METRO ONE TELECOMMUNICATIONS INC
Form 10-Q
August 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 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, 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 x No o

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

Large accelerated filer o **Accelerated filer o** **Non-accelerated filer 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

Number of shares of common stock outstanding as of August 10, 2007: 6,233,326 shares, no par value per share.

METRO ONE TELECOMMUNICATIONS, INC.

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Metro One Telecommunications, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Revenues	$ 5,278	$ 5,118	$ 10,180	$ 20,347
Costs and expenses:				
Direct operating	4,352	3,764	8,278	11,529
Selling, general and administrative	3,670	5,241	7,432	12,347
Depreciation and amortization	543	1,120	1,157	2,355
Restructuring charges	427	761	909	5,777
	8,992	10,886	17,776	32,008
Loss from operations	(3,714)	(5,768)	(7,596)	(11,661)
Other income, net	63	225	228	412
Loss before income taxes	(3,651)	(5,543)	(7,368)	(11,249)
Income tax expense (benefit)	13	50	(2)	50
Net loss	$ (3,664)	$ (5,593)	$ (7,366)	$ (11,299)
Net loss per common share:				
Basic	$ (.59)	$ (.90)	$ (1.81)	$ (1.81)
Diluted	$ (.59)	$ (.90)	$ (1.81)	$ (1.81)
Weighted average shares outstanding:				
Basic	6,233	6,233	6,233	6,233
Diluted	6,233	6,233	6,233	6,233

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

Metro One Telecommunications, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share amounts)	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 5,521	$ 11,965
Restricted cash	4,741	4,741
Accounts receivable, net	2,637	2,179
Prepaid costs and other current assets	829	961
Total current assets	13,728	19,846
Furniture, fixtures and equipment, net	2,107	3,014
Intangible assets, net	4,364	4,666
Other assets	86	86
Total assets	$ 20,285	$ 27,612
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 530	$ 983
Accrued liabilities	1,581	1,685
Accrued payroll and related costs	2,688	3,898
Total current liabilities	4,799	6,566
Other long-term liabilities	443	470
Total liabilities	5,242	7,036
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value, 10,000,000 shares authorized:		
Series A convertible preferred stock, 1,385 shares authorized, 220 and 0 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively, liquidation preference of $2,200,000 plus unpaid dividends of $0	1,813	
Common stock, no par value; 50,000,000 shares authorized, 6,233,326 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	120,087	120,067
Accumulated deficit	(106,857)	(99,491)
Total shareholders equity	15,043	20,576
Total liabilities and shareholders equity	$ 20,285	$ 27,612

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

Metro One Telecommunications, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)	Six Months Ended June 30, 2007	2006
Cash flows from operating activities:		
Net loss	$ (7,366)	$ (11,299)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,157	2,355
Loss on disposal of fixed assets	90	1,120
Deferred rent	(28)	(180)
Stock compensation expense	20	
Changes in certain assets and liabilities:		
Accounts receivable	(458)	8,237
Prepaid costs and other assets	139	(344)
Accounts payable and other liabilities	(1,767)	(3,251)
Net cash used in operating activities	(8,213)	(3,362)
Cash flows from investing activities:		
Decrease in cash restricted to secure letter of credit		700
Capital expenditures	(57)	(199)
Proceeds from sale of assets	13	817
Net cash (used in) provided by investing activities	(44)	1,318
Cash flows from financing activities:		
Proceeds from issuance of convertible preferred stock, net	1,813	
Net cash provided by financing activities	1,813	
Net decrease in cash and cash equivalents	(6,444)	(2,044)
Cash and cash equivalents, beginning of period	11,965	17,769
Cash and cash equivalents, end of period	$ 5,521	$ 15,725
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$ 18	$ 47

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

Metro One Telecommunications, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated 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 necessary for a fair presentation of the results for the interim periods. These condensed consolidated 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, 2006. The results of operations for the interim periods shown in this report are not necessarily indicative of results for future interim periods or the entire fiscal year.

The condensed consolidated financial statements include the accounts of Metro One Telecommunications, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

On July 6, 2006, we effected a one-for-four reverse split of our common stock. All share and per share data presented in the accompanying financial statements and notes thereto have been restated for the reverse stock split.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include cash deposits in banks and highly liquid investments with maturity dates of three months or less at the date of acquisition. Restricted cash consists of cash restricted to secure a letter of credit related to our workers compensation program and is invested in a bank certificate of deposit.

Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, under which compensation expense is recognized in the condensed consolidated statement of operations for the fair value of employee stock-based compensation. We elected the modified-prospective transition method as permitted by SFAS No. 123R and accordingly, prior periods have not been restated to reflect the effect of SFAS No. 123R. The modified-prospective transition method requires that stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations include (1) quarterly amortization of all stock-based compensation granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) quarterly amortization of all stock-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. In addition, pursuant to SFAS No. 123R, we estimate forfeitures when calculating stock-based compensation expense, rather than accounting for forfeitures as incurred, which was our previous method. Compensation expense is recognized over the requisite service (vesting) period using the straight-line attribution method.

Stock compensation expense recognized in accordance with SFAS No. 123R for both the three and six month periods ended June 30, 2007 was approximately $20,000. Stock compensation expense was not material to the financial statements for the three and six month periods ended June 30, 2006. The effect of recording stock-based compensation on basic and diluted earnings per share for the three and six month periods ended June 30, 2007 and 2006 was not material to our per share loss in those periods. Costs related to stock-based compensation are recorded in selling, general, and administrative expenses in the statement of operations.

Options to purchase our common stock are granted at prices equal to or greater than the fair market value on the date of grant. Options granted to directors generally vest immediately while options granted to employees generally vest and become exercisable quarterly over a four year period. All options generally expire ten years from the date of the grant.

We estimate the fair value of stock options using the Black-Scholes option pricing model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of our stock over the option s expected term, and the risk-free interest rate over the option s expected term and the Company s expected annual dividend yield. The expected option term represents the estimated time until exercise and is based on our historical experience with similar awards, taking into consideration contractual terms, vesting schedules and expected employee behavior. The expected stock price volatility is based on the historical volatility of our stock over the most recent period equal to the expected term of the option, adjusted for activity that is not expected to occur in the future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. We have not yet paid a dividend, and thus the dividend yield is 0.0%. Prospectively, the assumptions will be evaluated and revised as necessary to reflect changes in market conditions and our experience.

Estimates of fair value are not intended to predict actual future events or the value ultimately realized by people who receive equity awards.

Recent Accounting Pronouncements.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to provide additional information that will help investors and other financial statement users to more easily understand the effect of the company s choice to use fair value on its earnings. Finally, SFAS 159 requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 which we will be required to adopt in the first quarter of our 2008 fiscal year.

In May 2007, the FASB issued FSP FIN 48-1, *Definition of a Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FSP FIN 48-1 clarifies when a tax position is considered settled under FIN 48. Per FSP FIN 48-1, a tax position is considered effectively settled upon completion of the examination by the taxing authority without being legally extinguished. For effectively settled tax positions, a company can recognize the full amount of the tax benefit. FSP FIN 48-1 is effective upon a company s adoption of FIN 48. See further discussion of FIN 48 below. FSP FIN 48-1 did not have a material impact on our consolidated financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for our fiscal year beginning January 1, 2007. The adoption of this statement has not had a material effect on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to increase consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company s use of fair value measurements, including the effect of such measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material effect on our consolidated financial position or results of operations.

