NEW APPLICATION

0000047474

TECHNOLOGIES MANAGEMENT INC

RECEIVED

2002 MAR 12 P 1: 56

AZ CORP COMMISSION
DOCUMENT CONTROL

March 11, 2002
**Overnight Delivery**

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**T-04090A-02-0178**

RE: **North By NortheastCom LLC**
Application for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services as a Long Distance Reseller

Dear Sir/Madam:

Enclosed for filing are the original and ten (10) copies of the initial application and proposed tariff of North By NortheastCom LLC.

Please acknowledge receipt of this filing by date stamping the extra copy of this cover letter and returning it in the self - addressed, stamped envelope enclosed for this purpose.

Any questions you may have regarding this filing may be directed to me at (407) 740-8575.

Sincerely,

Thomas M. Forte
Consultant to North By NortheastCom LLC

Enclosures

TMF/ks

cc: Lauire Willman - NBNE
file: NBNE - AZ
tms: 6901AZi0200

**If the Applicant wants to provide any type of non-Customer Owned Pay Telephone ("COPT") or non-Alternative Operator Services ("AOS") telecommunications services in Arizona, provide the Arizona Corporation Commission ("Commission") with the information being requested.**

**Remember that information submitted for a Certificate of Convenience and Necessity ("CC&N") will be made part of the public record (including financial statements). Any information designated as confidential will not be accepted by Docket Control. Mail your original CC&N application plus ten (10) copies to Arizona Corporation Commission, Docket Control, 1200 W. Washington Street, Phoenix, AZ 85007-2927.**

**Make sure each numbered item and each part of the item is answered completely. If it is not, Staff will re-submit the numbered item(s) and/or part(s) of the item in a following data request. In order for Staff to review of your application, the following information must be provided:**

1. **For each type of telecommunications services you indicated that you want to provide in Arizona.**
   - ■ Resold long distance services (answer items 1 - 24 and items 25 – 35)
   - □ Resold local exchange services (answer items 1 - 24 and items 36 - 46)
   - □ Facilities-based long-distance services (answer items 1 - 24 and items 47 - 58)
   - □ Facilities-based local exchange services, voice and/or data (answer items 1 - 24 and items 59 - 78)

2. **Please provide the name, address, telephone number, fax number, e-mail address & Web address (if one is available for customer access) of the Applicant:**

   North By NortheastCom LLC
   d/b/a SoutheastCom LLC
   11200 Murray Scholls Place
   Beaverton, OR 97007
   Phone: 503-643-9500
   Fax: 503-643-9600
   Toll-Free: 800-933-4034
   E-Mail:

3. **Please provide the d/b/a name, if doing business other than the Applicant's name listed above, specify:**

   Not applicable

4 **The name, address, telephone number, fax number & e-mail address of the management contact is:**

   Laurie Willman, Regulatory Manager
   North By NortheastCom LLC
   d/b/a SoutheastCom LLC
   11200 Murray Scholls Place
   Beaverton, OR 97007
   Phone: 503-643-9500
   Fax: 503-643-9600
   Toll-Free: 800-933-4034
   E-Mail: laurie.willman@metro1.com

5. **Please provide the name, address, telephone number, fax number & e-mail address of the Attorney and/or Consultant representing the Applicant:**

Thomas M. Forte, Consultant to North By NortheastCom LLC d/b/a SoutheastCom LLC
Technologies Management, Inc.
210 N. Park Avenue
Winter Park, FL 32789
Phone: 407-740-8575
Fax: 407-740-0613
E-Mail: tforte@tminc.com

6. **Please provide the name, address, telephone number, fax number & e-mail address of the Company's complaint contact person:**

*(Note: You are required to inform the Commission of any changes pertaining to the applicant, d.b.a. name, management contact, Attorney and/or Consultant, or the Company's complaint contact person.)*

Laurie Willman, Regulatory Manager
North By NortheastCom LLC
d/b/a SoutheastCom LLC
11200 Murray Scholls Place
Beaverton, OR 97007
Phone: 503-643-9500
Fax: 503-643-9600
Toll-Free: 800-933-4034

7. **Please identify the type of legal entity the Applicant is:**

| | | | | | |
|---|---|---|---|---|---|
| □ | Sole Proprietorship | | | | |
| | Partnership: | | | | |
| | | (please indicate type) | □ limited | □ general | |
| | | (please indicate domicile) | □ Arizona | □ Foreign | |
| ■ | Limited Liability Company: | | | | |
| | | (please indicate domicile) | □ Arizona | ■ Foreign | Delaware |
| □ | Corporation: | | | | |
| | | (please indicate type) | □ "S" | □ "C" | □ Non-profit |
| | | (please indicate domicile) | □ Arizona | □ Foreign | |

*(Note: According to A.R.S.§ 40-282 A., "If an Applicant for a Certificate of Convenience and Necessity is a corporation, a certified copy of its Articles of Incorporation shall be filed in the office of the commission before any Certificate of Convenience and Necessity may issue.")*

Other, specify ______________________________

8. **Please provide a copy of the Applicant's authority to do business in Arizona as Attachment "A". Provide the names of all owners, partners, limited liability company managers, or corporation officers and directors (specify) in Attachment "A" and; Provide their respective percentages of ownership in Attachment "A".**
Please see Attachment A for the NBNE's Secretary of State certificate and a listing of Officers.

9. **Please provide us with a copy of your proposed tariff as Attachment "B". Indicate by reference to page number(s) the proposed rates and charges for each service to be provided.**
Please see Attachment B for NBNE's proposed tariff. Proposed rates and charges for each service provided are on Page 29.

*(Note: If no maximum rates are indicated, then the current prices on file will be considered current and maximum rates.)*

**Indicate by reference to page number(s) the tariff (maximum) rate as well as the price to be charged.**
NBNE's Description of Services & Rates, with Min and Max tables are found on Page29, and the Current Price List is on Page 33.

**Indicate by reference to page number(s) the terms and conditions that will apply to provision of the service(s) by your Company.**
NBNE's Terms and Conditions are found on Pages 10 thru 25.

**Indicate by reference to page number(s) the deposits, advances, and/or repayments that will apply to provision of the service(s) by your Company.**
NBNE will not be charging deposits or advance payments. Services offered are listed at Page 14.

*(Note: Price list rate changes that result in rates that are lower than the tariff rate are effective upon concurrent notice to the Commission (see Rule R14-2-1109 (B) (2)). See Rule R14-2-1110 for procedures to make price list changes that result in rates that are higher than the tariff rate.)*

Please see Attachment B for NBNE's proposed tariff.

10. **Please indicate the geographic market you will serve:**

■ Statewide

□ Other, describe the area by community or rate center name

11. **Please indicate if the Company has been or the Company is concurrently involved in any formal complaint proceedings pending before any State or Federal Regulatory Commission.**
NBNE has not had any complaints proceedings.

**If "yes", in which states is the Company involved in proceedings?**

**What is the substance of these complaints? and Provide a copy of the Commission order(s) that resolved any of these complaints.**
Not applicable.

12. **Please indicate if the Company has been or the Company is concurrently involved in any civil or criminal investigation related to the delivery of telecommunications services within the last five years.**
The Company has never been or is not concurrently involved in any civil or criminal investigation.

**If "yes", in which states has the Applicant been involved in investigations? and Indicate why is the Applicant being investigated.**
Not applicable.

13. **Please indicate if the Applicant had judgement entered against it in any civil matter or been convicted of criminal acts related to the delivery of telecommunications services within the last five years. If "yes", list the states in which a judgement or conviction was entered. Provide a copy of the court order.**
No.

14. **Please indicate if your customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.**
Yes

15. **Please indicate if your Company has financial statements for the two most recent years. If "no", explain why and give the date your Company began operations.**
NBNE does not have any recent financial statements, since is it just beginning operations, however, please see Attachment C for financial information from NBNE's overall parent company, Metro One Telecommunications, Inc.

16. **Please provide financial information as Attachment "C". Provide us with a copy of your Company's balance sheet in Attachment "C". Provide us with a copy of your Company's income statement in Attachment "C". Provide us with a copy of your Company's audit report (if audited) in Attachment "C". Provide all related notes to these financial statements for the two most recent years that your Company has been in business in Attachment "C".**
NBNE does not have any recent financial statements, however, the overall parent company, Metro One Telecommunications, Inc.'s 10Q for the Quarterly period ended September 30, 2001, is submitted as Attachment C.

17. **Please provide retained earnings account information on the balance sheet or on a separate sheet in Attachment "C".**
Please see Attachment C.

18. **Please indicate if your Company is a subsidiary. If "yes", provide a copy of your Parent Company's financial statements, in addition to your Company's financial statements, in Attachment "C". Repeat items 15, 16 and 17 for your Parent Company. Make sure answers furnished by your Parent Company satisfy each item and request for information.**
Please see Attachment C.

19. **Please indicate if your Company intends to rely on the financial resources of its Parent Company.**
Yes.

**If "yes", provide a written statement from your Parent Company attesting that it will provide complete financial backing if your Company experiences a net loss or business failure. The statement should also affirm that it will guarantee re-payment of customers' advances, prepayments, or deposits held by your Company if, for some reason, your Company cannot provide service or repay the deposits.**
Please see Attachment C for a financial letter of guarantee from Metro One Telecommunications, Inc.

20. **Please indicate if your customers will be required (or have the option) to pay advances, prepayments, or deposits for any of your products or services.**
NBNE does not require advance payments or deposits.

**If "yes", provide an explanation of how and when these customer advances, prepayments, or deposits will be applied or reference the terms and conditions section of your Company's tariffs (by reference to page number(s)) with this explanation. If this information is not explained in the tariff, provide it on a separate sheet.**

**If "no",** ***(Note: Commission considers prepaid calling cards de facto prepayments.)***

**If at a later date, your Company decides it wants to offer or require customer advances, prepayments, or deposits, it may be required to submit updated financial statements as part of the tariff amendment process.**

21. **Please state the proposed fee that will be charged for returned checks.**
NBNE proposes to charge $25.00 for returned checks.

**22. Please clarify and indicate by reference to page number(s) in your tariff your Company's deposit policy.**
NBNE does not collect deposits.

*(Note: Pursuant to A.A.C. R14-2-503 (B), the amount of a deposit required by the utility shall not exceed 2 times that residential customer's estimated average monthly bill or the average monthly bill for the customer class for that customer which ever is greater. Nonresidential customer deposits shall not exceed 2 ½ times that customer's estimated maximum monthly bill. The term "deposit" refers to all deposits, advance payments, and prepayment.)*

**23. Please submit copies of affidavits of publications that the Company has, as required, published legal notice of the application in all counties where services will be provided. Prior to the issuance of a CC&N, the Applicant is to complete and submit the following:**

**a) A correspondence letter. Refer to the Sample Correspondence Letter in the Legal Notice Material;**
**b) Affidavits of publication form. Refer to the Sample Proof of Publication and an Affidavit of Publication in the Legal Notice Material; and**
**c) The actual copy of your Company's published Legal Notice as noted in the Legal Notice Material.**

NBNE will complete publication within Arizona once a docket number has been established for this filing.

*(Note: Use the Sample Legal Notice For Resold Telecommunications Services to provide resold long distance and/or resold local exchange telecommunications services. Use the Sample Legal Notice For Facilities-Based Telecommunications Services to provide facilities-based and resold local exchange, long distance and access exchange telecommunications services. All material for preparing and filing Legal Notice in the newspapers is available at the end of item number 78).*

**24. Based on the review of the financial information submitted, Staff will determine whether or not the Applicant lacks sufficient financial resources. If Staff determines the Applicant lacks sufficient financial resources, the Applicant must do one of the following:**

a) Staff recommends that the Applicant procure a performance bond equal to $10,000. The minimum bond amount of $10,000 should be increased if at any time it would be insufficient to cover prepayments or deposits collected from the Applicant's customers. Staff further recommends that proof of the above mentioned performance bond be docketed within 90 days of the effective date of an order in this matter or 30 days prior to the provision of service, which ever comes first. If the Applicant is currently providing service, then please docket the performance bond within 60 days of the date of this letter.

*(Note: The minimum bond amount for each type of telecommunication services is as follows: resold long distance $10,000; resold local exchange $25,000; facilities-based long distance $100,000; and facilities-based local exchange, including access service, $100,000. The amount of performance bond for multiple services is an aggregate of the minimum bond amount for each type of telecommunications services requested by the Applicant.*)

**OR**

b) The Applicant must file a letter stating that it does not currently, and will not in the future, charge its customers for any prepayments, advances, or deposits. If the Applicant is currently collecting prepayments, advances, or deposits, the Applicant must refund those charges to customers to avoid maintaining the above mentioned performance bond. If in the future, the Applicant desires to charge prepayments, advances, or deposits, it must file information with the Commission that demonstrates the Applicant's financial viability. Staff will review the information and forward its recommendation to the Commission for a Decision.

**<u>If the Applicant wants to provide resold long distance telecommunications services, provide information as requested in items 1 - 24 and items 25 - 35.</u>**

25. **Please indicate if your Company is currently reselling long distance telecommunications services in Arizona. If "yes", please provide the date or approximate date you began reselling long distance telecommunications services in Arizona. Identify the types of long distance telecommunications services you resell. Identify whether operator services are provided or resold. Identify whether operator services are provided or resold to traffic aggregators (as defined in A.A.C. Rule R14-2-1001 (3)).**
NBNE is not currently selling long distance services in Arizona.

*(Note: Commission rule requires that a separate CC&N, issued under Article 10, be obtained in order to provide operator services to traffic aggregators.)*

26. **Identify the number of customers in Arizona for each type of resold long distance telecommunications service. Identify the total number of long distance intrastate minutes resold in the latest 12-month period for which data is available. If "no", please indicate the date when your Company plans to begin reselling long distance telecommunications services in Arizona.**
Not applicable.

27. **Please list the states in which you have applied for authority to offer resold long distance telecommunications services.**
NBNE is just beginning to file applications nationwide. At this time the Company is not authorized to provide service anywhere, however, all applications should be filed by the end of the 1st quarter of 2002.

28. **Please indicate the resold long distance telecommunications services you applied for in each state.**
The Company is applying for the same services as applied for in Arizona. (See Tariff Section 3 & 4.)

29. **Please list the states in which you have been approved to offer resold long distance telecommunications services similar to those you intend to resell in Arizona.**
Not yet applicable.

30. **Please list the states in which you currently offer resold long distance telecommunications services similar to those you intend to resell in Arizona.**
Not yet applicable.

31. **Please provide a list of the states in which you have sought authority to resell long distance telecommunications services and either granted the authority with major changes and conditions, or had your application denied. For each state listed, provide a copy of the Commission's decision modifying or denying your application for authority to provide resold long distance telecommunications services.**
As previously stated, NBNE is just beginning the application process nationwide. This endeavor should be completed in the first quarter of 2002.

32. **Please indicate if the Company has been granted authority to provide or resell long distance telecommunications services in any state where subsequently the authority was revoked. If "yes", provide copies of the State Regulatory Commission's decision revoking its authority.**
Not applicable.

33. **Please list and give a detailed explanation of complaints you have received (if any) regarding resold long distance exchange telecommunications services offered in other states. State what actions were taken to remedy these complaints and to prevent them from occurring again.**
The Company has not received any complaints to date.

34. **Please indicate if your Company is a switchless reseller of long distance telecommunications services If "yes", provide the name of the company or companies whose long distance telecommunications services you resell.**
NBNE owns several switches nationwide. Please see Attachment E. for a listing of NBNE's switch locations.

**If "no"' include Attachment "E".**

*(Note: Attachment "E" needs to provide the following information: A diagram of the Applicant's basic call network used to complete Arizona intrastate resold long distance telecommunications traffic. This diagram should show how a typical call is routed in both its originating and terminating ends (i.e. show the access network and call completion network). Also, include on the diagram the carrier(s) used for each major network component and indicate if the carrier is facilities-based or not. If the carrier is not facilities-based indicate who owns the facilities (within the State of Arizona) that are used to originate and terminate the Applicant's intrastate resold long distance telecommunications traffic (i.e. provide a list of the Arizona facilities-based long distance carriers whose facilities are used to complete the Applicant's intrastate traffic.)*

35. **Please list the companies with which you have signed resale agreements for long distance, along with the states in which they were approved. Please provide us with a copy of the resale agreement or contract between your Company and the applicable local exchange service provider. All applications for resold long distance telecommunications services <u>must</u> include a resale agreement or contract as Attachment "F".**
Not applicable.

Wherefore, **North By NortheastCom LLC** requests that the Commission issue a Certificate of Public Convenience and Necessity authorizing it to engage in the resale of intrastate interexchange telecommunications services to the public as proposed herein.

Respectfully submitted this 4th day of March, 2002.

P. Bryan Dooling III

P. Bryan Dooling, III - President
North By NortheastCom LLC

3/4/02
Date


Thomas M. Forte, Consultant to North By NortheastCom LLC d/b/a SoutheastCom LLC
Technologies Management, Inc.
210 N. Park Avenue
Winter Park, FL 32789
Phone: 407-740-8575
Fax: 407-740-0613

**North By NortheastCom LLC**
d/b/a SoutheastCom LLC

Attachment A

Authority to do Business

Partner and Officer, Director List

AZ

# STATE OF ARIZONA

Office of the
## CORPORATION COMMISSION

### CERTIFICATE OF REGISTRATION

*To all to whom these presents shall come, greeting:*

I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, do hereby certify that

***SOUTHEASTCOM LLC***

a foreign limited liability company organized under the laws of the jurisdiction of Delaware did obtain a Certificate of Registration in Arizona on the 29th day of January 2002.

*This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.*

*IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capitol, this 1st Day of February, 2002, A. D.*

EXECUTIVE SECRETARY

BY: Teri Tittle

AZ CORP COMMISSION
DELIVERED
JAN 2 9 2002
FILED BY Jeri Little
TERM DATE 1/29/2002
R-1017009-5

**DO NOT PUBLISH THIS SECTION**

1. The company name must contain an ending which may be "limited liability company," "limited company," or the abbreviations "L.L.C.", "L.C.", "LLC" or "LC". If you are the holder or assignee of a tradename or trademark, attach Declaration of Tradename Holder form. If you do not plan to use the name in Arizona, under which your company is organized, then provide the name which you plan to use.

2. Provide the name of the state or jurisdiction under whose laws your company was formed.

3. Provide the date on which your company organized in the state or jurisdiction under whose laws it was formed.

4. Provide the general character of business you plan to transact in Arizona.

5. The statutory agent must provide both a physical and mailing address. If statutory agent has a P.O. Box, then they must provide a physical description of their street address/location

# APPLICATION FOR REGISTRATION OF A FOREIGN LIMITED LIABILITY COMPANY

1.a. The name of the limited liability company is:

NORTH BY NORTHEASTCOM LLC

1.b. If the name of the company is different than the proposed name for use in Arizona, then the name under which the company proposes to transact business in Arizona:

SOUTHEASTCOM LLC

1.c. If the name of the company does not contain the words "Limited Liability Company," "Limited Company," "L.L.C." or "L.C.," then the name of the company with the words or abbreviation which it elects to add thereto for use in Arizona is:

____________________

2. The company is organized under the laws of: Delaware

3. The date of the company's formation is: December 26, 2001

4. The purpose of the company or the general character of business it proposes to transact in Arizona is:

Long distance telecommunication services.

5. The name and street address of the statutory agent for the foreign corporation in Arizona is:

National Registered Agents, Inc.
302 North First Avenue, Suite 440
Phoenix, AZ 85003

**DO NOT PUBLISH THIS SECTION**

6. If you do not appoint a statutory agent when you file the application, you must do so within sixty days of filing. Your failure to do so, may result in revocation of your Certificate of Registration.

7. If the jurisdiction under the law of which your company is formed, you must provide the address of the principle office of the company, in whatever state or jurisdiction it is located.

The application must be executed by a member, manager or duly authorized agent.

Phone and Fax are optional.

The agent may consent to the appointment by either executing the consent or attaching a cover letter.

6. The Arizona Corporation Commission is appointed as the Statutory Agent for service of process if either of the following occur.

   A. An agent has not been appointed under paragraph 5, or if the agent's authority has been revoked.

   B. The agent cannot be found or served with the exercise of reasonable diligence.

7. The address of the office required to be maintained in the jurisdiction under the laws of which the company is organized, if required; or, if not required, the address of the principal office of the company is:

601 S. Figueroa Street, 40th Floor

Los Angeles, CA 90017-5758

Executed this 24 day of JANUARY , 2002

Bryan Dooling
[signature]

BRYAN DOOLING, MANAGER
[print name] [title]

PHONE ____________ FAX ____________

ACCEPTANCE OF APPOINTMENT BY STATUTORY AGENT

I, National Registered Agents, Inc., having been designated to act as statutory agent, hereby consent to act in that capacity until removed or resignation is submitted in accordance with the Arizona Revised Statutes.

Connie Faryear/asst. Sec. for National Registered agents
[Signature]

LL0005
Rev.4/2001

The following individuals are officers and directors of North By NortheastCom LLC and can be reached at the company's corporate headquarters at 11200 Murray Scholls Place, Beaverton, Oregon 97007:

**Officers:**

| | |
|---|---|
| P. Bryan Dooling, III | President & Manager |
| Lynne Michaelson | Vice President |
| Duane Fromhart | Chief Financial Officer |

**North By NortheastCom LLC**
d/b/a SoutheastCom LLC

Attachment B

Tariff

## TITLE SHEET

## ARIZONA TELECOMMUNICATIONS TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the resale of telecommunications services provided by North By NortheastCom LLC d/b/a SoutheastCom LLC, with principal offices at 11200 Murray Scholls Place, Beaverton, Oregon 97007, and a toll free telephone number of 800-933-4034. This tariff applies for services furnished within the State of Arizona. This tariff is on file with the Arizona Corporation Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business.

