METRO ONE TELECOMMUNICATIONS INC
Form 10-K
March 31, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

or

o 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 0-27024

METRO ONE TELECOMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Oregon	**93-0995165**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11200 Murray Scholls Place, Beaverton, OR 97007

(Address of principal executive offices)

Registrant s telephone number, including area code: **503-643-9500**

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

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, no par value	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: **NONE**

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

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

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 o

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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of   large accelerated filer,   accelerated filer   and   smaller reporting company   in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o   Accelerated filer o   Non-accelerated filer o   Smaller Reporting Company x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based on the closing price of the common stock as reported by the Nasdaq National Market on June 30, 2007 was $10,437,947.

The number of shares outstanding of the registrant s common stock as of March 20, 2008 was 6,233,326.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for its 2008 Annual Meeting, to be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year end, are incorporated by reference into Part III of this Report.

METRO ONE TELECOMMUNICATIONS, INC.

FORM 10-K ANNUAL REPORT

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In this annual report on Form 10-K, Metro One and the terms Company, we, us and our refer to Metro One Telecommunications, Inc.

PART I

IMPORTANT INFORMATION REGARDING FORWARD LOOKING STATEMENTS

All statements and trend analyses contained in this annual report on Form 10-K relative to the future constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may, but do not necessarily, include words such as believes, expects, anticipates, intends, plans, estimates, may, will, should, could, continue or similar expressions. Forward-looking statements are not guarantees. They involve known and unknown business and economic risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include those discussed under Item 1A Risk Factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS.

Current Business

We are an experienced operator of call centers and data management services. Historically, our revenues have been derived primarily from accepting inbound calls in our live operator call centers from consumers seeking directory assistance (usually telephone numbers), accessing that information in our databases and providing the information to the caller. On March 21, 2008, we announced our intention to exit this directory assistance business entirely by the end of May 2008. After May 2008, part of our continuing business will leverage our call center expertise through expansion of our outbound telesales business which we began in January 2008. For these operations our operator agents call small businesses and provide relevant information about available telecom services to induce them to enter into agreements. We have an agreement as a sub-contractor to a master agent of a large Regional Bell Operating Company. (RBOC) Our revenues are earned when the businesses we call either renew existing agreements or enter into new contracts for telephone services with the carrier. We are performing these services in our call center facility in Beaverton, Oregon which is located within our principal executive office. We expect to grow this business over the next year, marketing additional products and services to a wider customer base. We also intend to enter into agreements to provide other non-directory assistance inbound call center services from the same facility. We are making the necessary investments to support approximately 140 operators in our Beaverton, Oregon location and have the option to expand these facilities to approximately 250 operators as the need arises.

We also will continue providing directory assistance services in electronic format. These services are provided to customers who electronically issue directory assistance queries and use the returned information to complete and correct their own data records. We currently provide electronic directory assistance services in a number of delivery formats to meet customer needs including automated file processing and real-time individual look ups. In addition to directory assistance data, we house national databases of consumer and business information. We blend this data with directory assistance data to build products that we sell to a broad range of companies that require electronic directory assistance data and marketing data. These customers include companies in the service, marketing, and financial sectors. This electronic services business represents an emerging business that is based on infrastructure originally developed to support our soon to be abandoned voice-based directory assistance call center business.

We hold a variety of patents, trademarks and pending patent applications originally developed from our provision of enhanced features of directory assistance, but with possible application in other arenas. We have from time to time received unsolicited inquiries to purchase our portfolio, and recently have received an overture from a group expressing significant interest in the portfolio. We intend to aggressively pursue an optimization strategy for leveraging these assets during 2008 that may include sale, public or private auction, joint venturing and/or separately negotiated sale or licensing of all or certain portions of our intellectual property portfolio.

Historical Business

We have been in business since 1989 and entered into our first contract with a wireless carrier in 1991 to provide directory assistance service to that carrier s subscribers on a charge-per-call basis. Until our recent decision to exit this business we contracted with wireless carriers, Voice over Internet Protocol (VoIP) providers, cable companies, Incumbent Local Exchange Carriers (ILEC), Competitive Local Exchange Carriers (CLEC), free directory assistance providers, prepaid carriers, and payphone operators to provide live operator directory assistance services to their subscribers and users. Revenues were derived principally through fees charged to telecommunications carriers and other customers.

