IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. MOBILE BILLBOARDS OF AMERICA, INC., INTERNATIONAL PAYPHONE COMPANY, TIGER MEDIA, INC., RESERVE GUARANTY TRUST, CALIFORNIA MOBILE BILLBOARDS, INC., WESTERN RESERVE GUARANTY TRUST, MICHAEL A. LOMAS and MICHAEL L. YOUNG, Defendants.	CIVIL ACTION NO. 1:04-CV-2763-WBH

RECEIVER'S SECOND INTERIM REPORT

COMES NOW S. Gregory Hays, Receiver for Defendants Mobile Billboards of America, Inc. ("Mobile Billboards"), International Payphone Corporation d/b/a Outdoor Media Industries ("Outdoor Media"); Tiger Media, Inc. ("Tiger"); Reserve Guaranty Trust ("RGT"); California Mobile Billboards, Inc. ("CMBI"); and, Western Reserve Guaranty Trust ("WGRT") (collectively referred to as the "Receiver Entities" or the "Receiver Estate"), and files this Second Interim Report showing the Court as follows:

Introduction

1. The Receiver was appointed by this Court in Orders entered in this action on September 21, 2004, October 18, 2004 and February 7, 2005 ("the Receivership Orders").

2. The Receiver filed his First Interim Report on December 1, 2004. The Receiver, his counsel and his consultants continue to perform the activities described in that report. While additional facts have been discovered, the overall circumstances described in the First Interim Report remain largely correct. The Receiver will update portions of that report as necessary and appropriate.

3. As indicated in the First Interim Report, the Receiver has taken possession of more than 2100 operating payphones located in 15 different states. These payphones are assets of the Receiver Estate. Substantial time and money have been devoted to analyzing and managing these payphones in an effort to make the portfolio, as a whole, profitable. The purpose of this Second Interim Report is to provide the Court with information regarding those efforts, as well as the Receiver's current financial assessment of the payphone operations. It should be read in conjunction with the Receiver's First Interim Report.

The Payphone Portfolio

4. While the Receiver believes that the information contained in this report is accurate, it is important to emphasize that the payphone operations are intricate, complicated and ongoing. Accordingly, all of the financial information is subject to adjustment. To the extent that projections are provided, they are simply the Receiver's best estimate regarding future performance and are provided for information purposes only. They are not intended as an assurance or guarantee that they will actually be realized in the future.

5. As more fully explained in the First Interim Report, MBA's predecessor in interest was a company known as National Payphone Company ("NPC"). Prior to the formation of MBA and the billboard investment offering, NPC sold payphone investments that were virtually identical to MBA's billboard investment. At the time that MBA and NPC were merged in or about November 2001, investors who had purchased payphones were offered the opportunity to convert their payphone investments into billboard investments.

6. It appears that many, but not all, of the payphone investors opted to convert to billboards. Apparently, the principals of the Receiver Entities intended that any payphones that were "redeemed" as a part of this

conversion process, as well as any other payphones not sold or assigned to an investor, were to be contributed to RGT, the trust purportedly established to repurchase payphone and billboard investments. The phones were contributed to RGT at individual costs ranging between $1,450 and $2,200, with an average cost of $1,724 per phone (and a cumulative total cost basis of the contributed payphones recorded at $5,360,000). The Receiver's current assessment is that these asset values assigned by RGT were grossly overstated.

7. There are incomplete and sometimes conflicting records regarding actual ownership of certain payphones. While it is evident that the intent was to contribute the payphones to RGT, most, if not all, were operated and maintained in the name of IPC. The Receiver and his counsel have not yet determined whether it is necessary to resolve these ownership issues. Regardless, it is evident that the payphones are owned and controlled by the Receiver Estate. Because the payphone operations were historically conducted by and in the name of IPC, the Receiver has continued that practice.

8. As indicated in the table below, there are 2,199 payphones operating at this date. However, the records of the Receiver Entities indicate that there may have been as many as 3,847 payphones that, at one time, were

owned by the Receiver Entities. The Receiver continues to investigate the difference. Of the 2,199 operating payphones, it appears that 355 were actually assigned to investors. The other 1,844 are not assigned to investors.