## CHECK SHEET

Pages of this tariff, as indicated below, are effective as of the date shown at the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

| PAGE | REVISION | | PAGE | REVISION | |
|---|---|---|---|---|---|
| 1 | Original | * | 26 | Original | * |
| 2 | Original | * | 27 | Original | * |
| 3 | Original | * | 28 | Original | * |
| 4 | Original | * | 29 | Original | * |
| 5 | Original | * | 30 | Original | * |
| 6 | Original | * | 31 | Original | * |
| 7 | Original | * | 32 | Original | * |
| 8 | Original | * | 33 | Original | * |
| 9 | Original | * | | | |
| 10 | Original | * | | | |
| 11 | Original | * | | | |
| 12 | Original | * | | | |
| 13 | Original | * | | | |
| 14 | Original | * | | | |
| 15 | Original | * | | | |
| 16 | Original | * | | | |
| 17 | Original | * | | | |
| 18 | Original | * | | | |
| 19 | Original | * | | | |
| 20 | Original | * | | | |
| 21 | Original | * | | | |
| 22 | Original | * | | | |
| 23 | Original | * | | | |
| 24 | Original | * | | | |
| 25 | Original | * | | | |

* - indicates those pages included with this filing

## TABLE OF CONTENTS

| | |
|---|---|
| Check Sheet | 2 |
| Table of Contents | 3 |
| Application of Tariff | 4 |
| Symbols | 5 |
| Tariff Format | 6 |
| SECTION 1.0 - Technical Terms and Abbreviations | 7 |
| SECTION 2.0 - Rules and Regulations | 10 |
| SECTION 3.0 - Description of Service and Rates | 26 |
| SECTION 4.0 - Miscellaneous Services | 30 |
| SECTION 5.0 - Promotions | 31 |
| SECTION 6.0 - Contract Services | 32 |
| SECTION 7.0 - Current Rates | 33 |

## APPLICATION OF TARIFF

The regulations, rules and conditions set forth in this Tariff apply to the provision of intrastate public telecommunications services furnished within the State of Arizona by North By NortheastCom LLC d/b/a SoutheastCom LLC subject to the jurisdiction of the Arizona Corporation Commission.

## SYMBOLS

The following are the only symbols used for the purposes indicated below:

**(C)** - To signify a changed listing, rule or condition which may affect rates or charges.

**(D)** - To signify discontinued material, including a listing, rate, rule or condition.

**(I)** - To signify an increase in rates or charges.

**(M)** - To signify material relocated from or to another part of this Tariff with no change in text, rate, rule or condition.

**(N)** - To signify new material, including a listing, rate, rule or condition.

**(R)** - To signify a reduction in rates or charges.

**(T)** - To signify a change in the wording of the text, but no change in rate, rule or condition.

**(X)** - To signify a correction or reissued matter.

## TARIFF FORMAT

**A.** **Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.

**B.** **Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the ACC. For example, the 4th revised Page 14 cancels the 3rd revised Page 14.

**C.** **Paragraph Numbering Sequence** - There are seven levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1
2.1.1(A)
2.1.1(A)(1)
2.1.1(A)(1)(a)
2.1.1(A)(1)(a)(I)

**D.** **Check Sheets** - When a tariff filing is made with the ACC, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new sheets are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (i.e., the format, etc. remain the same, just revised revision levels on some sheets.)

## SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

**ACC** - refers to the Arizona Corporation Commission.

**Access** - Access to the Company's services are provided by one or more or a combination of the following methods: presubscription in equal access areas, direct access, 800, 950 and 10XXX dialing sequences.

**Access Code** - A sequence of numbers that, when dialed, connect the caller to the provider of services associated with that sequence.

**Authorization Code** - A numerical code, one or more of which may be assigned to a Customer, to enable the Company to identify the origin of the Service User so the Company may rate and bill the call. All Authorization Codes shall be the sole property of the Company and no Customer shall have any property or other right or interest in the use of any particular Authorization Code. Automatic Numbering Identification ("ANI") may be used as or in connection with the Authorization Code.

**Authorized User** - A person or entity that accesses the Company's services. An Authorized User is responsible for compliance with this tariff.

**Automatic Numbering Identification (ANI)** - A type of signaling provided by a local exchange telephone company that automatically identifies the local exchange line from which a call originates.

**Billed Party** - The person or entity responsible for payment of the Company's Service(s): For a Direct Dialed Call, the person or entity responsible for payment is the Customer responsible for payment for local telephone service at the telephone used to originate an intrastate call. In the case of a Traveler Card call, Phone Home Card call or other credit card call (herein collectively the "Card"), the person or entity responsible for payment is the Customer of record of the Traveler Card, Phone Home Card or other valid and acceptable Card used.

**Calling Card Call** - A Direct Dialed call for which charges are billed not to the originating telephone number, but to a LEC or interexchange carrier calling card.

**Central Office** - A Local Exchange Carrier switching system where Local Exchange Carrier customer station loops are terminated for purposes of interconnection to each other and to trunks.

**Channel** - The term "Channel" denotes a path for electrical transmission between two or more points, the path having a band width designed to carry voice grade transmission.

## SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, (CONT'D.)

**Common Carrier** - A company or entity providing telecommunications services to the public.

**Credit Card Call** - A Direct Dialed call for which charges are billed not to the originating telephone number, but to a credit commercial card, such as Visa or MasterCard.

**Customer** - The term "Customer" denotes the person, partnership, association, joint stock company, trust, corporation, or governmental entity or any other entity that is responsible for payment of charges and for compliance with this tariff.

**Customer - Provided Facilities** - The term "Customer - Provided Facilities" denotes all communications facilities provided by the Customer and/or Authorized User other than those provided by the Company.

**Direct Dialed Call** - An intrastate telephone call that is automatically completed and billed to the telephone number from which the call originated without the automatic or live assistance of an operator.

**Equal Access** - Has the meaning given that term in Appendix B of the Modification of Final Judgment entered August 24, 1982, in United States vs. Western Electric, Civil Action No. 82-0192 (United States District Court, District of Columbia), as amended by the Court in its orders issued prior to October 17, 1990.

**Equal Access Code** - An access code that allows the public to obtain an equal access connection to the carrier associated with that code.

**Exchange** - The term "Exchange" denotes a unit established by the Local Exchange Carrier for the administration of communications service in a specified area that usually embraces a city, town or village and its environs. It consists of one or more Central Offices together with the associated facilities used in furnishing communications service within that area.

**Intrastate Message Telecommunications Service ("MTS")** - The term "Intrastate Message Telecommunications Services" denotes the furnishing of direct dialed intrastate switched service to the Customer for the completion of long distance voice and dial-up low speed data transmissions over voice grade channels between points wholly within the State of Arizona.

## SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, (CONT'D.)

**Local Exchange Carrier ("LEC")** - The term "Local Exchange Carrier" denotes any telephone company that provides local telephone service to Customers within a defined area.

**Measured Charge** - A charge assessed on a per minute or incremental basis in calculating a portion of the charges due for a completed call.

**Other Common Carrier** - The term "Other Common Carrier" denotes a common carrier, other than the Company, providing domestic and/or international communications service to the public.

**Personal Identification Numbers (PINS)** - Code numbers used in connection with designated telephone numbers which allow intrastate calls to be categorized for various applications.

**Point(s) of Presence** - The term "Point(s) of Presence" denotes the site(s) where the Company provides a network interface with facilities provided by Other Common Carriers, Local Exchange Carriers or Customers for access to the Company network configuration.

**Premise** - The term "Premise" denotes a building or buildings on contiguous property (except railroad rights-of-way, etc.) not separated by a public highway.

**Service** - Intrastate telecommunications service provided to a Customer or Authorized User by the Company.

**Special Access Service** - All exchange access not utilizing telephone company end office switches. This service includes dedicated access that connects end user to end user, end user to carrier, or carrier to carrier and may include analog or digital channels for voice, data or video transmissions.

**Subscriber** - Any person, firm, partnership, corporation, governmental agency or other entity that orders service from the Company on behalf of itself or on behalf of others. A Subscriber may, in the ordinary course of its operations, makes telephones available to transient users of its premises for placing of intrastate calls. The Subscriber has a pre-existing business arrangement with the Company and may also be a Customer.

**Telecommunications** - The transmission of voice communications or, subject to the transmission capabilities of the Service, the transmission of data, facsimile, signaling, metering, or any other form of intelligence.

## SECTION 2 - RULES AND REGULATIONS

### 2.1 Undertaking of the Company

Service is offered to residential and business Customers of the Company to provide direct dialed and directory assistance calls originating and terminating within the State of Arizona, using the Company's network configuration. The Company provides switched long distance network services for voice grade and low speed dial-up data transmission services. The Company does not undertake to transmit messages but furnishes the use of its facilities to its Customers for communications. All Services are provided subject to the terms and conditions set forth in this tariff.

The Company's services are provided on a monthly basis unless otherwise provided, and are available twenty-four (24) hours per day, seven (7) days per week.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.2 Limitations

**2.2.1** Service is offered subject to the availability of the necessary facilities and equipment, or both facilities and equipment, and subject to the provisions of this tariff.

**2.2.2** The Company reserves the right to discontinue or limit service when necessitated by conditions beyond its control, or when the Customer is using service in violation of provisions of this tariff, or in violation of the law.

**2.2.3** The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections.

**2.2.4** All services and facilities provided under this tariff are directly or indirectly controlled by the Company and the Customer may not transfer or assign the use of service or facilities without the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.

**2.2.4** Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service.

### 2.3 Use

Services provided under this tariff may be used for any lawful purpose for which the service is technically suited.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.4 Liabilities of Company

**2.4.1** Except as stated in this section, the Company shall have no liability for damages of any kind arising out of or related to events, acts, rights or privileges contemplated in this tariff. This tariff does not limit the liability of the Company for willful misconduct.

**2.4.2** The liability of the Company, if any, for damages resulting in whole or in part from or arising in connection with the furnishing of service under this tariff, including but not limited to mistakes, omissions, interruptions, delays, errors, or other defects in transmission, or failures or defects in facilities furnished by the Company in the course of furnishing service or arising out of any failure to furnish service shall in no event exceed an amount of money equivalent to the proportionate charge to the Customer for the period of service during which such mistakes, omissions, interruptions, delays or errors or defects in transmission occur and continue. However any such mistakes, omissions, interruptions, delays, errors, or defects in transmission or service that are caused by or contributed to by the negligence or willful act of Customer, or which arise from the use of Customer-Provided Facilities or equipment shall not result in the imposition of any liability whatsoever upon the Company.

**2.4.3** The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to Acts of God, fires, flood or other catastrophes; atmospheric conditions or other phenomena of nature, such as radiation; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company or the services provided hereunder; national emergencies; civil disorder, insurrections, riots, wars, strikes, lockouts, work stoppages, or other labor problems or regulations established or actions taken by any court or government agency having jurisdiction over the Company or the acts of any party not directly under the control of the Company.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

**2.4 Liabilities of Company, (Cont'd.)**

**2.4.4** The Company is not liable for any act, omission or negligence of any Local Exchange Carrier or other provider whose facilities are used concurrently in furnishing any portion of the services received by Customer, or for the unavailability of or any delays in the furnishing of any services or facilities that are provided by any Local Exchange Carrier. Should the Company employ the service of any Other Common Carrier in furnishing the service provided to Customer, the Company's liability shall be limited according to the provisions stated above.

**2.4.5** The Company shall be indemnified and held harmless by the Customer and Authorized User from and against all loss, liability, damage, and expense, including reasonable attorney's fees, due to claims for libel, slander, or infringement of copyright or trademark in connection with any material transmitted by any person using the Company's services and any other claim resulting from any act or omission of the Customer or Authorized User relating to the use of the Company's facilities.

**2.4.6** The Company shall not be liable for any act or omission of any other entity furnishing to the Customer facilities or equipment used with the service furnished hereunder; nor shall the Company be liable for any damages or losses due in whole or in part to the failure of Customer-provided service, equipment or facilities.

**2.4.7** Under no circumstances whatever shall the Company or its officers, directors, agents, or employees be liable for indirect, incidental, special or consequential damages.

**2.4.8** The Company shall not be liable for the accuracy of any information provided to it by outside sources relating to directory assistance or other enhanced service offerings. The Company will make every effort to verify that all information that it provides on a per call basis will be true and accurate. The Company, however, has no control over the information that it receives from its various suppliers and makes no guarantee as such.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.5 Deposits

The Company will not require deposits from customers.

### 2.6 Advance Payments

The Company does not require advance payment from customers.

### 2.7 Taxes

The Company shall charge the Customer an amount sufficient to recover any governmental assessments, fees, license, or other similar taxes or fees imposed upon the Company. Such taxes or fees shall be recovered in the following manner:

**2.7.1** For Debit Service, taxes or fees shall be included in the schedule for this service, unless otherwise negotiated with the distributor.

**2.7.2** For all other services offered by the Company, taxes and fees shall be added pro-rata, insofar as practical, to the rates and charges stated in the Company's rate schedules and listed as separate line items on the Customer's bill for services provided.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.8 Payment for Service

#### 2.8.1 Billing and Credit Regulations

The charges for service are due when billed and are billed and collected by the Company or its authorized agent, or the connecting company from whose service point the messages were sent paid or at whose service point the messages were received collect.

#### 2.8.2 Payment for Service

The Customer is responsible for payment of all charges for services, including charges for service originated or charges accepted at the Customer's service point.

**(A)** Charges for third party calls which are charged to a domestic telephone number will be included on the Billed Party's local exchange telephone company bill pursuant to billing and collection agreements established by the Company or its intermediary with the applicable telephone company.

**(B)** Charges for credit card calls will be included on the Billed Party's regular monthly statement from the card-issuing company.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.8 Payment for Service, (Cont'd.)

#### 2.8.2 Payment for Service, (cont'd.)

**(C)** Charges for direct dialed calls will be included on the originating party's bill pursuant to billing and collection agreements established by the Company or its intermediary with the applicable telephone company.

**(D)** Any applicable federal, state and local use, excise, sales or privileges taxes or similar liabilities chargeable to or against the Company as a result of the provision or the Company's service hereunder to the Customer shall be charged to and payable by the Customer in addition to the rates indicated in this tariff.

**(E)** The Customer shall remit payment of all charges to any agency authorized by the Company to receive such payment.

**(F)** If the bill is not paid within thirty calendar days following the mailing of the bill, the account will be considered delinquent.

**(G)** A delinquent account may subject the Customer's service to temporary disconnection. The Company is responsible for notifying the Customer at least five calendar days before service is disconnected. The Company does not charge a late charge for unpaid bills.

**(H)** Failure to receive a bill will not exempt a Customer from prompt payment of any sum or sums due the Company.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

**2.8 Payment for Service, (Cont'd.)**

**2.8.2 Payment for Service, (cont'd.)**

**(I)** In the event the Company must employ the services of attorneys for collection of charges due under this tariff or any contract for special services, Customer shall be liable for all costs of collection including reasonable attorney's fees and court costs.

**(J)** The Company will not bill for unanswered calls in areas where Equal Access is available, nor will the Company knowingly bill for unanswered telephone calls where Equal Access is not available. In the event that an unanswered call is inadvertently billed due to the unavailability of Equal Access, the Company will cancel all such charges upon request or may credit the account of the Billed Party. Any call for which the billed duration exceeds one minute shall be presumed to have been answered.

**(K)** In the event the Customer is overbilled, an adjustment will be made to the Customer's account and the Customer will be deemed to not owe overbilled amount. If the Customer is underbilled, the Customer is allowed to either pay in lump sum or in installments.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.9 Right to Backbill for Improper Use of the Company's Service

Any person or entity that uses, appropriates or secures the use of service from the Company, whether directly or indirectly, in any unlawful manner or through the providing of any misleading or false information to the Company and which uses, appropriation, or securing of services is inconsistent with the stated uses, intents, and purposes of this tariff or any restrictions, conditions, and limitations stated herein, shall be liable for an amount equal to the accrued and unpaid charges that would have been applicable to the use of the Company's service actually made by Customer.

### 2.10 Billing Entity Conditions

When billing functions on behalf of the Company are performed by local exchange telephone companies, credit card companies or others, the payment conditions and regulations of such companies apply, including any applicable interest and/or late payment charges. In case of any disputed charges that cannot be resolved by the billing company, the Billed Party may contact the Company directly. If there is still a disagreement about the disputed amount after investigation and review by the Company or other service provider, the Billed Party has the option to pursue the matter with the appropriate state commission and/or the Federal Communications Commission.

### 2.11 Compliance with Regulatory Requirements

The Company reserves the right to discontinue service, limit service, or to impose requirements on Customers as required to meet changing regulatory rules and standards of the Arizona Corporation Commission.

### 2.12 Interconnection

The Company reserves the right to interconnect its services with those of any Other Common Carrier, Local Exchange Carrier, or alternate access provider of its election, and to utilize such services for the provision of services offered herein.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.13 Denial of Access to Service by the Company

The Company expressly retains the right to deny access to service without incurring any liability for any of the following reasons:

**2.13.1** Nonpayment of any sum due for service provided hereunder, where the Customer's charges remain unpaid more than ten (10) days following notice of nonpayment from the Company. Notice shall be deemed to be effective upon mailing of written notice, postage prepaid, to the Customer's last known address;

**2.13.2** Customer's acts or omissions that constitute a violation of, or a failure to comply with, any regulation stated in this tariff governing the furnishing of service, but which violation or failure to comply does not constitute a material breach or does not pose any actual threatened interference to the Company operations or its furnishing of service. The Company agrees to give Customer ten (10) days notice of such violation or failure to comply prior to disconnection of service; or

**2.13.3** The implementation of any order of a court of competent jurisdiction, or federal or state regulatory authority of competent jurisdiction, prohibiting the Company from furnishing such service; or

**2.13.4** Failure to pay a previously owed bill by the same Customer at another location.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.14 Customer's Liability in the Event of Denial of Access to Service by the Company

In the event a Customer's service is disconnected by the Company for any of the reasons stated in Section 2.13, the Customer shall be liable for all unpaid charges due and owing to the Company associated with the service.

### 2.15 Reinstitution of Service

The Company will reconnect service upon Customer request as soon as the reason for the Customer's termination is removed. If the Customer seeks reinstitution of Service following denial of service by the Company, the Customer shall pay to the Company prior to the time service is reinstituted (1) all accrued and unpaid charges, but there will be no charge for the service restoration.

### 2.16 Credit Allowances for Interruption of Service

Credit allowances for interruptions of service are limited the initial minimum period charge incurred to re-establish the interrupted call.

### 2.17 Inspection, Testing and Adjustment

Upon reasonable notice, the facilities provided by the Company shall be made available to the Company for tests and adjustments as may be deemed necessary by the Company for maintenance. No interruption allowance will be granted for the time during which such tests and adjustments are made when the interruption is less than twenty-four consecutive hours.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.18 Responsibilities of the Subscriber

**2.18.1** The Subscriber is responsible for placing any necessary orders, for complying with tariff regulations, and for ensuring that Authorized Users comply with tariff regulations. The Subscriber is also responsible for the payment of charges for calls originated at the Subscriber's premises that are not collect, third party, calling card, or credit card calls.

**2.18.2** The Subscriber is responsible for charges incurred for special construction and/or special facilities that the Subscriber requests and which are ordered by the Company on the Subscriber's behalf.

**2.18.3** If required for the provision of the Company's services, the Subscriber must provide any equipment space, supporting structure, conduit, and electrical power without charge to the Company.

**2.18.4** The Subscriber is responsible for arranging ingress to its premises at times mutually agreeable to it and the Company when required for the Company personnel to install, repair, maintain, program, inspect, or remove equipment associated with the provision of the Company's services.

**2.18.5** The Subscriber shall ensure that its terminal equipment and/or system is properly interfaced with the Company's facilities or services, that the signals emitted into the Company's network configuration are of the proper mode, bandwidth, power, and signal level for the intended use of the Subscriber and in compliance with the criteria set forth in Part 68 of the Code of Federal Regulations, and that the signals do not damage equipment, injure personnel, or degrade service to other Subscribers.

**SECTION 2 - RULES AND REGULATIONS, (CONT'D.)**

**2.18 Responsibilities of the Subscriber, (Cont'd.)**

**2.18.6** If the Subscriber fails to maintain the equipment and/or the system properly, with resulting imminent harm to the Company's equipment, personnel, or the quality of Service to other Subscribers or Customers, the Company may, upon written notice, require the use of protective equipment at the Subscriber's expense. If this fails to produce satisfactory quality and safety, the Company may, upon written notification, terminate the Subscriber's service.

**2.18.7** The Subscriber must pay the Company for replacement or repair of damage to the equipment or facilities of the Company caused by negligence or willful act of the Subscriber, its Authorized Users, or others, or by improper use of equipment provided by the Subscriber, Authorized Users, or others.

**2.18.8** The Subscriber must pay for the loss through theft or fire of any of the Company's equipment installed at Subscriber's premises.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.19 Responsibilities of Authorized Users

**2.19.1** The Authorized User is responsible for compliance with the applicable regulations set forth in this tariff as well as all rules and regulations of the state utility commission and the FCC.

**2.19.2** The Authorized User is responsible for identifying the station, party, or person with whom communication is desired and/or made at the called number.

**2.19.3** The Authorized User is responsible for providing the Company with a valid method of billing for each call. the Company reserves the right to validate the credit worthiness of users through available credit card, calling card, called number, third party telephone number, and room number verification procedures. Where a requested billing method cannot by validated, the user may be required to provide an acceptable alternate billing method or the Company may refuse to place the call.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.20 Complaint Procedures

Customer complaints and inquiries regarding their bills may be directed to the toll-free number provided by the billing agent on the bill. In addition, inquiries and complaints may also be directed to:

Regulatory Manager
North By NortheastCom LLC
d/b/a SoutheastCom LLC
11200 Murray Scholls Place
Beaverton, OR 97007
Toll Free: (800) 933 - 4034

If not satisfied with the Company's response, customers may contact:

Consumer Service Section
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
Telephone: (602) 542-4251

### 2.21 Access to Other Carriers

Neither the Company nor its Subscribers may block access to other certificated carriers unless a waiver is granted by the Arizona Corporation Commission.