Competition in the telecommunications industry, and in the directory assistance market in which we participated, was and continues to be intense. Carriers seek to reduce costs of providing directory assistance and other services through, among other ways, outsourcing to low cost domestic or overseas operators and utilizing automation.

During the last four years, several of our largest customers transferred their calls to another provider for a variety of reasons, but primarily in order to obtain lower prices or as a result of consolidation in the wireless industry. Beginning in the second quarter of 2005, in response to the loss of these customers and the associated revenues and as a result of our ongoing operating losses and declining cash balance, we significantly restructured our operations to lower our cost structure and to refocus our efforts on adding new wholesale customers. In spite of these efforts, we did not win a sufficient number of new accounts and corresponding revenues to generate the required operating margins necessary to sustain our then-reduced cost structure.

On March 21, 2008, we announced that, as part of a strategic business review and in furtherance of our ongoing effort to cut costs and align expenses with reduced revenues, we had decided to exit the wholesale directory assistance business by the end of May 2008. The determination to exit the directory assistance business on the anticipated schedule was made by our Board of Directors on March 20, 2008. Our strategic review determined that the current economic environment did not provide the potential to deliver an acceptable long-term return on investment and that our remaining resources would be better spent pursuing our nascent contact services businesses and monetizing our intellectual property portfolio. We will continue to pursue growth in our small data services business that has been developed over the last few years. We have yet to realize the significant opportunities we believe exist there, but we expect this to change with greater focus.

Telecommunications Industry

The U.S. telecommunications industry has generally been characterized by strong growth and increased competition due to new technologies, a more favorable regulatory environment and, for carriers, an increasingly sophisticated and demanding subscriber. Telecommunications carriers face increasing competitive pressures to differentiate their products and establish brand loyalty. Costs to acquire new subscribers can be significant, therefore carriers are emphasizing pricing and plan elements to attract and retain customers. In addition, carriers are increasingly offering local, long distance, wireless, cable and Internet services bundled into one package in order to appeal to a wider market. The industry has also experienced a considerable amount of consolidation and investment in new technologies while at the same time facing increasing competitive pressure from alternative providers, including cable companies, VoIP providers, ILEC s and CLEC s seeking new market share. These practices have the incumbent RBOC s developing aggressive strategies to retain their existing base of customers.

Beginning in January 2008, we initiated our outbound contact services business in an attempt to take advantage of opportunities created by this competitive environment. Our first significant engagement requires us to assist an RBOC in its efforts to guard against customer attrition by calling existing and former customers of the RBOC to incentivize them to enter into long-term agreements for continued service from the RBOC.

Directory Assistance Market and Customers

The U.S. directory assistance industry generated over 6 billion information requests in 2007 primarily from three distinct platforms: wireline, wireless, and VoIP telephone lines. Advertiser funded directory assistance services are emerging as a fourth platform generating over 200 million calls in 2007.

New and improved offerings for advertiser sponsored directory information are seeing the largest gains in market share with companies such as Microsoft s TellMe, Google s GOOG411 and Jingle Network s FREE411 in this space. Likewise, companies such as Cablevision provide directory assistance at no cost to their customers as a competitive measure.

Prior to March 2008 our principal business was to provide Enhanced Directory Assistance and information services to phone companies who offered it as a feature or product to their customers. Our major directory assistance customers include Cablevision, Jingle Networks, SunCom, and XO Communications. We have notified all of our current directory assistance customers that we are exiting the directory assistance business and that we will close our remaining call centers used in servicing these calls in May 2008.

Customers that accounted for more than 10% of our revenues during the periods indicated are as follows:

	Years ended December 31,		
Customer	**2007**	**2006**	**2005**
Cablevision	39%	25%	6%
Jingle Networks	26%	14%	%
SunCom	12%	9%	4%
Nextel Communications	%	37%	76%

Call Centers and Network

To service our soon-to-be-discontinued directory assistance business, we operate six call centers in the United States located in Minneapolis, Charlotte, Orlando, Honolulu, Long Island and Beaverton.

