Faghri Amir
Form 4/A
November 15, 2005

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Faghri Amir
(Last) (First) (Middle)
RBC BEARINGS INCORPORATED, ONE TRIBOLOGY CENTER
(Street)
OXFORD, CT 06478
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
RBC Bearings INC [ROLL]

3. Date of Earliest Transaction (Month/Day/Year)
11/08/2005

4. If Amendment, Date Original Filed(Month/Day/Year)
11/10/2005

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Options for Common Stock	$ 15.33	11/08/2005		A		2,500		11/08/2005(1)	11/08/2005	Common Stock	2,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Faghri Amir RBC BEARINGS INCORPORATED ONE TRIBOLOGY CENTER OXFORD, CT 06478	X			

Signatures

/s/ Daniel A. Bergeron	11/10/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Options to purchase shares of common stock are subject to the following vesting schedule: 33% vest on 11/8/05, 33% vest on 11/8/06 and 34% vest on 11/8/07; provided that those options that vested on 11/8/05 and may be exercised currently are subject to a lock-up that expires 180 days after the Issuer's initial public offering.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. eatures or aspects thereof are the subject of patents or pending patent applications. Revenues are derived principally through fees charged to telecommunications carriers and other customers.

In addition to voice-based services, we also provide Enhanced Directory Assistance services in electronic format. These services are provided to customers who electronically issue directory assistance queries and use the returned information to complete and correct their own data records. We currently provide electronic directory assistance services in a number of delivery formats to meet customer needs including automated file processing and real-time individual look ups. We contract with a broad range of companies that require electronic directory assistance including companies in the service, marketing, and financial sectors.

Major Customers. In each of the years ended December 31, 2005, 2004 and 2003, a small number of customers accounted for substantially all revenue and accounts receivable reported. In 2005, one customer accounted for approximately 76% of our revenues. In 2004, two customers accounted for approximately 56% and 28% of revenues and in 2003, three customers accounted for approximately 44%, 35%, and 13% of revenues. One customer accounted for approximately 79% of total receivables at December 31, 2005. In 2005 and historically, we have not incurred significant losses related to our accounts receivable.

Significant Events.

Termination of contracts.

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

In October 2005, we received notification from Nextel that it would be terminating the Services Agreement discussed above effective January 9, 2006. In February 2006, we entered into a Settlement Agreement and Disentanglement Transition Plan (the Plan) with Nextel that resolved certain disputed matters in connection with the termination of the Services Agreement. The Plan called for Metro One to continue to provide services to Nextel callers, as needed, through March 31, 2006, for the resolution of any disputes with respect to the termination by Nextel, and for the payment by Nextel to Metro One of up to $5.75 million in three installments through the end of March. Those payments are in addition to $2.5 million previously paid by Nextel in December 2005 in connection with the transition and in addition to the contractual payments by Nextel for normal service provided by Metro One to Nextel callers through the transition period. Calls from Nextel were substantially transitioned away from us by March 31, 2006 and, except for contractual payments not yet due for normal service, we have received substantially all amounts due from Nextel as of the date of this filing. Including the $2.5 million payment in December 2005 as part of the settlement payments noted above, Nextel represented approximately 76%, 56%, and 35% of our revenues for the years ended December 31, 2005, 2004, and 2003, respectively.

Our contract with AT&T Wireless expired in December 2003, and our negotiations did not result in a new contract. The call volume from AT&T Wireless transitioned away during the second and third quarters of 2004. AT&T Wireless accounted for approximately 28% and 44% of our revenues in 2004 and 2003, respectively.

Our contract with Sprint PCS expired in December 2002. We agreed to an arrangement with Sprint PCS, pursuant to which we continued to handle its subscribers calls through a transition period that began in March 2003 and was substantially completed by June 30, 2003. Sprint PCS accounted for approximately 13% of our revenues in 2003.