### 2.22 Access Charges

The Company, either directly or indirectly through its underlying carriers, will pay intrastate access charges for use of local exchange company facilities when completing intrastate Arizona calls.

## SECTION 2 - RULES AND REGULATIONS, (CONT'D.)

### 2.23 Call Splashing

Pursuant to ACC R-14-2-1008, the Company will not transfer calls to another carrier unless the rating and billing information for the call will properly reflect the originating and terminating points of the call. If such transfers are not possible, the Company will inform the caller that the call cannot be completed and that the preferred carrier may be reached via an access code or toll-free customer service number. If such a transfer occurs, it will be made at no charge to the end user.

### 2.24 Notice Information

Subscribers of the Company's service who make the Company's service available to the public are required to post notice on or near each telephone used to access its services. Such notice must include: the Company's name, address, toll-free telephone number for inquiries, dialing instructions, an indication that the Company's rates apply, a statement that the calling card carrier will not carry the call, description of complaint procedures, a statement that the end user has the right to access their carrier of choice, and any location-specific surcharges.

### 2.25 Noncompliance by Subscribers

In instances where the Company finds that a Subscriber is not in compliance with information posting and notice requirements of the Arizona Corporation Commission, the Company will contact the Subscriber and request compliance. If, after the above steps are taken, the Subscriber refuses to comply with the Commission's rules, the Company will terminate service to the Subscriber.

### 2.26 Other

The Company may temporarily suspend service without notice to the Customer, by blocking traffic to certain cities or NXX exchanges, or by blocking calls using certain Personal Account codes when the Company deems it necessary to take such action to prevent unlawful use of its service. The Company will restore service as soon as service can be provided without undue risk of fraud.

## SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES

### 3.1 General

The Company proposes to offer National Directory Assistance with call completion, long distance transport, and enhanced directory services for communications originating and terminating within the State of Arizona under terms of this tariff. The Company will not offer Operator Services.

**SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)**

**3.2 Calculation of Distance**

Usage charges for all mileage sensitive products are based on the airline distance between serving wire centers associated with the originating and terminating points of the call.

The serving wire centers of a call are determined by the area codes and exchanges of the origination and destination points.

The distance between the Wire Center of the Customer's equipment and that of the destination point is calculated by using the industry standard "V" and "H" coordinates.

**Step 1:** Obtain the "V" and "H" coordinates for the serving wire center of the Customer's switch and the destination point.

**Step 2:** Obtain the difference between the "V" coordinates of each of the Rate Centers. Obtain the Difference between the "H" coordinates.

**Step 3:** Square the differences obtained in Step 2.

**Step 4:** Add the squares of the "V" difference and "H" difference obtained in Step 3.

**Step 5:** Divide the sum of the square obtained in Step 4 by ten (10). Round to the next higher whole number if any fraction results from the division.

**Step 6:** Obtain the square root of the whole number obtained in Step 5. Round to the next higher whole number if any fraction is obtained. This is the distance between the originating and terminating serving wire centers of the call.

**Formula:**

$$\sqrt{\frac{(V_1 V_2)^2 + (H_1 H_2)^2}{10}}$$

**SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)**

## 3.3 Timing of Calls

Billing for calls placed over the network is based in part on the duration of the call.

**3.3.1** Timing for all calls begins when the called party answers the call (i.e. when two way communications are established.) Answer detection is based on standard industry answer detection methods, including hardware and software answer detection.

**3.3.2** Chargeable time for all calls ends when one of the parties disconnects from the call.

**3.3.3** Minimum call duration and call timing increments for billing purposes is specified on a per-product basis in this tariff.

**3.3.4** Usage charges are computed and rounded up to the nearest penny on a per call basis.

**3.4.5** There is no billing applied for incomplete calls, not withstanding directory assistance calls as defined within the tariff.

## 3.4 Rate Periods

The Company's services are not time of day or day of week sensitive. The same rates apply 24 hours per day, seven (7) days per week.

**SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)**

**3.5 Nationwide Directory Assistance Service**

The Company offers Nationwide Directory Assistance with call completion, long distance transport and enhanced directory services. The Directory Assistance call will be billed on a per call basis. The Directory Assistance charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number.

No call completion charges apply when the Customer requests that the Company complete the call. The per minute long distance rate, listed below, will apply to the completion portion of the call, when applicable. Long distance calls are billed in one (1) minute increments after an initial billing period, for the completed call only, of one (1) minute.

**MAXIMUM RATES**

**3.5.1 Per Call Rates:**

**(A) Rate per call:** $2.00

**3.5.2 Per Minute Rates:**

**(B) Per Minute Long Distance Rate:** $0.12

## SECTION 4 - MISCELLANEOUS SERVICES

### 4.1 Late Payment Charge

A late fee of 1.5% per month will be charged on any past due balance.

### 4.2 Return Check Charge

A return check charge of $25.00 will be assessed for checks returned for insufficient funds. Any applicable return check charges will be assessed according to the terms and conditions of this tariff and pursuant to Arizona law and Commission regulations.

## SECTION 5 - PROMOTIONS

### 5.1 Promotions - General

From time to time the Company shall, at its option, promote subscription or stimulate network usage by offering to waive some of all of the nonrecurring or recurring charges for the Customer (if eligible) of target services for a limited duration, not to exceed 90 days, or by offering premiums or refunds of equivalent value. Such promotions shall be made available to all similarly situated Customers in the target market area. All promotions will be filed with and approved by the Commission prior to offering them to Customers.

### 5.2 Demonstration of Calls

From time to time the Company shall demonstrate service by providing free test calls of up to four minutes duration over its network.

## SECTION 6 - CONTRACT SERVICES

### 6.1 General

At the option of the Company, service may be offered on a contract basis to meet specialized requirements of the Customer not contemplated in this tariff. Contract Services are subject to the Arizona Corporation Commission's review. The terms of each contract shall be mutually agreed upon between the Customer and Company and may include discounts off of rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in the Company's general service offerings, or other customized features. The terms of the contract may be based partially or completely on the term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Service shall be available to all similarly situated Customers for six months after the initial offering to the first contract Customer for any given set of terms.

## SECTION 7 - CURRENT RATES

**7.1 Directory Assistance Service**

**7.1.1 Per Call Rates:**

**(A) Rate per Directory Assistance call:** $0.99

**7.1.2 Per Minute Rates:**

**(B) Per Minute Long Distance Rate:** $0.06

**North By NortheastCom LLC**
d/b/a SoutheastCom LLC

Attachment C

Financials

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 September 30, 2001

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

Commission File Number 0-27024

## METRO ONE TELECOMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| OREGON | 93-0995165 |
| (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)

(503) 643-9500
(Registrant's telephone number)

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 __

Number of shares of common stock outstanding as of November 9, 2001: 24,350,877 shares, no par value per share

METRO ONE TELECOMMUNICATIONS, INC.

INDEX TO FORM 10 - Q


| Part I | Financial Information | Page No. |
|---|---|---|
| Item 1. | Financial Statements (Unaudited) | |
| | Condensed Statements of Income for the three and nine months ended September 30, 2001 and 2000 | 1 |
| | Condensed Balance Sheets as of September 30, 2001 and December 31, 2000 | 2 |
| | Condensed Statements of Cash Flows for the nine months ended September 30, 2001 and 2000 | 3 |
| | Notes to Condensed Financial Statements | 4 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 7 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 11 |
| Part II | Other Information | |
| Item 6. | Exhibits and Reports on Form 8-K | 12 |
| | Signature | 13 |

# Metro One Telecommunications, Inc.

## Condensed Statements of Income (Unaudited)

| (In thousands, except per share data) | Three Months Ended September 30, 2001 | Three Months Ended September 30, 2000 | Nine Months Ended September 30, 2001 | Nine Months Ended September 30, 2000 |
|---|---|---|---|---|
| Revenues | $ 60,868 | $ 42,953 | $ 170,246 | $ 109,253 |
| Costs and expenses: | | | | |
| Direct operating | 35,194 | 26,879 | 96,846 | 69,439 |
| General and administrative | 16,954 | 12,219 | 48,189 | 32,205 |
| | 52,148 | 39,098 | 145,035 | 101,644 |
| Income from operations | 8,720 | 3,855 | 25,211 | 7,609 |
| Other income (expense), net | 267 | 50 | 1,001 | (8) |
| Interest expense and loan fees | (15) | (931) | (877) | (2,267) |
| Income before income taxes | 8,972 | 2,974 | 25,335 | 5,334 |
| Income tax expense | 1,397 | 210 | 4,997 | 293 |
| Net income | $ 7,575 | $ 2,764 | $ 20,338 | $ 5,041 |
| Earnings per share | | | | |
| Basic | $ .31 | $ .16 | $ .87 | $ .29 |
| Diluted | $ .30 | $ .15 | $ .83 | $ .28 |

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

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

| (In thousands) | September 30, 2001 | December 31, 2000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 33,807 | $ 6,463 |
| Accounts receivable | 40,776 | 36,559 |
| Prepaid costs and other current assets | 2,193 | 1,864 |
| Total current assets | 76,776 | 44,886 |
| Furniture, fixtures and equipment, net | 65,369 | 54,749 |
| Other assets | 8,767 | 2,663 |
| | $ 150,912 | $ 102,298 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,675 | $ 2,633 |
| Accrued liabilities | 4,790 | 6,088 |
| Accrued payroll and related costs | 8,532 | 9,181 |
| Operating line of credit | - | 4,750 |
| Current portion of long-term debt | - | 9,511 |
| Total current liabilities | 14,997 | 32,163 |
| Long-term debt | - | 24,731 |
| | 14,997 | 56,894 |
| 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, 24,246 and 17,747 shares issued and outstanding at September 30, 2001 and December 31, 2000 respectively | 114,163 | 43,991 |
| Retained earnings | 21,752 | 1,413 |
| Shareholders' equity | 135,915 | 45,404 |
| | $ 150,912 | $ 102,298 |

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

# Metro One Telecommunications, Inc.

## Condensed Statements of Cash Flows (Unaudited)

| (In thousands) | Nine Months Ended September 30, 2001 | 2000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 20,338 | $ 5,041 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 11,449 | 7,422 |
| Loss on disposal of fixed assets | 143 | 148 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,217) | (23,966) |
| Prepaid costs and other current assets | 259 | (1,823) |
| Accounts payable, accrued liabilities and payroll and related costs | (4,864) | 6,987 |
| Net cash provided by (used in) operating activities | 23,108 | (6,191) |
| Cash flows from investing activities: | | |
| Capital expenditures | (20,301) | (20,269) |
| Cash paid in business combination | (3,639) | - |
| Proceeds from sale of assets | 196 | 8 |
| Maturity of short-term investments | - | 400 |
| Net cash used in investing activities | (23,744) | (19,861) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt | - | 13,630 |
| Repayment of debt | (34,241) | (4,549) |
| Net (repayment) borrowings on line of credit | (4,750) | 11,500 |
| Repayment of capital lease obligations | - | (127) |
| Net proceeds from sale of common stock | 64,670 | - |
| Proceeds from exercise of stock options | 2,301 | 2,311 |
| Net cash provided by financing activities | 27,980 | 22,765 |
| Net increase (decrease) in cash and cash equivalents | 27,344 | (3,287) |
| Cash and cash equivalents, beginning of period | 6,463 | 9,564 |
| Cash and cash equivalents, end of period | $ 33,807 | $ 6,277 |

Supplementary disclosure of non-cash investing activity

| | | |
|---|---|---|
| Issuance of 103,651 shares of common stock in business combination | $ 3,200 | - |

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

# Metro One Telecommunications, Inc.
## Notes to Condensed Financial Statements (in 000s, unaudited)

### 1. Basis of Presentation

The accompanying interim condensed financial statements have been prepared by Metro One Telecommunications, Inc. without audit and in conformity with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, certain financial information and footnotes have been omitted or condensed. In the opinion of management, the condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement 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, 2000. 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.

### 2. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share reflects the dilutive effect of stock options outstanding. Net income for the calculation of both basic and diluted earnings per share is the same for all periods.

A reconciliation of basic weighted average shares outstanding to diluted weighted average shares outstanding is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| Weighted average shares outstanding – Basic | 24,208 | 17,471 | 23,324 | 17,372 |
| Dilutive effect of stock options | 1,356 | 504 | 1,226 | 556 |
| Weighted average shares outstanding - Diluted | 25,564 | 17,975 | 24,550 | 17,928 |

The amount of dilution attributable to the stock options, determined by the treasury stock method, is dependent on the average market price of our common stock for each period.

On May 16, 2001, the Company's Board of Directors effected a three-for-two stock split by declaring a 50% stock dividend, distributing 8.1 million shares on June 29, 2001. All share and per share data presented in the accompanying financial statements and notes thereto have been restated for the stock split.

### 3. 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.

### 4. Supplemental Cash Flow Information

| | Nine Months Ended September 30, | |
|---|---|---|
| Cash paid for: | **2001** | **2000** |
| Interest | $ 975 | $ 2,198 |
| Income taxes | 4,308 | 159 |

### 5. Income Taxes

At December 31, 2000, we had approximately $11.4 million of net operating loss carryforwards expiring during the years 2005 to 2010. Ownership changes as defined by section 382 of the Internal Revenue Code could limit the amount of net operating loss carryforwards used in any one year or in the aggregate.

During the quarter, we reduced our deferred tax valuation allowance to reflect deferred tax assets used to reduce current year income taxes. Our quarterly and annual operating results have in the past and may in the future vary significantly depending on factors such as changes in the telecommunications market, the addition or expiration of customer contracts, increased competition, changes in pricing policies by us or our competitors, lengthy sales cycles, lack of market acceptance or delays in the introduction of new versions of our products or features, the timing of the initiation of wireless services or their acceptance in new market areas by telecommunications customers or their subscribers, the timing and expense of the expansion of our national call center network, general employment environment, general economic conditions, significant world events and other factors. Given the variability in operating results, we will continue to review the valuation allowance on a quarterly basis and make adjustments as appropriate.

For fiscal year 2001, we expect our combined effective federal and state income tax rate to be about 20%. The difference between taxes calculated at the statutory federal and state tax rates and the effective combined rates for the year ended December 31, 2001 is expected to primarily result from changes in the deferred tax asset valuation allowance due to the utilization of net operating loss carryforwards.

### 6. Significant Transactions

In February 2001, we completed the sale and issuance to Sonera Media Holding B.V. ("Sonera") of Finland, of six million shares of our common stock at a price of US$11.33 per share, for an aggregate price of $68 million (net proceeds of $64.7 million) and an approximate 25.5% ownership position. Under the terms of the agreement, Sonera has gained representation on our Board of Directors and can further acquire up to an aggregate 33% ownership position. We have utilized a portion of the cash received to retire approximately $35 million of debt. We intend to use the additional cash to further expand our infrastructure and capacity through expansion of existing call centers and new call centers in selected markets and for other corporate purposes.

In February 2001, we completed the purchase of a developer of web-based data extraction and processing technology. The transaction has been recorded using the purchase method of accounting. The purchase price has been allocated to the assets acquired, which consisted primarily of proprietary technology and intangibles and goodwill. Pro forma financial information is not presented, as the impact on the Company's results of operations was not material.

### 7. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). This new statement addresses financial accounting and reporting for goodwill and other intangible assets. Under this new standard, goodwill and other intangible assets that are deemed to have an indefinite life will no longer be amortized. However, goodwill and other intangible assets will be tested for impairment on an annual basis by applying a fair value based test. SFAS 142 will be effective for the Company beginning January 1, 2002. Management is currently evaluating the impact of this statement. However, we do not expect the impact on the Company's results of operations to be material.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and expands on the guidance provided by SFAS No. 121 with respect to cash flow estimations. SFAS No. 144 becomes effective January 1, 2002. Management believes the adoption of SFAS No. 144 will not have a significant impact on the Company's financial position, results of operations or cash flows.

In September 2001, the Emerging Issues Task Force (EITF) issued EITF 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001". This pronouncement discusses the classification and timing of reporting losses directly associated with the terrorist attacks of September 11, 2001. The Company did not suffer direct loss of employee life or Company property as a result of the attacks. However, these and subsequent related world events appear to have impacted customer calling behaviors and call arrival distribution patterns. The extent of the impact of these events on the Company's results of operations for the third quarter of 2001 or future periods cannot accurately be determined. At this time, management believes that these events will not have a material impact on the Company's financial position, results of operations or cash flows.

## 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 are subject to the business and economic risks faced by us and our actual results of operations may differ materially from those contained in the forward looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of operations for the periods discussed below should not be considered indicative of the results to be expected in any future period and fluctuations in operating results may also result in fluctuations in the market price of our common stock. Our quarterly and annual operating results have in the past and may in the future vary significantly depending on factors such as changes in the telecommunications market, the addition or expiration of customer contracts, increased competition, changes in pricing policies by us or our competitors, lengthy sales cycles, lack of market acceptance or delays in the introduction of new versions of our products or features, the timing of the initiation of wireless services or their acceptance in new market areas by telecommunications customers, the timing and expense of the expansion of our national call center network, general employment environment, general economic conditions, significant world events and other factors, including but not limited to, factors detailed in our annual report on Form 10-K filed with the Securities and Exchange Commission.

### Overview

We are the leading developer and provider of Enhanced Directory Assistance ("EDA") and other enhanced telecom services. We have contracts with wireless and landline carriers ("customers") to provide EDA and other services in numerous U.S. markets. Our recent operations have been characterized by rapid call volume and revenue growth as well as growth in profits. Call volume and revenues increased 50% and 42%, respectively, in the third quarter of 2001 from the third quarter of 2000, and profits grew to $7,575,000 from $2,764,000.

Our marketing strategy includes efforts to increase our share of the directory assistance and information services markets by expanding services to existing customers, adding new customers and subsequently expanding our call center network into new geographic markets. We have had ongoing business discussions about new contracts with other telecommunications companies. In order to serve new or existing customers, we anticipate that we will open additional call centers or expand or relocate existing call centers, as needed, during the remainder of 2001 and beyond. We opened one new call center in the first nine months of 2001.

To stimulate an increase in call volume and to attract and expand customer commitments, our strategy has included price discounts based on call volumes. We expect that our average price per call will continue to decrease in the remainder of 2001 as increasing call volumes trigger volume-based pricing discounts. We believe that our pricing strategy better positions us to retain and expand service with existing customers, to extend service to new customers and to achieve greater operating margins over time.

In February 2001, we completed the sale and issuance to Sonera Media Holding B.V. ("Sonera") of Finland, of six million shares of our common stock at a price of US$11.33 per share, for an aggregate price of $68 million (net proceeds of $64.7 million) and an approximate 25.5% ownership position. Under the terms of the agreement, Sonera has gained representation on our Board of Directors and can further acquire up to an aggregate 33% ownership position. We have utilized a portion of the cash received to retire approximately $35 million of debt. We intend to use the additional cash to further expand our infrastructure and capacity through expansion of existing call centers and new call centers in selected markets and for other corporate purposes.

In February 2001, we completed the purchase of a developer of web-based data extraction and processing technology, which has become our Content Development department. This group builds application-specific databases for a variety of portals, be they wired or wireless, voice or data. Our proprietary data extraction and processing technology enables the creation and ongoing maintenance of high quality databases from distributed and fragmented data on the web and elsewhere. We believe that these capabilities will contribute to the expansion of our services and data offerings to our wireless and other customers.

**Results of Operations**

The following table sets forth, for the periods indicated, the items of our statements of income as a percentage of revenues.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Direct operating costs | 57.8 | 62.6 | 56.9 | 63.6 |
| General and administrative costs | 27.9 | 28.4 | 28.3 | 29.5 |
| Income from operations | 14.3 | 9.0 | 14.8 | 6.9 |
| Other income (expense), net | 0.4 | 0.1 | 0.6 | (0.0) |
| Interest and loan fees | (0.0) | (2.2) | (0.5) | (2.0) |
| Income before income taxes | 14.7 | 6.9 | 14.9 | 4.9 |
| Income tax expense | 2.3 | 0.5 | 2.9 | 0.3 |
| Net income | 12.4 | 6.4 | 12.0 | 4.6 |

*Comparison of Third Quarter 2001 to Third Quarter 2000*

Revenues increased 41.7% to $60.9 million in the third quarter of 2001 from $43.0 million in the third quarter of 2000. Call volume grew to 125 million calls in the third quarter of 2001 from approximately 83 million calls during the third quarter of 2000. These increases resulted primarily from the addition of new subscribers and new markets from existing customers, as well as increased usage of our services by existing subscribers.

Direct operating costs increased 30.9% to $35.2 million in the third quarter of 2001 from $26.9 million in the third quarter of 2000. This increase was primarily due to increased staffing costs associated with increased call volumes. As a percentage of revenues, direct operating costs decreased to 57.8% in the third quarter of 2001 from 62.6% in the third quarter of 2000. This decrease was due primarily to operating efficiencies and lower costs of accessing information content.

General and administrative costs increased 38.8% to $17.0 million in the third quarter of 2001 from $12.2 million in the third quarter of 2000. This increase resulted primarily from additional costs necessary to support our larger base of call centers and increased call volumes. As a percentage of revenues, general and administrative costs decreased to 27.9% in the third quarter of 2001 from 28.4% in the third quarter of 2000. This decrease resulted primarily from efficiencies associated with the growth of our business. Depreciation and amortization increased by 64.0% to $4.1 million in the third quarter of 2001 from $2.5 million in the third quarter of 2000 due primarily to equipment purchased for new call centers, upgrades of existing call centers and product development activities.