2. Restructuring Charges and Exit Activities

In the second quarter and first six months of 2007, we have continued to focus our efforts on reducing our operating costs and establishing long-term viability and stability for the Company. To that end, we incurred approximately $427,000 and $909,000 of restructuring expenses during the second quarter and first six months of 2007, respectively, primarily associated with one-time termination benefits related to head-count reductions and other costs primarily associated with efforts to select and engage a strategic advisor to pursue operational, strategic, and financial alternatives.

In the first six months of 2006, we undertook significant restructuring activities, due primarily to the departure of call volume from Nextel in March 2006. We closed 13 call centers and significantly reduced the number of call center and administrative employees and recorded restructuring charges in the second quarter and first six months of 2006 totaling $761,000 and $5.8 million, respectively.

Costs incurred in our restructuring activities during the second quarter and first six months of 2007 are shown in the following table (in thousands).

Major cost type	Three months ended June 30, 2007	Six months ended June 30, 2007
One-time termination benefits	$ 35	$ 148
Lease termination costs	(15)	9
Other	407	752
	$ 427	$ 909

The following summarizes the provisions, payments, adjustments and liability for costs associated with our cost reduction efforts for the period shown (in thousands):

	One-time termination benefits	Lease termination costs	Other	Total
Balance at January 1, 2007	$ 520	$ 192	$	$ 712
Provisions	113	24	345	482
Payments	(633)	(74)	(345)	(1,052)
Adjustments				
Balance at March 31, 2007		142		142
Provisions	35	(15)	407	427
Payments	(17)	(45)	(407)	(469)
Adjustments and non-cash items		(82)		(82)
Balance at June 30, 2007	$ 18	$		$ 18

We may undertake additional restructuring and/or consolidation efforts in the future that would cause us to incur additional restructuring charges.

3. Net Loss Per Share

Basic net loss per share is based on the weighted average number of shares of common stock outstanding. Diluted net loss per share reflects the potential dilution that could occur if outstanding options to purchase common stock were exercised or converted into common stock. There were no adjustments to net loss for the calculation of both basic and diluted net loss per share for all periods. For all periods presented in these financial statements, the calculation of weighted-average outstanding shares is the same on both a basic and diluted basis because inclusion of potential common shares would be anti-dilutive.

Options to purchase approximately 533,000 and 606,000 shares of common stock were outstanding at June 30, 2007 and 2006, respectively, but were not included in the computation of diluted net loss per share because their effect would be anti-dilutive.

4. Commitments and Contingencies

From time to time, 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, 2007, we had one letter of credit outstanding in the amount of $4,741,000 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 2008. In August 2007, the benefactor of the letter of credit agreed to a reduction in the amount of the letter of credit to $3.0 million based on lower than expected workers compensation claims. The result will be a reduction in the restricted cash balance and certificate of deposit securing the letter which will release $1.7 million of funds for use by the Company.

5. Significant Events

Financing arrangement

On June 5, 2007, the Company entered into a private financing transaction (financing transaction) pursuant to a Securities Purchase Agreement (the Purchase Agreement) by and among the Company and Columbia Ventures Corporation (Columbia) and Everest Special Situations Fund L.P. (Everest , together with Columbia, the investors). Pursuant to the Purchase Agreement, on June 5, 2007, the Company issued to the investors (i) 220 shares of its newly authorized Series A Convertible Preferred Stock, no par value (the convertible preferred stock), at a stated value of $10,000 per share, (ii) Stock Purchase Warrants to purchase an additional 77 shares of the convertible preferred stock at an exercise price of $10,000 per share of convertible preferred stock (the warrants) and (iii) Senior Secured Convertible Revolver Bridge Notes having a maximum principal amount of $7,800,000 and, subject to approval of the Company s shareholders, convertible into shares of convertible preferred stock (the notes and together with the convertible preferred stock and the warrants, the securities). The issuance of the convertible preferred stock and warrants upon conversion of the notes pursuant to the Purchase Agreement is subject to certain closing conditions. The Company received $2.2 million in gross proceeds in the initial closing, and the aggregate consideration to be received by the Company upon issuance of all of the convertible preferred stock and warrants in the second closing, assuming conversion of the notes, will be an additional $7.8 million.

The convertible preferred stock is convertible into shares of the Company s common stock at an initial conversion price of $1.78 per share. At the initial conversion price, the 220 shares of convertible preferred stock are convertible into an aggregate of 1,235,955 shares of the Company s common stock and, if the warrants are exercised in full, the additional 77 shares of convertible preferred stock will be convertible into an aggregate of 432,584 shares of common stock. In accordance with EITF Issue 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* the Company had evaluated if the convertible preferred stock had a beneficial conversion feature as the conversion price was less than the fair value of the Company s common stock on the measurement date. Under paragraph 6 of EITF 98-5, the discount related to the beneficial conversion feature would be calculated based on its intrinsic value which was approximately $334,000. Accordingly, pursuant to EITF Issue No. 98-5, since the preferred stock is not immediately convertible, the Company will record a return to the preferred shareholders on the Series A convertible preferred stock over the minimum period from the date of issuance to the date at which the preferred shareholders can realize that return (that is, through the date of earliest conversion or August 5, 2007) using the effective yield method. The Company has not allocated a fair value to the 77 warrants issued due to the fact that shareholder approval is required before the holders can exercise these warrants.

The notes have a four-month term and accrue interest due at maturity at 13% per annum on outstanding amounts. Funds available under the notes may be drawn by the Company only when its non-restricted cash balance falls below $3 million and the amount that can be drawn may not exceed the amount necessary to raise the Company s non-restricted cash balance to $3.5 million. No amounts have yet been drawn under the Notes. Immediately following shareholder approval of the issuance of the additional shares, the Company will draw down the full remaining principal amount of the notes and all the notes will immediately be converted into 780 shares of convertible preferred stock. Any accrued interest will also convert into convertible preferred stock. The Company has granted a security interest in certain of its assets as security for repayment of amounts outstanding under the notes. If the Company s shareholders fail to approve the issuance of the additional shares, any amounts outstanding under the notes will become immediately due and payable.

The number of shares of convertible preferred stock that can be purchased on exercise of the warrants represents 35% of the amount invested in convertible preferred stock at the initial closing and, subject to shareholder approval, 35% of the amounts invested in Preferred Stock upon conversion of the notes. Subject to shareholder approval, the

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warrants issued at the initial closing are exercisable for an aggregate of 77 shares of convertible preferred stock and the warrants to be issued upon conversion of the principal amount of the notes will be exercisable for an aggregate of 273 shares of convertible preferred stock. The warrants have a term of two years and an initial all cash exercise price of $10,000 per share. If all of the convertible preferred stock (including the convertible preferred stock issuable on conversion of the notes) is converted into shares of common stock, the warrants will be exchanged for warrants to purchase common stock. No value has been allocated to the warrants in this transaction because the Company s evaluation has determined the amount that would be allocated is not material. Holders of common shares of the Company will vote on a proposal to approve the sale of securities to the investors at the Company s annual meeting to be held on August 14, 2007.