During 2006 and 2005 we reduced our headcount by over 2,000 employees and consolidated the operations of 25 call centers into the remaining six call centers, all of which were in service at the end of 2007. In the first quarter 2008, we continued these consolidation efforts by migrating calls out of our Long Island and Beaverton call centers into our other remaining centers. On March 21, 2008 we decided to exit the directory assistance business entirely and will maintain the Beaverton call center to service our outbound telesales operations and other contact services business. We intend to grow our existing outbound telesales business and to scale our call center system and telesales agents to accommodate such growth. We are configuring our Beaverton center initially to support approximately 140 agents and have expansion plans prepared should we need to increase capacity further.

Our directory assistance business has had strict service level standards that required our network systems to support a 24-hour per day service, which in turn required a share network operations center and other redundancies in order to avoid operational and disaster downtimes. Our outbound business to business telesales operates only during normal business hours, and our telesales network configuration utilizes internet protocol to access both data and voice using standard, off the shelf product offerings. This design provides excellent voice quality for our agents, high speed access for all inbound and outbound data and is a scalable platform. We hire and train personnel at our call center with training and testing on products and customer interaction techniques, and we continually monitor, test and evaluate agent performance. Call center personnel have incentives that are based on production but are also trained to maintain strict adherence to predetermined calling scripts. We generally report all calling activity to our customers on a regular basis.

Our Services and Features

For our soon-to-be discontinued directory assistance business, we use a customized array of internally owned and operated hardware and software, along with proprietary database search engines, to provide our Enhanced Directory Assistance. We receive incoming calls by means of assigned telephone numbers, which, in most cases are 411, 555-1212, 00 . Upon receiving information requests from callers, operators search applicable databases using our proprietary search tools, and where successful in the search, the operator generally connects the caller to the called party and/or supplies the caller with the requested information.

Contact Services

With respect to our new outbound telesales business, by way of illustration with our current customer we have a US territory in which we are authorized to prospect. A database of businesses either developed internally by us or provided by the customer is accessed through automated dialers hosted and owned by a third party outside our call center. We staff the agents, train them and generate the calls to businesses. The agents then inquire for appropriate personnel at the business and discuss with that person their business telephone service. All calls are recorded to ensure the accuracy and compliance of the communications with required protocol. Successful sale information and results are electronically provided to the customer for verification.

Database Systems and Content

In our data services business we believe the quality of our services is directly related to the scope, quantity and quality of the information content in our database systems. The majority of the information that we acquire, develop, and maintain is telephone listings data. To ensure high quality and accuracy, we obtain this data from multiple sources, including certain of the regional Bell operating companies, independent telephone companies and other commercial sources. This data is enhanced by our direct data collection efforts and a principal database of local information is developed for each call center or region. We have been able to successfully utilize this information content and our data manipulation abilities to generate highly efficient lead input for our telemarketing automated dialers.

With respect to our soon to be discontinued directory assistance services, our proprietary operator interface software allows operators to efficiently and simultaneously search and reverse-search multiple databases. Our search engine was optimized for directory assistance services and large national databases, providing sub-second search times even in complex searches. We used proprietary database management systems to maintain and update our directory listings. We also continually acquired additional content or access to content from a variety of sources that, in many cases, built on this listings data to make them more useful.

Marketing and Sales

We plan to grow our contact center business in a measured though substantial way. Our existing, though limited, customer base builds indirectly on our former directory assistance business in that it involves contacting existing or new customers for telecommunications carriers. The regional bell operating companies for whom we ultimately call are serviced by telecom agents, and we provide our services through contractual sub-agency sales agreements with these agents. Ultimately we will need to be highly productive in our sales efforts and flexible in our approach in this new sales environment if we are to achieve the substantial growth that we desire. In our data services business, we are targeting new customers that we believe will consistently depend on us for large volumes of data access and adept manipulation.

Intellectual Property

In our soon to-be-discontinued directory assistance business we relied on a combination of trademark, patent and trade secrets laws and confidentiality procedures to protect our intellectual property rights. We have 45 U.S. patents issued and five foreign patents issued, including several relating to our StarBack technology, our information services platform and others associated with applications for call handling and delivery of information and other services. We have approximately 67 applications pending for additional U.S. and foreign patents. We also have U.S. and foreign registered trademarks for, among others, Metro One, StarBack, AutoBack, Infone and numerous other applications pending for U.S. trademark registrations. We have reason to believe that many of our patents and pending patents may have applications beyond our historic use, and we are exploring ways to monetize the value of this intellectual property in all areas of use consistent with our liquidity needs. These monetization efforts may include the sale or licensing of certain patents to current or former competitors or customers, public or private auction of all or select portions of this portfolio to interested parties, joint venturing with parties interested in pursuing royalty-based methods of monetary recovery, third-party financed efforts to evaluate and enforce certain intellectual property rights and/or various combinations of the foregoing with other recovery strategies. The methods, means and structures pursued in these monetization efforts will be influenced by our short-term and long-term liquidity needs, whether for survival, working capital, more rapid growth in our other businesses or otherwise.

