409,300	0 7	5 88	409,300	5 88
10 38 to 30 85	49,355	3 4	16 99	49,355	16 99
	767,522		4 44	767,522	4 44

14. EARNINGS PER SHARE

In accordance with SFAS No 128 "Earnings Per Share", basic earnings per share amounts are computed by dividing income or loss applicable to common shareholders by the weighted average number of shares outstanding during the period Diluted earnings per share amounts are determined in the same manner as basic earnings per share except the number of shares is increased assuming exercise of stock options and warrants using the treasury stock method In addition, income or loss applicable to common shareholders is not adjusted for dividends and other transactions relating to preferred shares for which conversion is assumed For the year ended December 31, 2002, the number of additional shares from the assumed exercise of dilutive stock options under the treasury stock method was not significant and diluted earnings per share amounts are the same as basic earnings per share For the years ended December 31, 2001 and 2003, diluted earnings per share amounts are the same as basic earnings per share because the Company has a net loss and the impact of the assumed exercise of the stock options and warrants is not dilutive The number of shares of Common Stock relating to stock options and warrants that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share were 832,146, 1,310,524, and 1,134,513 shares for the years ended December 31, 2003, 2002 and 2001, respectively

15. DIAL-AROUND COMPENSATION

On September 20, 1996, the Federal Communications Commission (FCC) adopted rules in a docket entitled *In the Matter of Implementation of the Payphone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, FCC 96-388 (the "1996 Payphone Order"), implementing the payphone provisions of Section 276 of the Telecom Act The 1996 Payphone Order, which became effective November 7, 1996, mandated dial-around compensation for both access code calls and 800 subscriber calls Several parties filed petitions for judicial review of certain of the FCC regulations including the dial-around compensation rate On July 1, 1997, the U S Court of Appeals for the District of Columbia Circuit (the "Court") responded to appeals related to the 1996 Payphone Order by remanding certain issues to the FCC for reconsideration The Court remanded the issue to the FCC for further consideration, and clarified on September 16, 1997, that it had vacated certain portions of the FCC's 1996 Payphone Order, including the dial-around compensation rate

On October 9, 1997, the FCC adopted and released its *Second Report and Order* in the same docket, FCC 97-371 (the "1997 Payphone Order") This order addressed the per-call compensation rate for 800 subscriber and access code calls that originate from payphones in light of the decision of the Court which vacated and remanded certain portions of the FCC's 1996 Payphone Order The FCC concluded that the rate for per-call compensation for 800 subscriber and access code calls from payphones was the deregulated local coin rate adjusted for certain cost differences Accordingly, the FCC established a rate of $0 284 ($0 35 – $0 066) per call for the first two years of per-call compensation (October 7, 1997, through October 6, 1999) The interexchange carriers ("IXCs") were required to pay this per-call amount to payphone service providers ("PSPs"), including the Company, beginning October 7, 1997 Based on the FCC's tentative conclusion in the 1997 Payphone Order, the Company during 1997 adjusted the amounts of dial-around compensation previously recorded related to the period November 7, 1996 to June 30, 1997 from the initial $45 85 rate to $37 20 ($0 284 per call multiplied by 131 calls)

On March 9, 1998, the FCC issued a Memorandum Opinion and Order, FCC 98-481, which extended and waived certain requirements concerning the provision by the local exchange carriers ("LECs") of payphone-specific coding digits which identify a call as originating from a payphone Without the transmission of payphone-specific coding digits, some of the IXCs have claimed they are unable to identify a call as a payphone call eligible for dial-around compensation With the stated purpose of ensuring the continued payment of dial-around compensation, the FCC, by Memorandum and Order issued on April 3, 1998, left in place the requirement for payment of per-call compensation for payphones on lines that do not transmit the requisite payphone-specific coding digits, but gave the IXCs a choice for computing the amount of compensation for payphones on LEC lines not transmitting the payphone-specific coding digits of either accurately computing per-call compensation from their databases or paying per-phone, flat-rate compensation computed by multiplying the $0 284 per call rate by the nationwide average number of 800 subscriber and access code calls placed from Regional Bell Operating Company ("RBOC") payphones for corresponding payment periods Accurate payments made at the flat rate are not subject to subsequent adjustment for actual call counts from the applicable payphone

On May 15, 1998, the Court again remanded the per-call compensation rate to the FCC for further explanation without vacating the $0 284 per-call rate The Court opined that the FCC had failed to explain adequately its derivation of the $0 284 default rate The Court stated that any resulting overpayment may be subject to refund and directed the FCC to conclude its proceedings within a six-month period from the effective date of the

Court's decision On February 4, 1999, the FCC released the Third Report and Order and Order on Reconsideration of the Second Report and Order (the "1999 Payphone Order"), in which the FCC abandoned its efforts to derive a "market-based" default dial-around compensation rate and instead adopted a "cost-based" rate of $0 24 per dial-around call, which was adjusted to $ 238 effective April 21, 2002 Both PSPs and IXCs petitioned the Court for review of the 1999 Payphone Order's determination of the dial-around compensation rate On June 16, 2000, the Court affirmed the 1999 Payphone Order setting a 24-cent dial-around compensation rate The new 24-cent rate became effective April 21, 1999 The 24-cent rate was also applied retroactively to the period beginning on October 7, 1997 and ending on April 20, 1999 (the "intermediate period"), less a $0 002 amount to account for FLEX ANI payphone tracking costs, for a net compensation of $0 238

In a decision released January 31, 2002 (the "2002 Payphone Order") the FCC partially addressed the remaining issues concerning the "true-up" required for the earlier dial-around compensation periods The FCC adjusted the per-call rate to $ 229, for the period commencing November 7, 1996 and ending on October 6, 1997 ("the interim period"), to reflect a different method of calculating the delay in IXC payments to PSPs for the interim period, and determined that the total interim period compensation rate should be $33 89 per payphone per month ($ 229 times an average of 148 calls per payphone per month) The 2002 Payphone Order deferred to a later order its determination of the allocation of this total compensation rate among the various carriers required to pay compensation for the interim period In addition to addressing the rate level for dial-around compensation, the FCC has also addressed the issue of carrier responsibility with respect to dial-around compensation payments

On October 23, 2002 the FCC released its Fifth Order on Reconsideration and Order on Remand (the "Interim Order"), which resolved all the remaining issues surrounding the interim/intermediate period true-up and specifically addressed how flat rate monthly per-phone compensation owed to PSPs would be allocated among the relevant dial-around carriers The Interim Order also resolved how certain offsets to such payments would be handled and a host of other issues raised by parties in their remaining FCC challenges to the 1999 Payphone Order and the 2002 Payphone Order In the Interim Order, the FCC ordered a true-up for the interim period and increased the adjusted monthly rate to $35 22 per payphone per month, to compensate for the three-month payment delay inherent in the dial-around payment system The new rate of $35 22 per payphone per month is a composite rate, allocated among approximately five hundred carriers based on their estimated dial-around traffic during the interim period The FCC also ordered a true-up requiring the PSPs, including the Company, to refund an amount equal to $ 046 (the difference between the old $ 284 rate and the current $ 238 rate) to each carrier that compensated the PSP on a per-call basis during the intermediate period Interest on additional payments and refunds is to be computed from the original payment date at the IRS prescribed rate applicable to late tax payments The FCC further ruled that a carrier claiming a refund from a PSP for the Intermediate Period must first offset the amount claimed against any additional payment due to the PSP from that carrier Finally, the Interim Order provided that any net claimed refund amount owing to carriers cannot be offset against future dial-around payments without (1) prior notification and an opportunity to contest the claimed amount in good faith (only uncontested amounts may be withheld), and (2) providing PSPs an opportunity to "schedule" payments over a reasonable period of time