Payphone Status	Investor Assigned Phones	Company Assigned Phones	Total Phones
Installed	355	1,844	2,199
Removed (Permanent)	380	1,176	1,556
Removed (Temporary)	3	4	7
Removed (Recover Parts)	-	5	5
Cancelled Installation	14	65	79
Awaiting Install	-	1	1
Not Found	125	(125)	-
Totals	877	2,970	3,847

Installed = payphone currently at a location and generating regular monthly cash flow

Removed (Permanent) = payphone was removed from the location and not generating regular monthly cash flow; whereabouts are unknown or the phone was dismantled for parts that were used in the repair of other phones

Removed (Temporary) = payphone has recently been removed from its location as a part of the Receiver's management and restructuring of the payphone portfolio

Removed (Recover Parts) = payphone site has been closed and Receiver has not been able to gain access to recover payphone(s); phone line has been disconnected so as not to incur further cost

Cancelled Installation = payphone was never installed at the location; current whereabouts and operating condition is unknown at this time

Awaiting Install = payphone is ready and available to be installed at a new location

Not Found = payphone location and operating number do not match any record in any database discovered to date; payphone cannot be identified as ever having been owned or installed

9. Many of the payphones appear to have been installed and operating when sold to investors; however, the Receiver has identified instances of payphones being sold to investors that appear to be non-existent and others involving the same payphone being sold to multiple investors.

10. The payphones are "smart" phones with internal memory and/or software, capable of "polling," which allows a central location to download dialing protocols, monitor usage, coin receipt and servicing needs. Therefore, it is necessary to have computer links and programs that are capable of "polling" the payphones in order to manage the portfolio and realize the revenue.

Financial Operation of the Payphones

11. In general, payphone revenue is derived from two sources:

(a) Coin calls - calls paid for by callers with coins deposited into the payphone.

(b) Non-coin calls - revenue that is generated electronically from two basic types of calls:

(i) "Dial around" calls, which include 1-800 calls (i.e., toll free calls) and calls made using credit cards, calling cards or prepaid calling cards; and,

(ii) "Zero Plus", which are calls that make use of services such as automated or live operators 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 collecting the applicable charge.

12. Dial Around revenue is paid through a clearing-house on a quarterly basis, with the owner of the payphone being paid a "per call" fee for the use of the payphone. On August 12, 2004, the FCC released a Report and Order increasing the default compensation rate for Dial Around calls. The rate increased from $.24 per call to $.494 per call, effective September 27, 2004, which means that Dial Around payments will be paid at the new rate beginning in April 2005. The long-term effect this new FCC Order will have on the payphone revenues is currently uncertain and will not be known for some time. However, the Receiver is expecting a substantial increase in the quarterly payment during 2005.

13. In general, payphone operating expenses include:

(a) Commissions/lease payments paid to payphone site location owners;

(b) Connection fees paid to Local Exchange Carriers (called "LECs");

(c) Connection fees paid to Long Distance Carriers (called "LDCs");

(d) Servicing fees (usually include minor repairs and routine payphone coin collection costs) paid to the service management company;

(e) Major repairs;

(f) Installation and removal costs from payphone site location changes;

(g) Sales and property taxes; and

(h) General management, administration and processing expenses.

14. The Receiver's investigation to date indicates that, as a part of the sales pitch made to investors, MBA represented that payphones were high-yield investments owned by RGT for the purpose generating enough asset value to redeem investors' billboard purchases at the end of the 7-year lease term that was part of the investment structure. In this regard, RGT's own projections of the rate of return required from the payphone portfolio would need to be extraordinarily high. While the various projections contain a variety of assumptions, it appears that in order to obtain these returns the

payphone portfolio would have had to generate "profit" each month that averaged $50 per payphone. (NOTE: Some projections indicate a lower monthly profit would suffice, but for the sake of simplicity, $50 is used here.)

15. Despite a declining market, payphones can be profitable with the right mix of density and good locations and if service costs are kept under control.