Competition

Both the directory assistance and information services markets are characterized by rapidly changing market forces, technological advancements and increasing competition from large carrier-affiliated companies and other independent companies. In our directory assistance business, our principal competitors included RBOC s and other independent providers. Telephone carriers, both landline and wireless, provide directory assistance both in and outside their own operating regions. These companies have operated with greater financial, technical and marketing resources than we had or have, and they offered features that were competitively similar to ours. We also faced competition in this business from low cost directory assistance provided by overseas operators and firms offering information, directories and/or search engines via Internet-enabled devices.

In recent years, telephone carriers appeared to us to have become more focused on reducing costs, even if such reduction resulted in diminished services and quality, thereby discounting the features that we felt had become our competitive differentiator. In addition, other sources of directory assistance, such as automation and those provided by offshore call centers and the Internet, provided these carriers with the low cost forms of competitive services that they were now willing to accept. In direct response, in order to compete effectively, we attempted to reduce our call center network and other costs of service delivery. We, however, were unable to reduce costs and obtain new business sufficient to generate operating capital and as a result determined to exit the directory assistance services business.

Competition in the data and outbound call center services business is more fragmented than directory assistance. The benefit of this market structure is that we do not compete against and do not as readily have as customers large carriers with significant market power. One competitive disadvantage, at least with respect to our outbound telesales business, is that there are low barriers to entry, and small businesses that are able to service the volume of small to mid-sized businesses may have lower overhead and cost structures than we are able to achieve, at least until we are able to develop greater efficiencies than that of our competition and/or scale into greater cost reductions than our competition can achieve. We intend to leverage our call center expertise as we develop these business opportunities and believe that this expertise will provide us a near-term competitive advantage in this market.

Government Regulation

Certain projects we may undertake are subject to varying degrees of governmental regulation. Federal and state laws governing consumer privacy, the collection, use and security of consumer data, and the use and disclosure of customer proprietary network information impose regulatory and licensing obligations on us. There are also self-imposed industry standards that apply to the use and security of certain consumer data. In addition, both federal and state laws regulate telephone solicitations to residential customers.

Our telecommunications clients are subject to regulations governing the unauthorized disclosure of customer proprietary network information. These regulations limit the disclosure of non-public customer information regarding telephone services such as the type of service and usage and billing information. In providing services to our telecommunications clients, we are required to comply with these regulations.

Outbound Telemarketing Sales

We may engage in telephone solicitation to consumers in which certain additional regulations may apply. On the federal level, both the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) regulate the initiation of telephone solicitations to residential telephone subscribers. Federal regulations prohibit the use of deceptive, unfair and abusive telemarketing sales practices. States have also enacted and continue to enact legislation governing telephone solicitations, which contain similar restrictions, as well as registration requirements.

Employees

As of December 31, 2007, we had approximately 632 employees, approximately 21% of whom were employed on a part-time basis. Most of our employees are operators, and the number of full-time and part-time operators varies from time to time as a result of fluctuations in the volume of calls we receive. None of our employees is subject to a collective bargaining agreement.

On March 21, 2008, as a result of our decision to exit the directory assistance business, we notified approximately 700 employees of our intent to terminate their employment on designated schedules generally over the next 60 days. We intend to provide severance payments to all employees working to their termination dates based on length of service and other factors. We consider relations with our employees to be otherwise satisfacatory.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly, and current reports, proxy and information statements and other information that public companies (including us) file electronically with the SEC. Our electronic filings are available to the public at the SEC s internet site, www.sec.gov.

We invite you to visit our website at www.metro1.com to access free-of-charge our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports, which we make available as soon as reasonably practicable after we electronically file such materials with or furnish such materials to the SEC. The information on our website should not be considered part of this filing.