Other income, net for the three months ended September 30, 2001 and 2000 was $267,000 and $50,000, respectively and consisted primarily of interest income partially offset by losses on disposal of assets in both periods.

Interest expense and loan fees decreased 98.4% to $15,000 in the third quarter of 2001 from $931,000 in the third quarter of 2000. This decrease was primarily attributable to a decrease in average outstanding debt. All debt was paid in full as of March 31, 2001.

*Comparison of the First Nine Months of 2001 to the First Nine Months of 2000*

Revenues increased 55.8% to $170.2 million in the first nine months of 2001 from $109.3 million in the first nine months of 2000. Call volume grew to approximately 343 million calls in the first nine months of 2001 from approximately 210 million calls during the first nine months of 2000. These increases resulted primarily from the addition of new subscribers and new markets from existing customers, as well as increased usage of our services by existing subscribers.

Direct operating costs increased 39.5% to $96.8 million in the first nine months of 2001 from $69.4 million in the first nine months of 2000. This increase was primarily due to increased staffing costs associated with increased call volumes. As a percentage of revenues, direct operating costs decreased to 56.9% in the first nine months of 2001 from 63.6% in the first nine months of 2000. This decrease was due primarily to operating efficiencies and lower costs of accessing information content.

General and administrative costs increased 49.6% to $48.2 million in the first nine months of 2001 from $32.2 million in the first nine months of 2000. This increase resulted primarily from additional costs necessary to support our larger base of call centers and increased call volumes. As a percentage of revenues, general and administrative costs decreased to 28.3% in the first nine months of 2001 from 29.5% in the first nine months of 2000. This decrease resulted primarily from efficiencies associated with the growth of our business. Depreciation and amortization increased by 60.1% to $11.0 million in the first nine months of 2001 from $6.9 million in the first nine months of 2000 due primarily to equipment purchased for new call centers, upgrades of existing call centers and product development activities.

Other income, net for the nine months ended September 30, 2001 was $1.0 million and consisted primarily of interest income partially offset by losses on disposal of assets. Other expense, net for the nine months ended September 30, 2000 was $8,000 and consisted primarily of losses on the disposal of fixed assets offset by interest income.

Interest expense and loan fees decreased 61.3% to $877,000 in the first nine months of 2001 from $2.3 in the first nine months of 2000. This decrease was primarily attributable to a decrease in average outstanding debt. All debt was paid in full as of March 31, 2001.

Income tax expense for the nine months ended September 30, 2001 was $5.0 million, for an effective tax rate of approximately 19.7%. Income tax expense for the nine months ended September 30, 2000 was $293,000, for an effective tax rate of approximately 5.5%. These rates differ from the combined federal and state statutory rate of approximately 41% primarily due to the use of net operating loss carryforwards.

**Liquidity and Capital Resources**

Our cash and cash equivalents are recorded at cost, which approximates fair market value. As of September 30, 2001, we had $33.8 million in cash and cash equivalents compared to $6.5 million at December 31, 2000. The net increase of $27.3 million resulted primarily from the investment by Sonera and operating cash inflows partially offset by cash paid for capital expenditures, the repayment of debt and the acquisition of Enthusiasm.

Working capital was $61.8 million at September 30, 2001, compared to $12.8 million at December 31, 2000. This increase is due primarily to working capital provided by the investment of Sonera and from the results of operations, offset by the use of working capital for capital expenditures, the repayment of debt and the acquisition of a data extraction and processing company.

*Cash Flow from Operations.* Net cash provided by operations was $23.1 million for the nine months ended September 30, 2001 resulting primarily from net income and the effect of non-cash depreciation and amortization partially offset by an increase in accounts receivable and a decrease in accounts payable and accrued liabilities.

*Cash Flow from Investing Activities.* Cash used in investing activities was $23.7 million for the nine months ended September 30, 2001 resulting primarily from capital expenditures for the purchase of equipment for new call centers, the upgrade and expansion of existing call centers, upgrades and expansions of corporate networks and infrastructure and cash paid in the acquisition of a data extraction and processing company.

*Cash Flow from Financing Activities.* Net cash provided by financing activities was $28.0 million for the nine months ended September 30, 2001 resulting primarily from the proceeds of the investment by Sonera. Additional cash was provided by the exercise of common stock options.

We have a $10.0 million secured line of credit agreement with a commercial bank. The agreement expires in December 2001. Outstanding borrowings bear interest at the prime rate (6.00% at September 30, 2001) plus up to 0.5% based on the ratio of debt to cash flow, and all receivables are pledged to the bank as collateral. In addition, the line has an unused facility fee of up to 0.75%, also based on the ratio of debt to cash flow. The agreement contains minimum quick ratio, debt to equity and profitability requirements, as well as other restrictive covenants, and prohibits the payment of any dividends and other distributions and redemptions of our stock exceeding 10% of our tangible net worth. As of September 30, 2001, we had no outstanding borrowings under this agreement.

*Future Capital Needs and Resources.* The primary uses of our capital in the near future are expected to be the development or acquisition of technologies, features and content complementary to our business, expansion of our call center and network capacity to serve existing and potential new customers and for general corporate purposes, including possible acquisitions, other corporate development activities and working capital. We currently anticipate that our capital expenditures will be approximately $25 to $30 million in 2001, resulting primarily from projected call center expansions, increased network capacity and corporate development activities.

*Recent Accounting Pronouncements.* In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). This new statement addresses financial accounting and reporting for goodwill and other intangible assets. Under this new standard, goodwill and other intangible assets that are deemed to have an indefinite life will no longer be amortized. However, goodwill and other intangible assets will be tested for impairment on an annual basis by applying a fair value based test. SFAS 142 will be effective for the Company beginning January 1, 2002. Management is currently evaluating the impact of this statement. However, we do not expect the impact on the Company's results of operations to be material.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and expands on the guidance provided by SFAS No. 121 with respect to cash flow estimations. SFAS No. 144 becomes effective January 1, 2002. Management believes the adoption of SFAS No. 144 will not have a significant impact on the Company's financial position, results of operations or cash flows.

In September 2001, the Emerging Issues Task Force (EITF) issued EITF 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001". This pronouncement discusses the classification and timing of reporting losses directly associated with the terrorist attacks of September 11, 2001. The Company did not suffer direct loss of employee life or Company property as a result of the attacks. However, these and subsequent related world events appear to have impacted customer calling behaviors and call arrival distribution patterns. The extent of the impact of these events on the Company's results of operations for the third quarter of 2001 or future periods cannot accurately be determined. At this time, management believes that these events will not have a material impact on the Company's financial position or results of operations.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Substantially all of our cash and cash equivalents are invested in money market instruments, and therefore the fair market value of these instruments is affected by changes in market interest rates. However, substantially all of our investments at September 30, 2001 were invested in overnight money market instruments and were redeemable on a daily basis. Substantially all of the underlying investments in the money market fund had maturities averaging three months or less. As a result, we believe the market risk arising from our holdings of financial instruments is minimal. A hypothetical 1% fluctuation in interest rates would not have a material adverse effect on our financial position, results of operations or cash flows.

## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports filed on Form 8-K

None

## SIGNATURE

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.

Metro One Telecommunications, Inc.
Registrant

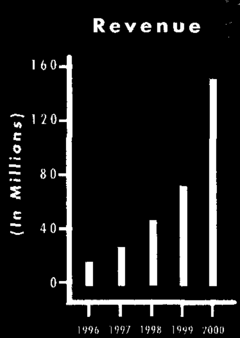
Date: November 14, 2001

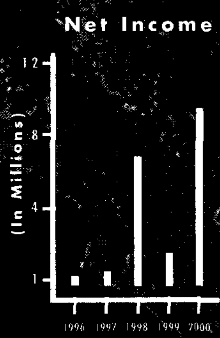
/s/ Dale N. Wahl
Dale N. Wahl
Senior Vice President
Chief Financial Officer

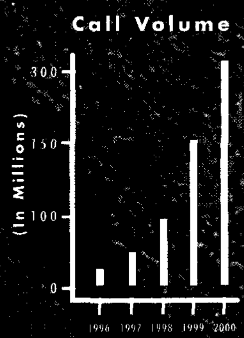

2000 Annual Report
METROONE

# Nationwide Reach

elephone
y providing a
connectivity
ding our
ack® return-
ature. We
services from
etwork of
ocated call
mploy more
hly skilled
apply their
cal knowledge
light systems
rve callers.
e handled
million
hanced
vices.




We develop
enhanced te
including ou
Enhanced Dir
We contract
carriers to p
customized
services to t
Our product
variety of i
content, inc
listings, tur
directions,
reservations
category se
directory lo
useful infor

# To Our Shareholders

**2000** was a record-breaking chapter in our growing success story. We generated record revenues of nearly $157 million, representing an impressive year-over-year increase of 102%. We produced equally impressive record net income of $9.7 million or $0.80 per diluted share. These stellar results pushed the market price of our common shares at the close of the year to an all-time high-$25 per share– and beyond in the weeks that followed.

As we have noted in the past, our goal is to build Metro One into a diversified company with a market capitalization of over one billion dollars. With that in mind, we have always taken a long-term approach toward building our business and we continue to focus our efforts on improving prospects for long-term sustainable growth. Our accomplishments in 2000 mark our most significant progress to date toward that goal, on both a financial and operational basis.

## Record Growth and Earning Power

We delivered a strong demonstration of our earning power in 2000. Before the new millennium, our best annual net income came in 1998, when we posted earnings per share of $0.32. By the end of the third quarter of 2000, our new best "year" ever was the sum of 2000's second and third quarters at $0.33 per share. This was immediately surpassed by a newer best "year" ever, occurring all within a single quarter, as we posted $0.38 per share for the fourth quarter of the year. Significant also is the fact that these results were computed after interest payments on the relatively significant amount of debt we carried for the entire year.

2000 was also a record year for call volume. During the year, Metro One handled approximately 302 million requests for information services, more than double the amount handled in 1999. We believe that the frequency of use of our products continues to grow, even in the face of whatever economic downturn, real or imagined, currently faces the United States. We base this belief on the fact that more than half of our overall 2000 call volume growth came from existing markets and subscriber bases, and did so in numbers that far outdistance subscriber growth figures published by the wireless industry. The remaining portion of our outstanding call volume growth came from new markets. In 2000, we expanded our customer relationships by adding new carrier customers or significantly extending business with existing customers. In doing so, we ensured the continuation of our strong call volume and revenue growth while generally decreasing customer concentration. Included in the list of additions or renewals during the year were AT&T Wireless Services, Pacific Bell Wireless, Midwest Wireless, Horizon Personal Communications and CLEC Integra Telecom. We are delighted to welcome the newcomers and relish the opportunity to continue service for all of our highly valued existing customers.

## Growing Markets

Wireless growth and penetration of the U.S. population continue at a rapid pace. Estimated subscriber levels have exceeded 110 million; the growth in this number shows no sign of stopping. While this market has grown, the search for new products and services to deliver it has accelerated. Our quality position should cause us to be a major beneficiary of this search.

To meet demand, we continued our national expansion during the year by opening call centers in Charlotte, Houston, Nashville and Pittsburgh. These completed our contractually required call center build out and further established our nationwide infrastructure, enabling us to provide customized, localized service unmatched anywhere. We are already adding to this advantage and meeting the ever-growing demand for our services by building additional call centers in Orange County, Washington D.C. and Silicon Valley.

## New Products and Partners

We successfully rolled out or began trials of new value-added products and services that not only provide added revenue opportunities, but also enhance our ability to attract new customers. Examples include our TeleConcierge™ and LocationPro™ families of services, which currently allow us to make restaurant reservations and provide detailed turn-by-turn directions to callers, respectively. If rapidly increasing demand is any indication, such services have been readily received by callers. And we have high hopes for MetroDex™, our personal assistant services suite that will allow us to effortlessly maintain personal databases, calendars and other data for callers. Its nationwide rollout is scheduled for the coming year.

During 2000, we invested considerable time and effort in corporate development activities, which resulted in two significant transactions that closed in early 2001. In the first of these, we signed an equity investment agreement with a subsidiary of Sonera Corporation, the largest provider of landline, wireless and internet services in Finland. This shareholder-approved agreement significantly strengthens our balance sheet and ability to fund future growth, while paving the way to future business cooperation with Sonera to develop and expand wireless information services.

The other transaction was the acquisition of Enthusiasm Technologies, a developer of web-based data extraction and processing technology. The acquisition closed early in 2001. With Enthusiasm, we built and now maintain a database of more than one hundred thousand local events. This database covers more than 800 communities located near the top 50 cities in the United States. We are working rapidly to strengthen and grow this database to cover the top 500 cities in the U.S. and surrounding communities. We will provide these local event data through our voice portal, while also selling them through other portals on a selective basis.

## *Improved Operations*

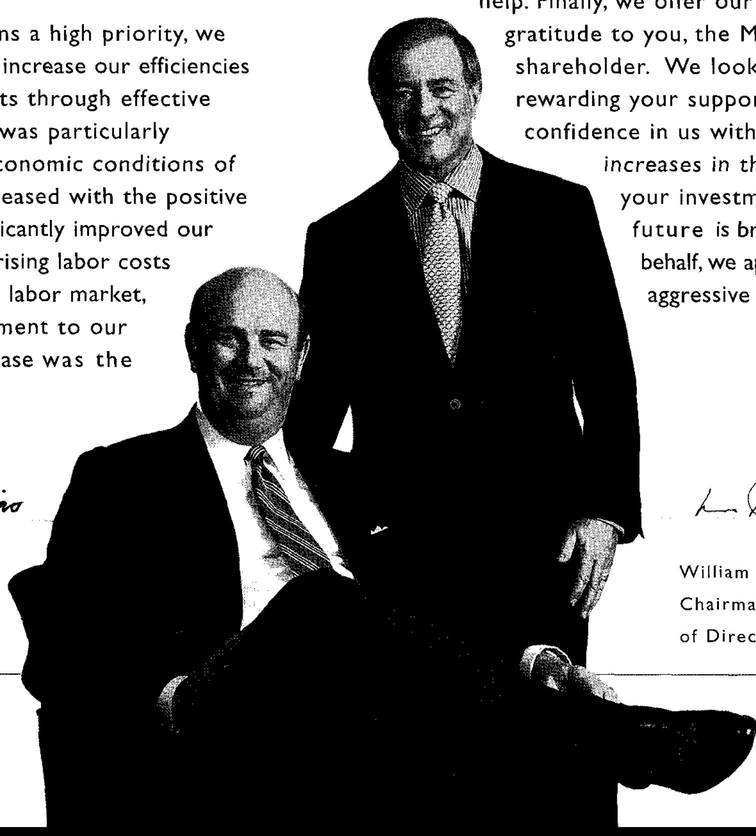
While customer service remains a high priority, we continue our ongoing efforts to increase our efficiencies and improve bottom-line results through effective operations management. This was particularly challenging with the general economic conditions of 2000. However, we are very pleased with the positive results of our efforts– we significantly improved our operational efficiencies despite rising labor costs brought on by a continued tight labor market, resulting in sustained improvement to our bottom line. This dramatic increase was the result of improvement in labor efficiencies, better capacity utilization and realization of information content cost efficiencies as we implemented new systems to effectively utilize less expensive databases.

## *The Road Ahead*

The media have begun to recognize our success. During the year, we were named to Fortune Magazine's list of America's 100 Fastest Growing Companies as well as Forbes Magazine's list of the 200 Best Small Companies in America. We hope to continue to live up to this praise and earn more such accolades in the future.

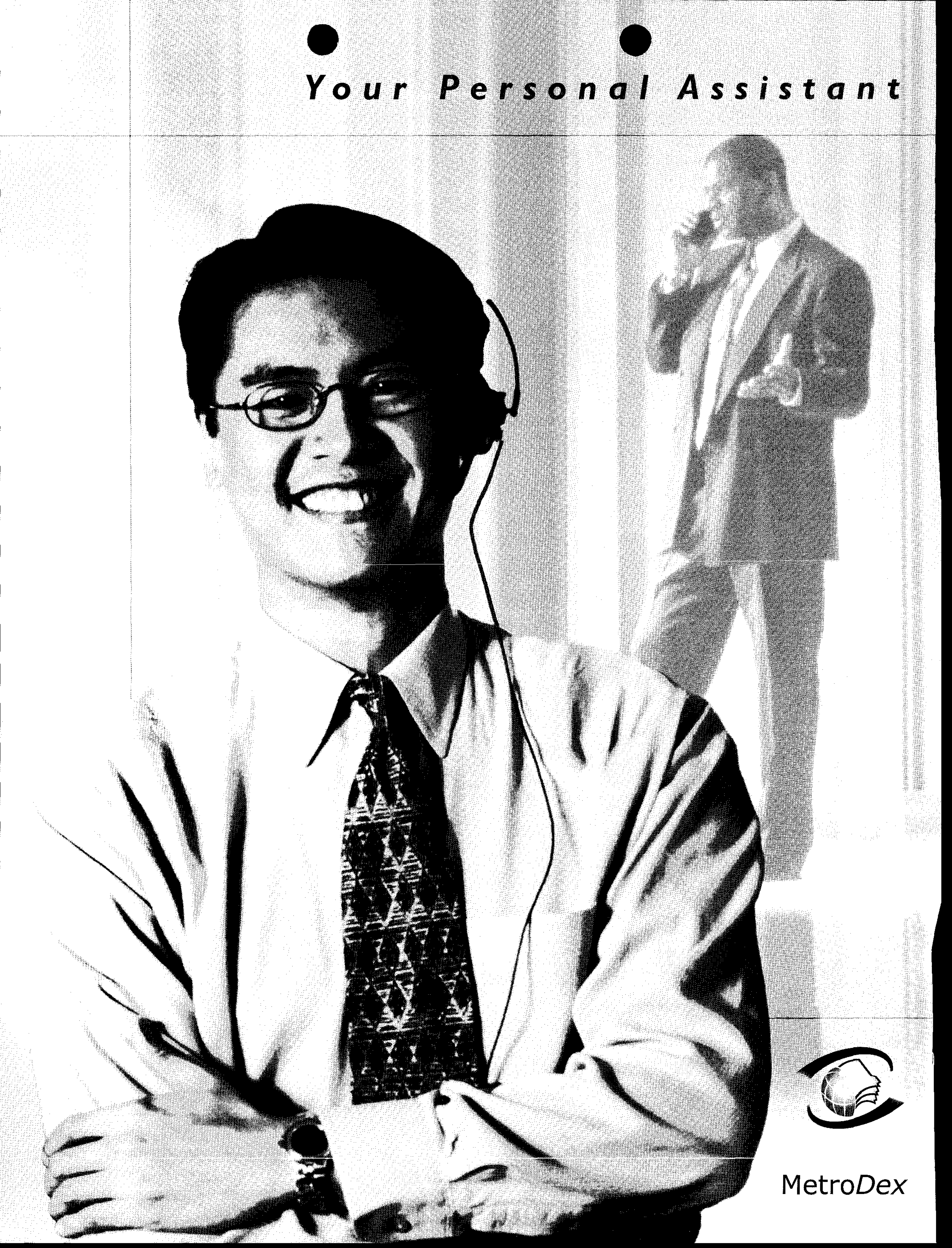
2000 was a significant triumph, yet we see the opportunity to make 2001 our greatest success to date. Clearly, the near future holds even more opportunities for us. We feel that we can increase our market share within the wireless enhanced directory assistance business while broadening the base of portals through which we deliver our high-quality content and information services.

We wish to take this opportunity to thank those responsible for our outstanding results. Our thanks go out first to our teammates at all Metro One locations, for without their hard work, dedication and loyalty, as well as the patience and support of their families, none of our accomplishments would be possible. Recognition of our customers, vendors and other business partners for their part in our successes is also appropriate; we are thankful for their help. Finally, we offer our heartfelt gratitude to you, the Metro One shareholder. We look forward to rewarding your support and confidence in us with significant increases in the value of your investment. The future is bright; on your behalf, we approach it with aggressive enthusiasm.



Timothy A. Timmins
President and
Chief Executive Officer

William D. Rutherford
Chairman of the Board
of Directors


Your Personal Assistant
MetroDex

We bring the concept of personal service to telecommunications. Our commitment to the human touch is evident in the way that our live, friendly operators service callers until their requests are fulfilled.

And if there is a problem or an additional request, our operators are always available by means of our patented StarBack® feature, which reconnects the caller to an operator upon a caller command or stroke of a key.

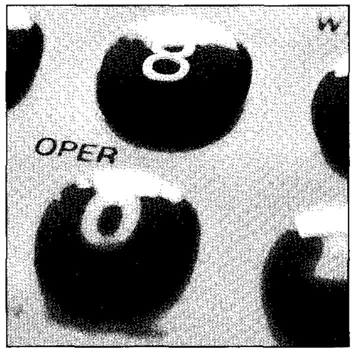
We are a convenient and valuable personal information resource for consumers. We pride ourselves on being there to help callers when and where they need it. Our personal attention to the caller's needs is augmented by local knowledge, local know-how and local location-based capabilities.

We are your local enhanced information services operator. All you need to do is dial "411," "555-1212" or "00," or even say "Operator,"(depending on your carrier's protocol) and we do the rest. Our call centers are located in or near each calling area. This means that callers are not only served by friendly operators, but locally knowledgeable ones as well.

The nearest showing of that new thriller?– No problem. We can generate all of the closest performances in moments. Dinner reservation for after the show? – Got it covered.