16. The Receiver's investigation indicates that the payphone portfolio was not managed by IPC in a prudent manner. While Coin-Tel Services, Inc. ("CTS"), a third-party service contractor, was in place, it is evident that there was a strain in the relationship. It is evident that IPC was not willing to devote the time or money necessary to operate the payphone portfolio in a way that generated meaningful profits. Among other things:

(a) IPC failed to monitor the payphones in any regular or systematic way or monitor their financial performance, which is essential in managing payphones;

(b) CTS was given very little, if any, authority regarding management of the payphones, including the removal or replacement of payphones that were not generating a profit;

(c) IPC failed to spend the money necessary to maintain the payphones; and,

(d) It now appears that IPC failed to file and pay state property taxes.

The result is that rather than generating the extraordinarily high returns required by the RGT projections, the payphone portfolio was, on the whole, losing money or barely breaking even at the time of the Receiver's appointment. As of Receiver's appointment, the payphone portfolio was operating at an average net loss of $3 per payphone, per month.[1]

Receiver's Restructuring Efforts

17. As indicated in the First Interim Report, the Receiver, through IPC, has assigned Pamela Dennison, an experienced payphone professional, to take principal responsibility for analyzing, restructuring and managing the payphone portfolio. In turn, IPC has contracted with a limited number of service providers to collect coin revenue, manage the Dial Around revenue collections and handle the Zero-Plus calls. In particular, the Receiver has continued to use CTS as the independent route service provider to meet routine operational and servicing needs. CTS monitors phone use, collects coins, and provides routine maintenance services. CTS also polls the phones nightly, posts and pays phone bills, calculates and pays commissions and maintains customer files. The arrangement with CTS and the other

[1] As of the date of this Report, consolidated financial reports for the payphone operations have not been found among the records of the Receiver Entities. These comparisons are based upon the available financial information.

independent service providers are consistent with prevailing industry practices and provide a cost efficient method of managing the payphone portfolio.

18. The Receiver, Ms. Dennison, and other members of his staff have engaged in an extensive review of the payphone operations and have begun a wholesale restructuring of those operations.

19. With respect to the payphone operations these efforts include:

- Managing the relationship with CTS, including review of its accounting through real time access to its computer software systems;
- Arranging for the repair or removal of non-operational phones;
- Reviewing site profitability and implementing strategies to restore profitability. Sites were evaluated based upon:
  - Net profit margins (Coin + Zero Plus + Dial Around - LEC - LDC – Service costs – Management fee – Commission)
  - Commission plans (elimination of current plan will bring some accounts into a positive state)
  - Contract terms (some contracts call for notice before removing phones, and other obtrusive conditions)
  - Service levels (down phone time)

    - Zero Plus analysis (Primary Interconnect Carriers ("PICs"), programming, and labeling)
    - Number of phones and concentration factors
    - Ownership configurations (i.e., number of payphones at a specific location; site owners with multiple sites; etc.)

- Exchanging of obsolete parts in inventory for needed repair parts;
- Evaluation of the secondary service providers (Zero Plus, LDC, etc);
- Meetings with customers (site landlords) to keep key accounts, which is critical to any turnaround plan because the top 10 customers make up approximately 50% of the current business;
- Renegotiation of contracts with site locations and commission structure where the existing terms were significantly unfavorable;
- Evaluation of new sites for uninstalled phones awaiting a re-installation
- Sales calls to prospective new landlords; and,
- Elimination of unnecessary phone lines and implementation of devices to split lines between phones.

20. With respect to financial, accounting and record keeping, the following has occurred:

- Creation of timely and accurate cash flow reports on a phone-by-phone basis;
- Reconciliation of payments and recoveries for Dial Around revenues;
- Evaluation of LEC contracts and initial work to recover overcharges by various LEC'S;
- Implementing an accounting system for the payphone business;
- Implementing systems that allow for real time access to CTS's computer systems; and,
- Thoroughly reviewing and documenting CTS's operations as they relate to IPC.