Termination of the contracts noted above have had, and will continue to have, a significant adverse impact on our results of operations and cash flows and raises doubt as to whether we can continue to operate as a going concern. We have experienced net losses in each of the quarterly and annual periods since the first quarter of 2003. We expect to meet our cash requirements in 2006 using our existing cash and cash equivalents. Our management has developed plans to significantly reduce the direct cost of delivering our services, reduce our general and administrative overhead, aggressively pursue new and additional sources of revenues to support our reduced cost structure, and develop and grow our data services business. There can be no assurance that management s plans will be successful. In such event, we may attempt to establish borrowing arrangements in order to maintain adequate liquidity, although we cannot provide assurance that financing will be available in amounts or on terms acceptable to us. If we are unable to execute our operations according to our plan or obtain additional financing, we may be forced to cease operations.

Nasdaq listing issues.

Our common stock listing was transferred from the Nasdaq National Market to the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) on February 22, 2006. We elected to seek a transfer to the Nasdaq Capital Market because we had been unable to regain compliance with the $1.00 minimum bid price requirement for continued listing on the Nasdaq National Market. By transferring to the Nasdaq Capital Market, we were afforded an extended grace period and now have until July 17, 2006 in which to satisfy the $1.00 minimum bid price requirement. If we are unable to regain compliance by July 17, 2006, our common stock could be delisted from the Nasdaq Capital Market. On October 21, 2005, we received a Nasdaq Staff Deficiency Letter informing us that we no longer comply with Nasdaq s independent director and audit committee requirements for continued listing. The letter stated that we had until the earlier of our next annual shareholders meeting or October 4, 2006, in order to regain compliance. The letter also stated that, in the event we do not regain compliance during this cure period, our common stock will be delisted. Our management and board of directors are considering alternatives to regain compliance with Nasdaq s requirements but there can be no assurance that such alternatives will be implemented prior to the end of the applicable cure period.

Other.

In a 2004 decision, the California Public Utilities Commission (PUC) implemented competitive wholesale pricing for directory assistance data for third party vendors purchasing the data from SBC Communications (SBC). The decision determined that SBC continues to enjoy a dominant position as the former monopoly provider of local exchange service in its territory in California and could not use its market power to extract excessive directory assistance data prices that would discriminate against competitors. The decision required that SBC refund the improper charges with interest. As a result, in the third quarter of 2004, we received a refund from SBC in the amount of approximately $2.9 million that is included in Other income, net in our December 31, 2004 financial statements.

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 affect 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.

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

Short-term investments, if any, are carried at fair value and typically consisted of available-for-sale auction rate securities (ARS) that we classified as current assets based upon our intent and ability to use these funds as necessary to satisfy short-term liquidity requirements. We had no such short-term investments at December 31, 2005. Our portfolio at December 31, 2004 consisted of two types of ARS. We held $15.4 million of investment-grade taxable auction rate notes of municipal issuers, which are debt-securities with variable interest rates that reset through a Dutch auction with principal traded at par. The rate typically resets on a periodic basis, usually between 7 and 49 days. Actual maturities of the underlying securities are greater than ten years. In addition, at December 31, 2004, we held $10.0 million of auction rate preferred securities which consist of shares of closed-end investment funds invested in long-term fixed income securities. These funds generally issue auction rate preferred shares that provide liquidity at par value every 28 days through the auction rate market. The reset rate for both types of ARS is set by a modified Dutch auction process in which bids are filled from lowest yield bid to highest; the highest bid cleared sets the rate for all winning bidders. Although the underlying securities have long-term contractual maturities, we can sell or buy the securities at par on auction dates. Thus, they are classified as short-term investments since they are intended to be available to fund current operations. Fair values are based on quoted market prices and at December 31, 2004, the fair value of these securities approximated their carrying value.

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. Expenditures for repairs and maintenance are expensed as incurred.

Goodwill. Under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, we evaluate goodwill for impairment annually and whenever events or changes in circumstances may have indicated that the carrying amount of goodwill may be impaired. When we performed our evaluation of goodwill under SFAS No. 142 in 2003, our analysis indicated that our estimate of the fair value of our business, as determined by the market price of our stock, was less than its carrying value; therefore, the book value of goodwill and related intangibles of approximately $4.7 million was written off during the fourth quarter of 2003.