The Company and its billing and collection clearinghouse have reviewed the order and prepared the data necessary to bill or determine the amount due to the relevant dial-around carriers pursuant to the Interim Order Based upon available information, the Company recorded a $3 8 million charge as an adjustment to revenues from dial-around compensation in the fourth quarter of 2002 representing the estimated amount due by the Company to certain dial-around carriers under the Interim Order Of this amount, $3 6 million and $3 8 million is included in accounts payable and other accrued expenses in the accompanying consolidated balance sheets at December 31, 2003 and 2002, respectively In January 2004, certain carriers deducted approximately $0 7 million from their current dial-around compensation payments, thus reducing this liability The remaining amount outstanding is expected to be deducted from future quarterly payments of dial-around compensation to be received from the applicable dial-around carriers during 2004

In March 2003, the Company received $4 9 million relating to the sale of a portion of the Company's accounts receivable bankruptcy claim for dial-around compensation due from WorldCom, of which $3 9 million relates to the amount due from WorldCom under the Interim Order (see Note 16) In accordance with the Company's policy on regulated rate actions, this revenue from dial-around compensation was recognized in the first quarter of 2003, the period such revenue was received The Company also received $4 0 million and $0 4 million of net receipts from other carriers under the Interim Order that was recognized as revenue in the third and fourth quarters of 2003, respectively Such revenues totaling $8 3 million have been reported as dial-around compensation adjustments in the accompanying consolidated statements of operations for the year ended December 31, 2003 The Company also estimates that it is entitled to receive in excess of $10 0 million of additional dial-around compensation from certain carriers, of which $1 2 million was received and will be recognized as revenue subsequent to December 31, 2003 under the Company's accounting policy However, the amount the Company will ultimately be able to collect is dependent upon the willingness and ability of such carriers to pay, including the resolution of any disputes that may arise under the Interim Order In addition, there can be no assurance that the timing or amount of such receipts, if any, will be sufficient to offset the liability to certain other carriers that will be deducted from future dial-around payments

On August 2, 2002 and September 2, 2002 respectively, the APCC and the RBOCs filed petitions with the FCC to revisit and increase the dial around compensation rate level Using the FCC's existing formula and adjusted only to reflect current costs and call volumes, the APCC and RBOCs' petitions support an approximate doubling of the current $0 24 rate In response to the petitions, on September 2, 2002 the FCC placed the petitions out for comment and reply comment by interested parties, seeking input on how the Commission should proceed to address the issues raised by the filings On October 28, 2003 the FCC adopted an Order and Notice of Proposed Rulemaking (the "October 2003 Rulemaking") to determine whether a change to the dial-around rate is warranted, and if so, to determine the amount of the revised rate In the October 2003 Rulemaking, the FCC tentatively concluded that the methodology adopted in the Third Report and Order is the appropriate methodology to use in reevaluating the default dial-around compensation rate and requested comments on, among other things, the cost studies presented in the petitions The Company believes that the "fair compensation" requirements of Section 276 of the Telecom Act mandate that the FCC promptly review and adjust the dial around compensation rate level While no assurances can be given as to the timing or amount of any increase in the dial around rate level, the Company believes an increase in the rate is reasonably likely given the significant reduction in payphone call volumes, continued collection difficulties and other relevant changes since the FCC set the $0 24 rate level

Regulatory actions and market factors, often outside the Company's control, could significantly affect the Company's dial-around compensation revenues These factors include (i) the possibility of administrative proceedings or litigation seeking to modify the dial-around compensation rate, and (ii) ongoing technical or other difficulties in the responsible carriers' ability and willingness to properly track or pay for dial-around calls actually delivered to them

16. SALE OF WORLDCOM CLAIM AND REGULATORY REFUNDS

On March 10, 2003, the Company received $4 9 million relating to the third-party sale of a portion of the Company's accounts receivable bankruptcy claim for dial-around compensation due from WorldCom The amount received by the Company is equal to 51% of the amount listed in the debtor's schedule of liabilities (the "Scheduled Debt") filed by WorldCom (approximately $9 6 million), which amount is materially less than the balance included in the Company's proof of claim relating to the portion of the claim sold (approximately $17 7 million) Under the sale agreement, the Company will be entitled to 51% of the amount of the allowed claim in excess of the Scheduled Debt, if any, included in WorldCom's plan of reorganization as confirmed by the U S Bankruptcy Court If the amount of the allowed claim is less than the Scheduled Debt, the Company would be required to refund 51% of any such shortfall to the purchaser The Company is not entitled to receive and is not required to reimburse the purchaser if the actual distribution percentage pursuant to WorldCom's plan of reorganization is more or less than 51% of the allowed claim The Company is currently negotiating with WorldCom to reconcile the Scheduled Debt to the amount of the Company's proof of claim No assurance can be made that the bankruptcy court will allow the amount of the Company's proof of claim, or even the amount of the Scheduled Debt

Of the $4 9 million of proceeds from the sale of the WorldCom bankruptcy claim, approximately $1 0 million related to the recovery of the Company's accounts receivable for unpaid dial-around compensation for the second and third quarters of 2002, for which the Company had previously provided an allowance for doubtful accounts, and approximately $3 9 million related to the Interim Order described in Note 15 In accordance with the Company's policy on regulated rate actions, the amount relating to the Interim Order was recognized as an adjustment to dial-around revenue in the accompanying consolidated statements of operations during the first quarter of 2003, the period in which such revenue was received In March 2003, the Company used $3 0 million of the sales proceeds to pay a portion of the Company's balance due under the Company's Senior Credit Facility (including a $2 2 million prepayment of such debt), $1 0 million was deposited in escrow (see Note 10 - "Senior Credit Facility"), and $0 9 million was used to pay certain accounts payable

During the years ended December 31, 2003, 2002, and 2001, the Company recognized $0 8 million, $7 1 million, and 1 9 million of refunds, respectively, of prior period telephone charges relating to the recently adopted new services test ("New Services Test" or "NST") in certain states Approximately $2 8 million of these refunds were used to pay a portion of the balance due on the Company's Senior Credit Facility in 2003 and the balance was used for working capital purposes Under the Telecom Act and related FCC Rules, LECs are required to provide local lines and service to PSPs in accordance with the FCC's NST guidelines The FCC's NST guidelines require LECs to price payphone access lines at the direct cost to the LEC plus a reasonable allocation of overhead The Company, through its memberships in various state payphone associations, continues to pursue refunds from LECs relating to the New Services Test These efforts involve petitioning the public service commissions in the states in which the LECs operate Although the Company expects to obtain additional NST refunds in the future, the Company is unable to determine the timing and amount of such refunds, which could be substantial, due to the uncertainty regarding the outcome of the regulatory proceedings in which the Company is represented or involved

During the years ending December 31, 2003 and 2002, the Company received $1 4 million and $0 6 million of telephone charge refunds from certain LECs relating to end user common line charges ("EUCL Charges") Under a decision by the Court of Appeals for the District of Columbia Circuit, prior to April 1997, the Court determined that LECs were discriminating against IPPs because they did not assess their own payphone divisions with EUCL Charges The Court ruled that these charges should be assessed equally to IPPs and their own payphone divisions to eliminate this subsidy to LEC payphone divisions The Company and other IPPs have been successful in negotiating and recovering EUCL Charges relating to periods prior to April 1997 and expects to continue to obtain additional refunds in the future The Company is unable to determine the timing or amount of such refund, if any, due to the uncertainty regarding the ability of the Company to successfully challenge and collect such amounts from the applicable the LECs EUCL and NST refunds have been included in the accompanying consolidated statements of operations as a reduction of telephone charges

17. 401(k) PROFIT SHARING PLAN

Certain subsidiaries created 401(k) plans that were merged into the Davel Communications Inc Profit Sharing Plan in 1999 (the "Old Davel Plan") The Old Davel Plan provided for matching contributions from the Company that were limited to certain percentages of employee contributions Additional discretionary amounts could be contributed by the Company The Company contributed approximately $117,000 and $159,000 for the years ended December 31, 2002 and 2001, respectively.