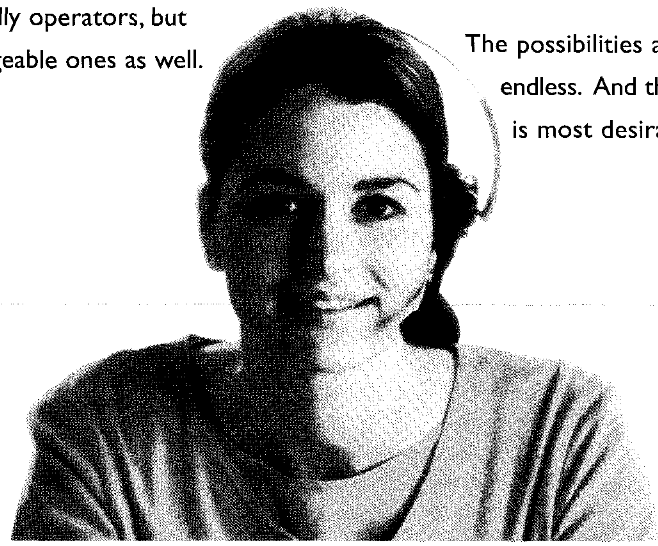
But we are taking service to an entirely new level. We can help you manage your contacts and calendars, with virtually no effort whatsoever on your part. The product is called MetroDex™ and it will soon be available on a nationwide basis.

We can help you track your busy schedule as you make it, as you change it and as you live it. You are able to upload your personal directories and calendars to us through your carrier and have them available whenever and wherever you want them.




Part of a large organization? If it chooses to participate, your organization may also make directories, calendars and other important information available to you through us.

The possibilities are nearly endless. And the convenience is most desirable.



**"Wherever you go, we're there with your personal information."**

## *Customized to Your Personal Needs and Tastes*

While we are helping you manage your personal information and schedules, why not deliver them and all of our other products and features to you just the way you want them?

We speak your language... literally. For example, if you want to receive directory assistance or have the ability to make a reservation in Spanish, we can ensure that you are served by a Spanish-speaking operator, based on your personal profile.

We are taking personal service to an entirely new level. We can deliver services and useful personalized information just as you like it. The product is called Personal Profiler™ and it will soon be available on a nationwide basis.

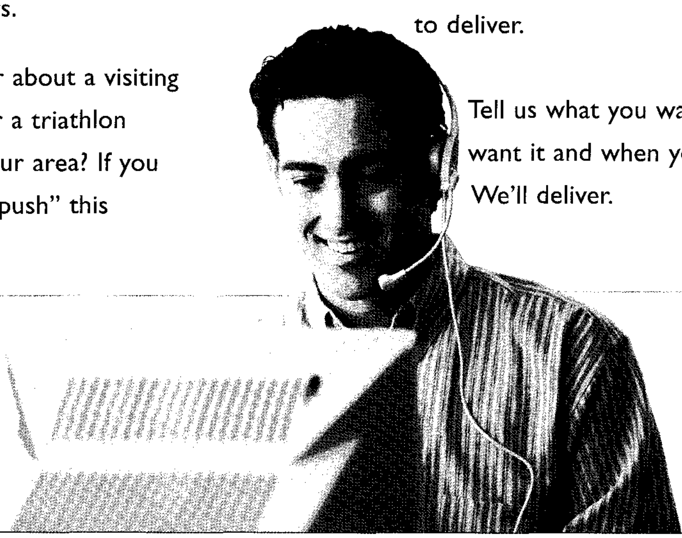
With PersonalProfiler, you will be able to upload to your personal needs, tastes, interests and desired service formats as often as you wish. And you can change them on the fly. Just access us through your carrier's web page or call one of our operators.

Want to hear about a visiting art exhibit or a triathlon coming to your area? If you like, we can "push" this information to you. Using our proprietary InfoPro™ technology, we can learn about events, products and services on your behalf and feed you that information you have designated as desirable. Everything we book for you can be synchronized with your personal calendar and linked to all persons and devices for which you have granted access.

We have a strong history in the area of making reservations. PersonalProfiler will make this an even more effortless process. A king-size bed? A non-smoking room? An aisle seat in first class? No MSG?... You can let us know in advance and our personal assistant features will take care of everything.

As the voice portal pioneers for enhanced information services, we have proven our ability to deliver enhanced information services through voice telephony. We can also deliver your specified information just the way you want, whether it be short text messages, facsimile, e-mail or other data transmission. Whatever is most convenient for you, we will stand ready to deliver.

Tell us what you want, how you want it and when you want it – We'll deliver.



**"When it comes to your preferences, we've got your number."**


Just As You Like It
PersonalProfiler

# More Portals and Information

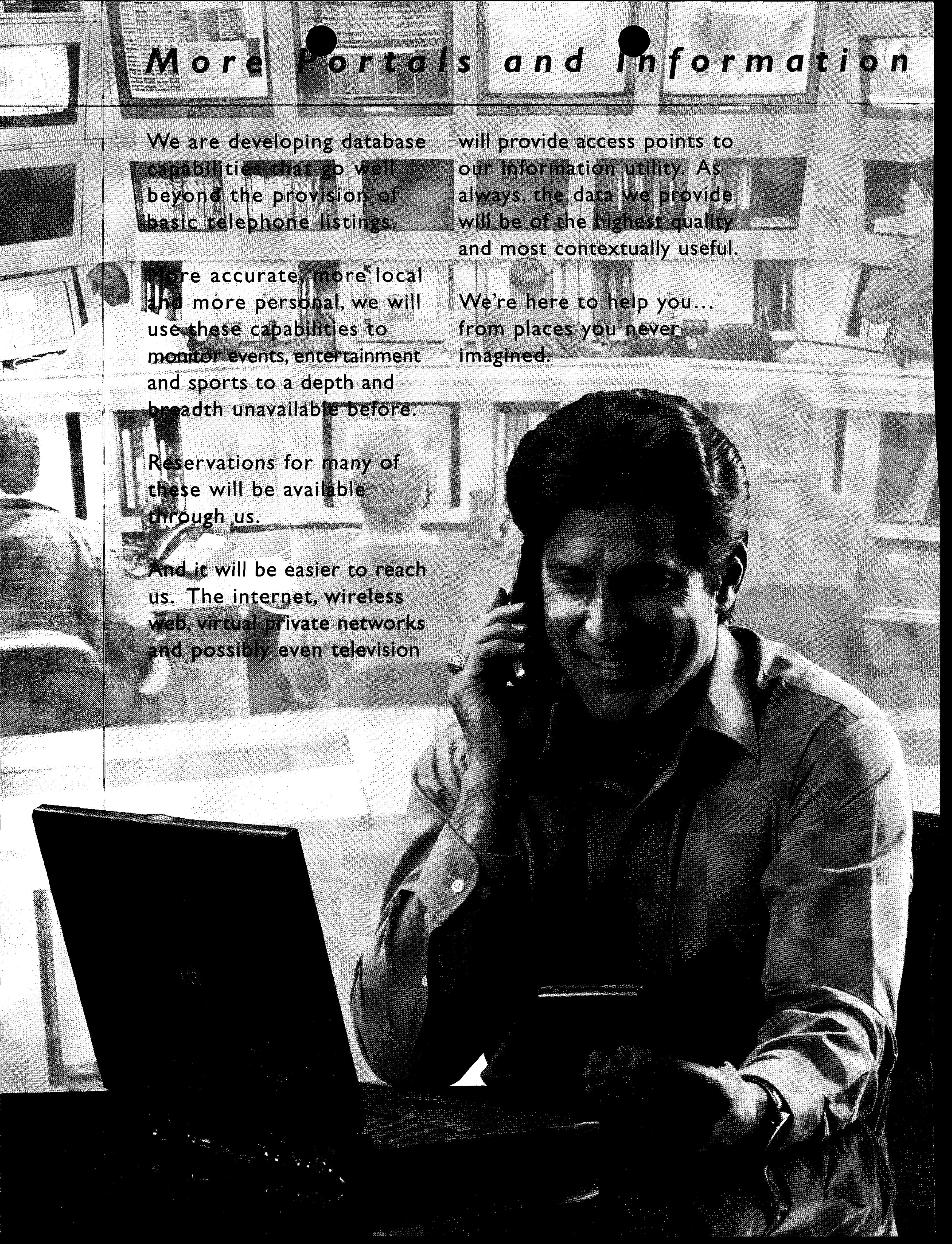
We are developing database capabilities that go well beyond the provision of basic telephone listings.

More accurate, more local and more personal, we will use these capabilities to monitor events, entertainment and sports to a depth and breadth unavailable before.

Reservations for many of these will be available through us.

And it will be easier to reach us. The internet, wireless web, virtual private networks and possibly even television will provide access points to our information utility. As always, the data we provide will be of the highest quality and most contextually useful.

We're here to help you... from places you never imagined.



**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-K**

**[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2000
or
**[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ................ to ....................

Commission File Number 0-27024

**METRO ONE TELECOMMUNICATIONS, INC.**
(Exact name of registrant as specified in its charter)

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

11200 Murray Scholls Place Beaverton, OR 97007
(Address of principal executive offices)

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

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

Securities registered pursuant to Section 12(g) of the Act:
**Common Stock, No Par Value**
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of registrant's common stock held by non-affiliates, based on the closing price of the common stock as reported by the Nasdaq stock market on March 16, 2001, was $428,061,094.

The number of shares outstanding of the registrant's common stock, as of March 16, 2001, was 15,958,966.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2001 Annual Meeting, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, are incorporated by reference into Part III of this Report.

**METRO ONE TELECOMMUNICATIONS, INC.**
**2000 FORM 10-K ANNUAL REPORT**
**TABLE OF CONTENTS**


| | | Page No. |
|---|---|---|
| | **PART I** | |
| Item 1 | Business | 3 |
| Item 2 | Properties | 9 |
| Item 3 | Legal Proceedings | 9 |
| Item 4 | Submission of Matters to a Vote of Security Holders | 9 |
| | **PART II** | |
| Item 5 | Market for Registrant's Common Equity and Related Stockholder Matters | 10 |
| Item 6 | Selected Financial Data | 11 |
| Item 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 7A | Quantitative and Qualitative Disclosures about Market Risk | 20 |
| Item 8 | Financial Statements and Supplementary Data | 20 |
| Item 9 | Changes In and Disagreements With Accountants on Accounting and Financial Disclosure | 20 |
| | **PART III** | |
| Item 10 | Directors and Executive Officers of the Registrant | 20 |
| Item 11 | Executive Compensation | 20 |
| Item 12 | Security Ownership of Certain Beneficial Owners and Management | 20 |
| Item 13 | Certain Relationships and Related Transactions | 20 |
| | **PART IV** | |
| Item 14 | Exhibits, Financial Statement Schedules, and Reports on Form 8-K | 21 |
| | Signatures | 23 |

## PART I

### ITEM 1. BUSINESS.

Metro One is a leading developer and provider of enhanced directory assistance and information services for the telecommunications industry. We primarily contract with wireless carriers to provide our services to their subscribers. In 1989, we opened our first call center and began testing and offering our enhanced directory assistance and information services. In 1991, we entered into our first contract with a wireless carrier to provide our services to that carrier's subscribers on a charge per call basis. Our customers include many of the leading wireless telecommunications carriers such as Sprint PCS, AT&T Wireless Services, Nextel Communications, Verizon Wireless, Cingular Wireless and ALLTEL Communications. In addition, we have expanded into the landline telecommunications market and provide our services to regional competitive local exchange carriers.

#### Telecommunications Industry

The U.S. telecommunications industry is generally characterized by strong growth and increased competition due to new technologies, a more favorable regulatory environment and, for carriers, an increasingly sophisticated and demanding subscriber. Telecommunications carriers face increasing competitive pressures to differentiate their products and establish brand loyalty. With rising costs to acquire new subscribers, carriers are seeking ways to minimize subscriber turnover through the use of, among other things, value-added services and features. In addition, carriers are increasingly offering local, long distance, wireless, cable and Internet services bundled into one package in order to appeal to a wider market. Competitive pressures are particularly acute for wireless and newer landline carriers, such as competitive local exchange carriers. The industry has also experienced a considerable amount of consolidation and investment in new technologies and alternative methods of delivery, including cable and the Internet.

*Wireless Telecommunications.* The U.S. wireless telecommunications market has experienced dramatic growth over the last decade. This growth has been largely due to technological advances that give callers affordable, high-quality mobile services. According to industry analysts, the number of wireless subscribers in the United States approached 110 million at the end of 2000, and experts estimate that by 2005 there will be over 1.26 billion wireless phone users around the world. A relatively small number of carriers dominate the wireless telecommunications market. In terms of estimated number of subscribers, the largest U.S. wireless carriers include AT&T Wireless Services, Cingular Wireless, and Verizon Wireless. Other nationwide carriers include Sprint PCS and Nextel Communications.

In most of the major U.S. markets, at least five carriers compete for wireless subscribers. As a result, carriers are seeking to differentiate themselves from their competitors. While price continues to be an important competitive factor, carriers increasingly focus on value-added services and features as a means of differentiating themselves.

*Landline Telecommunications.* The U.S. landline telecommunications market is significantly larger than the U.S. wireless market. For example, in 1999, domestic landline services generated approximately $221 billion in revenues as compared to approximately $48 billion in revenues generated by wireless services, according to the Federal Communications Commission. Like the wireless market, the landline market is dominated by a relatively small number of major carriers. Carriers providing local service include the regional Bell operating companies, such as SBC Communications, independent telephone companies, such as ALLTEL Communications, and competitive local exchange carriers, such as Time Warner and Integra Telecom. Carriers providing long distance service include AT&T, MCI WorldCom and Sprint Corp.

Local and long distance carriers competing in each other's markets, as well as against newer and smaller independent carriers, have added to competition in the landline market. With deregulation, the entry of new landline competitors and the increasing affordability of wireless services, subscribers who were historically bound to local carriers as a matter of geography are now increasingly able to choose their carriers. Of note, the competitive local exchange carrier segment of the landline telecommunications industry is rapidly growing. These companies compete with incumbent local carriers to provide a variety of services, including local, long distance and Internet and other data services. The Yankee Group estimates that the competitive local exchange industry generated revenues of $6 billion in 1999 and will generate $16 billion in 2002. As a result, the landline telecommunications market is rapidly becoming subscriber-based and carriers must find ways to differentiate their services to attract and retain subscribers. In addition, to maintain operational focus, competitive local exchange carriers often outsource non-core operations, including directory assistance services. While many incumbent carriers provide directory assistance services on an outsourced basis, the competitive local exchange carriers may prefer to outsource their directory assistance needs to independent companies rather than use the services of their competitors.

*International Telecommunications.* The international telecommunications market is characterized by increasing privatization, competition and, in the wireless market, rapid growth. As governments privatize their national telecommunications companies, these companies face increased competition from large international carriers who have access to and interest in the newly opened markets. According to the International Telecommunications Union, an international telecommunications industry group, the worldwide wireless industry generated $154 billion in revenue in 1998 and is projected to grow to $315 billion in revenue by 2002. As a whole, the worldwide telecommunications services market generated over $744 billion in revenue in 1998 and is expected to grow to $925 billion in revenue by 2002, according to the International Telecommunication Union.

**Directory Assistance Market**

Revenues generated by the wireless directory assistance market in the United States are estimated to grow significantly through 2003, according to various industry sources, and among which individual estimates vary widely. Wireless subscribers tend to be heavy users of directory assistance services. According to Frost & Sullivan, growth in the wireless directory assistance market is driven by a number of factors, including growth in the wireless subscriber base, rising wireless penetration, increasing subscriber mobility and the offering of enhanced directory assistance services by wireless carriers.

The landline directory assistance market is significantly larger than the wireless directory assistance market. Revenue generated by the landline directory assistance market is estimated to grow from approximately $3.2 billion in 1999 to $4.3 billion in 2003, according to Frost & Sullivan. Growth in the landline directory services market is driven by a number of factors, including the growing information needs of subscribers and the offering by landline carriers of call completion services.

**Our Business Strategy**

Metro One's business strategy includes the following key elements:

- *Build on our current carrier relationships, while seeking new domestic and international customers, including landline carriers and other corporate customers*

  We are continuing to expand our relationships with our existing carrier customers. We believe that our services can increase carriers' revenues by minimizing subscriber turnover, increasing the number of calls made and, in the case of wireless and long distance carriers, increasing billable airtime. Further, our national call center network, integrated search engines and database systems allow carriers operating in multiple markets to offer consistent enhanced directory assistance and other information services on a nationwide basis. This consistency permits greater system-wide marketing opportunities and brand identification for these carriers. We believe that our existing relationships and the quality of our services will allow us to expand our business with our existing customers, providing us an opportunity to deliver our services to them and their affiliates in additional markets, including international markets.

  We are also aggressively pursuing business opportunities with additional wireless and landline carriers with a view to leveraging our reputation for high quality service and our nationwide call center network. We believe increasing competition among landline carriers is leading to an increasingly subscriber-based business, which will result in the need to differentiate their product offerings. Our services provide them an opportunity to do so and, accordingly, could help us expand into the significantly larger landline directory assistance market.

  The information content that resides in our database systems, along with our ability to store, maintain, manipulate and deliver it, provides an opportunity to pursue other business customers and provide them with our services over private networks or otherwise.

- *Develop and offer additional value-added services and features*

  We believe we are well positioned to continue developing and providing the types of services and features that enhance the utility of the telephone and other communications devices. For example, our MetroDex™ service is designed to provide individual callers and corporate users with the ability to quickly and efficiently access their personal or corporate contacts databases, including otherwise unpublished numbers, and potentially take advantage of additional services such accessing a "personal assistant" over the telephone. Such innovative features will permit our customers to distinguish themselves further from their competitors and increase their subscriber satisfaction.

- *Expand our national call center network and its capabilities, while adding greater bandwidth, storage capacity, speed and efficiency to our systems*

  We intend to continue to expand our network capacity and efficiency, including adding to our call routing flexibility, redundancy and signaling systems. We may also build additional call centers as required by demand and customer commitments. We also intend to add to our storage capacity both for purposes of database backup and for delivery of personal database, concierge and other personalized and fulfillment-oriented services. We may build or license specialty call centers to deliver special products such as customer service and fulfillment assistance, as well as international call centers, should attractive opportunities arise.

- *Enhance the quantity and quality of our current content databases*

  We intend to continue to improve the breadth and depth of the information content within our database systems. We intend to seek additional content to make our directory listings and other data more useful and to enhance our ability to provide other services. Additions to this content may be virtual, through the Internet or other links that allow us to license or barter content. Some of this information will be deliverable to subscribers through portals other than the voice telephony portal, such as those available on the Internet.

- *Leverage our voice telephony portal by delivering greater volumes of existing and new services through our call center network as well as through other portals*

  Our strength has been to provide enhanced services through the voice telephony portal we have created. We are seeking opportunities to provide access to some of the content we acquire, develop and maintain, as well as our applications and related features, to other portals, including those available through the Internet. We believe that telephone carriers and perhaps other customers, could use our content, applications and features to provide high quality services that are consistent across various portals and geographic areas. In so doing, these customers, particularly the telephone carriers, could further bind their subscribers to them as competition in their markets becomes increasingly subscriber-based.

**Customers**

Metro One provides enhanced directory assistance and information services to several of the nation's leading wireless carriers in all or a portion of their service areas. Our customers include Sprint PCS, AT&T Wireless Services, Nextel Communications, Cingular Wireless (formerly Pacific Bell Wireless), and ALLTEL Communications. In addition, we have expanded into the landline telecommunications market and provide our services to competitive local exchange carriers. Customers that accounted for more than 10% of our revenues during any of the periods indicated are as follows:

| Customer | 1998 | 1999 | 2000 |
|---|---|---|---|
| Sprint PCS | 38 % | 40 % | 31 % |
| AT&T Wireless Services | 17 | 30 | 29 |
| Nextel Communications | - | 5 | 21 |
| Cingular Wireless (formerly Pacific Bell Wireless) | 12 | 11 | 7 |
| Verizon Wireless | 18 | 11 | 6 |
| Ameritech Cellular | 11 | - | - |

We offer our services to a carrier's subscribers under a brand name selected by the carrier, such as "AT&T 00 Info," or "Sprint PCS Directory Assistance." The carrier establishes its own fee structure with its subscribers. Subscribers typically pay the carriers fees ranging from $0.75 to $1.40 plus airtime charges for our services. Metro One charges carriers directly and bears no subscriber collection risk. We charge our carriers on a per call basis. To stimulate increased call volume and to attract and expand customer commitments, we offer volume-pricing discounts to our customers. Our success with this program resulted in significant call volume increases in 2000 and 1999 which, in turn, caused volume-based pricing in our existing contracts to become a factor in determining our average price per call.

We have service contracts with 16 carriers. The terms of these contracts are generally similar, with variations in the geographic market to be served, the services and features we are to provide the carriers' subscribers and the term, which is generally up to five years. None of these contracts preclude us from providing services to other carriers. The carriers agree to route some or all of their directory assistance and/or alphanumeric messaging calls to us.

### Call Center Network

We operate 29 call centers located in strategic local markets throughout the United States, and expect to add at least two additional new call centers by the end of 2001. Our call center network enables us to provide enhanced directory assistance and information services nationwide. We are situated in or near major metropolitan areas and therefore are located locally for more than one-half of the U.S. population. We believe that the local nature of our call centers and operators permits us to offer more accurate and valuable service than would be available through a single or a few call centers attempting to serve the entire U.S. market. We operate our call centers 24 hours a day, seven days a week, 365 days a year.

We continually upgrade our network and systems to allow greater utility, speed and efficiency in processing calls. We are also continually expanding capacity to store, manipulate and manage the additional data that we acquire. In addition, our telephone switching systems allow scalability, including the ability to join multiple switches together or configure switches so that they can handle large volumes of calls in tandem. These systems are monitored from our network operations center located at our corporate headquarters, which provides 24-hour support for our call center network. Our systems are designed to permit redundancy and avoid downtime from natural disasters or other adverse events.