In connection with the sale of the securities to the investors, the Company entered into a Registration Rights Agreement with the investors dated as of June 5, 2007 (the Registration Rights Agreement), which requires the Company to use its best efforts to register on Form S-3 under the Securities Act of 1933, as amended (the Securities Act), the shares of common stock issuable upon conversion of the convertible preferred stock (including those shares of convertible preferred stock issuable on exercise of warrants). Under the Registration Rights Agreement, the Company was required to file a registration statement covering such shares of common stock within 30 days from the date of the Purchase Agreement, subject to extension upon certain conditions. The Registration Rights Agreement also provides the investors with demand and piggyback registration rights under the Securities Act for shares of common stock issuable upon conversion of the convertible preferred stock (including shares of convertible preferred stock issuable on exercise of warrants or conversion of the notes).

Nasdaq listing issues

On June 27, 2007, the Company received a Nasdaq Staff Deficiency Letter informing the Company that the Company no longer complies with Nasdaq s audit committee requirements for continued listing as set forth in Marketplace Rule 4350. Marketplace Rule 4350(d)(2)(A) requires that the audit committee of each Nasdaq issuer have at least three members, each of whom, among other things, must be independent as defined under Marketplace Rule 4200(a)(15) and meets the criteria for independence set forth in SEC Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended. Currently, the Audit Committee of the Company is comprised of two independent members.

The letter states that the Company will be provided a cure period in order to regain compliance until the earlier of its next annual shareholders meeting or June 5, 2008; or if the next annual shareholders meeting is held before December 3, 2007, then the Company must evidence compliance no later than December 3, 2007. The letter also states that, in the event the Company does not regain compliance within this period, the Company will be provided written notification that the Company s securities will be delisted.

The Company s Board of Directors intends to take the necessary action to appoint an independent member to the Audit Committee within the cure period provided so as to maintain continued Nasdaq listing.

Termination of contract

In February 2005, we entered into a Master Services Agreement for Directory Assistance Services (the Services Agreement) with Nextel Operations, Inc., acting on behalf of certain affiliates (collectively Nextel) of Nextel Communications, Inc. The Services Agreement superseded our previous services agreement dated in June 1999. Under the Services Agreement, we agreed to provide directory assistance services to Nextel s customers on a non-exclusive basis, and Nextel could transition call volume away from us on short notice and/or terminate services entirely.

In October 2005, we received notification from Nextel that it would be terminating the Services Agreement effective January 9, 2006. In February 2006, we entered into a Settlement Agreement and Disentanglement Transition Plan (the Plan) with Nextel that resolved certain disputed matters in connection with the termination of the Services Agreement. Under the Plan, we continued to provide services to Nextel callers through March 31, 2006 in return for the payment by Nextel of approximately $5.75 million. Those payments were in addition to $2.5 million previously paid by Nextel in December 2005 in connection with the transition and in addition to the contractual payments by Nextel for normal service provided by Metro One to Nextel callers through the transition period. Calls from Nextel were substantially transitioned away from us by March 31, 2006, and we have received all amounts due from Nextel as of the date of this filing. Including the $5.75 million received in the first quarter of 2006 as part of the settlement payments, Nextel represented approximately 56% of our revenues for the first six months of 2006. Nextel accounted for approximately 72% of our revenues in both the second quarter and first six months of 2005.

Termination of the Services Agreement has had, and will continue to have, a significant adverse impact on our results of operations and cash flows and raises doubt as to whether we can continue to operate as a going concern. We have experienced net losses in each of the quarterly and annual periods since the first quarter of 2003. We expect to meet our cash requirements in 2007 using our existing cash and cash equivalents and, if approved by shareholders, proceeds from the sale of additional convertible preferred stock.

Our management is working to aggressively pursue new and additional sources of revenues to support our reduced cost structure, further reduce the direct cost of delivering our services and reduce our general and administrative overhead, and develop and grow our data services business. There can be no assurance that management s plans will be successful. In such event, we may attempt to establish borrowing arrangements or otherwise raise funds (as indicated by the financing arrangement discussed above) in order to maintain adequate liquidity, although we cannot provide assurance that financing or other funding will be available in amounts or on terms acceptable to us. If we are unable to execute our operations according to our plan or obtain additional financing, we may be forced to cease operations.

Significant new contract.

In August 2006, we entered into a Telecom Information Services Agreement (the Agreement) with Jingle Networks, Inc. (Jingle). Under the Agreement, we are a preferred directory assistance provider for 1-800-FREE411 . In addition to per call charges, the Agreement includes financial commitments from Jingle based on call volume expansion and other financial incentives. The Agreement is for three years and will automatically renew annually for up to two additional years unless either party provides notice of termination at least 60 days prior to the commencement of such renewal period. Under the Agreement, as a preferred directory provider we will be allocated no fewer calls than any other vendor providing similar services. The Agreement provides that our status as a preferred provider may be terminated by Jingle but, in such event, the warrants described below will be terminated. Jingle accounted for approximately 42% and 39% of our revenue in the second quarter and first six months of 2007, respectively.

In connection with the Agreement, we issued to Jingle two warrants to purchase shares of our common stock. The first warrant was for the purchase of up to 623,250 shares of common stock at an exercise price of $2.60 per share. The warrant was exercisable under the condition that Jingle meet certain revenue and payment thresholds through February 28, 2007. The revenue targets were not met, thus, the first warrant terminated on February 28, 2007.

The second warrant is for the purchase of up to 870,075 shares of our common stock; provided, however, that shares represented by the sum of the first and second warrants, if exercised, cannot exceed 19.98% of our total shares outstanding after the warrants are exercised. The exercise price for the second warrant is $2.42, which is equal to 115% of the average closing price per share of our common stock over the 20 consecutive trading days ending the last trading day prior to July 1, 2007. The second warrant will not be exercisable unless and until certain revenue and payment thresholds are achieved by Jingle during specified time periods as outlined in the Agreement. The second warrant terminates on July 1, 2009.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements and trend analyses contained in this item and elsewhere in this report on Form 10-Q 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, also include words such as believes, expects, anticipates, plans, estimates, may, will, should, could, con 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 the expiration or pricing of customer contracts, the successful execution of our cost reduction efforts and current business strategy, and our ability to generate cash from operations, and other risks, including those discussed in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) and those described in our other filings with the SEC, press releases and other communications. Any forward-looking statement in this report reflects our expectations at the time of this report only. 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.

Overview

We are a provider of Enhanced Directory Assistance® and other information services delivered through live operators and by electronic means. We contract primarily with wireless carriers, Voice over Internet Protocol (VoIP) providers, cable companies, Competitive Local Exchange Carriers (CLEC), free directory assistance providers, prepaid carriers, and payphone operators to provide our services to their subscribers and users. Our proprietary Enhanced Directory Assistance platform provides comprehensive directory assistance listings and other informational content and services. Other non-directory assistance services and content include access to personal contacts and calendars, reservation services, movie listings and a variety of other unique services. Our special return-to-operator features, StarBack® and AutoBack®, make the telephone easier to use and are offered exclusively by Metro One. All of our services are provided by operators located only in the United States, or electronically. Many of our features or aspects thereof are the subject of patents or pending patent applications. Revenues are derived principally through fees charged to telecommunications carriers and other customers.