PhoneTel also has a 401(k) plan that provides for but does not require Company contributions to the plan There were no Company contributions to the PhoneTel plan during 2002 or 2003 Effective January 1, 2003, the plan name was changed to the Davel Communications, Inc Employee Saving Plan (the "New Davel Plan") and substantially all employees of the Company are eligible to participate upon completion of the minimum term of service Beginning January 1, 2003, employees can elect to make contributions to the New Davel Plan but are no longer be permitted to make contributions to the Old Davel Plan

18. RELATED PARTY TRANSACTIONS

The Company's former Chief Executive Officer is a Director, Executive Vice President and a 49% shareholder of Urban Telecommunications, Inc ("Urban") The Company earned revenue of $1,917,000 in 2003 and $962,000 in 2002 from various telecommunication contractor services provided to Urban, principally residence and small business facility provisioning and inside wiring Additionally, in 2003, Urban was paid $125,000 for providing the Company with pay telephone management and other services for the Company's payphone installations located in and around New York, New York In October 2003, the Company and Urban terminated its service relationship The net amount of accounts receivable due from Urban, including the remaining outstanding amount acquired in the PhoneTel Merger, was $123,000 and $799,000 at December 31, 2003 and 2002, respectively

In connection with the PhoneTel Merger discussed in Note 5, a former major shareholder agreed to forego payment on certain accrued management fees amounting to $436,000, which was accounted for in the second quarter of 2002 Such amount is reflected in the accompanying consolidated financial statements as a reduction of selling, general and administrative expenses

Mr Renard, a former Director and Executive Officer of the Company entered into a six-month consulting agreement following the termination of his employment with the Company In connection with the consulting agreement, Mr Renard provided regulatory consulting services in the consideration of the sum $12,500 per month, plus reimbursement for the costs incident to the maintenance of family medical insurance

The Company engaged in the following transactions with Mr David Hill, a shareholder and former Director and Chairman of the Board, during the year ended December 31, 2001 (in thousands)

Payments made for rent of commercial real estate	$ 270
Payments made for consulting services	$ 275
Payments received for providing administrative services	$ 203

19. COMMITMENTS AND CONTINGENCIES

In March 2000, the Company and its affiliate Telaleasing Enterprises, Inc were sued in Maricopa County, Arizona Superior Court by CSK Auto, Inc ("CSK") The suit alleges that the Company breached a location agreement between the parties CSK's complaint alleges damages in excess of $5 million The Company removed the case to the U S District Court for Arizona and moved to have the matter transferred to facilitate consolidation with the related case in California brought by TCG and UST On October 16, 2000, the U S District Court for Arizona denied the Company's transfer motion and ordered the case remanded back to Arizona state court On February 27, 2003 the parties agreed to a settlement of this case, pursuant to which the case will be dismissed with prejudice in exchange for four quarterly payments to the plaintiff in the amount of $131,250, the total of which was recorded in the fourth quarter of 2002 As of December 31, 2003, the Company has fully satisfied this obligation

In February 2001, Picus Communications, LLC ("Picus"), a debtor in Chapter 11 bankruptcy in the United States Bankruptcy Court for the Eastern District of Virginia, brought suit against Davel and its wholly owned subsidiary, Telaleasing Enterprises, Inc., in the United States District Court for the Eastern District of Virginia, claiming unpaid invoices of over $600,000 for local telephone services in Virginia, Maryland, and the District of Columbia The various pleadings and claims in this matter were consolidated in an adversary proceeding and set for trial to begin on October 21, 2002 Prior to the commencement of the trial, on October 9, 2002 Picus filed a motion in the bankruptcy court to seek court approval of a settlement of all outstanding claims between the parties The settlement provides that (i) Picus will cooperate with the Company to recover certain dial-around compensation potentially owed to the Company for the calendar year of 2000 and the first calendar quarter of 2001, (ii) within ten days after entry of an order approving the settlement and December 15, 2002, the Company was required to and has paid Picus $79,500, (iii) the Company paid Picus an additional $150,000 that was due no later than May 15, 2003, and (iv) the Company will pay Picus forty percent (40%) of the dial-around compensation for the calendar year of 2000 attributable to the

Picus lines, if any If any of the aforementioned payments are not timely paid by the Company, Picus will be entitled to obtain a judgment against Davel for the full amount of its claim against the Company, plus interest, less any amounts actually paid to Picus under the settlement agreement As of December 31, 2003, the Company has fully satisfied the obligation

On or about October 15, 2002, Davel was served with a complaint, in an action captioned Sylvia Sanchez et al v Leasing Associates Service, Inc , Armored Transport Texas, Inc , and Telaleasing Enterprises, Inc Plaintiffs claim that the Company was grossly negligent or acted with malice and such actions proximately caused the death of Thomas Sanchez, Jr a former Davel employee On or about January 8, 2002, the Plaintiffs filed their first amended complaint adding a new defendant LAI Trust and on or about January 21, 2002 filed their second amended complaint adding new defendants Davel Communications, Inc , DavelTel, Inc and Peoples Telephone Company DavelTel, Inc and Peoples Telephone Company are subsidiaries of the Company The original complaint was forwarded to Davel's insurance carrier for action, however, Davel's insurance carrier denied coverage based upon the workers compensation coverage exclusion contained in the insurance policy The Company answered the complaint on or about January 30, 2003 The second amended complaint has been forwarded to Davel's insurance carrier for action The parties are currently engaged in the discovery process and the trial is scheduled for June 2004 While Davel believes that it has meritorious defenses to the allegations contained in the second amended complaint and intends to vigorously defend itself, Davel cannot at this time predict its likelihood of success on the merits

The Company is also a party to a contract with Sprint Communications Company, L P ("Sprint") that provides for the servicing of operator-assisted calls Under this arrangement, Sprint has assumed responsibility for tracking, rating, billing and collection of these calls and remits a percentage of the gross proceeds to the Company in the form of a monthly commission payment, as defined in the contract The contract also requires the Company to achieve certain minimum gross annual operator service revenue, measured for the twelve-month period ended June 30 of each year In making its June 30, 2002 compliance calculation under the minimum gross annual operator service revenue provision, the Company identified certain discrepancies between its calculations and the underlying call data information provided directly by Sprint If the data, as presented by Sprint, is utilized in the calculation, a shortfall could result The Company has provided Sprint with notification of its objections to the underlying data, and upon further investigation, has discovered numerous operational deficiencies in Sprint's provision of operator services that have resulted in a loss of revenue to the Company, thus negatively impacting the Company's performance relating to the gross annual operator service revenue requirement set forth in the contract Furthermore, the Company advised Sprint that its analysis indicated that not only had it complied with the provisions of the gross annual operator service revenue requirement it also believed that Sprint had underpaid commissions to the Company during the same time period The Company notified Sprint of the details surrounding the operational deficiencies and advised that its failure to correct such operational deficiencies would result in a material breach of the contract

Notwithstanding the Company's objections, Sprint advised the Company, based upon its calculation of the Company's performance in connection with the gross annual operator services revenue requirement, it would retroactively reduce the percentage of commission paid to the Company in connection with the contract for the twelve-month period ended June 30, 2002. Sprint withheld $418,000 from the commission due and owing the Company in the month of September 2002 and failed to address the operational deficiencies discovered by the Company As a result of these actions, during the month of October 2002, the Company advised Sprint that the contract was terminated due to Sprint's continuing and uncured breaches and the Company shifted its traffic to an alternative operator service provider In response, Sprint withheld $380,170 from the commissions due and owing the Company in the month of October 2002 Thereafter, the Company made a demand for any and all amounts due it under the terms of the contract In response, Sprint has asserted its claim for payment of approximately $5 9 million representing the amount it had calculated as owing under the gross annual operator services revenue requirement for the twelve-month period ended June 30, 2002