Because a carrier offers our services to its subscribers under its brand name, we believe quality and reliability are important considerations in a carrier's decision to use us. To ensure high quality and consistency, we emphasize training, monitoring and customer support. We maintain a national training force with training personnel in each call center. Our operators undergo extensive training and testing on search techniques, etiquette and local information, including landmarks, major thoroughfares and geography. Our training personnel continually monitor, test and evaluate call center performance. We also monitor our call centers for compliance with contract performance standards and report this information to the carriers on a regular basis. In addition to accessing our systems maintenance and support personnel, carriers can obtain extensive customer usage information.

### Our Services and Features

We use a customized array of hardware and software, along with proprietary database search engines, to provide our enhanced directory assistance and information services. We receive incoming calls by means of assigned telephone numbers, which are "411," "555-1212" or "00" in almost all cases. Our operators answer incoming calls and identify the service using the appropriate carrier's brand name. Upon receiving information requests from callers, our operators search applicable databases using one or more of our search engines. The operator then connects the caller to the called party or supplies the caller with the requested information. We offer a variety of information, including:

- Directory listings information, which may be retrieved by methods that include reverse and category searches;
- Time, weather and traffic information;
- Movie, restaurant and local event information;
- TeleConcierge™ services; and
- Turn-by-turn driving instructions.

Our enhanced directory assistance and information services also incorporate connectivity features that make the telephone more useful and easier to use. These connectivity features include:

- Call completion – allows a caller to be directly connected to the number requested without the need to redial;
- StarBack® – allows the caller to return to a live operator simply by pressing a key, such as the star [*] key or by otherwise issuing a command at any time during a call;
- AutoBack® – automatically returns the caller to a live operator or other options upon a busy signal, "ring-no-answer" or other common situations without pressing a single key;
- MessageBack™ – delivers a caller's message to a desired party and, when configured with AutoBack, provides a convenient tool for ensuring communication;

- NumberBack® – sends the caller the called number simply by pressing the number [#] key; and
- QuickSend™ – a short messaging service that allows our operators to send customized alphanumeric messages on behalf of a caller.

We are developing, testing and improving new services that add new content and connectivity features, such as MetroDex, which allows callers to use their telephone or the Internet to access their personal or corporate contact databases, and "PersonalProfiler", which allows subscribers to customize how our services are delivered to them as well as allowing them to have access to "personal assistant" types of services. Other features under development include on-line research and verification utilities for use by businesses with a direct private connection to us. Equipment at our corporate headquarters facilitates this development and testing by simulating normal call center operations.

**Database Systems and Content**

We believe the quality of our services is in large measure related to the scope, quality and quantity of the information content that resides in our database systems. The majority of the information or data that we acquire, develop and maintain is telephone listings data. We obtain this listings data from multiple sources, including the regional Bell operating companies, independent telephone companies and other commercial sources, to ensure that our data is of high quality and accuracy. This data is enhanced by our data collection efforts and a principal database of local information is developed for each call center or region.

Our proprietary operator interface software allows operators to efficiently search and reverse search both their local databases and other national databases. We use proprietary database management systems to maintain and update our directory listings. We continually acquire additional content or access to content that will, in many cases, build on this listings data to make it more useful. Acquisitions are made from a variety of sources and are supplemented with information relating to local events and amenities.

In February 2001, we acquired Enthusiasm Technologies, Inc. ("Enthusiasm"), a Seattle-based developer of web-based data extraction and processing technology. Enthusiasm builds application-specific databases for a variety of portals, be they wired or wireless, voice or data. Enthusiasm's proprietary data extraction and processing technology enables the creation and ongoing maintenance of high quality databases from distributed and fragmented data on the web and elsewhere. Enthusiasm will contribute to Metro One's expansion of its services and data offerings to its wireless and other customers.

**Marketing**

Our marketing is conducted directly with the telecommunications carriers. The marketing process involves a considerable amount of time and attention by our senior management. Call center managers also play a key role in maintaining and developing carrier relationships. Some of our contracts provide for customer promotion of the services we provide to their subscribers. In addition, we occasionally assist our carrier customers in the promotion of these services.

We communicate on a regular basis with our existing carrier customers through our quality assurance and customer service programs. We have developed proprietary programs that allow us and our customers to monitor the quality of our performance and the volume and duration of directory assistance and information requests on a real-time basis. These programs also give us an opportunity to learn more about our carriers' evolving needs.

**Technology**

Our ability to provide enhanced directory assistance and information services is dependent to a great extent on our proprietary technology. Our proprietary software applications enhance our call handling and delivery capabilities and provide the basis for our connectivity features. We have developed search engines to access information from our databases. We continue to upgrade our operator interface software, database management systems and search engines to increase the access speed and the efficiency and search capability of our operators.

Our call processing systems incorporate programmable switching equipment, host computers, voice response units and database servers. Our advanced technology is based on customized software running Sun Microsystems and Dell servers and Lucent switching equipment. One of the characteristics of our call processing systems is the ability to take all calls from a carrier's switch and have them run through our switch for the entire length of the call so that we are able to provide a full range of our services to the caller.

We are also monitoring technological advances in the methods of delivery of information and data and are working to insure that our systems are compatible with, and we can take advantage of, these developments. As an example, wireless application protocol (or WAP) allows telephone users with a certain type of telephone to access the Internet. Opportunities that this may present include using the content we have available to us in this new format. We believe that by expanding reliance on the telephone as a source of information, the application of this technology will also benefit our enhanced directory and information services business.

### Intellectual Property

We rely on a combination of trademark, patent and trade secrets laws and confidentiality procedures to protect our intellectual property rights. We have eight U.S. patents issued, including three relating to our StarBack technology and another associated with our turn-by-turn directions service. We have approximately 22 applications pending for additional U.S. patents. We also have U.S. registered trademarks for, among others, "Metro One Telecommunications," "Metro One," "Enhanced Directory Assistance," "StarBack," "TeleConcierge," "LocationPro," "AutoBack" and "NumberBack," and applications pending for U.S. trademark registrations for, among others, "MetroDex" and "PersonalProfiler."

### Competition

The directory assistance and information services markets are characterized by rapidly changing market forces, technological advancements and increasing competition from large carrier-affiliated companies and small, independent companies. Our principal competitors include regional Bell operating companies and other local providers. These carriers provide directory assistance or information services both in and outside their own operating regions. Although we believe that none of these competitors offers a form of directory assistance that incorporates all of our features, they may have substantially greater financial, technical and marketing resources than we do and may be able to offer features similar to ours in the future. We also face competition from independent companies seeking to offer forms of enhanced directory assistance and, in some cases, other information services.

We believe the principal competitive factors in the directory assistance market are quality and range of features, technological innovation, experience, responsiveness to customers and price. Historically, we have sought to distinguish ourselves from our competitors based on the quality of our services, the development of useful features, the breadth of the content provided and our extensive national network of call centers.

### Government Regulation

While our business is not directly regulated, it is dependent upon relationships with companies that are regulated by the Federal Communications Commission and state public utility commissions. This regulation applies to all communications common carriers, such as AT&T, the regional Bell operating companies and other long distance and local exchange carriers.

### Employees

As of December 31, 2000, Metro One had approximately 5,400 employees, including approximately 29% who were employed on a part-time basis. Most of our employees are operators, and the number of full-time and part-time operators varies from time to time reflecting fluctuations in the volume of calls. None of our employees are subject to a collective bargaining agreement. Our management considers relations with our employees to be good.

We invest significant resources in the recruitment, training and retention of qualified operators. Our organizational structure provides opportunities and encourages talented individuals to take on roles of increasing responsibility. We also invest considerable resources in personnel motivation, including providing incentive plans for our operators, management and corporate staff.

## ITEM 2. PROPERTIES.

We lease our principal executive and administrative offices, consisting of two adjacent locations totaling approximately 53,000 square feet of space, in Beaverton, Oregon. The terms of the leases extend through 2009.

We also lease office facilities for our call center operations, which generally range in size from 5,000 to 24,000 square feet. We have 33 leases for call centers and other remote facilities, with remaining terms up to seven years. We believe that expansion of our call center network may require us to lease additional office facilities within the next year. From time to time, we are required to move our call centers or lease additional space to meet expanding volume from existing or new customers.

## ITEM 3. LEGAL PROCEEDINGS.

In August 1999, we commenced an action against a competitor in the United States District Court in Delaware claiming infringement of one of our patents relating to our StarBack feature. The defendant has denied that it is infringing the patent and has asserted, among other things, that our patent is invalid and unenforceable. In February 2000 the competitor and another plaintiff brought suit against us in the United States District Court, Eastern District of Texas. We moved for, and obtained, a stay of the Texas matter pending resolution of the Delaware case. Fact discovery is proceeding on this matter.

The Company is not aware of any other pending legal proceedings other than routine litigation that is incidental to the business.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted during the quarter ended December 31, 2000 to a vote of security holders.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Metro One's common stock trades on The NASDAQ National Market® under the symbol "MTON." The high and low sales prices as reported on the Nasdaq National Market for each quarterly period within the two most recent fiscal years were as follows:

| 2000 | High | Low |
|---|---|---|
| Quarter ended December 31, 2000 | $25.00 | $ 12.44 |
| Quarter ended September 30, 2000 | 14.88 | 9.75 |
| Quarter ended June 30, 2000 | 12.88 | 9.00 |
| Quarter ended March 31, 2000 | 16.38 | 11.06 |

| 1999 | High | Low |
|---|---|---|
| Quarter ended December 31, 1999 | $19.25 | $ 8.00 |
| Quarter ended September 30, 1999 | 20.00 | 12.00 |
| Quarter ended June 30, 1999 | 17.63 | 12.13 |
| Quarter ended March 31, 1999 | 19.44 | 11.50 |

The approximate number of shareholders of record as of March 16, 2001 was 124. We believe we have approximately 6,669 shareholders including an estimate of shareholders with shares held in street name. On March 16, 2001, the closing price of our common stock, as reported on the Nasdaq National Market, was $29.63 per share.

We have never declared or paid cash dividends on our common stock. We intend to retain earnings from operations for use in the operation and expansion of our business and do not anticipate paying cash dividends with respect to our common stock in the foreseeable future. Our existing line of credit agreement prohibits the payment of cash dividends in excess of 10% of our tangible net worth.

On February 2, 2001, we issued and sold 4,000,000 shares of our common stock to Sonera Media Holding B.V., for an aggregate purchase price of $68 million, pursuant to the terms of a Stock Purchase Agreement dated November 8, 2000. These securities were issued in a private transaction in reliance on the exemption to the registration requirements of the Securities Act of 1933, as amended, provided by Rule 506 of Regulation D, as promulgated under the Securities Act.

## ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data presented below for, and as of the end of, each of the years in the five-year period ended December 31, 2000 have been derived from our audited financial statements. The financial data should be read in conjunction with the Financial Statements and related Notes that appear elsewhere in this Annual Report and Management's Discussion and Analysis of Financial Conditions and Results of Operations set forth in Item 7.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| | (In thousands, except per share data) | | | | |
| Operations data: | | | | | |
| Revenues | $156,981 | $77,831 | $45,139 | $26,090 | $17,834 |
| Direct operating costs | 97,438 | 46,494 | 23,107 | 13,017 | 8,334 |
| General and administrative costs | 45,892 | 28,711 | 18,334 | 11,702 | 7,615 |
| Income from operations | 13,651 | 2,626 | 3,698 | 1,371 | 1,885 |
| Net income | 9,742 | 1,906 | 3,603 | 1,432 | 1,166 |
| Basic earnings per share | .83 | .17 | .33 | .13 | .13 |
| Diluted earnings per share | .80 | .16 | .32 | .13 | .12 |
| Cash flow from operations | 5,350 | 3,326 | 6,546 | 3,293 | 2,912 |
| Balance sheet data: | | | | | |
| Cash and investments | $ 6,463 | $ 9,964 | $ 7,570 | $ 8,554 | $14,137 |
| Working capital | 12,723 | 11,750 | 8,414 | 9,844 | 15,012 |
| Total assets | 102,298 | 65,475 | 36,311 | 29,125 | 24,529 |
| Long-term obligations | 24,731 | 18,940 | 719 | 1,416 | 1,168 |
| Shareholders' equity | 45,404 | 31,979 | 28,242 | 23,676 | 20,981 |

## ITEM 7. 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-K relative to the future constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to the business and economic risks faced by us, and our actual results of operations may differ materially from those contained in the forward looking statements. For a discussion of such risks, see "Issues and Uncertainties." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of operations for the periods discussed below should not be considered indicative of the results to be expected in any future period and fluctuations in operating results may also result in fluctuations in the market price of our common stock. Our quarterly and annual operating results have in the past and may in the future vary significantly depending on factors such as changes in the telecommunications market, the addition or expiration of customer contracts, increased competition, changes in pricing policies by us or our competitors, lengthy sales cycles, lack of market acceptance or delays in the introduction of new versions of our products or features, the timing of the initiation of wireless services or their acceptance in new market areas by telecommunications customers, the timing and expense of the expansion of our national call center network, the general employment environment, general economic conditions and the other factors discussed under the heading "Issues and Uncertainties" in this Item 7.

### Overview

We are a leading developer and provider of enhanced directory assistance and information services for the telecommunications industry. We primarily contract with wireless carriers to provide enhanced directory assistance and information services to their subscribers.

Under our contracts, the carriers agree to route some or all of their directory assistance and/or alphanumeric messaging calls to us. We also 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 answered by our operators identifying the service by that carrier's brand name, such as "AT&T 00 Info," or "Sprint PCS Directory Assistance."

Each carrier establishes its own directory assistance fee structure for its subscribers. Wireless subscribers typically pay fees ranging from $0.75 to $1.40 plus airtime charges for our services. We bear no subscriber collection risk.

We charge our carriers directly on a per call basis, with prices varying in some cases based on call volume. Our long-term strategy is based in part on reducing the price we charge our customers. We expect that our average price per call will decrease in 2001 as call volume increases. We believe this reduced pricing better positions us to retain and expand service with existing carrier customers, to attract new wireless and landline carriers, and to achieve greater operating margins over time.

In 2001, we expect to continue our call center and network expansion to prepare for anticipated continued significant growth. This growth is expected to come from existing customers in the form of new markets acquired, as well as from new subscribers and increased usage by existing subscribers. We will also continue to opportunistically pursue additional significant new business. Our call center and network expansion efforts will increase our local service coverage and our capacity to process additional call volume.

Our rapid growth plan involves both capital expenditures and operating expenses, as we build infrastructure and recruit and train qualified personnel. To better serve our customers and strengthen our relationships, we attempt to match the operating readiness of our call centers to the timing of when our customers transition call volume to us. At times, our customers have experienced delays, and may experience some additional delays in the future, in the timing of delivery of call volume to us. These delays can increase our ongoing operating expenses with no corresponding increase in revenues. The result under these conditions has been, and will likely continue to be, near-term reported earnings that vary widely. However, we intend to continue to pursue and prepare for significant additional call volume in order to seek to achieve greater earnings over the long run.

**Results of Operations**

The following table shows selected items of our statements of operations data expressed as a percentage of revenues:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Revenues | 100.0% | 100.0% | 100.0% |
| Direct operating costs | 62.1 | 59.7 | 51.2 |
| General and administrative costs | 29.2 | 36.9 | 40.6 |
| Income from operations | 8.7 | 3.4 | 8.2 |
| Other (expense) income | (0.0) | 0.1 | 0.6 |
| Interest and loan fees | (2.1) | (1.0) | (0.6) |
| Income before income taxes | 6.6 | 2.5 | 8.2 |
| Income tax expense | 0.4 | 0.1 | 0.2 |
| Net income | 6.2 | 2.4 | 8.0 |
| | | | |
| New call centers opened during year | 4 | 6 | 2 |
| Call centers in operation at year-end | 28 | 24 | 18 |

**2000 Compared to 1999**

*Revenues.* Revenues increased 101.6% to $156.9 million from $77.8 million. We have offered volume discount pricing for the last several years in order to encourage customers to send additional call volume to us. As an ongoing result of this pricing policy, as well as numerous other factors including the quality of our services, call volume has continued to increase each year. Call volume grew to approximately 302 million calls in 2000 from approximately 142 million calls in 1999. This increase resulted from growth in call volume under existing contracts and markets, as well as new call volume from new contracts and new markets. Our average price per call was approximately $0.52 in 2000 versus $0.55 in 1999.

*Direct operating costs.* Direct operating costs consist of call center personnel and data and content acquisition costs. These costs increased 109.6%, to $97.4 million from $46.5 million. This increase was primarily due to the costs of servicing increased call volumes. As a percentage of revenues, direct operating costs increased to 62.1% from 59.7%, due primarily to the reduction in the average price per call.

*General and administrative costs.* General and administrative costs increased 59.8%, to $45.9 million from $28.7 million. This increase resulted primarily from costs associated with the start-up of new call centers and the investment in infrastructure necessary to support additional call volume and the increase in depreciation expense associated with additional call centers. As a percentage of revenues, general and administrative costs decreased to 29.2% from 36.9%. This decrease resulted primarily from efficiencies associated with the expansion of our operations.

*Depreciation and amortization.* Depreciation and amortization increased by 68.1%, to $10.5 million from $6.2 million, due primarily to equipment purchased for new call centers, for upgrades and expansions of existing call centers and corporate operations.

*Other (expense) income.* Other expense for the year ended December 31, 2000 consisted primarily of losses upon the disposition of assets of $220,000 and other miscellaneous non-operating expenses of $106,000 offset by interest income of $301,000. Other income for the year ended December 31, 1999 was $128,000 and consisted primarily of interest income of $192,000, offset by losses upon the disposition of assets of $67,000.

*Interest expense and loan fees.* Interest expense and loan fees increased 314.7%, to $3.2 million from $773,000. This increase was attributable to an increase in average debt outstanding during 2000.

*Income tax expense.* Income tax expense for the year ended December 31, 2000 was $678,000 for an effective tax rate of approximately 6.5%. December 31, 1999 was $75,000, for an effective tax rate of approximately 3.8%. These rates differ from the combined federal and state statutory rate of approximately 38% due primarily to the use of net operating loss carryforwards.

**1999 Compared to 1998**

*Revenues.* Revenues increased 72.4%, to $77.8 million from $45.1 million. Call volume grew to approximately 142 million calls in 1999 from approximately 71 million calls in 1998. This increase was due primarily to increased call volume under existing contracts and call volume from new contracts that commenced service during the second half of 1998 and the third quarter of 1999.

*Direct operating costs.* Direct operating costs consist of call center personnel and data costs. These costs increased 101.2%, to $46.5 million from $23.1 million. This increase was primarily due to servicing increased call volumes and the cost of operating additional call centers in 1999. In addition, during 1999 we elected to take on an increased amount of staffing and infrastructure expenditures in preparation for additional scheduled call volume, some of which did not arrive as anticipated. As a percentage of revenues, direct operating costs increased to 59.7% from 51.2%, due primarily to increased personnel and data costs associated with the start-up of new call centers, the increase in staffing in anticipation of additional call volume from existing customers and a reduction in average price per call.

*General and administrative costs.* General and administrative costs increased 56.6%, to $28.7 million from $18.3 million. This increase resulted primarily from the costs associated with the start-up of new call centers and the investment in infrastructure necessary to support, and the increase in depreciation expense associated with, additional call centers. As a percentage of revenues, general and administrative costs decreased to 36.9% from 40.6%. This decrease resulted primarily from efficiencies associated with the expansion of our operations.

*Depreciation and amortization.* Depreciation and amortization increased by 64.9%, to $6.2 million from $3.8 million, due primarily to equipment purchased for new call centers, for upgrades and expansions of existing call centers and corporate operations.

*Other income.* Other income for the year ended December 31, 1999 was $128,000 and consisted primarily of interest income of $192,000, offset by losses upon the disposition of assets of $67,000. Other income for the year ended December 31, 1998 was $289,000 and consisted primarily of interest income of $365,000, offset by losses upon the disposition of assets of $73,000.

*Interest expense and loan fees.* Interest expense and loan fees increased 150.2%, to $773,000 from $309,000. This increase was attributable to an increase in average debt outstanding during 1999.

*Income tax expense.* Income tax expense for the year ended December 31, 1999 was $75,000, for an effective tax rate of approximately 3.8%. Income tax expense for the year ended December 31, 1998 was $75,000, for an effective tax rate of approximately 2.1%. These rates differ from the combined federal and state statutory rate of approximately 38% due primarily to the use of net operating loss carryforwards.

**Liquidity and Capital Resources**

Cash and cash equivalents and investments are recorded at cost which approximates their fair market value. As of December 31, 2000, we had approximately $6.5 million in cash and cash equivalents and investments compared to approximately $10.0 million at December 31, 1999. This decrease of approximately $3.5 million was primarily from cash used to fund capital expenditures incurred as part of the expansion of our call center network and infrastructure capacity, offset by borrowings under credit facilities, cash provided by operations and proceeds from the exercise of stock options. Total capital expenditures for the year ended December 31, 2000 were approximately $27.2 million. Net borrowings under credit facilities were approximately $14.8 million for the same period.

Working capital was $12.7 million at December 31, 2000, as compared with $11.8 million at December 31, 1999. Our current ratio was 1.4:1 at December 31, 2000, as compared with 1.8:1 at December 31, 1999.

In December 1999, we entered into a secured term loan agreement with an equipment financing lender. The loan agreement provided us with $20 million to repay outstanding indebtedness, fund the expansion of our call center network and for other equipment needs. During the year ended December 31, 2000, we negotiated additional agreements with this lender to allow for total borrowing capacity of approximately $54 million. Borrowings under these agreements were repayable over 48 months at fixed interest rates between 8.10% and 10.09%. With certain restrictions, repayment of outstanding borrowings was allowable at any time for a 1% fee. Substantially all of our fixed assets were pledged as collateral. At December 31, 2000, there was approximately $34.2 million outstanding under these agreements. During February and March 2001, all of the outstanding indebtedness on these facilities was paid in full using a portion of the proceeds from the sale of common stock to Sonera described below.