Intangible Assets. Intangible assets include patents, patents pending and trademarks. These assets are carried at cost less accumulated amortization and are amortized over their estimated useful lives of three to ten years beginning at the time the related patent or trademark is granted. The related amortization expense was $681,000, $592,000, and $558,000 for the years ended December 31, 2005, 2004 and 2003, respectively. During 2005 we wrote off $1,629,000 and $148,000 of intangibles and related accumulated amortization, respectively, primarily related to our discontinued Infone service.

The estimated aggregate amortization expense related to intangible assets for the five years subsequent to 2005 is shown below. We have not included any amounts related to amortization of costs of patents or trademarks currently pending but not yet granted, totaling $3.5 million at December 31, 2005.

Year Ending December 31,	**Estimated amortization expense (In thousands)**	
2006	$	576
2007		552
2008		347
2009		179

2010	130

Impairment of Long-lived and Intangible Assets. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we evaluate the carrying value of furniture, fixtures, equipment and intangible assets with finite lives for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If an asset or group of assets is determined to be impaired, the impairment loss is measured as the amount by which the carrying value of the asset or group of assets exceeds its fair value. We prepare an estimate of future undiscounted cash flows expected to result from the use of the asset and its eventual disposition to determine its fair value. Because of our changing business conditions, including lower wholesale prices and dependence on a relatively small number of customers for a significant portion of our revenues, in the fourth quarter of 2004, we tested the recoverability of the carrying value of our fixed assets and determined that the value was impaired. As a result, we recorded a $32.2 million write-down of those assets to their estimated fair value based on estimated prices for similar assets. As a result of the decision by Nextel to terminate its contract with us, as discussed under Significant Events above, we evaluated our fixed assets and intangibles as of December 31, 2005 for impairment in accordance with SFAS No. 144 and SFAS No. 142. Our evaluation determined that the assets were not impaired as of December 31, 2005.

Deferred Income Taxes. Deferred income taxes are provided for temporary differences between the amounts of assets and liabilities for financial and tax reporting purposes. Deferred tax assets are reduced by a valuation allowance when it is estimated to be more likely than not that some or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments. The carrying value of cash and cash equivalents, short-term investments, restricted cash, accounts receivable, accounts payable, accrued liabilities and accrued payroll and related costs approximates fair value due to their short-term maturities.

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. Revenue per call may vary based on monthly volumes achieved. Revenue is recognized as services are provided. Revenue in 2005 also includes $2.5 million received from Nextel as part of the settlement arrangement discussed above in Note 1., under Significant Events.

Advertising. Costs of advertising are expensed as incurred except for commercial advertising production costs, which are expensed at the time the related commercials are first run. Advertising expense was approximately $2.7 million, $17.5 million, and $49.9 million in 2005, 2004, and 2003, respectively, primarily related to marketing and promotion of our Infone service. The Infone service was discontinued in the fourth quarter of 2005. Advertising expenses are included in selling, general and administrative expenses in the consolidated statements of operations.

Net Loss Per Share. We report basic and diluted net loss per share in accordance with SFAS No. 128, Earnings per Share. Basic net loss per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted net loss per share is calculated based on these same shares plus dilutive potential shares issuable upon assumed exercise of outstanding stock options, based on the treasury stock method, unless inclusion of such potential shares would be anti-dilutive.

Stock-Based Compensation. We have elected to account for stock options and shares issued under our Employee Stock Purchase Plan (ESPP) according to Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and to furnish the pro forma disclosures required under SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. Accordingly, no compensation cost has been recognized in the financial statements related to stock options issued under our Stock

Incentive Plan (the Plan) or shares issued under our ESPP.

