

METRO ONE TELECOMMUNICATIONS INC
Form 10-Q
August 14, 2003

**United States
Securities and Exchange Commission**

Washington, D.C. 20549

Form 10-Q

**ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2003

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-27024

METRO ONE TELECOMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

OREGON

93-0995165

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

11200 Murray Scholls Place, Beaverton, Oregon 97007

(Address of principal executive offices) (zip code)

(503) 643-9500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of August 7, 2003: 24,697,948 shares, no par value per share.

METRO ONE TELECOMMUNICATIONS, INC.

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Metro One Telecommunications, Inc.
Condensed Statements of Operations (Unaudited)

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues	\$ 51,035	\$ 67,853	\$ 110,370	\$ 129,618
Costs and expenses:				
Direct operating	28,981	37,518	62,494	72,768
Selling, general and administrative	36,829	18,482	56,028	36,491
	65,810	56,000	118,522	109,259
(Loss) income from operations	(14,775)	11,853	(8,152)	20,359
Other income, net	186	197	399	451
(Loss) income before income taxes	(14,589)	12,050	(7,753)	20,810
Income tax (benefit) expense	(5,409)	4,579	(2,683)	7,908
Net (loss) income	\$ (9,180)	\$ 7,471	\$ (5,070)	\$ 12,902
Net (loss) income per common share:				
Basic	\$ (.37)	\$.30	\$ (.21)	\$.53
Diluted	\$ (.37)	\$.30	\$ (.21)	\$.51
Weighted average shares outstanding:				
Basic	24,693	24,555	24,703	24,521
Diluted	24,693	25,115	24,703	25,145

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

Metro One Telecommunications, Inc.
Condensed Balance Sheets (Unaudited)

(In thousands)	June 30, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 65,037	\$ 76,528
Restricted cash	4,900	3,348
Accounts receivable	24,019	31,321
Prepaid costs and other current assets	17,592	6,498
Total current assets	111,548	117,695
Furniture, fixtures and equipment, net	70,249	71,668
Goodwill	4,432	4,432
Intangible assets	4,803	4,316
Other assets	585	578
Total assets	\$ 191,617	\$ 198,689
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,885	\$ 1,366
Accrued liabilities	3,307	1,054
Accrued payroll and related costs	10,362	11,570
Total current liabilities	15,554	13,990
Deferred tax liabilities	5,076	8,789
Other long-term liabilities	607	521
Total liabilities	21,237	23,300
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000 shares authorized, no shares issued or outstanding		
Common stock, no par value; 50,000 shares authorized, 24,698 and 24,682 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	119,486	119,425
Retained earnings	50,894	55,964
Total shareholders' equity	170,380	175,389

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Total liabilities and shareholders' equity	\$	191,617	\$	198,689
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The accompanying notes are an integral part of these condensed financial statements.

Metro One Telecommunications, Inc.
Condensed Statements of Cash Flows (Unaudited)

(In thousands)	Six Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net (loss) income	\$ (5,070)	\$ 12,902
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,312	8,926
Loss on disposal of fixed assets	75	26
Deferred income taxes	(4,060)	
Tax benefit from stock option plans		467
Changes in certain assets and liabilities:		
Accounts receivable	7,301	(15,607)
Prepaid expenses and other assets	(11,498)	1,059
Accounts payable and other liabilities	1,651	(1,832)
Net cash (used in) provided by operating activities	(1,289)	5,941
Cash flows from investing activities:		
Capital expenditures	(8,775)	(11,803)
Proceeds from sale of assets	65	8
Net cash used in investing activities	(8,710)	(11,795)
Cash flows from financing activities:		
Restricted cash to secure letter of credit	(1,552)	(2,448)
Proceeds from exercise of stock options and employee stock purchases	60	985
Net cash used in financing activities	(1,492)	(1,463)
Net decrease in cash and cash equivalents	(11,491)	(7,317)
Cash and cash equivalents, beginning of period	76,528	53,692
Cash and cash equivalents, end of period	\$ 65,037	\$ 46,375
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$	\$ 10
Cash paid for income taxes	\$ 638	\$ 3,530

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

Metro One Telecommunications, Inc.
Notes to Condensed Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed financial statements have been prepared by Metro One Telecommunications, Inc. without audit and in conformity with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, certain financial information and footnotes have been omitted or condensed. In the opinion of management, the condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. These condensed financial statements and notes thereto should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002. The results of operations for the interim period shown in this report are not necessarily indicative of results for any future interim period or the entire fiscal year. Certain balances in the prior period financial statements have been reclassified to conform to current period presentations. Such reclassifications had no effect on reported net income.