We also have a $10 million secured line of credit agreement with a commercial bank. The agreement expires in December 2001. Outstanding borrowings bear interest at the prime rate plus up to 0.5% (10.0% at December 31, 2000) based on the ratio of debt to cash flow, and all receivables are pledged to the bank as collateral. In addition, the line has an unused facility fee of up to 0.75%, also based on the ratio of debt to cash flow. The agreement contains minimum quick ratio, debt to equity and profitability requirements, as well as other restrictive covenants, and prohibits the payment of any dividends and other distributions and redemptions of our stock exceeding 10% of our tangible net worth. As of December 31, 2000, we had $4.8 million of outstanding borrowings under this agreement. As of the date of this filing, there were no outstanding borrowings under this agreement.

*Cash flow from operations.* Net cash provided by operating activities was $5.4 million, $3.3 million and $6.5 million for the years ended December 31, 2000, 1999 and 1998, respectively, resulting primarily from net income, the effect of non-cash depreciation and amortization and increases in accounts payable, offset by increases accounts receivable.

*Cash flow from investing activities.* Cash used in investing activities was $26.8 million, $23.3 million and $10.6 million for the years ended December 31, 2000, 1999 and 1998, respectively and was related primarily to capital expenditures for the purchase of equipment for new call centers, the upgrade and expansion of existing call centers, investment in corporate operations and other facilities and equipment costs.

*Cash flow from financing activities.* Net cash provided by financing activities was $18.3 million, $23.5 million and $1.6 million for the years ended December 31, 2000, 1999 and 1998, respectively, resulting primarily from borrowings under credit facilities and the receipt of cash proceeds from the exercise of stock options, offset by the repayment of debt obligations

*Future capital needs and resources.* The primary uses of our capital in the near future are expected to be the development or acquisition of technologies, features and content complementary to our business and to expand our call center and network capacity to serve existing and potential new customers and for general corporate purposes, including possible acquisitions and other corporate development activities and working capital. We anticipate that our capital expenditures will be approximately $25 million in 2001, resulting primarily from projected call center expansions, increased network capacity and corporate development activities.

In November 2000, we entered into a definitive agreement with Sonera Media Holding B. V. ("Sonera"), a wholly owned subsidiary of Sonera Corporation of Helsinki, Finland, whereby Sonera agreed to purchase four million newly-issued shares of our common stock at a price of $17 per share, for an aggregate price of $68 million and an approximate 25.5% ownership position. This transaction was completed in February 2001. Sonera is a world leader in developing and providing mobile value-added services. After paying costs of the transaction and retiring approximately $34.2 million of debt, we intend to utilize the approximately $31 million remaining from the transaction for infrastructure and capacity expansion as well as for other corporate purposes. We believe our existing cash and cash equivalents, proceeds from the Sonera investment, credit facilities and cash from operations will be sufficient to fund our operations for the next twelve months.

*Subsequent event.* In February 2001, we acquired Enthusiasm Technologies, Inc., a Seattle-based developer of web-based data extraction and processing technology, for a combination of cash and stock. Enthusiasm builds application-specific databases for a variety of portals, be they wired or wireless, voice or data. Enthusiasm's proprietary data extraction and processing technology enables the creation and ongoing maintenance of high quality databases from distributed and fragmented data on the web and elsewhere. Enthusiasm will contribute to Metro One's expansion of its services and data offerings to its wireless and other customers. The purchase price is not material to our financial position.

*Recent accounting pronouncements.* In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." The effective date of the bulletin was delayed by the issuance of SAB No. 101A and SAB 101B and was effective for our fourth quarter of 2000. The adoption of this bulletin did not have a material effect on our financial statements.

**Effect of Inflation**

Inflation did not materially affect our business during the last several years.

**Issues and Uncertainties**

While management is optimistic about our long-term prospects, the following issues and uncertainties, among others, should be considered in evaluating our outlook.

*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 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;
- The timing and expense of our call center network expansion, including increased staffing and infrastructure expenses related to anticipated new call volume;
- 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;
- 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, you 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 would likely increase the volatility of our common stock price.

*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:

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

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

A limited number of customers account for substantially all our revenues. For example, our top five customers accounted for approximately 94% of our revenues in 2000. Our two largest customers, Sprint PCS and AT&T Wireless Services accounted for approximately 31% and 29% of our revenues, respectively, in 2000. Our business would be adversely affected by the loss of either Sprint PCS or AT&T Wireless Services and could be adversely affected by the loss of any other significant customer.

Of our contracts with significant customers, one expires in 2001 and the remainder, including Sprint PCS and AT&T Wireless Services, expire in 2002 and beyond. Some contracts contain performance and other standards and may be terminated prior to their scheduled expiration dates under specified circumstances.

If we fail to extend or replace our contracts, or our contracts are terminated prior to their expiration, our business could be adversely affected. Although we seek to increase the number of our customers, and maintain good relationships with our existing customers, a small number of companies dominate the telecommunications market. This limits the potential customer base and our expansion opportunities.

*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 and extended contracts, 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. Any delays due to lengthy sales cycles could significantly affect our revenue growth and operating results.

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

Our operating results are significantly affected by costs incurred for staffing and expanding infrastructure. We incur significant staffing and general and administrative costs in anticipation of call volume under our customer contracts. If such call volume does not 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 from the anticipated call volume.

*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 expanded directory assistance services. We also face competition from a number of other independent directory assistance providers. If we are unable to compete successfully, it could have an adverse effect on our business, financial condition and results of operations. Our ability to compete successfully depends, in part, on our ability to anticipate and appropriately respond to many factors, including 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.

*Our inability to achieve desired pricing levels could adversely affect our profitability and operations.*

We are subject to competitive pressures with respect to pricing, which could adversely affect our profitability and operations. 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. We charge our carriers on a per call basis, with prices varying in some cases based on call volume. Our long-term strategy is based in part on reducing the price we charge our customers. Generally, our pricing levels have declined and, in the future, will likely continue to decline as call volumes increase. If we were to substantially reduce our prices without correspondingly increasing volume, there could be an adverse impact on our ability to operate profitably.

*We are dependent on the wireless telecommunications industry, and a decrease in wireless usage by subscribers could have an adverse impact on our results of operations.*

Almost all of our revenues come from providing enhanced directory assistance and information services to our wireless customers' subscribers. A decrease in wireless usage by subscribers could have an adverse effect on our results of operations. Wireless usage by subscribers appears to be affected by a number of factors, many of which are beyond our control, including pricing, safety concerns, reliability and availability of the wireless network, government regulation and reliability and availability of alternative technologies.

*We need to expand call volume and increase efficiencies in order to be successful.*

In order to successfully execute our business strategies, we need to increase the volume of calls made to our call center network, while realizing the benefits of operating leverage. We intend to increase call volume by seeking additional customers, including landline carrier customers, as well as seeking additional business from our existing customers. We have limited experience in the landline market, which is dominated by the regional Bell operating companies. If we are unable to expand our wireless business or attract significant landline business, on a cost effective basis or at all, we may be unable to increase profitability or sustain past growth rates.

*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.

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

Our business comes 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.

*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, as call volume increases, we will need to expand and 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 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 to the carrier's subscribers. 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, including the planned expansion of our call center network, and could adversely affect our business operations.

*If we are unable to continue to attract and retain qualified senior management, 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, 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. We also depend on the continued service of our call center operators, who we hire from the available labor pool. As we continue to expand our call center network, the ability to attract and retain qualified senior management, 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 information services 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 information 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 and other resources.

*Future acquisitions may strain our operations.*

We intend to evaluate, and in the future may pursue, acquisition opportunities that are consistent with our business strategy. If we fail to adequately address the financial and operational risks associated with such acquisitions, future acquisitions may adversely harm our business.

These risks can include, among other things:

- Difficulties in assimilating the operations, technology, information systems and personnel of the acquired company, including the inability to maintain uniform standards, controls and policies, and the loss of key employees of the acquired company;
- Diversion of management's attention from other business concerns;
- Impairment of relationships with licensors, customers and suppliers;
- Difficulties in entering into markets in which we have no direct prior experience;
- Use of cash resources, potentially dilutive issuances of equity securities and incurrence of additional debt and contingent liabilities; and
- Significant write-offs and amortization expenses related to goodwill and other intangible assets.

*If we expand our business into international markets, we will encounter risks which could adversely affect us.*

We currently operate only in the United States; however, an element of our business strategy is to continue to explore international business opportunities. If we expand into one or more international markets, we will encounter significant risks and uncertainties. These risks and uncertainties include increased operational difficulties arising from, among other things:

- Our ability to attract sufficient business or locate a suitable partner or joint venture candidate to enable us to overcome logistical and economic barriers to entry;
- Our ability and cost to gather sufficient information content and listings data, properly modify our features and services to meet applicable standards, and hire and train personnel;

- Fluctuations in foreign currency exchange rates; and
- Political, regulatory and economic developments and cultural differences.

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

Although we are not directly subject to telecommunications industry regulation, the business of our customers and certain suppliers is subject to regulation that indirectly affects our business. We cannot predict when, or upon what terms and conditions, further regulation or deregulation might occur or the effect of regulation or deregulation on our business.

*We may need additional capital in the future, and it may not be available on acceptable terms.*

We may require more capital in the future to fund our operations, finance investments in equipment and infrastructure needed to maintain and expand our call center and network capabilities, enhance and expand the range of services and features we offer, and respond to competitive pressures and potential opportunities, such as investments, acquisitions and international expansion. We cannot be certain that additional financing will be available on terms favorable to us or at all. The terms of available financing may place limits on our financial and operating flexibility. If adequate funds are not available on acceptable terms, we may be forced to reduce our operations or abandon expansion opportunities.

*Our stock price is volatile.*

The market price of our 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:

- Announcements of extensions, expirations or changes in our contracts and the opening of new call centers to support such activity;
- Announcements relating to material events concerning our customers;
- Actual or anticipated variations in our results of operations;
- Changes in financial estimates by securities analysts;
- Obsolescence of technologies that we or our customers use;
- Introductions of new technologies; and
- General market conditions.

From January 1, 2000 through December 31, 2000, our stock price fluctuated from $9.00 per share to $25.00 per share and has on several days fluctuated more than 10%. Similar market fluctuations have affected the market prices of equity securities of many telecommunications companies and other public companies generally. These trading prices and valuations 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. Our stock price may also be adversely affected by general economic, political and market conditions, including interest rate changes and recession.

*Our results of operations could be impacted by a significant increase in the rate of inflation*

Inflation has not historically had a material affect on our business. Operating expenses such as salaries, employee benefits and occupancy costs are, however, subject to normal inflationary pressures which could adversely affect our operating results.

*Oregon law and provisions of our charter could make the acquisition of our company more difficult.*

We are authorized to issue up to 10,000,000 shares of preferred stock, and the board of directors has the authority to fix the preferences, limitations and relative rights of those shares without any vote or action by the shareholders. The potential issuance of preferred stock may delay or prevent a change in control of our company, may discourage bids for the common stock at a premium over the market price and may adversely affect the market price of, and the voting and other rights of the holders of, our common stock. In addition, provisions under Oregon law limit the ability of parties who acquire a significant amount of voting stock to exercise control over our company. These provisions may have the effect of lengthening the time required for a person to acquire control of our company through a proxy contest or the election of a majority of the board of directors and may deter efforts to obtain control of our company.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Substantially all of our liquid investments are invested in money market instruments, and therefore the fair market value of these investments is affected by changes in market interest rates. However, substantially all of our investments at December 31, 2000 were invested in overnight money market instruments and were redeemable on a daily basis. Substantially all of the underlying investments in the money market fund had maturities of three months or less. As a result, we believe the market risk arising from our holdings of financial instruments is minimal. In addition, we are exposed to interest rate risk primarily through our use of short-term and long-term borrowings to finance operations. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See pages F-1 through F-14.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by Item 10 is incorporated by reference to the Proxy Statement for our 2001 Annual Meeting, to be filed with the Securities and Exchange Commission within 120 days of our fiscal year end, under the captions of "Management" and "Information as to the Board's Nominees."

## ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 11 is incorporated by reference to the Proxy Statement for our 2001 Annual Meeting, to be filed with the Securities and Exchange Commission within 120 days of our fiscal year end, under the caption of "Executive Compensation."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 12 is incorporated by reference to the Proxy Statement for our 2001 Annual Meeting, to be filed with the Securities and Exchange Commission within 120 days of our fiscal year end, under the caption of "Principal Shareholders."

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 13 is incorporated by reference to the Proxy Statement for our 2001 Annual Meeting, to be filed with the Securities and Exchange Commission within 120 days of our fiscal year end, under the caption of "Certain Transactions."

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) Exhibits

3.1 Third Restated Articles of Incorporation of Metro One Telecommunications, Inc. (6)

3.2 Amended and Restated Bylaws of Metro One Telecommunications, Inc. (1)

10.1 Form of Enhanced Directory Assistance Agreement (8)

10.2 1994 Stock Incentive Plan (3) *

10.5 1995 Employment Agreement with Timothy A. Timmins (7) *

10.6 Lease Agreement between and among Petula Associates, Ltd., Koll Creekside Associates and the Company (2)

10.7 Enhanced Directory Assistance Agreement between Sprint Spectrum L.P. and the Company dated October 23, 1996 (5)(10)

10.8 Amendment to 1994 Stock Incentive Plan (4) *

10.11 Lease Agreement between and among Murray Scholls, LLC, Gramor Development Northwest, Inc. and the Company (5)

10.12 Amendment #1 to Specific Agreement between Sprint Spectrum L.P. and the Company dated December 9, 1998 (5)(10)

10.14 Agreement for Enhanced Directory Assistance Services between Metro One and AT&T Wireless Services, Inc. dated May 2, 1997 (8)(10)

10.16 Loan and Security Agreement between Silicon Valley Bank and the Company dated December 15, 1999 (9)

10.18 Amendment to 1995 Employment Agreement with Timothy A. Timmins (9) *

10.19 Stock Purchase Agreement between the Company and Sonera Media Holding B.V. dated as of November 8, 2000 (11)

10.20 Investment Agreement between the Company and Sonera Media Holding B.V. dated as of February 2, 2001 (12)

10.21 Registration Rights Agreement between the Company and Sonera Media Holding B.V. dated as of February 2, 2001 (12)

10.22 Commercial Lease agreement between Murray Scholls, LLC and the Company

10.23 Deferred Compensation Plan Document *

10.24 Agreement for Enhanced Directory Assistance Services between Metro One and AT&T Wireless Services, Inc. dated December 1, 2000 (10)

10.25 1999 Employee Stock Purchase Plan *

10.26 Amendment to 1994 Stock Incentive Plan *

23.1 Consent of Deloitte & Touche LLP, independent certified public accountants

* Management contract or compensatory plan

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-1 dated August 22, 1996, File No. 333-05183.

(2) Incorporated herein by reference to the Company's Registration Statement on Form SB-2, File No. 33-88926-LA.

(3) Incorporated herein by reference to the Company's Registration Statement on Form S-8 dated January 24, 1997, File No. 333-20387.

(4) Incorporated herein by reference to the Company's Registration Statement on Form S-8 dated February 5, 1998, File No. 333-45643.

(5) Incorporated herein by reference to the Company's Annual Report on Form 10-K dated March 31, 1999, Commission No. 0-27024.

(6) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB dated March 31, 1998, Commission No. 0-27024.

(7) Incorporated herein by reference to the Company's Annual Report on Form 10-KSB dated August 20, 1996, Commission No. 0-27024.

(8) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q dated October 22, 1999, Commission No. 0-27024.

(9) Incorporated herein by reference to the Company's Annual Report on Form 10-K dated March 30, 2000, Commission No. 0-27024

(10) Certain portions of Exhibits 10.7, 10.12, 10.14 and 10.24 are the subject of a request for confidential treatment and have been omitted from the Exhibit and have been filed separately with the Commission.

(11) Incorporated herein by reference to the Company's Current Report on Form 8-K dated November 20, 2000, Commission No. 0-27024.

(12) Incorporated herein by reference to the Company's Current Report on Form 8-K dated February 15, 2001, Commission No. 0-27024.

**(b) Reports Filed on Form 8-K**

During the quarter ended December 31, 2000, the Company filed the following current reports on Form 8-K under Item 5, Other Events:

| Date of Report | Topics |
|---|---|
| November 20, 2000 | Sonera Agrees to Invest $68 Million For 25.5% Equity Interest in Metro One Telecommunications |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Metro One Telecommunications, Inc.

By: /s/ Timothy A. Timmins
Timothy A. Timmins
President and Chief Executive Officer

Date: April 2, 2001

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated:

| Signature | Title | Date |
|---|---|---|
| /s/ Timothy A. Timmins<br>Timothy A. Timmins | President, Chief Executive Officer and Director (Principal Executive Officer) | April 2, 2001 |
| /s/ Dale N.Wahl<br>Dale N. Wahl | Senior Vice President, Chief Financial Officer (Principal Financial Officer) | April 2, 2001 |
| /s/ William D. Rutherford<br>William D. Rutherford | Chairman of the Board of Directors | April 2, 2001 |
| /s/ A. Jean de Grandpré<br>A. Jean de Grandpré | Director | April 2, 2001 |
| /s/ Heikki Jämsänen<br>Heikki Jämsänen | Director | April 2, 2001 |
| /s/ Aimo Olkkonen<br>Aimo Olkkonen | Director | April 2, 2001 |
| /s/ James M. Usdan<br>James M. Usdan | Director | April 2, 2001 |
| /s/ David A. Williams<br>David A. Williams | Director | April 2, 2001 |

## INDEPENDENT AUDITORS REPORT

To The Board of Directors and Shareholders of
Metro One Telecommunications, Inc.
Beaverton, Oregon

We have audited the accompanying balance sheets of Metro One Telecommunications, Inc. as of December 31, 2000 and 1999 and the related statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all respects, the financial position of Metro One Telecommunications, Inc. as of December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Portland, Oregon
February 5, 2001 (March 30, 2001 as to Note 11)

The accompanying notes are an integral part of these statements.

# Metro One Telecommunications, Inc.

## Statements of Income (In thousands, except per share amounts)

| | Years ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Revenues | $ 156,981 | $ 77,831 | $ 45,139 |
| Costs and expenses: | | | |
| Direct operating | 97,438 | 46,494 | 23,107 |
| General and administrative | 45,892 | 28,711 | 18,334 |
| | 143,330 | 75,205 | 41,441 |
| Income from operations | 13,651 | 2,626 | 3,698 |
| Other (expense) income | (25) | 128 | 289 |
| Interest and loan fees | (3,206) | (773) | (309) |
| Income before income taxes | 10,420 | 1,981 | 3,678 |
| Income tax expense | 678 | 75 | 75 |
| Net income | $ 9,742 | $ 1,906 | $ 3,603 |
| Income per common share | | | |
| Basic | $ .83 | $ .17 | $ .33 |
| Diluted | $ .80 | $ .16 | $ .32 |

The accompanying notes are an integral part of these statements.

# Metro One Telecommunications, Inc.

## Balance Sheets (In thousands)

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 6,463 | $ 9,564 |
| Short-term investments | - | 400 |
| Accounts receivable | 36,559 | 15,357 |
| Prepaid costs and other current assets | 1,864 | 985 |
| Total current assets | 44,886 | 26,306 |
| Furniture, fixtures and equipment, net | 54,749 | 38,225 |
| Other assets | 2,663 | 944 |
| | $ 102,298 | $ 65,475 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,633 | $ 2,909 |
| Accrued liabilities | 6,088 | 2,390 |
| Accrued payroll and related costs | 9,181 | 3,839 |
| Line of credit payable | 4,750 | - |
| Current portion of capital lease obligations | - | 159 |
| Current portion of long-term debt | 9,511 | 5,259 |
| Total current liabilities | 32,163 | 14,556 |
| Capital lease obligations | - | 17 |
| Long-term debt | 24,731 | 18,923 |
| | 56,894 | 33,496 |
| 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, 11,832 and 11,414 shares issued and outstanding at December 31, 2000 and 1999, respectively | 43,991 | 40,308 |
| Retained earnings (accumulated deficit) | 1,413 | (8,329) |
| Shareholders' equity | 45,404 | 31,979 |
| | $ 102,298 | $ 65,475 |

The accompanying notes are an integral part of these statements.

# Metro One Telecommunications, Inc.

## Statements of Shareholders' Equity (In thousands)

| | Shareholders' Equity | | | |
|---|---|---|---|---|
| | Common Stock | | Retained Earnings (Accumulated Deficit) | Shareholders' Equity |
| | Shares | Amount | | |
| Balances at December 31, 1997 | 10,926 | $ 37,514 | $ (13,838) | $ 23,676 |
| Employee stock options exercised, net | 262 | 963 | - | 963 |
| Net income | - | - | 3,603 | 3,603 |
| Balances at December 31, 1998 | 11,188 | 38,477 | (10,235) | 28,242 |
| Employee stock options exercised, net | 226 | 1,831 | - | 1,831 |
| Net income | - | - | 1,906 | 1,906 |
| Balances at December 31, 1999 | 11,414 | 40,308 | (8,329) | 31,979 |
| Employee stock options exercised, net | 392 | 3,426 | - | 3,426 |
| Employee stock purchase plan | 26 | 257 | - | 257 |
| Net income | - | - | 9,742 | 9,742 |
| Balances at December 31, 2000 | 11,832 | $ 43,991 | $ 1,413 | $ 45,404 |

The accompanying notes are an integral part of these statements.