In addition to voice-based services, we also provide Enhanced 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. We contract with a broad range of companies that require electronic directory assistance including companies in the service, marketing, and financial sectors. Our Data Services business represents an emerging business based on infrastructure originally developed to support our voice-based call center business.

Under a typical wholesale contract, a carrier agrees to route some or all of their directory assistance calls to us. We offer our services to multiple carriers within the same market. When a carrier s subscribers dial a typical directory assistance number, such as 411, 555-1212 or 00, the calls are routed to and answered by our operators identifying the service by that carrier s brand name.

Each carrier customer establishes its own directory assistance fee structure for its subscribers. Wireless subscribers typically pay fees ranging from $1.25 to $1.99 plus airtime charges for our services. We bear no subscriber collection risk with respect to carrier subscribers; however, there may be collection risk to the extent growth and profitability in the telecommunications industry decreases and to the extent we provide services to other types of customers.

We charge our carrier customers on a per call basis. Prices for services provided to other types of customers, including businesses, governmental units or customers who receive our services in electronic form, may vary based on the nature of the service, volume and other circumstances.

As discussed in note 5 to the Condensed Consolidated Financial Statements (Unaudited), as a result of the termination of contracts with significant customers, the Company has experienced significant financial losses and reduction of cash flows over the last several years. It is likely that additional losses will be incurred during parts or all of 2007. Such customer losses have had, and will continue to have, a significant adverse impact on our results of operations and cash flows and these events and issues raise doubt as to whether we can continue to operate as a going concern. We have experienced net losses in each of the quarterly and annual periods since the first quarter of 2003. Our management is working to aggressively pursue new and additional sources of revenues to support our reduced cost structure, further reduce the direct cost of delivering our services and reduce our general and administrative overhead, and develop and grow our data services business. There can be no assurance that management s plans will be successful. In such event, we may attempt to establish borrowing arrangements or otherwise raise funds (as indicated by the financing arrangement discussed in note 5 to the Condensed Consolidated Financial Statements (Unaudited)) in order to maintain adequate liquidity, although we cannot provide assurance that financing or other funding will be available in amounts or on terms acceptable to us. If we are unable to execute our operations according to our plan or obtain additional financing, we may be forced to cease operations.

Significant Events

Restructuring.

In the second quarter and first six months of 2007, we have continued to focus our efforts on reducing our operating costs and establishing long-term viability and stability for the Company. To that end, we incurred approximately $427,000 and $909,000 of restructuring expenses during the second quarter and first six months of 2007, respectively, primarily associated with our efforts to select and engage a strategic advisor to pursue operational, strategic, and financial alternatives and one-time termination benefits related to certain corporate head-count reductions.

Subsequent event.

At June 30, 2007, we had one letter of credit outstanding in the amount of $4,741,000 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 2008. In August 2007, the benefactor of the letter of credit agreed to a reduction in the amount of the letter of credit to $3.0 million based on lower than expected workers compensation claims. The result will be a reduction in the restricted cash balance and certificate of deposit securing the letter which will release $1.7 million of funds for use by the Company.

Other significant events.

See note 5 of the Notes to the Condensed Consolidated Financial Statements (Unaudited) for a discussion of the financing arrangement, Nasdaq listing issues, termination of contract, and significant new contract.

Results of Operations

This table shows selected items from our statements of operations expressed as a percentage of revenues:

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2007		**2006**		**2007**		**2006**	
Revenues	100.0	%	100.0	%	100.0	%	100.0	%
Direct operating costs	82.5		73.5		81.3		56.7	
Selling, general and administrative costs	69.5		102.4		73.0		60.7	
Depreciation and amortization	10.3		21.9		11.4		11.6	
Restructuring charges	8.1		14.9		8.9		28.4	
Loss from operations	(70.4	)	(112.7	)	(74.6	)	(57.3	)
Other income, net	1.2		4.4		2.2		2.0	
Loss before income taxes	(69.2	)	(108.3	)	(72.4	)	(55.3	)
Income tax expense (benefit)	0.2		1.0		0.0		0.2	
Net loss	(69.4	)%	(109.3	)%	(72.4	)%	(55.5	)%

Comparison of second quarter 2007 to second quarter 2006

Revenues increased 3.1% to $5.3 million from $5.1 million due primarily to an increase in call volume to 28.9 million from 18.4 million calls. Call volume increases resulted from greater volume from most existing customers as well as from new volume from customer contracts signed in the last year. Increased revenue from higher call volume

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was offset by a lower average revenue per call. Average revenue per call was approximately $0.20 and $0.26 in the second quarter of 2007 and 2006, respectively, reflecting the change in call volume mix and competitive pressures.

Direct operating costs consist of salaries, wages, benefits and payroll taxes relating to call center personnel plus the costs of listings data and content acquisition. These costs increased 15.6% to $4.4 million from $3.8 million. This increase was primarily due to higher personnel and data costs associated with servicing greater call volumes. The increased cost of servicing nearly double the volume from the prior year was partially offset by a decrease of approximately 13% in the average hourly fully loaded labor rate for servicing those calls. As a percentage of revenues, direct operating costs increased to approximately 82.5% from 73.5% in the second quarter of 2007, primarily resulting from the decrease in the average revenue per call.

Selling, general and administrative costs decreased 30.0% to $3.7 million from $5.2 million. This decrease resulted primarily from reductions in personnel and associated costs of approximately $700,000 and network, systems and facilities-related costs of approximately $800,000. As a percentage of revenues, selling, general and administrative costs decreased to 69.5% from 102.4% due to the above noted cost reductions.

Depreciation and amortization expense decreased 51.5% to $ 543,000 from $1.1 million. The decrease in depreciation and amortization was due primarily to the overall reduction in acquisition of fixed assets in the last several years as operations have been reduced. Depreciation and amortization decreased to 10.3% from 21.9% of revenue as a result of our reduced operations facilities in place.

Restructuring charges in the quarter ended June 30, 2007 were $427,000 and consisted primarily of one-time termination benefits related to head-count reductions and other costs primarily associated with efforts to select and engage a strategic advisor to pursue operational, strategic, and financial alternatives. Net restructuring costs were $761,000 in the second quarter of 2006 and consisted primarily of one-time termination benefits for employees of approximately $382,000, dismantling costs related to the closed call centers of approximately $290,000, and loss on disposal of assets of approximately $935,000. In addition, during the second quarter of 2006, we settled or otherwise disposed of lease obligations of several closed call centers. As a result of these settlement activities, we incurred actual costs that were $846,000 lower than the amounts we had previously accrued for those lease obligations.

Other income was $63,000 and $225,000 in the second quarter of 2007 and 2006, respectively, and consisted primarily of interest income earned on cash and cash equivalents. The reduction in interest income was due to a decrease in cash available for investing.

Because of our operating losses in the second quarters of 2007 and 2006, we recorded no federal income tax expense. We did, however, record approximately $13,000 and $50,000 of state income taxes in the second quarter of 2007 and 2006, respectively. We have a valuation allowance against deferred tax assets associated with operating losses in this and prior quarters and other deferred tax assets because it is deemed more likely than not that these assets will not be realized. Accordingly, no federal income tax benefit has been recorded with respect to these deferred tax assets.