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If compensation cost on stock options granted and ESPP shares issued in 2005, 2004 and 2003 under the Plan had been determined based on the fair value of the options and ESPP shares as of the grant or issue date in a method consistent with that described in SFAS No. 123, Accounting for Stock-Based Compensation, our net loss and net loss per share would have been changed to the pro forma amounts indicated below for the years ended December 31:

	2005	2004	2003
	(In thousands, except per share amounts)		
Net loss, as reported	$ (39,759)	$ (63,166)	$ (33,309)
Stock-based compensation expense	(2,134)	(3,451)	(4,248)
Net loss, pro forma	$ (41,893)	$ (66,617)	$ (37,457)
Basic net loss per share, as reported	$ (1.59)	$ (2.54)	$ (1.35)
Basic net loss per share, pro forma	$ (1.68)	$ (2.68)	$ (1.52)
Diluted net loss per share, as reported	$ (1.59)	$ (2.54)	$ (1.35)
Diluted net loss per share, pro forma	$ (1.68)	$ (2.68)	$ (1.52)

The pro forma amounts may not be indicative of the effects on reported results 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 for the years ending December 31:

	2005	2004	2003
Dividend yield	0.0%	0.0%	0.0%
Risk free interest rate	4.3%	3.0%	2.9%
Expected volatility	60.3%	75.2%	98.7%
Expected life in years	4.0	4.0	4.0
Weighted-average fair value of options granted	$ 0.59	$ 1.21	$ 3.40

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

From time to time, in the normal course of our business, we issue standby letters of credit and bank guarantees. At December 31, 2005, we had one letter of credit outstanding in the amount of $6,860,000 related to our workers compensation program. The letter of credit is secured by a certificate of deposit for the same amount that is recorded as restricted cash. This commitment expires on April 1, 2006 and is typically renewed on an annual basis. Effective April 1, 2006, the amount of the standby letter of credit and restricted cash decreased to $6,160,000.

Recent Accounting Pronouncements. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123R) an amendment of SFAS No. 123, Accounting for Stock-Based Compensation and SFAS No. 95, Statement of Cash Flows, which requires companies to recognize in their statements of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. We will adopt SFAS No. 123R in our first quarter of 2006. We are still evaluating the effects that adoption of this statement will have on our consolidated financial statements.

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2. Restructuring Charges and Exit Activities

In June 2005, we announced that, as part of our ongoing corporate-wide program to cut costs and align expenses with reduced revenues, we would be closing and consolidating the operations of 11 of our call centers during the second and third quarters of 2005. We closed three call centers in the second quarter of 2005 and we closed eight call centers in the third quarter of 2005, with call volume being transferred to our remaining 20 call centers. In addition, we closed one additional call center in the fourth quarter of 2005.

Costs incurred to close the twelve call centers and costs related to other restructuring activities during the year ended December 31, 2005 are shown in the following table. We do not expect significant additional costs related to the consolidation of the 12 call centers closed in 2005.

Major cost type		**Year ended December 31, 2005 (in thousands)**
One-time termination benefits	$	1,908
Lease termination costs		1,706
Other		3,200
	$	6,814

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

		One-time termination benefits		**Lease termination costs**		**Other**		**Total**
Balance at January 1, 2005	$		$		$		$	
Provisions		1,908		2,081		3,200		7,189
Payments		(1,908)		(1,351)		(1,778)		(5,037)
Write-offs and adjustments				(375)		(1,279)		(1,654)
Balance at December 31, 2005	$		$	355	$	143	$	498

As discussed in Note 1. Significant Events, in October 2005, we received notice that Nextel would be terminating its contract with us. In response to this notice, we have accelerated our ongoing efforts to reduce costs and restructure our operations to align costs with revenue. These efforts have included discontinuing our Infone service, our retail product offering, accelerating the closing of underutilized call centers and significantly scaling back the number of employees and space at our corporate office. As a result of the termination of our contracts with Nextel and other customers noted above, we have consolidated and reduced our operations significantly and will continue to close call centers and reduce our number of employees both in call centers and in corporate and administrative staff now that the transition of calls from Nextel has been completed.

Primarily during the second and third quarters of 2005, as part of our on-going efforts to cut costs and align expenses with reduced revenues, we closed 12 of our call centers. During 2005, we incurred approximately $6.8 million of restructuring costs related to these activities. That amount consisted of approximately $1.9 million of severance and other employee-related termination benefits, approximately $1.7 million of lease termination costs and approximately $3.2 million of other costs of restructuring. These other costs included approximately $1.5 million of net non-cash intangible and other asset

write-offs related to our discontinued Infone service, approximately $800,000 paid for strategic advisory services, approximately $750,000 of costs associated with closing call centers, and approximately $270,000 of other costs. At December 31, 2005, we had approximately $498,000 of accrued restructuring costs, primarily related to remaining lease obligations of closed facilities.