ITEM 1A. RISK FACTORS

The risks described below should be carefully considered. These risks are not the only ones that we may face. Additional issues and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

We have a history of losses and negative cash flows on a quarterly and annual basis, and may experience additional losses from operations, which raises doubt about our ability to continue as a going concern.

We have experienced net losses in each of the quarterly and annual periods since the second quarter of 2003. In the years ended December 31, 2007 and 2006, we incurred losses of $14.4 million and $19.2 million, respectively. At December 31, 2007, we had working capital of approximately $9.8 million. Our recent decision to exit the directory assistance business will lead to increased cash expenditures in the near term, as we pay the costs of closing those operations. To achieve profitability, we will need to generate revenue from new and existing lines of business and continue to decrease our expenditures. We can give no assurance that we will generate sufficient revenues in our new and continuing businesses or succeed in reducing expenditures enough to achieve profitability on a quarterly or annual basis in the future. These factors, among others, raise doubt about our ability to continue as a going concern. Even if we do ultimately achieve profitability, we may not be able to sustain profitability on a quarterly or annual basis.

We will likely need additional capital in the future, and it may not be available on acceptable terms, or at all.

Our unrestricted cash balances at March 1, 2008 were approximately $5.4 million. Remaining cash balances after the costs of exiting the directory assistance business may not be sufficient to fund operating and other expenses for the next twelve months. We can give no assurance that our cost reduction initiatives will yield the results we anticipate or that we will generate sufficient cash flows from the sales of our services. As a result, we will likely need to secure additional financing in the future. We cannot be certain that additional financing will be available on acceptable terms, or at all. If it is available, the terms of available financing may place limits on our financial and operating flexibility or include certain preferences over common shareholders or require the pledge of all or some of our assets. If adequate financing is not available on acceptable terms, we may be forced to sell remaining assets, further reduce expenditures, or even cease operations, and we may not be able to pursue any of our business objectives. An inability to secure additional funding could force us to wind-down and liquidate our business or otherwise seriously harm our business, results of operations and financial condition.

Our decision to exit the directory assistance call center business could have significant adverse impact on our existing cash balances and near-term cash flows, and we may not have sufficient cash to continue our operations.

Our decision to exit the directory assistance call center business involves closing all of our remaining directory assistance call centers, eliminating the majority of our work force, ending our business dealings with customers prior to the contemplated expiration of our existing agreements, disposing of the majority of our call center assets and attempting to eliminate vendor agreements associated with our directory assistance business and our call centers. While we expect these actions to result in future costs savings, they will require near term one-time uses of cash that otherwise would not be incurred.

For instance, we will incur severance, retention and other costs and/or cash expenditures in connection with winding down our call center operations. In addition, in certain cases, we may negotiate an early termination of our existing leases which likely will require buyout or early termination payments, and we will incur costs associated with dismantling our call centers and disposing of our assets. We estimate that these actions will result in cash expenditures of at least $2.3 million. Should we make or be required to make payments in connection with our contract obligations with our current directory assistance customers and others, or should these customers refuse to pay or attempt to set off amounts owed to us or pursue legal claims against us, our cash expenditures could be greater than we anticipate, perhaps significantly, and our working capital could be significantly less than we now contemplate. Our cash balances and near-term cash flow could be severely adversely impacted and we may be required to attempt to dispose of certain remaining assets in a timeframe that may not maximize their value. As a result, we may not have sufficient cash to execute on our business plans.

Our remaining business may not generate enough revenues quickly enough and our remaining cash balances may not be sufficient for us to continue our operations.

In March 2008, we announced plans to exit the directory assistance call center business and focus on our data services business and our contact services call center business in an effort to reduce our operating expenses and losses and focus on businesses that we believe can be profitable for us. Even after giving effect to the cost savings that we expect to achieve by discontinuing our directory assistance call center services, we may not have sufficient cash or generate sufficient revenues quickly enough to continue our operations. Both the continuation of our data services business and our entry into the contact services business require significant revenue growth to achieve profitability. These businesses are small and operate in a competitive environment. We will need to add larger customers in the data services business in order to create efficient scale. The contact services business requires continual recruitment of effective sales agents to maintain revenue growth. Both of these objectives are difficult and are a critical part of generating cash flow to fund the business going forward.