While the Company believes that its objections to Sprint's calculation of the gross annual operator service revenue requirement are justifiable and has not recorded any amounts associated with any minimum liability, it is possible

DAVEL COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

that some liability or receivable for this matter may ultimately be determined as a result of the dispute, the amount of which, if any, is not presently determinable

The Company is involved in other litigation arising in the normal course of its business which it believes will not materially affect its financial position or results of operations

20. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Certain unaudited quarterly financial information for the year ended December 31, 2003 and 2002, is as follows (in thousands except per share data)

	March	June	September	December	Full Year
2003					
Total revenues	$ 22,918	$ 19,722	$ 23,520	$ 15,613	$ 81,773
Operating income (loss)	(3,202)	(32,119)	930	(5,143)	(39,534)
Net loss	(4,742)	(33,716)	(681)	(7,052)	(46,191)
Net loss per share, basic and diluted	$ (0 01)	$ (0 05)	$ (0 01)	$ (0 01)	$ (0 08)
2002					
Total revenues	$ 17,262	$ 17,400	$ 22,891	$ 23,206	$ 80,759
Operating loss	(3,292)	(1,815)	(5,314)	(6,012)	(16,433)
Net income (loss)	(7,841)	(6,484)	173,694	(7,618)	151,751
Net income (loss) per share, basic and diluted	$ (0 70)	$ (0 58)	$ 0 38	$ (0 01)	$ 0 56

Net income (loss) per share amounts for each quarter are required to be computed independently Therefore, the sum of such quarterly per share amounts do not necessarily equal the amount computed on an annual basis During the first, third and fourth quarters of 2003, the Company recognized revenues related to dial-around compensation adjustments, including amounts related to the sale of a portion of the Company's accounts receivable bankruptcy claim due from WorldCom, of $3 9 million, $4 0 million and 0 4 million, respectively (see Note 15) The Company also recorded NST refunds of $0 8 million in the first quarter and EUCL refunds of $1 4 million in the fourth quarter of 2003 (see Note 16) During second quarter of 2003, the Company recorded the $27 1 million asset impairment loss described in Note 3

For 2002, the Company recorded a gain on debt extinguishment of $181 0 million in the third quarter relating to the debt restructuring described in Note 4 The Company also recorded a $2 8 million loss from exit and disposal activities during the third quarter of 2002 related to the closing of the Company's former headquarters in Tampa, FL (see Note 5) As described in Note 5, the third and fourth quarters of 2002 include the results of operation of PhoneTel after July 24, 2002, the date of acquisition

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes ın the Regıstrant's accountants durıng the two most recent fiscal years There have been no dısagreements wıth the Regıstrant's accountants on any matter of accountıng prıncıples or practıce or financıal statement dısclosure at any tıme durıng the two most recent fiscal years

ITEM 9A. DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, wıth the partıcıpatıon of the Company's Chıef Executıve Officer and Chıef Fınancıal Officer, has evaluated the effectıveness of the Company's dısclosure controls and procedures as of December 31, 2003 Based on that evaluatıon, the Company's Chıef Executıve Officer and Chıef Fınancıal Officer concluded that the Company's dısclosure controls and procedures were effectıve as of December 31, 2003 There were no materıal changes ın the Company's ınternal controls over financıal reportıng durıng the fourth quarter of 2003

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Directors

The Company has four dırectors as of December 31, 2003 As part of the PhoneTel Merger, Messrs Barrett, Chapman and Genda were elected to serve untıl the next annual meetıng of the Company's stockholders or untıl hıs successor has been elected and qualıfied Effectıve September 1, 2003, Mr McGee was elected by the Board to serve on the Company's Board of Dırectors, replacıng former dırector Mr Chıchester, to serve untıl the next annual meetıng of the Company's stockholders or untıl hıs successor has been elected and qualıfied

The followıng table sets forth certaın ınformatıon for each dırector

Name	Director Continuously Since	Age
Andrew C Barrett	July 24, 2002	63
James N Chapman	July 24, 2002	41
Kevın P Genda	July 24, 2002	38
Woody M McGee	September 1, 2003	52

Andrew C Barrett has been the managıng dırector of The Barrett Group, Inc , a company provıdıng consultıng servıces to the telephone, medıa, and cable ındustrıes, sınce 1997 Prıor to that tıme, Mr Barrett was a commıssıoner of the FCC from 1989 to 1996 and a commıssıoner for the Illınoıs Commerce Commıssıon from 1980 to 1989 Durıng hıs regulatory career, Mr Barrett was a member of the Natıonal Assocıatıon of Regulatory Utılıty Commıssıoners ("NARUC") executıve commıttee and the NARUC commıttee on communıcatıons and a chaırman of the NARUC Commıttee on Water Mr Barrett ıs currently a dırector of Telecommunıcatıons Systems, Inc

James N Chapman ıs assocıated wıth Regıment Capıtal Advısors, LLC ("Regıment") whıch he joıned ın January 2003 Prıor to Regıment, Mr Chapman acted as a capıtal markets and strategıc plannıng consultant wıth prıvate and publıc companıes, as well as hedge funds, across a range of ındustrıes Prıor to establıshıng an ındependent consultıng practıce, Mr Chapman worked for The Renco Group, Inc ("Renco") from December 1996 to December 2001 Prıor to Renco, Mr Chapman was a foundıng prıncıpal of Fıeldstone Prıvate Capıtal Group ("Fıeldstone") ın August 1990 Prıor to joınıng Fıeldstone, Mr Chapman worked for Bankers Trust Company from July 1985 to August 1990, most recently ın the BT Securıtıes capıtal markets area In addıtıon to the Company, Mr Chapman serves as a member of the board of directors of Coinmach Corporation, Anchor Glass Container Corporation, Southwest Royalties, Inc and several privately held companies

Kevin P Genda has served as Managing Director of Cerberus Capital Management, L P since 1995 and the Senior Vice President—Chief Credit Officer of Ableco Finance LLC, an affiliate of Cerberus, since Ableco's founding four years ago Mr Genda oversees Cerberus' asset based lending activities Prior to joining Cerberus and Ableco in 1995, Mr Genda was Vice President for new business organization and evaluation at Foothill Capital Corporation, where he was active in loan origination and distressed investing Mr Genda previously worked at Huntington Holdings, a $300 million leveraged buyout firm, and at The CIT Group/Business Credit, Inc as an analyst for new investments and credits

Woody M McGee became Chief Executive Officer and director of the Company effective September 1, 2003 Prior to joining the Company Mr McGee was President and Chief Executive Officer of McGee and Associates, LLC from January 2001 McGee and Associates is an independent consulting company providing financial, operational and crisis management services to companies in the telecommunications, computer and software sectors From June 1999 to December 2000 Mr McGee served as the Vice President and Chief Financial Officer of Telxon Corporation until such time as it was merged with Symbol Technologies, Inc Prior to joining Telxon, Mr McGee was employed as the Senior Vice President and General Manager of H K Systems (formerly known as Western Atlas, Inc) from 1997 During 1996 and 1997 Mr McGee held the positions of Vice President, Chief Financial Officer and Treasurer with Mosler, Inc For a period of five years prior to joining Mosler, Mr McGee held various positions with the material handlings systems division of Western Atlas, Inc (formerly known as Litton Industries), including Controller, Chief Financial Officer, Vice President of Operations, Vice President of Sales, and President and Chief Operating Officer of a divisional subsidiary