Subsequent to December 31, 2005, we have undertaken additional restructuring activities, because of the departure of call volume from Nextel, that have resulted in the closure of an additional 13 call centers in the first quarter of 2006 with call volumes transferred into the remaining six call centers. These closures have resulted in the reduction of approximately 1,300 call center employees and the payment of approximately $1.4 million of related severance benefits. We expect to incur approximately $800,000 of dismantling costs related to these closed call centers primarily in the second quarter of 2006. We have significant costs associated with ongoing lease obligations of the closed call centers. We expect to pay out the lease terms, sublease the properties, buy out or otherwise dispose of these leases during 2006; however, the costs associated with those actions cannot be accurately estimated at this time. Additionally, we have plans to reduce headcount at our corporate headquarters in the second and third quarters of 2006. We expect to incur approximately $280,000 of severance costs related to these reductions. In addition, we may undertake additional restructuring and/or consolidation efforts in the future that would cause us to incur additional restructuring charges.

3. Furniture, Fixtures and Equipment

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

	December 31, 2005	December 31, 2004
	(In thousands)	
Equipment	$ 11,596	$ 10,505
Furniture and fixtures	1,780	2,177
Leasehold improvements and other	19	19
	13,395	12,701
Accumulated depreciation	(5,432)	
Total furniture, fixtures and equipment, net	$ 7,963	$ 12,701

As discussed in Note 1., Impairment of Long-lived and Intangible Assets, we recorded a write-down of our fixed assets in the fourth quarter of 2004. As a result, the cost bases of the assets shown in 2004 were adjusted to reflect this write-down.

4. Goodwill and other intangible assets

The following presents the activity in goodwill for the years ended December 31, 2005, 2004 and 2003 (in thousands):

Balance at January 1, 2003	$ 4,432
Impairment loss	(4,432)

Balance at December 31, 2003	
No activity	
Balance at December 31, 2004	
No activity	
Balance at December 31, 2005	$

Explanation of Responses:

Below is a summary of other intangible assets at December 31:

	2005		2004	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
	(in thousands)			
Amortized intangibles				
Patents	$ 6,851	$ 1,871	$ 6,052	$ 1,377
Trademarks	850	448	1,425	354
Other			223	53
Totals	$ 7,701	$ 2,319	$ 7,700	$ 1,784

During 2005 we wrote off $1,629,000 and $148,000 of intangibles and related accumulated amortization, respectively, primarily related to our discontinued Infone service. These write-offs have been classified as restructuring charges in our consolidated financial statements.

5. Lease Obligations

We lease operating facilities and equipment under operating leases with remaining terms of one to six years. Rental expenses related to operating leases were approximately $7,858,000, $9,888,000, and $9,513,000 in 2005, 2004 and 2003, respectively.

Minimum annual rent payments for the five years subsequent to 2005 and in the aggregate thereafter are as follows:

Year Ending December 31,	Annual lease payments (In thousands)
2006	$ 4,249
2007	2,319
2008	976
2009	521
2010	213
Thereafter	53
Total minimum lease payments	$ 8,331

6. 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, 2005.

Common Stock Options. In 2004, our shareholders approved the 2004 Stock Incentive Plan (the Plan), 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, 2005, approximately 894,000 shares of common stock remained reserved for issuance under the Plan. 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 a price established by the board of directors or a committee thereof established for purposes of administering the plan, which price generally equals the fair market value of a share of common stock as of the date such option is granted. 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, at the option of the board of directors, in cash or by delivery of shares of common stock having a market value equal to the exercise price of the options.

During 2004, we granted 25,000 shares of restricted stock in accordance with the Plan, pursuant to an employment agreement with a key employee. The shares had a fair market value of approximately $40,000 on the date of grant with quarterly vesting over four years, subject to the grantee s continued employment. Compensation expense for the shares issued is recorded over the vesting period.

