

METRO ONE TELECOMMUNICATIONS INC
Form 10-Q
August 09, 2004

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, 2004

**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
(State or other jurisdiction of
incorporation or organization)

93-0995165
(I.R.S. Employer
Identification No.)

11200 Murray Scholls Place, Beaverton, Oregon 97007

(Address of principal executive offices) (zip code)

(503) 643-9500

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(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 3, 2004: 24,897,712 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,	
	2004	2003	2004	2003
Revenues	\$ 43,539	\$ 51,035	\$ 87,068	\$ 110,370
Costs and expenses:				
Direct operating	24,174	28,981	49,717	62,494
Selling, general and administrative	25,030	36,829	50,985	56,028
	49,204	65,810	100,702	118,522
Loss from operations	(5,665)	(14,775)	(13,634)	(8,152)
Other income, net	292	186	411	399
Loss before income taxes	(5,373)	(14,589)	(13,223)	(7,753)
Income tax expense (benefit)	124	(5,409)	124	(2,683)
Net loss	\$ (5,497)	\$ (9,180)	\$ (13,347)	\$ (5,070)
Net loss per common share:				
Basic	\$ (.22)	\$ (.37)	\$ (.54)	\$ (.21)
Diluted	\$ (.22)	\$ (.37)	\$ (.54)	\$ (.21)
Weighted average shares outstanding:				
Basic	24,845	24,693	24,810	24,703
Diluted	24,845	24,693	24,810	24,703

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

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

(In thousands)	June 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,345	\$ 44,381
Restricted cash	4,900	4,900
Accounts receivable	24,923	32,078
Prepaid costs and other current assets	6,045	15,944
Total current assets	90,213	97,303
Furniture, fixtures and equipment, net	53,653	62,187
Intangible assets	5,227	4,819
Other assets	477	575
Total assets	\$ 149,570	\$ 164,884
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,897	\$ 3,146
Accrued liabilities	2,102	2,634
Accrued payroll and related costs	11,914	12,297
Total current liabilities	15,913	18,077
Deferred tax liabilities	3,799	3,799
Other long-term liabilities	721	670
Total liabilities	20,433	22,546
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, 24,898 and 24,682 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	119,829	119,683
Retained earnings	9,308	22,655
Total shareholders' equity	129,137	142,338
Total liabilities and shareholders' equity	\$ 149,570	\$ 164,884

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,	
	2004	2003
Cash flows from operating activities:		
Net loss	\$ (13,347)	\$ (5,070)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,133	10,312
Loss on disposal of fixed assets	143	75
Deferred income taxes		(4,060)
Changes in certain assets and liabilities:		
Accounts receivable	7,155	7,301
Prepaid costs and other assets	9,294	(11,498)
Accounts payable and other liabilities	(2,113)	1,651
Net cash provided by (used in) operating activities	12,265	(1,289)
Cash flows from investing activities:		
Capital expenditures	(2,469)	(8,775)
Proceeds from sale of assets	22	65
Net cash used in investing activities	(2,447)	(8,710)
Cash flows from financing activities:		
Restricted cash to secure letter of credit		(1,552)
Proceeds from exercise of stock options and employee stock purchases	146	60
Net cash provided by (used in) financing activities	146	(1,492)
Net increase (decrease) in cash and cash equivalents	9,964	(11,491)
Cash and cash equivalents, beginning of period	44,381	76,528
Cash and cash equivalents, end of period	\$ 54,345	\$ 65,037
Supplemental disclosure of cash flow information:		
Cash (refunded) paid for income taxes, net	\$ (10,032)	\$ 638

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 unaudited interim condensed financial statements have been prepared by Metro One Telecommunications, Inc. 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, 2003. 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.

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 \$6 million and \$12 million in the three-month and six month periods ended June 30, 2004, respectively, and approximately \$17 million and \$18 million in the three and six months periods ended June 30, 2003, respectively. These expenses were primarily related to marketing and promotion of our Infone service.

Stock-Based Compensation

We have elected 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. Accordingly, no compensation cost has been recognized in the financial statements related to stock options issued under our 1994 Stock Incentive Plan and our 2004 Stock Incentive Plan (the Plans).

If compensation cost on stock options granted under the Plans in the three and six months periods ended June 30 of 2004 and 2003 had been determined based on the fair value of the options as of the grant date in a method consistent with that described in SFAS No. 123, Accounting for Stock-Based Compensation, our net loss and net loss per share would have been changed to the pro forma amounts indicated below for the three and six month periods ended June 30:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Net loss, as reported	\$ (5,497)	\$ (9,180)	\$ (13,347)	\$ (5,070)
Stock-based compensation expense	(827)	(987)	(1,706)	(1,917)
Net loss, pro forma	\$ (6,324)	\$ (10,167)	\$ (15,053)	\$ (6,987)
Basic net loss per share, as reported	\$ (0.22)	\$ (0.37)	\$ (0.54)	\$ (0.21)
Basic net loss per share, pro forma	\$ (0.25)	\$ (0.41)	\$ (0.61)	\$ (0.28)
Diluted net loss per share, as reported	\$ (0.22)	\$ (0.37)	\$ (0.54)	\$ (0.21)
Diluted net loss per share, pro forma	\$			