Executive Officers

The following table sets forth the names and ages of the Company's executive officers and their positions with the Company

Name	Age	Position
Woody M McGee	52	Chief Executive Officer
Tammy L Martin	39	General Counsel and Secretary
Donald L Paliwoda	51	Chief Financial Officer and Treasurer
Andrew P Tzamaras	40	Chief Operating Officer

Tammy L Martin has served as General Counsel of the Company since September 5, 2002 and Secretary since June 9, 2003 Prior to that time, Ms Martin served as General Counsel of AmericanGreetings com, Inc since December 2000 From March 2000 to June 2000 she was Chief Financial Officer and General Counsel for Portalvision, Inc For seven years prior thereto, Ms Martin held several senior management positions with PhoneTel, including Chief Administrative Officer, General Counsel and Secretary

Donald L Paliwoda has served as Chief Financial Officer of the Company since October 14, 2003 and Treasurer of the Company since June 9, 2003 Prior to Mr Paliwoda's appointment as Chief Financial Officer, he served the Company in various positions since July 24, 2002 including Interim Chief Financial Officer and Corporate Controller Prior to the PhoneTel Merger, Mr Paliwoda was the Corporate Controller of PhoneTel since November 1997 For a period of two years prior thereto, Mr Paliwoda held various positions with Biskind Development, Inc , a privately held property management and real estate development firm, including Chief Financial Officer and Controller

Andrew P Tzamaras became Chief Operating Officer on March 23, 2004. Mr Tzamaras has served as a Regional Vice President of the Company since December of 1998. Prior to that time, Mr. Tzamaras held various operations management positions including Regional Operations Director for Peoples Telephone Company from June 1994 to December 1998 For four years prior to joining Peoples Telephone Company, Mr Tzamaras served as Director of Operations for Atlantic Telco, which, at the time, was the largest independent payphone provider in the mid-atlantic states

Code of Ethics

In March 2004, the Company adopted and the Board of Directors approved the Code of Ethics and Business Conduct for Officers, Directors, and Employees of Davel Communications, Inc (the "Code of Ethics") The Code of Ethics was adopted to promote honest and ethical conduct, including full, fair and accurate financial reporting, by all Directors, Officers and employees of the Company The Code of Ethics is being filed with the Commission as Exhibit 14 1 to this Form 10-K

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 and related regulations require the Company's directors, certain officers, and any persons holding more than 10% of the Company's common stock ("reporting persons") to report their initial ownership of the Company's common stock and any subsequent changes in that ownership to the Securities and Exchange Commission Specific due dates have been established, and the Company is required to disclose in this Item 10 any failure to file by these dates during 2003 To its knowledge, all reporting persons of the Company satisfied these filing requirements in 2003

In making this disclosure, the Company has relied on written representations of reporting persons and filings made with the Commission

ITEM 11. EXECUTIVE COMPENSATION

The following tables and notes set forth the compensation of the Company's Chief Executive Officer and the Company's other executive officers whose salary and bonuses exceeded $100,000 in the fiscal year ended December 31, 2003

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation		
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awards, LTIP Payouts	Securities Underlying Options/ SARs	All Other Compensation
Woody M. McGee	2003	$ 77,885	$ —	—	—	—	$205,697 (1)
Chief Executive Officer	2002	—	—	—	—	—	28,852 (1)
	2001	—	—	—	—	—	—
John D. Chichester (2)	2003	276,640	150,000	—	—	—	525,000 (3)
Former Chief Executive	2002	164,528	150,000	—	—	—	—
Officer	2001	—	—	—	—	—	—
Tammy L. Martin (4)	2003	182,412	30,000	—	—	—	—
General Counsel	2002	52,500	—	—	—	—	—
	2001	—	—	—	—	—	—
Donald L. Paliwoda (5)	2003	103,330	7,500	—	—	—	—
Chief Financial Officer	2002	40,902	—	—	—	—	—
	2001	—	—	—	—	—	—

(1) Mr McGee became Chief Executive Officer on September 1, 2003 McGee & Associates, L L C , an entity owned by Mr McGee, also received consulting fees for services rendered to the Company prior to Mr McGee becoming CEO
(2) Mr Chichester became Chief Executive Officer on July 24, 2002 and served until August 29, 2003
(3) Represents payments to Mr Chichester in connection with the termination of his employment with the Company
(4) Ms Martin became the General Counsel on September 5, 2002
(5) Mr Paliwoda joined the Company on July 24, 2002 as a result of the PhoneTel Merger and became Chief Financial Officer on October 14, 2003

OPTION GRANTS IN LAST FISCAL YEAR

No options were granted for the year ended December 31, 2003

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Number of Shares Acquired on Exercise(1)	Value Realized(1)	Number of Shares Underlying Unexercised Options at December 31, 2003 Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at December 31, 2003 Exercisable/ Unexercisable(2)
Woody M McGee	—	—	0 / 0	$0 / $0
Tammy L Martin	—	—	0 / 0	0 / 0
Donald L Paliwoda	—	—	12,763 / 0	0 / 0
John D Chichester (3)	—	—	0 / 0	0 / 0

(1) There were no option exercises in the last fiscal year

(2) Equals the difference between the aggregate exercise price of such options and the aggregate fair market value of the shares of Common Stock that would be received upon exercise, assuming such exercise occurred on December 31, 2003, at which date the closing price of the Common Stock as quoted on the Nasdaq over-the-counter bulletin board was $0 02 per share The above valuations may not reflect the actual value of unexercised options as the value of unexercised options fluctuates with market activity

(3) Options expire if not exercised within 90 days of termination

Compensation of Directors

At its September 10, 2002 regular meeting, the Board approved a compensation policy providing that the directors of the Company who are not employees receive, as their sole and exclusive compensation for their service to the Company an annual cash retainer in the amount of $25,000, plus reimbursement for any reasonable travel expenses Except for Mr Renard, director fees in an amount equal to $29,779 were paid to each non-employee director during 2003 for services rendered to the Company during 2002 and 2003 Mr Renard received $22,969 for directors fees and expenses during 2003 for services rendered prior to his resignation from the Board on August 31, 2003 The Company also paid $75,000 to Mr Renard during 2003 in connection with a consulting agreement (see Item 13 – Certain Relationships and Related Transactions)

In accordance with the Company's by-laws, in July 2003 the Board of Directors established and designated certain independent directors to serve on the Special Committee of the Board to identify and evaluate the strategic and financial alternatives available to the Company in order to maximize value to the Corporation's stakeholders In accordance with the foregoing, special committee fees in an amount equal to $30,000 were paid to Mr Barrett and Mr Renard, and Mr Chapman received special committee fees in an amount equal to $50,000 as Chairman of the Special Committee

Incentive Compensation

During 2003, the Compensation Committee of the Board established a mechanism by which executives of the Company were to be granted incentive compensation The Company established bonus objectives based upon the objectives of the Company, primarily in connection with the implementation of cost-savings initiatives and other strategic alternatives adopted by the Board of Directors The eligibility of the Executives to earn a bonus is based upon the implementation of each cost-savings initiative, as well as the realization by the Company of the cost-savings associated therewith Fifty-percent of any bonus amount is paid to the Executives upon implementation of the cost-savings initiative and the balance is paid upon realization by the Company of the cost-savings, provided, however, that the cost-savings realization must occur within twelve months of implementation in order to qualify for inclusion under the bonus plan

The Company also maintains the Davel Communications, Inc 2002 Long-Term Equity Incentive Plan, the Company's principal stock option plan (the "Stock Option Plan"), pursuant to which the executive officers may be granted options to purchase common stock at the latest closing price that is available prior to the date the options are awarded Under the Stock Option Plan, other employees may be granted restricted stock or options to purchase shares of Common Stock The Compensation Committee determines which individuals will be granted options, the number of shares to be subject to option and other terms and conditions applicable to the grants No options were granted to executive officers during 2002 and 2003