21. There have been numerous tax issues related to the payphones, and these have required significant effort including:

- Payment of delinquent taxes in various locations to keep the phones operating. Payment of these back taxes preserved the payphones, some of which were scheduled for removal by state taxing authorities.

- Negotiations with various states to reduce the assigned value of the phones to current market value/replacement cost thereby reducing the annual taxes.
- Reviewing and responding to notices received from taxing authorities. For example, it was discovered that IPC had not filed its 2004 Maryland personal property tax return and had not paid an assessment for late filing of the 2003 return. Notices were received threatening imminent forfeiture of the company's authorization to do business in Maryland unless the delinquency was immediately cured. Had the situation not been immediately addressed and resolved, it would have had a significant impact on the payphone operations in that there are 84 payphones installed and operating in Maryland.

22. Early indications are that the Receiver's restructuring efforts are significantly improving the financial performance of the payphone portfolio. For the period September 21, 2004 through December 31, 2004, gross cash receipts exceeded of $885,000 with a net cash profit of approximately $170,000.

23. As of December 31, 2004, the monthly net cash profit was approximately $11 per payphone. This is a significant turnaround from the December 2003 results, which posted a loss of $3 per payphone.

Other Activities Related to Payphones

24. As indicated in the First Interim Report, MBA purchased payphones from Pay-Tel Communications, Inc. The Receiver and those working with him continue to examine that transaction.

25. An extensive process has been undertaken in an effort to identify the specific payphones assigned to investors. As this receivership proceeds, the Receiver and, ultimately, the Court will be required to decide how to deal with specific payphones in the portfolio that can be identified as having been assigned to an individual investor (who did not exercise the option to convert the payphone investment to a billboard investment). The Receiver has considered the option of returning the payphones to individual investors, but currently believes this to be impractical and could result in an unjust and unfair result that might provide a higher return to an investor simply because he or she was lucky enough to have an assigned payphone that remains in existence. In reality, the payphones that were removed or cancelled before installation or that are not otherwise identifiable greatly outnumber the relative few that can be traced.

The Future of the Payphones and Their Value to the Receiver Estate

26. In general, the payphone industry appears to be in decline. It is very difficult to determine the best long-term course of action with respect to the subject payphone portfolio. The Receiver will continue his efforts to improve the profitability of the payphones as he assesses the appropriate course of action. In simplest terms, he must ultimately decide whether to sell the payphones or to operate them, with the net proceeds of either option being distributed to investors and other creditors. No sale of these assets will occur without approval of the Court upon the recommendation of the Receiver.

27. In the near term, it is evident that the continued operation of the payphone portfolio is in the interest of the Receiver Estate. The Receiver's current expectation is that net cash proceeds from the portfolio should range between $55,000 and $75,000 per month after payment of all direct expenses of operation. It is possible that these amounts could be higher as a result of the changes to Dial Around revenue, but it is simply too early to know with any certainty.

28. As indicated in the First Interim Report, the Receiver and those working with him are engaged in a variety of activities in connection with this receivership. Many of those activities are time consuming and

expensive. With the exception of the payphones (which were losing money) and approximately $800,000 in cash, there were no other assets in the Receiver Estate at the time of the Receiver's appointment. The prospects of a significant distribution to investors remain unlikely. However, with the restructuring of the payphone portfolio and the revenue it is likely to generate, the Receiver should be able to complete his investigation, account for the investment proceeds and pursue worthwhile claims for the benefit of the Receiver Estate (which will ultimately be distributed to investors and other creditors). For the time being, the Receiver believes that this is the best use of the proceeds of the payphone operation.

29. Additional information regarding this case, including tax issues confronting individual investors, is available on the Receiver's website: www.haysconsulting.net.

This 3rd day of March, 2005.

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CERTIFICATE OF SERVICE

This shall certify that on March 3, 2005, I electronically filed the RECEIVER'S SECOND INTERIM REPORT with the Clerk of Court using the CM/EFC system, which will automatically send an e-mail notification of such filing to the following attorneys of record:

James Alexander Rue
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I certify that I have mailed by United States Postal Service the document to the following non-CM/ECF participants:

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This 3rd day of March, 2005.

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