Liquidity and Capital Resources

As of June 30, 2007, we had approximately $10.3 million in cash and cash equivalents and restricted cash (including $4.7 million of restricted cash) compared to approximately $16.7 million (including $4.7 million of restricted cash) at December 31, 2006. As noted above under Financing arrangement in note 5 of the Notes to the Condensed Consolidated Financial Statements (Unaudited), in June 2007 we issued preferred stock under that arrangement and received approximately $1.8 million (net of costs of the transaction). Including the cash received in the financing arrangement, our operations consumed approximately $8.2 million of cash in the first six months of 2007 primarily from net operating losses and restructuring costs. Management s goal is to restructure our operations to achieve positive, sustainable cash flow and earnings and we believe we have made significant progress toward that goal. There can be, however, no assurances that our cash resources will be sufficient to achieve that goal in the near term or ever.

Cash and cash equivalents and restricted cash are recorded at cost which approximates their fair market value. We have no outstanding debt.

Cash flow from operations. Net cash used in operations was $8.2 million in the first six months of 2007 compared to net cash used in operations of $3.4 million in the first six months of 2006. This difference of approximately $4.8 million resulted primarily from a net decrease in cash received from customers of approximately $18.9 million partially offset by net decreases in cash paid to or on behalf of employees of $7.0 million, cash paid to suppliers of $3.0 million, and cash paid for restructuring activities of $3.9 million.

Cash flow from investing activities. Cash used in investing activities was $44,000 in the first six months of 2007 resulting primarily from capital expenditures. Cash provided by investing activities was $1.3 million in the first six months of 2006, primarily resulting from receipt of proceeds from the sale of assets and a reduction in cash used to secure a letter of credit related to our workers compensation program partially offset by cash used for capital purchases.

Cash flow from financing activities. Cash flow from financing activities was $1.8 million in the first six months of 2007 resulting from the financing transaction noted above. Cash flow from financing activities was not significant in the first six months of 2006.

Future capital needs and resources. The primary uses of our capital in the near future are expected to be primarily for working capital. We expect to adjust personnel, call centers and network capacities in order to address varying business circumstances, including changes in volume and pricing and other provisions of customer contracts.

Cash on hand (including restricted cash) and short-term investments at June 30, 2007 was approximately $10.3 million and, if approved by shareholders at our annual meeting on August 14, 2007, the financing transaction noted above will provide additional cash of approximately $7.8 million. In addition, in August 2007, the benefactor of the letter of credit securing our workers compensation program has agreed to a reduction in the amount of the letter of credit of approximately $1.7 million based on lower than expected claims. The result will be a reduction in the letter of credit and the restricted cash and certificate of deposit securing the letter which will release those funds for use in our operations. However, our operations and future activities, including additional restructuring efforts, if any, will likely reduce available cash.

We have experienced net losses in each of the quarterly and annual periods since the second quarter of 2003. Our independent registered public accounting firm included a going concern explanatory paragraph in its report on our consolidated financial statements as of and for the year ended December 31, 2006. We, however, expect to meet our cash requirements in the remainder of 2007and beyond using our existing cash and cash equivalents, and if approved by shareholders, cash received from the pending financing transaction.

Our management is working to aggressively pursue new and additional sources of revenues to support our reduced cost structure, further reduce the direct cost of delivering our services and reduce our general and administrative overhead, and develop and grow our data services business. There can be no assurance that management s plans will be successful. In such event, we may attempt to establish borrowing arrangements or otherwise raise funds in order to maintain adequate liquidity. The financing transaction discussed above requires shareholder approval and as of the date of this filing, such approval has not yet been obtained. We cannot provide assurance that the financing transaction will be approved by our shareholders or that other funding will be available in amounts or on terms acceptable to us. If we are unable to execute our operations according to the plan or obtain additional financing, we may be forced to cease operations.

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Management believes that of our significant accounting policies (see Note 1 to the Condensed Consolidated Financial Statements (Unaudited)), those governing accounts receivable, the lives and recoverability of the carrying amount of equipment and other long-lived assets, such as existing intangibles, estimates involving the levels of our contingent liabilities for workers compensation and medical self-insurance and estimates of current and deferred taxes owed may involve a higher degree of judgment, estimation and uncertainty.

Accounts receivable. Our wholesale customer base has primarily consisted of large wireless telephone carriers in the United States. As such, we have had minimal risk of uncollectibility, at any point in time, related to outstanding accounts receivable with these customers. We have not experienced significant collection issues or write-offs related to these customers. Since our accounts receivable are concentrated in relatively few of these wholesale customers, a

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significant change in the liquidity or financial position of any one of them could adversely impact collection of our accounts receivable and therefore have a material adverse effect on our financial position and future operating results. In addition, our data services business is generating receivables from customers that may not be as financially stable as our large carrier customers which to date has not, but may in the future, expose us to greater risk of uncollectible receivables than we have experienced in the past.

Long-lived assets and intangibles. We evaluate the remaining life and recoverability of equipment and other assets, including patents and trademarks and internally developed software, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. At such time, we estimate the future cash flows expected from use of such assets and their eventual disposition and, if lower than the carrying amounts, adjust the carrying amount of the assets to their estimated fair value. Because of our changing business conditions, including lower wholesale prices and dependence on a relatively small number of customers for a significant portion of our revenues, our estimates of future cash flows to be generated from our operations could change materially, resulting in the need for us to record additional impairment charges. In addition, as a result of our changing business conditions, we expect to adjust personnel, call centers and network capacities. If any of these activities result in certain of our assets no longer being used in operations, we may need to record an additional impairment charge. As a result of the decision by Nextel to terminate its contract with us, as discussed under Significant Events above, and because of continuing operating losses, we evaluated our fixed assets and intangibles as of December 31, 2006 for impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 144. Our evaluation determined that the assets were not impaired as of December 31, 2006.

Self-insurance reserves. In the past, we have self-insured a portion of our workers compensation and employee medical insurance programs. In some periods we purchased stop loss coverage at varying levels in order to mitigate our potential future losses. The nature of the liabilities associated with these self-insurance programs, which may not fully manifest themselves for several years, requires significant judgment. We evaluate open workers compensation and medical claims under these policies periodically to determine the reasonableness of the reserves we have recorded for such claims. Our evaluation includes estimates of potential incurred-but-unreported claims as well as factors that may cause original estimates of such claims to increase over time, such as available claims data and historical trends and experience, as well as future projections of ultimate losses, expenses, premiums and administrative costs. We adjust these reserves if events or changes in circumstances indicate that ultimate payments related to the claims will be more than the recorded reserves. At June 30, 2007, we have reserved approximately $1.3 million and $160,000 related to these self-insured workers compensation and medical programs, respectively. While we believe that the amounts reserved for these obligations are sufficient, any significant change in the status of open claims or costs associated with claims made under these plans could have a material adverse effect on our financial position, results of operations or cash flows.