401(k) Plan

The Company maintains a 401(k) Plan, which is available to all employees of the Company, including its executive officers During 2002 the Company provided a matching contribution to the Plan up to a maximum of 1 5% of the salary of the contributing employee The Company's contribution to an employee's account vests over a period of five years In 1999, the 401(k) plan of the Company was merged with the plans of Peoples Telephone and Communications Central Inc , subsidiaries of the Company PhoneTel also has a 401(k) plan that provides for but does not require Company contributions to the plan There were no Company contributions to the PhoneTel plan during 2002 Effective January 1, 2003, the plan name was changed to the Davel Communications, Inc Employee Saving Plan (the "New Davel Plan") and substantially all employees of the Company are eligible to participate upon completion of the minimum term of service Beginning January 1, 2003, employees can elect to make contributions to the New Davel Plan but will no longer be permitted to make contributions to the Old Davel Plan No matching contributions were made during 2003 and none are expected to be made under the New Davel Plan during 2004

Employment Agreements

Effective August 29, 2003, Davel entered into an employment agreement with Woody McGee to serve as its Chief Executive Officer The employment agreement has a term of one year commencing September 1, 2003 and may be extended for an additional one-year period The employment agreement provides for an annual base salary of $250,000 during the term of the employment agreement as well as customary fringe benefits The employment agreement also provides Mr McGee with the opportunity to earn an annual cash bonus based upon the successful implementation of certain cost savings initiatives and cost savings realized by the Company as directed by the Board of Directors, provided, however, the agreement provides that such bonus amount shall not be less than $150,000 In the event the Company terminates Mr McGee's employment, without cause, prior to the expiration of the agreement, Mr McGee shall be entitled to a cash severance payment equal to the sum of three months base salary and the unpaid portion of any bonus earned as of the date of termination

Effective September 4, 2002, Davel entered into an employment agreement with Tammy L Martin to serve as its General Counsel The employment agreement had an initial term of one year commencing September 4, 2002 and was extended for an additional one-year period The employment agreement provided for an annual base salary of $175,000 during the term of the employment agreement, as well as participation in those benefit and bonus programs provided to other similarly situated executives of the Company During February 2004 the Company entered into a new, one-year employment agreement with Ms Martin, at annual base salary levels and other terms substantially similar to the previous agreement In the event Ms Martin's position is eliminated due to a restructuring or acquisition of the Company, or in connection with an acquisition pursuant to which she is requested to relocate more that fifty miles from her primary residence and does not accept the terms of such relocation, Ms Martin will be paid as severance an amount equal to the greater of (i) six months base salary or (ii) the base salary due and owing under the un-expired term of the agreement

On or about February 12, 2004, the Company entered into an employment agreement with Donald L Paliwoda to serve as its Chief Financial Officer. The employment agreement has a term of one year and provides for an annual base salary of $115,000 during the term of the agreement, as well as participation in those benefit and bonus programs provided to other similarly situated executives of the Company In the event Mr Paliwoda's position is eliminated due to a restructuring or acquisition of the Company, or in connection with an acquisition pursuant to which he is requested to relocate more that fifty miles from his primary residence and does not accept the terms of such relocation, Mr Paliwoda will be paid as severance an amount equal to the greater of (i) six months base salary or (ii) the base salary due and owing under the un-expired term of the agreement

On or about March 22, 2004, the Company entered into an employment agreement with Andrew P Tzamaras to serve as its Chief Operating Officer The employment agreement has a term of one year and provides for an annual base salary of $120,000 during the term of the agreement, as well as participation in those benefit and bonus programs provided to other similarly situated executives of the Company In the event Mr Tzamaras' position is eliminated due to a restructuring or acquisition of the Company, or in connection with an acquisition pursuant to which he is requested to relocate more that fifty miles from his primary residence and does not accept the terms of such relocation, Mr Tzamaras will be paid as severance an amount equal to the greater of (i) six months base salary or (ii) the base salary due and owing under the un-expired term of the agreement

Compensation Committee Report

The Compensation Committee of the Board of Directors is responsible for determining the compensation of all executive officers of the Company

Compensation Philosophy

The Committee's objectives in its compensation decisions are to establish incentives for the Company's executive officers to achieve optimal short-term and long-term operating performance for the Company and to link executive and stakeholder interests The Company determines the elements of each executive officer's compensation package by evaluating the responsibilities of his position, his performance and that of the Company, as well as his contribution to the Company's overall performance

2003 Compensation

There were four potential elements of compensation of the executive officers for 2003 base salary, cash bonus, stock options granted under the Stock Option Plan and annual stock grants

The 2003 compensation of executive officers was generally established at levels consistent with their prior employment and/or written agreement with the Company In each instance, the terms of employment were reviewed by the Committee and found to be generally consistent with the Committee's policies regarding executive compensation and appropriate in light of the financial condition of the Company

Base salaries of all officers were intended to be relatively moderate and are believed to be at or below the median of the base salaries paid in 2003 by public telecommunications companies of a size comparable to the Company The existing employment agreements did not provide for automatic increases in the base salary of any of the executive officers

The Chief Executive Officer and General Counsel were each entitled to a bonus determined by reference to his or her employment agreement based on his or her efforts to help the Company reach its goals and objectives

In an effort to provide a long-term incentive for future performance that aligns the executive officers' interests with the interests of stockholders, executive officers are eligible for participation in the Company's Stock Option Plan Stock options are intended to provide an incentive for the creation of stockholder value over the term of several years since the full benefit of options will be realized only if the price of common stock appreciates over that term In 2003, no stock options were granted to the executive officers of the Company with respect to the Company's performance in 2002 The Company also may award stock grants under the Stock Option Plan Stock awarded under the Stock Option Plan would contain certain restrictions on transfer Awarding stock with restriction on its transfer provides further long-term incentives that align the interests of the executive officers with the interests of stockholders

This Report of the Compensation Committee on Executive Compensation shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report or any portion hereof into any of the Company's filings with the Securities and Exchange Commission, and such information shall not be deemed filed with the Securities and Exchange Commission, except as specifically otherwise provided in such other filings or to the extent required by Item 402 of Regulation S-K

James Chapman, Chairman
Andrew Barrett
Kevin Genda

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Ownership of Common Stock by Directors and Executive Officers and Beneficial Owners

The following table sets forth information regarding shares of the Company's common stock, par value $0 01 per share, beneficially owned, as of March 19, 2004, by the Company's directors, named executive officers and 5% stockholders

Name and Address (1)	Number of Shares Beneficially Owned	Percentage of Class
Andrew C Barrett (3) (8)	0	*
James N Chapman (3) (8)	0	*
John D Chichester (4) (8) (9)	0	*
Kevin P Genda (3) (8) (10)	0	*
Tammy L Martin (2) (8)	0	*
Woody M McGee (2) (3) (8)	0	*
Donald L Paliwoda (2) (5) (8)	12,763	*
Andrew P Tzamaras (2) (6) (8)	7,100	*
ARK CLO 2000-1, Limited C/O Patriarch Partners, LLC 112 South Tryon Street, Suite 700 Charlotte, NC 28284	53,621,855	8 72%
Stephen Feinberg (7) 299 Park Avenue, New York, NY 10171	277,071,874	45 05%
Wells Fargo Foothill, Inc 2450 Colorado Avenue, Suite 3000 West Santa Monica, CA 90404	76,747,150	12 48%
Foothill Partners III, L P 2450 Colorado Avenue, Suite 3000 West Santa Monica, CA 90404	76,747,150	12 48%
All current directors and executive officers as a group (7 persons)	19,863	*