# Metro One Telecommunications, Inc.

## Statements of Cash Flows (In thousands)

| | Years ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 9,742 | $ 1,906 | $ 3,603 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 10,465 | 6,225 | 3,774 |
| Loss on disposal of fixed assets | 220 | 67 | 73 |
| Deferred income taxes | (96) | (8) | (42) |
| Changes in certain assets and liabilities: | | | |
| Accounts receivable | (21,202) | (7,929) | (2,799) |
| Prepaid expenses and other assets | (2,543) | (728) | (91) |
| Accounts payable, accrued liabilities and payroll costs | 8,764 | 3,793 | 2,028 |
| Net cash provided by operating activities | 5,350 | 3,326 | 6,546 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (27,168) | (24,397) | (9,085) |
| Purchase of short-term investments | - | (400) | (1,507) |
| Maturity of short-term investments | 400 | 1,507 | - |
| Net cash used in investing activities | (26,768) | (23,290) | (10,592) |
| Cash flows from financing activities: | | | |
| Net proceeds from (repayment of) line of credit | 4,750 | (1,400) | 1,400 |
| Proceeds from issuance of debt | 16,637 | 31,800 | - |
| Repayment of debt | (6,577) | (8,474) | (90) |
| Repayment of capital lease obligations | (176) | (292) | (718) |
| Proceeds from exercise of stock options and employee stock purchases | 3,683 | 1,831 | 963 |
| Net cash provided by financing activities | 18,317 | 23,465 | 1,555 |
| Net (decrease) increase in cash and cash equivalents | (3,101) | 3,501 | (2,491) |
| Cash and cash equivalents, beginning of year | 9,564 | 6,063 | 8,554 |
| Cash and cash equivalents, end of year | $ 6,463 | $ 9,564 | $ 6,063 |

The accompanying notes are an integral part of these statements.

## 1. Summary of Operations and Significant Accounting Policies

***Nature of Operations.*** We provide enhanced directory assistance services to telecommunications carriers and their customers. Revenues are derived principally through fees charged to telecommunications carriers. We operate call centers located in many metropolitan areas throughout the United States.

***Cash and Cash Equivalents.*** 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.

***Short-Term Investments.*** Short-term investments include highly liquid investments such as money market instruments with original maturity dates of three months to one year. All investments are classified as "held-to-maturity" and accordingly are recorded at cost, which approximates fair value.

***Major Customers.*** In each of the years ended December 31, 2000, 1999 and 1998, twelve customers accounted for substantially all revenue and accounts receivable reported. Our three largest customers accounted for approximately 31%, 29% and 21% of revenue in 2000. Our four largest customers accounted for approximately 40%, 30%, 11% and 11% of revenue in 1999. Our five largest customers accounted for approximately 38%, 18%, 17%, 12% and 11% of revenue in 1998. We have not historically incurred significant losses related to our accounts receivable.

***Furniture, Fixtures and Equipment.*** Furniture, fixtures and equipment are stated at cost and are depreciated over their estimated useful lives of three to seven years using the straight-line method. Leasehold improvements are amortized over the lesser of the remaining lease term or the useful life. Expenses for repairs and maintenance are expensed as incurred. Capital lease assets were $0 and $1,184,000 at December 31, 2000 and 1999, respectively. Accumulated amortization for capital leases is included in accumulated depreciation. In the event that facts and circumstances indicate that the cost of furniture, fixtures and equipment may be impaired, an evaluation of recoverability would be performed and the asset's carrying amount would be reduced to market value or discounted cash flow value.

***Other Assets.*** Other assets include patents, patents pending and trademarks. These assets are carried at cost less accumulated amortization. Other assets are amortized over the estimated useful lives of the related assets of five to ten years. The related accumulated amortization was $92,885 and $81,745 for the years ended December 31, 2000 and 1999, respectively. In the event that facts and circumstances indicate that the recorded value of patents or trademarks may be impaired, an evaluation of recoverability would be performed and the asset's carrying amount would be reduced to market value or discounted cash flow value.

***Fair Value of Financial Instruments.*** The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and line of credit payable approximate fair value due to the short-term maturities of these assets and liabilities.

***Revenue Recognition.*** Under existing contracts with telecommunications carriers, we record revenue for the number of calls processed at the agreed upon price per call, calculated on a monthly basis. Prices per call vary based on monthly volumes achieved. Revenue is recognized as services are provided.

***Earnings per share.*** Basic earnings per share was calculated based on the weighted average number of common shares outstanding during each period. Diluted earnings per share was calculated based on these same shares plus dilutive potential shares issuable upon assumed exercise of outstanding stock options based on the treasury stock method.

***Use of Estimates.*** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that effect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the fiscal year. Actual results could differ from those estimates.

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

***Reclassification.*** Certain balances in the 1999 and 1998 financial statements have been reclassified to conform to 2000 presentations. Such reclassifications had no effect on reported net income.

## 2. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment by major classification are summarized as follows:

| (In thousands) | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Equipment | $ 63,232 | $ 41,578 |
| Furniture and fixtures | 9,794 | 6,610 |
| Leasehold improvements | 5,037 | 3,729 |
| | 78,063 | 51,917 |
| Accumulated depreciation and amortization | (23,314) | (13,692) |
| | $ 54,749 | $ 38,225 |

## 3. Long-term Debt

Long-term debt consisted of the following:

| (In thousands) | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Secured Equipment Financing Loans | $ 34,242 | $ 24,182 |
| Current portion of long-term debt | (9,511) | (5,259) |
| | $ 24,731 | $ 18,923 |

***Loan Agreements.*** At various times during 2000 and 1999, we entered into equipment financing loan agreements with an equipment financing lender. The agreements provide us with borrowing capacity to fund the expansion of our call center network and for other equipment needs. The agreements provide for fixed or floating rate options and all assets purchased pursuant to the agreements are pledged as collateral. Individual borrowings under the agreements have terms of 48 months each, and prepayment of outstanding borrowings is allowable 12 months after the funding dates, or, with certain restrictions, at any time prior, for a 1% fee. The equipment financing lender committed to a total lending capacity of $54 million. As of December 31, 2000, we had $34.2 million in borrowings under this facility (see Note 11), with individual borrowings bearing interest at fixed rates ranging from 8.10% to 10.09%. The interest rates approximate current market rates; thus, the recorded value of these loans is considered to be at fair value.

During December 1999, we entered into a new line of credit agreement with a commercial bank that replaced prior agreements. The agreement consists of a $10 million revolving line of credit that expires in December 2001. Outstanding borrowings bear interest at the prime rate plus up to 0.5% (10.0% at December 31, 2000) based on the ratio of debt to cash flow, and all receivables are pledged to the bank as collateral. In addition, the line has an unused facility fee of up to 0.75%, also based on the ratio of debt to cash flow. The agreement contains minimum quick ratio, debt to equity and profitability requirements, as well as other restrictive covenants, and prohibits the payment of any dividends and other distributions and redemptions of our stock exceeding 10% of our tangible net worth. As of December 31, 2000, we had approximately $4.8 million in borrowings outstanding under this agreement.

## 4. Lease Obligations

We lease operating facilities and equipment under operating leases with unexpired terms of one to nine years. Rental expense for operating leases was approximately $5,418,000, $3,497,000 and $2,091,000 for 2000, 1999 and 1998, respectively.

Minimum annual rentals for the five years subsequent to 2000 and in the aggregate thereafter are as follows:

(In thousands)

| Year Ending December 31, | Operating Leases |
|---|---|
| 2001 | 6,481 |
| 2002 | 6,339 |
| 2003 | 6,047 |
| 2004 | 5,080 |
| 2005 | 3,577 |
| Thereafter | 5,061 |
| Total minimum lease payments | $ 32,585 |

## 5. Shareholders' Equity

***Preferred Stock.*** We have authorized 10,000,000 shares of preferred stock for issuance. Our board of directors has the authority to issue one or more series of preferred shares and the authority to fix and determine the rights and preferences of such shares. No preferred shares were issued or outstanding as of December 31, 2000.

***Common Stock Options and Warrants.*** We have a Stock Incentive Plan (the "Plan"), approved by the shareholders, which provides for the award of incentive stock options to key employees and the award of non-qualified stock options, stock sales and grants to employees, outside directors, independent contractors and consultants. As of December 31, 2000, 2,300,000 shares of common stock were reserved for issuance under the Plan. In January 2001, the shareholders approved an amendment to the Plan increasing the number of shares reserved for issuance to 2,880,000 (See Note 11). It is intended that the Plan will be used principally to attract and retain key employees.

The option price per share of an incentive stock option may not be less than the fair market value of a share of common stock as of the date such option is granted. The option price per share of a non-qualified stock option may be at any price established by the board of directors or a committee thereof established for purposes of administering the plan. Options become exercisable at the times and subject to the conditions prescribed by the board of directors. Generally, options vest over a period of four years and the term of each option may not exceed ten years. Payment for shares purchased pursuant to options may be made in cash or, subject to approval by the board of directors, by delivery of shares of common stock having a market value equal to the exercise price of the options.

In 1999, our stockholders approved the Metro One Telecommunications, Inc. 1999 Employee Stock Purchase Plan (the "ESPP"). The purpose of the ESPP is to attract and retain qualified employees essential to our success, and to provide such persons with an incentive to perform in our best interests. The ESPP allows qualified employees to purchase shares of the Company's common stock on a semi-annual basis, up to 10% of pre-tax compensation. The purchase price is set at 85% of the lower of the stock price at the beginning or ending of each purchase period. As of December 31, 2000, 150,000 shares of common stock were reserved for issuance under the ESSP and 25,783 shares have been issued under the plan.

We have elected to continue to account for stock options according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized in the financial statements related to stock options issued under the Plan. If compensation cost on stock options granted in 2000, 1999 and 1998 under this Plan had been determined based on the fair value of the options granted as of the grant date in a method consistent with that described in Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," our net income and earnings per share would have been changed to the pro forma amounts indicated below for the years ended December 31, 2000, 1999 and 1998:

| (In thousands, except per share amounts) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Net income, as reported | $9,742 | $1,906 | $3,603 |
| Diluted earnings per share, as reported | 0.80 | 0.16 | 0.32 |
| Net income, pro forma | 8,747 | 1,014 | 3,311 |
| Diluted earnings per share, pro forma | 0.72 | 0.08 | 0.29 |

The pro forma amounts may not be indicative of the effects on reported net income for future periods due to the effect of options vesting over a period of years and the awarding of stock compensation in future years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2000, 1999 and 1998, respectively: dividend yield of 0 for all years; risk-free interest rates of 5.0, 5.9 and 4.5 percent; expected volatility of 75.4, 73.6 and 66.6 percent; and expected life of 4.0 for all years.

A summary of the status of our stock option plan as of December 31, 2000, 1999 and 1998 and changes during the years ending on those dates is presented below.

| (In thousands, except per share amounts) | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exer. Price | Shares | Weighted-Average Exer. Price | Shares | Weighted Average Exer. Price |
| Outstanding at beginning of year | 1,543 | $ 9.17 | 1,765 | $ 8.88 | 1,454 | $ 8.58 |
| Granted | 340 | 13.00 | 55 | 15.76 | 407 | 10.07 |
| Exercised | (392) | 8.75 | (227) | 8.08 | (62) | 8.07 |
| Forfeited | (121) | 10.48 | (50) | 11.17 | (34) | 11.82 |
| Outstanding at end of year | 1,370 | $ 10.13 | 1,543 | $ 9.17 | 1,765 | $ 8.88 |
| Options exercisable at year-end | 1,006 | | 1,212 | | 1,244 | |
| Weighted-average fair value of options granted during the year | $ 5.93 | | $ 8.11 | | $ 4.37 | |

The following table summarizes information about stock options outstanding and exercisable under the Plan at December 31, 2000:

| (In thousands, except per share amounts) Range of Exercise Prices | Outstanding Number of Options | Outstanding Weighted-Average Remaining Contractual Life (yrs) | Outstanding Weighted-Average Exercise Price | Exercisable Number of Options | Exercisable Weighted-Average Exercise Price |
|---|---|---|---|---|---|
| $ 8.05 – 8.05 | 576 | 4.64 | $ 8.05 | 576 | $ 8.05 |
| $ 8.50 – 12.00 | 512 | 7.80 | $ 10.15 | 270 | $ 9.54 |
| $ 12.63 – 18.00 | 282 | 8.60 | $ 14.32 | 160 | $ 14.15 |
| $ 8.05 – 18.00 | 1,370 | 6.64 | $ 10.13 | 1,006 | $ 9.42 |

## 6. Other Income and Expense

Included in other income are certain items that do not relate directly to current ongoing business activity. Included in this classification for the year ended December 31, 2000 are losses on asset dispositions of $220,000 and other miscellaneous non-operating expenses of $106,000 offset by interest income of $301,000. For the year ended December 31, 1999, other income consisted primarily of losses on asset dispositions of $67,000 offset by interest income of $192,000. For the year ended December 31, 1998, other income consisted primarily of losses on asset dispositions of $73,000 offset by interest income of $365,000.

## 7. Income Taxes

The components of income tax expense for the years ended December 31 are as follows:

| (In thousands) | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 96 | $ 8 | $ 42 |
| State | 678 | 75 | 75 |
| | 774 | 83 | 117 |
| Deferred: | | | |
| Federal | (96) | (8) | (42) |
| State | - | - | - |
| | (96) | (8) | (42) |
| Total tax expense | $ 678 | $ 75 | $ 75 |

At December 31, the significant components of deferred tax assets and liabilities are as follows:

| (In thousands) | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Deferred tax liability: | | |
| Tax depreciation in excess of book | $ 4,343 | $ 2,707 |
| Deferred tax asset: | | |
| Net operating loss carryforwards | $ 4,441 | $ 5,983 |
| Expenses not currently deductible | 800 | 396 |
| Tax credit carryforwards | 223 | 127 |
| Gross deferred tax assets | 5,464 | 6,506 |
| Valuation allowance | (930) | (3,704) |
| Deferred tax assets | 4,534 | 2,802 |
| Net deferred tax asset | $ 191 | $ 95 |

During 2000 and 1999, we reduced our deferred tax valuation allowance to reflect deferred tax assets used to reduce current year income taxes. Our quarterly and annual operating results have in the past and may in the future vary significantly depending on factors such as changes in the telecommunications market, the addition or expiration of contracts, increased competition, changes in pricing policies by us or our competitors, lengthy sales cycles, lack of market acceptance or delays in the introduction of new versions of our product or features, the timing of the initiation of wireless services or their acceptance in new market areas by telecommunications customers, the timing and expense of the expansion of our national call center network, the general employment environment, general economic conditions and the other factors. Given the variability in operating results, we review the valuation allowance on a quarterly basis and make adjustments as appropriate.

At December 31, 2000, we had approximately $11.4 million of net operating loss carryforwards expiring during the years 2005 to 2010. Ownership changes as defined by section 382 of the Internal Revenue Code could limit the amount of net operating loss carryforwards used in any one year or in the aggregate.

The difference between taxes calculated at the statutory federal and state tax rates and the effective combined rates for the years ended December 31 is as follows:

| | December 31, 2000 | December 31, 1999 | December 31, 1998 |
|---|---|---|---|
| Federal statutory rate | 34.0% | 34.0% | 35.0% |
| State income taxes, net of federal benefit | 6.6 | 3.9 | 3.9 |
| Valuation allowance | (34.8) | (36.8) | (36.7) |
| Other | .7 | 2.7 | (0.1) |
| Effective tax rate | 6.5% | 3.8% | 2.1% |

## 8. Earnings Per Share

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

The calculation of weighted-average outstanding shares is as follows:

| | Average Shares | | |
|---|---|---|---|
| (In thousands) | 2000 | 1999 | 1998 |
| Weighted average common shares outstanding (used in computing Basic EPS) | 11,680 | 11,391 | 11,063 |
| Common stock equivalents | 443 | 597 | 211 |
| Weighted average common shares outstanding (used in computing Diluted EPS) | 12,123 | 11,988 | 11,274 |

## 9. Benefit Plans

We have a deferred compensation savings plan for the benefit of our eligible employees. The plan permits certain voluntary employee contributions to be excluded from the employees' current taxable income under the provisions of Internal Revenue Code Section 401(k). Each employee becomes eligible to participate in the savings plan six months following the initial date of employment. The employee must also complete at least 500 hours of service in any twelve-month period. Under the plan, we can make discretionary contributions to the plan as approved by the board of directors.

Participants' interest in company contributions to the plan vest over a four-year period. We made contributions of approximately $83,000, $55,000 and $35,000 during 2000, 1999 and 1998, respectively.

## 10. Statement of Cash Flows

Supplemental disclosure of Cash Flow information:

| | Year ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2000 | 1999 | 1998 |
| Cash paid for interest expense | $ 3,130 | $ 718 | $ 297 |
| Cash paid for income taxes | 366 | 78 | 95 |

## 11. Subsequent Events

On January 31, 2001, the Company's shareholders approved the proposed issuance and sale to Sonera Media Holding B.V. of 4,000,000 shares of common stock at a price of $17 per share, or a total of $68 million, which represents approximately 25.5% of our outstanding common stock after the issuance. Sonera Media Holding B.V. is a wholly-owned subsidiary of Sonera Corporation, a publicly traded telecommunications company organized in Finland. This transaction was completed in February 2001. During February and March 2001, we paid all outstanding debt with a portion of the proceeds from this transaction.

In addition, in conjunction with the Sonera transaction, on January 31, 2001, the shareholders approved an amendment of our 1994 Stock Incentive Plan to increase the number of shares available for issuance by 580,000 shares, from 2,300,000 to 2,880,000 shares of common stock.

In February 2001, the Company acquired Enthusiasm Technologies, Inc., ("Enthusiasm") a Seattle-based developer of web-based data extraction and processing technology, for a combination of cash and stock. Enthusiasm builds application-specific databases for a variety of portals, be they wired or wireless, voice or data. Enthusiasm Technologies' proprietary data extraction and processing technology enables the creation and ongoing maintenance of high quality databases from distributed and fragmented data on the web and elsewhere. The purchase price is not material to the financial position of the Company.

# Metro One Telecommunications, Inc.

## Notes to Financial Statements

### Quarterly Financial Summary (Unaudited)

| (In thousands except per share amounts) | Quarter ended March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| **2000** | | | | |
| Revenues | $ 29,711 | $ 36,589 | $ 42,953 | $ 47,728 |
| Direct operating expense | 18,523 | 24,036 | 26,879 | 27,999 |
| General and administrative expense | 9,319 | 10,668 | 12,219 | 13,686 |
| Income from operations | 1,869 | 1,885 | 3,855 | 6,043 |
| Net income | 1,121 | 1,156 | 2,764 | 4,702 |
| Basic earnings per share | .10 | .10 | .24 | .40 |
| Diluted earnings per share | .09 | .10 | .23 | .38 |
| **1999** | | | | |
| Revenues | $ 14,175 | $ 17,469 | $ 20,469 | $ 25,718 |
| Direct operating expense | 7,836 | 10,509 | 12,136 | 16,013 |
| General and administrative expense | 5,653 | 6,768 | 7,374 | 8,916 |
| Income from operations | 686 | 192 | 959 | 789 |
| Net income | 682 | 105 | 677 | 442 |
| Basic earnings per share | .06 | .01 | .06 | .04 |
| Diluted earnings per share | .06 | .01 | .06 | .04 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

## Board of Directors

**William D. Rutherford**
Chairman
Principal
Rutherford Investment Management

**A. Jean de Grandpré**
Chairman Emeritus
BCE, Inc. (Bell Canada)

**Heikki Jämsänen**
Chief Executive Officer
Sonera Info Communications
Sonera Corporation

**Aimo Olkkonen**
Senior Vice President
Corporate Development
Sonera Corporation

**Timothy A. Timmins**
President
Chief Executive Officer
Metro One Telecommunications, Inc.

**James M. Usdan**
President
Chief Executive Officer
NextCare Hospitals, Inc.

**David Williams**
President
Roxborough Holdings Limited

## Officers

**Timothy A. Timmins**
President
Chief Executive Officer

**Gary E. Henry**
Executive Vice President
Chief Operating Officer

**Karen L. Johnson**
Senior Vice President
Corporate Development

**Dale N. Wahl**
Senior Vice President
Chief Financial Officer

**Janice I. Aday**
Vice President
Customer Care

**Jack G. Blesener**
Vice President
Southern Region

**Nicholas J. Elsey**
Vice President
Product Development

**Duane C. Fromhart**
Vice President
Finance

**Christopher J. Hauber**
Vice President
Eastern Region

**Christopher A. Huey**
Vice President
Systems Architecture

**Philip A. Ljubicich**
Vice President
Content Development

**Matthew A. Mostad**
Vice President
Content Products

**Denise L. May**
Vice President
California Region

**L. Lynne Michaelson**
Vice President
Human Resources

**Kathleen F. Podgorniak**
Vice President
Central Region

**Kevin M. Swayze**
Vice President
Technical Operations

## Corporate Headq

11200 Murray Scholls Place
Beaverton, Oregon 97007
(503) 643-9500
(503) 643-9600 - Facsimile
www.metro1.com

## Independent Aud

Deloitte & Touche LLP
Portland, Oregon

## Legal Counsel

Heller Ehrman White and Mc/
Los Angeles, California

## Transfer Agent / R

Mellon Investor Services
520 Pike Street, Suite 1220
Seattle, Washington 98101
(800) 522-6645
(800) 231-5469 – TDD /Heari
(201) 329-8660 – Foreign Sha
www.chasemellon.com

## Common Stock

Our common stock is traded
Nasdaq National Market® tier
Nasdaq Stock Market® under
symbol "MTON."

## Investor Informa

Additional copies of our Annu
on Form 10-K, filed with the S
and Exchange Commission, m
obtained by written request t

Investor Relations
Metro One Telecommunicatio
11200 Murray Scholls Place
Beaverton, Oregon 97007
investorinfo@metro1.com

ted by OBERDORF DESIG

METROONE
ENHANCED TELECOM SERVICES

11200 Murray Scholls Place
Beaverton, Oregon 97007
Telephone (503) 643-9500
Facsimile (503) 643-9600
www.metro1.com