*Income taxe*s. Accounting for income taxes requires us to estimate our income taxes in each jurisdiction in which we operate. Due to differences in the recognition of items included in income for accounting and tax purposes, temporary differences arise which are recorded as deferred tax assets or liabilities. We estimate the likelihood of recovery of these assets, which is dependent on future levels of profitability and enacted tax rates. Should any amounts be determined not to be recoverable, or assumptions change, we would be required to take a charge to establish a valuation allowance against such deferred tax assets, which could have a material effect on our financial position, results of operations or cash flows. At June 30, 2007 and 2006, a valuation allowance reduced net deferred tax assets to zero.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to provide additional information that will help investors and other financial statement users to more easily understand the effect of the company s choice to use fair value on its earnings.

Finally, SFAS 159 requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 which we will be required to adopt in the first quarter of our 2008 fiscal year.

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In May 2007, the FASB issued FSP FIN 48-1, *Definition of a Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FSP FIN 48-1 clarifies when a tax position is considered settled under FIN 48. Per FSP FIN 48-1, a tax position is considered effectively settled upon completion of the examination by the taxing authority without being legally extinguished. For effectively settled tax positions, a company can recognize the full amount of the tax benefit. FSP FIN 48-1 is effective upon a company s adoption of FIN 48. See further discussion of FIN 48 below. FSP FIN 48-1 did not have a material impact on our consolidated financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for our fiscal year beginning January 1, 2007. We do not expect the adoption of this statement to have a material effect on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to increase consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company s use of fair value measurements, including the effect of such measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material effect on our consolidated financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of our liquid resources are invested in money market instruments and short-term debt securities. However, these funds were invested in overnight money market instruments or debt securities with short-term effective maturities at June 30, 2007 and were redeemable on a daily or monthly basis. Therefore, the fair market value of these investments is not materially affected by changes in market interest rates. All of the underlying investments in the money market fund had maturities of three months or less. A hypothetical 1% fluctuation in interest rates would not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

There has not been any change in our internal control over financial reporting, that occurred during the fiscal quarter covered by this report, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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.

Risks Related to Our Company

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 first quarter of 2003. In the years ended December 31, 2006 and 2005, we incurred losses of $19.2 million and $39.8 million, respectively. In the first six months of 2007, we incurred losses of $7.4 million. At December 31, 2006, we had working capital of approximately $13.3 million, and at June 30, 2007, we had working capital of approximately $8.9 million, including $1.8 million (net of transaction costs) from the first phase of the financing transaction. Even if we obtain the additional $7.8 million of gross proceeds from the financing transaction, we will need to generate additional revenue and continue to decrease our expenditures to achieve profitability. We can give no assurance that we will achieve sufficient revenue or reduce expenditures to be profitable 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.

Our unrestricted cash balances at December 31, 2006 and June 30, 2007, were approximately $12.0 million and $5.5 million (including $1.8 million, net of financing costs, from the first phase of the financing transaction), respectively. In addition, we have obtained access to an additional $1.7 million of restricted cash as discussed above under Subsequent event. Although we received gross proceeds of $2.2 million in the first closing of the financing transaction, there can be no assurance that our shareholders will approve the issuance of the additional shares in that financing transaction and that we will receive the additional $7.8 million. Unless a realistic alternative should materialize, our inability to obtain these additional funds will most likely lead to an eventual wind-down of the business and liquidation.

We need to expand call volume, increase our efficiencies and substantially lower the cost of delivery of our services in order to be successful.

In order to successfully execute our business strategies, we need to increase the volume of calls we service. We intend to increase call volume by seeking additional customers, including landline carrier customers, as well as seeking additional business from our existing customers and by offering our services to other types of customers. Because of increasing competitive pressures and declining per call pricing, we need to substantially reduce the cost of delivery of our directory assistance services in order to compete with automated services, offshore contractors, and other low-cost providers. If we are unable to expand our wireless business or attract significant landline business revenues on a cost effective basis or at all, or if we are unable to substantially reduce the cost of delivering our services, we may be unable to achieve and maintain profitability.

We have been restructuring our business to focus on providing directory assistance and information services on a wholesale basis. Even after giving effect to this restructuring, we may not have sufficient cash to execute on our current business plan.

We have taken steps to restructure certain aspects of our business, including closing call centers, reducing our work force, discontinuing our Infone retail service, and renegotiating existing agreements with customers. We may be forced to take additional steps to lower our costs. However, restructuring (for example severing employees and terminating leases) takes resources and time to implement. There can be no assurance that we will be successful in lowering our costs further or otherwise implementing the restructuring. There can also be no assurance that following any restructuring we will have sufficient cash reserves to achieve profitability. Furthermore, any restructuring could have a material adverse impact on our ability to execute on our business plan.

We have contracts with a limited number of customers. If we fail to extend these contracts or sign new ones, or if these contracts are terminated prior to their expiration, our business could be adversely affected.

A limited number of customers account for a large percentage of our continuing revenues. Some of our other contracts are non-exclusive, contain performance and other standards, and call volume may be transferred to alternative providers within the terms of the agreements. If we fail to extend or replace our contracts, or other contracts are terminated prior to their expiration, our business could be adversely affected. Although we seek to increase the number of our customers, opportunities to obtain customers with large call volumes are limited because a small number of companies dominate the telecommunications market. This limits the potential carrier customer base and our expansion opportunities through carrier relationships.

We have a long sales cycle which may cause delays that adversely affect our revenue growth and operating results.

A customer s decision to contract for our directory assistance and information services involves a significant commitment of technical and other resources. As a result, we have a long sales cycle for both new contracts and contract extensions, particularly with large customers. The selling process involves demonstrating the value-added benefits of outsourcing directory assistance and using our services rather than those of our competitors. Additionally, the effectiveness of our marketing to other types of customers, including businesses, governmental units or callers attracted through other means or affiliations, is difficult to predict at any given point in time, given a wide variety of potential business circumstances. Any delays due to lengthy sales cycles could significantly affect our revenue growth and operating results.

Our inability to achieve desired pricing levels could adversely affect our ability to return to profitability.

We are subject to competitive pressures with respect to pricing that have affected our operations and profitability and could adversely affect our ability to return to profitability. Generally, our pricing levels have declined and, in the future, may continue to decline in response to competition in the industry. The prices that we charge our carrier customers are subject to the terms of our contracts. The changing telecommunications market, the relative leverage of the negotiating parties and the overall competitive landscape can significantly impact contract pricing negotiations. In addition, other sources of directory assistance, such as automation and those provided by offshore call centers and the Internet provide low cost forms of competitive services. We charge our carrier customers on a per call basis, with prices varying in some cases based on call volume. If we continue to reduce our prices without a corresponding increase in call volume, there could be an adverse impact on our ability to achieve and maintain profitability.

Alternative methods for delivery of directory assistance and information services could reduce the demand for our services.

Our revenues continue to come primarily from providing Enhanced Directory Assistance and information services to telephone users. However, information can be transmitted in other ways, including more intelligent communications devices and other technologies and protocols, and over the Internet. For example, as the Internet continues to develop and becomes easier to use and access, technologies may be developed that decrease or eliminate the demand for telephone-based or voice-based directory or information services. Widespread acceptance of existing and developing technologies and protocols, such as voice recognition and wireless application protocol, could adversely affect our business. Our call volume could decline if telephone users change their usage habits and rely on the Internet or other alternatives as their primary source for information.

We face substantial competition from a number of other companies.