* Less than 1%

(1) For purposes of calculating the beneficial ownership of each stockholder, it was assumed (in accordance with the Securities and Exchange Commission's definition of "beneficial ownership") that such stockholder had exercised all options, conversion rights or warrants by which such stockholder had the right, within 60 days, to acquire shares of such class of stock

(2) Such person is an employee of the Company
(3) Such person is a director of the Company
(4) Such person is a former officer and former employee of the Company
(5) Includes 12,763 shares that could be acquired within 60 days upon the exercise of options granted pursuant to the Company's stock option plan
(6) Includes 6,800 shares, of which 3,800 expire on April 21, 2004, that could be acquired within 60 days upon the exercise of options granted pursuant to the Company's stock option plans
(7) Cerberus Partners, L P , a Delaware limited partnership, is the holder of 225,907,083 shares of common stock of Davel and Styx Partners, L P , a Delaware limited partnership, is the holder of 51,164,764 shares of common stock of Davel Stephen Feinberg possesses sole power to vote and direct the disposition of all shares of common stock of Davel held by Cerberus Partners, L P and Styx Partners, L P
(8) The address of such officers, unless otherwise noted, is 200 Public Square, Suite 700, Cleveland, Ohio 44114
(9) Options not exercised within 90 days from separation of employment expire by terms of the stock options
(10) Kevin Genda, a director of the Company, does not individually hold or otherwise beneficially own any securities of the Company Mr Genda is a Managing director of Cerberus Capital Management, L P , an affiliate of Cerberus Partners, L P and Styx Partners, L P , which, as noted in this beneficial ownership table, owns shares of common stock of the Company, all of which are subject to the sole voting and investment authority of Stephen Feinberg Stephen Feinberg, in his capacity as the holder of sole voting and investment authority with respect to such shares, separately files statements with respect thereto pursuant to Section 13 and Section 16 of the Securities Exchange Act of 1934, as amended Mr Genda does not exercise any voting, investment or other authority with respect to the shares of common stock of the Company separately reported by Stephen Feinberg

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information relating to the Company's equity compensation plans, including individual compensation arrangements, as of December 31, 2003

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance
Equity Compensation plans approved by security holders (a)	564,805	5 19	2,111,972
Equity compensation plans not approved by security holders (b) (c)	202,717	2 33	26,406,104
Total	767,522	4 44	28,518,076

(a) Includes options to acquire 23,505 shares of common stock with a weighted average exercise price of $22 00 that were originally granted by companies acquired by the Registrant

(b) The number of securities to be issued upon exercise of outstanding options to acquire 25,850 shares of common stock under individual compensation agreements granted by companies acquired by the registrant and options to acquire 176,867 shares of common stock granted under the PhoneTel 1999 Management Incentive Plan (the "PhoneTel Plan") The PhoneTel Plan provides for the issuance of incentive and non-qualified stock options, stock appreciation rights and other awards to purchase up to 537,223 additional shares of common stock by officers, directors, and management employees The PhoneTel Plan will continue in effect until December 31, 2009, unless sooner terminated All outstanding options under the PhoneTel Plan and individual compensation arrangements were exercisable at December 31, 2003 and expire at various dates through March 8, 2005

(c) The number of securites remaining available for future issuance includes 25,780,208 of the 26,780,208 shares available under the Company's 2000 Long-Term Equity Incentive Plan that were authorized in connection with the PhoneTel Merger (See Note 13 to the Company's consolidated financial statements for the material features of the plan) It also includes 537,223 and 88,673 securities available for future issuance under the PhoneTel Plan and individual compensation arrangements, respectively

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr Chichester, the Company's former Chief Executive Officer and former Director is a director, executive vice president and a 49% shareholder of Urban Telecommunications, Inc ("Urban") During the year ended December 31, 2003, the Company earned revenue of $1,217,000 from various telecommunication contractor services provided to Urban, principally residence and small business facility provisioning and inside wiring Accounts receivable included $123,000 at December 31, 2003 due from Urban Additionally, in 2003, Urban was paid $125,000 for providing the Company with pay telephone management and other services for the Company's payphone installations located in and around New York, New York In October 2003 the Company and Urban terminated its service relationship

Mr Renard, a former Director and Executive Officer of the Company entered into a six-month consulting agreement following the termination of his employment with the Company In connection with the consulting agreement, Mr Renard provided regulatory consulting services in the consideration of the sum $12,500 per month, plus reimbursement for the costs incident to the maintenance of family medical insurance

On or about November 25, 2002 the Company entered into a six month consulting agreement with McGee & Associates, L L C to provide restructuring and integration management services to the Company Mr Woody McGee, the Company's current Chief Executive Officer, is President, Chief Executive Officer and sole owner of McGee & Associates, L L C Pursuant to the terms of the agreement, Mr McGee provided consulting services in consideration of the sum of $2,500 per day, plus reimbursement for business related travel expenses During 2002 and 2003 McGee & Associates, L L C was paid the sum of $205,697 and $28,852 respectively, in accordance with the terms of the agreement

Any future transactions between the Company and its officers, directors, employees and affiliates that are outside the scope of the Company's employment relationship with such person will be subject to the approval of a majority of disinterested members of the Board of Directors

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the year ended December 31, 2003 and 2002, the Company paid Aidman, Piser & Company, P A. ("Aidman, Piser"), the Company's principal accountants, the following fees for audit and non-audit services

Audit Fees

Aidman, Piser billed the Company an aggregate of $154,000 and $177,500 for audit fees in 2003 and 2002, respectively

Audit Related Fees

In 2002, Aidman, Piser billed the Company an aggregate of $77,000 for assurance and related services applicable to the Company's joint proxy and registration statement relating to the PhoneTel Merger

Tax Fees

Aidman, Piser billed the Company $91,000 in 2003 and $71,000 in 2002 for income tax services rendered to the Company

All Other Fees

Aidman, Piser did not bill the Company for any other services during 2003 and 2002

The Audit Committee or the Board of Directors pre-approves all audit or non-audit services and does not have a pre-approval policy for such services The Audit Committee or the Board of Directors pre-approved all audit and non-audit services in 2003

PART IV

ITEM 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed with, and as part of, this Annual Report on Form 10-K