Advertising

Costs of advertising are expensed as incurred except for commercial advertising production costs, which are expensed at the time the related commercials are first run. Advertising expense was approximately \$17 million and \$18 million in the three and six months periods ended June 30, 2003, respectively.

Stock-Based Compensation

We have elected to continue to account for stock options according to Accounting Principles Bulletin No. 25, Accounting for Stock Issued to Employees, and to furnish the pro forma disclosures required under Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. No stock-based employee compensation cost is reflected in net income, as all options granted under the Metro One Telecommunications, Inc. 1994 Stock Incentive Plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and net income per share as if we had applied the fair value recognition principles of SFAS No. 123, Accounting for Stock-Based Compensation to stock options issued:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(In thousands, except per share amounts)			
Net (loss) income, as reported	\$ (9,180)	\$ 7,471	\$ (5,070)	\$ 12,902
Stock-based compensation expense	(987)	(959)	(1,917)	(1,851)

Other Information

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Net (loss) income, pro forma	\$	(10,167)	\$	6,512	\$	(6,987)	\$	11,051
Diluted net (loss) income per share, as reported	\$	(0.37)	\$	0.30	\$	(0.21)	\$	0.51
Stock-based compensation expense		(0.04)		(0.04)		(0.07)		(0.07)
Diluted net (loss) income per share, pro forma	\$	(0.41)	\$	0.26	\$	(0.28)	\$	0.44

2. **Net (Loss) Income Per Share**

Basic net (loss) income per share is based on the weighted average number of common shares outstanding. Diluted net (loss) income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. There were no adjustments to net (loss) income in the calculation of both basic and diluted net (loss) income per share for all periods.

The calculation of weighted average outstanding shares is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(in thousands)			
Weighted average shares outstanding (used in computing Basic net (loss) income per share)	24,693	24,555	24,703	24,521
Potential common shares resulting from the exercise of stock options		560		624
Weighted average shares outstanding (used in computing Diluted net (loss) income per share)	24,693	25,115	24,703	25,145

Options to purchase 2,812,000 and 906,000 shares of common stock were outstanding at June 30, 2003 and 2002, respectively, but were not included in the computation of diluted net (loss) income per share for the three months ended June 30, 2003 and 2002, respectively, because their effect would be anti-dilutive. Options to purchase 2,723,000 and 897,000 shares of common stock were outstanding at June 30, 2003 and 2002, respectively, but were not included in the computation of diluted net (loss) income per share for the six months ended June 30, 2003 and 2002, respectively, because their effect would be anti-dilutive.

3. Commitments and Contingencies

We are party to various legal actions and administrative proceedings arising in the ordinary course of business. We believe the disposition of these matters will not have a material adverse effect on our financial position, results of operations or cash flows.

From time to time, in the normal course of our business, we issue standby letters of credit and bank guarantees. At June 30, 2003, we had one letter of credit outstanding in the amount of \$4,900,000 related to our workers' compensation program. The letter of credit is secured by a certificate of deposit for the same amount that is recorded as restricted cash. This letter of credit expires in April 2004.

As of June 30, 2003, we have committed to and paid out approximately \$12 million for future advertising and promotion of our Infone™ service which we expect to expense over the remainder of 2003 as the related advertising and promotion activities occur. These expenditures are included in prepaid costs and other current assets on the balance sheet at June 30, 2003. In addition, subsequent to June 30, 2003, we committed to and paid approximately \$9 million of additional advertising and promotion funding which is expected to be expensed during 2003.