Many of our competitors in the directory assistance market, including the regional Bell operating companies, have far greater resources and better name recognition. The regional Bell operating companies also may have the advantage of being the local telephone carrier in their area of operation. Some of these companies are or may be developing their own versions of directory assistance services. We also face competition from a number of other independent directory assistance providers. Individual competitors may also seek to provide low cost domestic or offshore service or to provide automation of directory assistance services. If we are unable to compete successfully, it could have an adverse effect on our business, financial condition, results of operations or cash flows. Our ability to compete successfully depends, in part, on our ability to anticipate and appropriately respond to many factors, including pricing decisions by carriers, decisions by carriers to force consumers to accept lower-quality information services products, the introduction of new services and products by our competitors, changes in subscriber preferences, changes in economic conditions and discount pricing strategies by our competitors.

The rapidly changing telecommunications market could unfavorably affect us.

The telecommunications market is subject to rapid change and uncertainty that may result in competitive situations which could unfavorably affect us. These changes and uncertainties are due to, among other factors, the following:

- Mergers, acquisitions and alliances among carriers and among our competitors, which can result in fewer carriers in the marketplace, lost carrier customers, increased negotiating leverage for newly affiliated carriers and more effective competitors;

- Changes in the regulatory environment, which may affect us directly, by affecting our ability to access and update listings data at a reasonable cost, or indirectly, by restricting our carrier customers ability to operate or provide a competitive service;

- Increasing availability of alternative methods for delivery of directory assistance and other information services, including the Internet;

- Evolving industry standards, including frequent technological changes and new product introductions; and

- Changes in retail prices offered to consumers for our services or for services perceived to be substitutes for ours, in whole or in part.

Our quarterly and annual operating results may vary significantly in part due to factors outside our control.

In the future, as in the past, our quarterly and annual operating results may vary significantly as a result of a number of factors. We cannot control many of these factors, which include, among others:

- Changes in the telecommunications market, including the addition or withdrawal of carriers from the market, changes in technology and increased competition from existing and new competitors;

- The timing and expense of our call center network expansion or contraction, including changing staffing and infrastructure expenses related to anticipated call volume changes;

- The addition or expiration of contracts with carrier customers;

- Changes in our or our competitors , customers or suppliers pricing policies;

- Lengthy sales cycles for new and extended contracts;

- The timing of the commencement of our services under new or existing contracts with our carrier customers, which depends in part on the customers ability to adapt their networks and billing systems to allow them to transfer calls to us;

- Lack of market acceptance or delays or increased development costs related to the introduction of our services or features; and

- General economic conditions.

For these reasons, investors should not rely on period-to-period comparisons of our financial results as an indication of any future results. Our future operating results could fall below the expectations of securities industry analysts or investors. Any such shortfall could result in a decline in the market price of our common stock. Fluctuations in our operating results and cash flows would likely increase the volatility of our common stock price.

Our operating results are significantly affected by our ability to accurately estimate the amount and timing of call volume, which is often subject to factors outside of our control.

Our operating results are significantly affected by costs incurred for expanding or contracting staffing and infrastructure. We incur significant staffing and general and administrative costs in contracting or expanding operations, as necessary, and in anticipation of additional or reduced call volume under our customer contracts. If such call volume does not depart or arrive as scheduled, in the amount anticipated, or at all, our operating results can be adversely affected. This could increase our operating expenses without a corresponding increase in revenues.

Regulations affecting our customers and suppliers and future regulations to which we may be subject may adversely affect our business.

While in the past, our principal business as a wholesale supplier of Enhanced Directory Assistance and information services for telecommunications common carriers has not been directly regulated, the offering of those services to the public by our customers is regulated by various federal and state regulatory authorities. The Federal Communications Commission (FCC) has jurisdiction over all U.S. telecommunications common carriers to the extent they provide interstate or international communications services, including, in our case, the use of our local networks to originate or terminate such services. The application of the FCC s current and/or future policies could have a material adverse effect on our business, operating results and financial condition.

Other aspects of our services may be subject to state or federal regulation, such as regulations relating to the confidentiality of data and communications, copyright issues, and taxation of services. We cannot predict the actions that federal, state, and local regulators may take or what impact such actions would have on our business.

If we are unable to anticipate changes in technology and industry standards and to develop new services and features, we may not succeed.

Our success depends, in part, on our ability to anticipate changes in technology and industry standards and to develop and introduce new services and features that are accepted by the marketplace and cost effective for us to provide as a part of our overall service offerings. The development of new services and features can be very expensive. Further, given rapid technological changes, frequent introduction of new products, services and features, and changing consumer demands that characterize our industry, it can be difficult to correctly anticipate future changes in technology and industry standards. If we fail to develop new services and features, encounter difficulties that delay the introduction of such services and features, or incorrectly anticipate future changes and develop services and features that are not accepted by the marketplace or are not cost effective for us to provide as a part of our overall service offerings, we may not succeed at our business.

Systems failures, delays and other problems could harm our reputation and business, cause us to lose customers and expose us to customer liability.

Our success also depends on our ability to provide reliable services. Our operations could be interrupted by significant damage to or failure of our network, our connections to third parties, our computer hardware or software or our customers or suppliers computer hardware or software. Any such significant damage or failure could disrupt the operations of our network and the provision of our services and result in the loss of current and potential customers. In addition, if call volume increases, we may need to expand and/or upgrade our technology and network hardware and software in order to provide services. Capacity limits on our technology and network hardware and software may make it difficult for us to expand and upgrade our systems in a timely and economical manner.

If we are unable to obtain or adequately update directory or information content at an economical cost, we may be unable to provide current levels of service or improve our service.

Our operations depend on our access to the names, telephone numbers and other information that we supply directly to callers or we use in providing our services. The availability, cost, quality and usefulness of such data varies widely across geographic regions. If we are unable to obtain or update directory or information content at an economical cost, we may be unable to provide current levels of service, improve our Enhanced Directory Assistance service, or provide new services and features. Ultimately, the satisfaction of callers and our carrier customers, and our ability to renew and extend our current customer contracts and enter into new customer contracts, depends on the quality of services we provide. The quality of our services is directly related to the quality of our listings data and other information content.

As we rely on a limited number of suppliers, an abrupt loss of any key supplier could adversely affect our business operations or delay our development efforts.

We rely on some key suppliers to provide us with programming and engineering services and to license us their technology. An abrupt loss of any current key supplier could cause a disruption in our operations or a delay in our development efforts and could adversely affect our business operations.

If we are unable to continue to attract and retain qualified senior management, sales and technical personnel and call center operators, or our call center staff is unionized, our operations could be adversely affected.

Our success depends to a significant extent on the efforts and abilities of our senior management, sales and technical personnel and call center operators. The loss of the services of our senior management and technical personnel could have a material adverse effect on our business and our ability to meet our strategic objectives. In addition, increasing our revenues is critical to our success. If we are unable to attract and retain qualified and productive sales personnel, we may not be able to increase our revenues which would have an adverse effect on our plans and our business. We also depend on the continued service of our call center operators, who we hire from the available labor pool. The ability to attract and retain qualified senior management, sales and technical personnel, operators and other skilled employees is extremely important to the operation of our business. If we are unable to attract and retain qualified individuals, or we are required to pay significantly higher wages and other benefits to such individuals, or if our call center staff is unionized, it could adversely affect our business operations. We find it more difficult to recruit and retain qualified individuals during periods of low unemployment and, therefore, may be subject to increasing pressure to offer higher wages and other benefits during such periods. In our call center hiring, we may also feel the effects of the telecommunications industry in general, which has widespread union membership among its operators and other workers.