1. **Financial Statements**

   See Part II

2. **Financial Statement Schedules**

   None

3. **Exhibits**

   See Exhibit Index on the following page

(b) Reports on Form 8-K

The Registrant filed no reports on Form 8-K during the fourth quarter of 2003

EXHIBIT INDEX

3 1	Restated Certificate of Incorporation of Davel Communications, Inc (incorporated by reference to Exhibit 3 1 to Registration Statement on Form S-4 (Registration No 333-67617) dated November 20, 1998)
3 2	Restated By-laws of Davel Communications, Inc (incorporated by reference to Exhibit 3 2 to Registration Statement on Form S-4 (Registration No 333-67617) dated November 20, 1998)
3 3	Certificate of Amendment to the Certificate of Incorporation of Davel Communications, Inc (incorporated by reference from the Company's Form 8-K dated August 1, 2002)
10 1	Davel Communications, Inc Amended and Restated 2000 Long-Term Equity Incentive Plan, as amended through February 11, 2002 (incorporated by reference from the Company's Form 10-K for the year ended December 31, 2001)
10 2	Amended, Restated, and Consolidated Credit Agreement, dated as of July 24, 2002, by and among Davel Financing Company, L L C , PhoneTel Technologies, Inc , Cherokee Communications, Inc , Davel Communications, Inc , the domestic subsidiaries of each of the foregoing and Foothill Capital Corporation, as Agent, and the lenders named therein (incorporated by reference from the Company's Form 8-K dated August 1, 2002)
10 3	Amended, Restated, and Consolidated Security Agreement, dated as of July 24, 2002, by Davel Financing Company, L L C , PhoneTel Technologies, Inc , Cherokee Communications, Inc , Davel Communications, Inc , and the domestic subsidiaries of each of the foregoing, in favor of Foothill Capital Corporation, as Agent, and the lenders as set forth in the Credit Agreement above (incorporated by reference from the Company's Form 8-K for the year ended August 1, 2002)
10 4	First Amendment and Waiver to Amended, Restated, and Consolidated Credit Agreement, dated as of March 31, 2003, by and among Davel Financing Company, L L C , PhoneTel Technologies, Inc , Cherokee Communications, Inc , Davel Communications, Inc , the domestic subsidiaries of each of the foregoing and Foothill Capital Corporation, as Agent, and the lenders named therein (incorporated by reference to Exhibit 10 8 of the Company's Form 10-K filed with the Commission on April 4, 2003)
10 5	Assignment of Claim Agreement dated as of March 7, 2003 by and between Davel Communications, Inc and Deutsche Bank Securities Inc (incorporated by reference to Exhibit 10 1 from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003)
10 6	Assignment of Claim Agreement dated as of March 3, 2003 by and between Davel Communications, Inc and Deutsche Bank Securities Inc (incorporated by reference to Exhibit 10 2 from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003)
10 7	Forbearance Agreement, dated as of November 11, 2003, related to Amended, Restated and Consolidated Credit Agreement, dated as of July 24, 2003, by and among Davel Financing Company, L L C , PhoneTel Technologies, Inc , Cherokee Communications, Inc , Davel Communications, Inc , the domestic subsidiaries of each of the foregoing and Wells Fargo Foothill, Inc (formerly Foothill Capital Corporation), as Agent, and the lenders named therein (incorporated by reference to Exhibit 10 1 from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10 8	Employment Agreement dated August 29, 2003 between Davel Communications, Inc and Woody McGee (incorporated by reference to Exhibit 10 2 from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)
10 9	Payphone Field Service Agreement dated October 17, 2003 between Davel Communications, Inc and NSC Communications Public Service Corporation
10 10	Commercial Service Agreement dated December 29, 2003 between Davel Communications, Inc and Comm South Companies, Inc

10 11	Second Amendment and Waiver to Amended, Restated, and Consolidated Credit Agreement, dated as of February 24, 2003, by and among Davel Financing Company, L L C , PhoneTel Technologies, Inc , Cherokee Communications, Inc , Davel Communications, Inc , the domestic subsidiaries of each of the foregoing and Wells Fargo Foothill, Inc (formerly Foothill Capital Corporation), as Agent, and the lenders named therein
10 12	Employment Agreement dated February 13, 2004 between Davel Communications, Inc and Tammy L Martin
10 13	Employment Agreement dated February 13, 2004 between Davel Communications, Inc and Donald L Paliwoda
10 14	Employment Agreement dated March 23, 2004 between Davel Communications, Inc and Andrew P Tzamaras
14 1	Code of Ethics and Business Conduct for Officers, Directors, and Employees of Davel Communications, Inc
21 1	Subsidiaries of Davel Communications, Inc
31 1	Certification of Chief Executive Officer pursuant to Sarbanes-Oxley Act of 2002 Section 302
31 2	Certification of Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002 Section 302
32 1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes-Oxley Act of 2002 Section 906

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized

DAVEL COMMUNICATIONS, INC

By /s/ WOODY M MCGEE
Woody M McGee
Chief Executive Officer

Date March 30, 2004

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

Signature	Title	Date
/s/ WOODY M MCGEE Woody M McGee	Chief Executive Officer and Director	March 30, 2004
/s/ DONALD L PALIWODA Donald L Paliwoda	Chief Financial Officer	March 30, 2004
/s/ ANDREW C BARRETT Andrew C Barrett	Director	March 30, 2004
/s/ JAMES N CHAPMAN James N Chapman	Director	March 30, 2004
/s/ KEVIN P GENDA Kevin P Genda	Director	March 30, 2004

EXHIBIT 31 1

CERTIFICATION

I, Woody M McGee, certify that

1 I have reviewed this annual report on Form 10-K for the year ended December 31, 2003 of Davel Communications, Inc ,

2 Based on my knowledge, this annual 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)) for the registrant and we have

(a) designed such disclosure controls and procedures, or caused such disclosure controls 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) 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

(c) 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 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 registrant's board of directors (or persons performing the equivalent function)

(a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting

Date March 30, 2004

/s/ WOODY M MCGEE

Woody M McGee

Chief Executive Officer

CERTIFICATION

I, Donald L Palıwoda, certıfy that

1 I have revıewed thıs annual report on Form 10-K for the year ended December 31, 2003 of Davel Communıcatıons, Inc ,

2 Based on my knowledge, thıs annual report does not contaın any untrue statement of a materıal fact or omıt to state a materıal fact necessary to make the statements made, ın lıght of the cırcumstances under whıch such statements were made, not mısleadıng wıth respect to the perıod covered by thıs report,

3 Based on my knowledge, the financıal statements, and other financıal ınformatıon ıncluded ın thıs report, faırly present ın all materıal respects the financıal condıtıon, results of operatıons and cash flows of the regıstrant as of, and for, the perıods presented ın thıs report,

4 The regıstrant's other certıfyıng officer and I are responsıble for establıshıng and maıntaınıng dısclosure controls and procedures (as defined ın Exchange Act Rules 13a-15(e) and 15d-15(e)) for the regıstrant and we have

(a) desıgned such dısclosure controls and procedures, or caused such dısclosure controls to be desıgned under oui supervısıon, to ensure that materıal ınformatıon relatıng to the regıstrant, ıncludıng ıts consolıdated subsıdıarıes, ıs made known to us by others wıthın those entıtıes, partıcularly durıng the perıod ın whıch thıs ıeport ıs beıng prepared,

(b) evaluated the effectıveness of the regıstrant's dısclosure controls and procedures and presented ın thıs report oui conclusıons about the effectıveness of the dısclosure controls and procedures, as of the end of the perıod covered by thıs report based on such evaluatıon, and

(c) dısclosed ın thıs report any change ın the regıstrant's ınternal control over financıal reportıng that occurred duııng the regıstrant's most recent fiscal quarter that has materıally affected or ıs reasonably lıkely to materıally affect the ıegıstrant's ınternal control over financıal reportıng, and

5 The regıstrant's other certıfyıng officer and I have dısclosed, based on our most recent evaluatıon of ınternal control over financıal reportıng, to the regıstrant's audıtors and the audıt commıttee of regıstrant's board of dırectors (or persons performıng the equıvalent functıon)

(a) all sıgnıficant deficıencıes and materıal weaknesses ın the desıgn or operatıon of ınternal controls over financıal reportıng whıch are reasonably lıkely to adversely affect the regıstrant's abılıty to record, process, summarıze and report financıal ınformatıon, and

(b) any fraud, whether or not materıal, that ınvolves management or other employees who have a sıgnıficant role ın the regıstrant's ınternal controls over financıal reportıng

Date March 30, 2004

/s/ DONALD L PALIWODA
Donald L Palıwoda
Chıef Fınancıal Officer

CERTIFICATION

I, Woody M McGee, Chief Executive Officer and I, Donald L Paliwoda, Chief Financial Officer of Davel Communications, Inc , certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U S C Section 1350, that

1 The Annual Report on Form 10-K of the Company for the annual period ended December 31, 2003 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act if 1934 (15 U S C 78m), 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 30, 2004

/s/ WOODY M MCGEE
Woody M McGee, Chief Executive Officer

/s/ DONALD L PALIWODA
Donald L Paliwoda, Chief Financial Officer