If we are unable to use and protect our intellectual property, we may be unable to provide some of our Enhanced Directory Assistance and information services or profitably operate our business.

We regard aspects of our Enhanced Directory Assistance, and their features and processes, to be proprietary. If we are unable to use and protect our intellectual property, we may be unable to provide some of our Enhanced Directory Assistance and/or our personal assistant services or profitably operate our business. To a limited extent, we rely on a combination of trade secret, patent and other intellectual property law, nondisclosure agreements and other protective measures to protect our intellectual property. However, these measures may be difficult and costly to meaningfully enforce. In addition, attempts to enforce our intellectual property rights may bring into question the validity of these rights. Litigation with respect to patents or other intellectual property rights can result in substantial costs and diversion of management attention and other resources.

Risks Related to Our Common Stock

Our common stock may be delisted from the Nasdaq Capital Market if we are unable to maintain compliance with Nasdaq Capital Market continued listing requirements.

Failure to achieve continued listing on the Nasdaq Capital Market will likely impact our ability to raise additional capital. Our common stock listing was transferred from the Nasdaq National Market to the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) on February 22, 2006 because we had been unable to regain compliance with the $1.00 minimum bid price requirement for continued listing on the Nasdaq National Market. In July, 2006 we effected a one-for-four reverse stock split and regained compliance with the Nasdaq listing requirements. However, on June 27, 2007, we received a Nasdaq Staff Deficiency Letter informing us that we no longer comply with Nasdaq s audit committee requirements for continued listing as set forth in Marketplace Rules 4350. The resignation of Mr. Murray Swanson from the Audit Committee in connection with the financing transaction resulted in our Audit Committee having less than Nasdaq s audit committee requirement of three independent members. The letter stated that, consistent with Marketplace Rule 4350(d)(4), we will be provided a cure period until the earlier of our next annual shareholders meeting or June 5, 2008, or, if the next annual shareholders meeting is held before December 3, 2007, then no later than December 3, 2007, in order to regain compliance. The letter also stated that, in the event we do not regain compliance within this period, the Staff will provide written notification that our securities will be delisted. It is the intention of our Board of Directors to take the necessary action to appoint an independent member of the Audit Committee within the cure period provided so as to maintain continued Nasdaq listing. However, if we were unable to appoint an independent member of the Audit Committee within the cure period and our common stock were delisted from the Nasdaq Capital Market, the market liquidity of our common stock could be reduced and an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock.

Our common stock price is volatile.

The market price of our common stock has experienced volatility and is likely to continue to experience significant fluctuations in response to a number of factors. These factors include, among others, low trading volume, our quarterly and annual operating results and the following:

- Announcements of extensions, expirations or changes in our contracts and the effects on our call centers and infrastructure of such activities;
- Announcements relating to material events concerning our customers;
- Actual or anticipated variations in our results of operations and liquidity;
- Securities filings or other public announcements by our large shareholders;
- Announcements of new product initiatives or growth strategies; and
- General market conditions.

From January 1, 2006 through December 31, 2006, our common stock price fluctuated, on a post one-for-four reverse stock split basis, from a low of $1.32 per share to a high of $3.77 per share, and has on several occasions fluctuated more than 10% during a trading day. From January 1, 2007 through June 30, 2007, our common stock price fluctuated, from a low of $1.85 per share to a high of $2.69 per share. These trading prices may change significantly and arbitrarily. In addition, broad market factors affecting telecommunications or technology stocks may adversely affect the market price of our common stock. General economic, political and market conditions, including interest rate changes and recession, may also adversely affect our stock price.

The issuance of securities in the financing transaction will substantially reduce the relative equity ownership and influence of all other shareholders, which may put downward pressure on the trading price of our common stock.

On June 5, 2007, we closed the initial portion of a private financing transaction with Columbia and Everest. Each of the investors held shares of our common stock prior to this financing transaction. If our shareholders approve the issuance of additional shares in connection with the financing transaction, the investors will acquire a substantially greater equity ownership and the additional ownership will dilute our other existing shareholders. If all the convertible preferred stock issued in the initial portion of the financing transaction were to be converted into common stock at the initial conversion price of $1.78 per share, our existing shareholders (exclusive of the investors in the financing transaction) would hold approximately 41.8% of our common stock, and Columbia and Everest would hold approximately 44.4% and 3.8% of our common stock, respectively.

The holders of convertible preferred stock will have a claim against our assets senior to the claim of the holders of our common stock in the event of a liquidation and certain other events. Our existing shareholders will also have less influence on our affairs and the ability to control major corporate decisions. Columbia will be our largest shareholder with approximately 41.8% of the total voting power of our outstanding capital stock, before giving effect to the conversion of convertible preferred stock into common stock or the exercise of the warrants. As a result of the first closing and for so long as at least 203, but less than 540, shares of convertible preferred stock are outstanding, the holders of convertible preferred stock are entitled to elect two members of our Board. After the second closing and for so long as at least 540 shares of convertible preferred stock are outstanding, the holders of convertible preferred stock will be entitled to elect a majority of the members of our Board.

Accordingly, the investors in the financing transaction will have significant influence over matters submitted to our shareholders, including potential change-of-control transactions. Their interests may be different from your interests, and they may be in a position to influence us to act in a way inconsistent with the interests of public shareholders generally. This concentration of voting power may deter other companies from seeking to acquire us, which might depress the market price of our common stock.

The market price of our common stock may be reduced by future sales of our common stock in the public market.

Sales of substantial amounts of our common stock in the public market that are not currently freely tradable, or even the potential for such sales, could have an adverse effect on the market price for shares of our common stock and could impair the ability of purchasers of our common stock to recover their investment or make a profit.

ITEM 6. EXHIBITS

(a) Exhibits

3.1	Articles of Amendment to the Third Restated Articles of Incorporation of the Company*
3.2	Certificate of Amendment to the Amended and Restated Bylaws of the Company*
4.1	Form of Series A Convertible Preferred Stock Certificate*
4.2	Form of Stock Purchase Warrant*
4.3	Form of Senior Secured Convertible Revolver Bridge Note*
10.1	Securities Purchase Agreement, dated June 5, 2007, by and between the Company and the investors signatory thereto*
10.2	Registration Rights Agreement, dated June 5, 2007, by and between the Company and the investors signatory thereto*
31.1	Certification of Principal Executive Officer pursuant to Securities and Exchange Commission Rule 13a-14(a)
31.2	Certification of Principal Financial Officer pursuant to Securities and Exchange Commission Rule 13a-14(a)
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002

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* Incorporated herein by reference to Metro One s Current Report on Form 8-K dated June 5, 2007.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 13, 2007

METRO ONE TELECOMMUNICATIONS, INC.

By: /s/ William K. Hergenhan
William K. Hergenhan
Vice President,
Chief Financial Officer
(Principal Financial and Accounting Officer)

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