A summary of the status of our stock option plan as of December 31, and changes during the years ending on those dates is as follows:

	2005		2004		2003	
	Shares	Weighted-Average Exer. Price	Shares	Weighted-Average Exer. Price	Shares	Weighted-Average Exer. Price
			(In thousands, except per share amounts)			
Outstanding at beginning of year	3,028	$ 10.72	2,889	$ 12.18	2,422	$ 13.81
Granted	822	1.21	417	2.47	506	4.89
Exercised						
Forfeited	(977)	7.83	(278)	13.50	(39)	18.60
Outstanding at end of year	2,873	$ 8.98	3,028	$ 10.72	2,889	$ 12.18
Options exercisable at year-end	2,446		2,535		2,236	
Weighted-average exercise price of options exercisable at year end	$ 10.35		$ 11.40		$ 11.49	

The following table summarizes information about stock options outstanding and exercisable under the Plan at December 31, 2005:

		Outstanding		Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life (yrs)	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
		(In thousands, except per share amounts)			
$ 0.43 2.91	1,044	9.04	$ 1.57	617	$ 1.85
3.57 7.63	781	4.49	5.66	781	5.66
8.00 22.50	455	4.29	10.64	455	10.64
23.00 38.00	593	5.45	25.12	593	25.12
$ 0.43 38.00	2,873	6.31	$ 8.98	2,446	$ 10.35

We have a compensatory Employee Stock Purchase Plan (the ESPP), the purpose of which 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 our common stock on a semi-annual basis, limited 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. In 2003, our shareholders approved an amendment to the ESPP which increased the number of shares of common stock initially authorized for purchase under the ESPP by 250,000 shares, from 225,000 to 475,000 shares of common stock. In addition, the amendment provided that the number of authorized shares automatically increases on January 1 of each year until and including January 1, 2013 by 1% of the number of shares of common stock outstanding on that date; provided, however, that the total number of shares of common stock available for issuance under the ESPP shall not exceed 3% of the number of shares of common stock outstanding on that date. As of December 31, 2005, 372,000 shares of common stock were reserved for issuance under the ESPP. Under the ESPP, during 2005, employees purchased approximately 115,000 shares at an average price of $0.90 per share. During 2004, employees purchased approximately 184,000 shares at an average price of $1.40 per share. In the fourth quarter of 2005, our Board of Directors suspended further purchases under the ESPP indefinitely.

In July 2005, our Board of Directors approved a share repurchase program for the repurchase of up to 250,000 shares per month of our common stock. During the third quarter of 2005, we repurchased a total of 151,000 shares at an average purchase price of $0.80 per share. The repurchase program was terminated in the fourth quarter of 2005.

7. Other Income and Expense

Included in other income and expense are certain items that do not relate directly to current ongoing business activity. Other income in 2004 included the $2.9 million refund of data costs from SBC Communications as discussed in Significant Events in Note 1. above. Also included in this classification for the years ended December 31, 2005, 2004 and 2003, is interest income of $980,000, $694,000, and $668,000, respectively. In addition, this classification included other miscellaneous non-operating income and expenses, none of which were individually significant.

8. Income Taxes

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

	2005		2004 (In thousands)		2003	
Current:						
Federal	$	346	$	(3,508)	$	(8,562)
State		192		119		36
		538		(3,389)		(8,526)
Deferred:						
Federal						(5,298)
State						(665)
						(5,963)
Total tax expense (benefit)	$	538	$	(3,389)	$	(14,489)

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Income tax expense (benefit) differs from the amount that would result from applying the U.S. statutory rate to income before taxes. A reconciliation of this difference is as follows:

	December 31, 2005	2004	2003
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	5.9	4.5	0.9
Federal and state tax credits	0.7	0.5	1.0
Impairment loss on goodwill and related intangible assets			(3.4)
Change in valuation allowance	(42.8)	(35.8)	(5.3)
Other	(0.2)	0.9	2.1
Effective tax rate	1.4%	5.1%	30.3%

The temporary differences and carryforwards that give rise to deferred tax assets and liabilities are as follows:

	December 31, 2005 (In thousands)	2004
Deferred tax assets:		
Net operating loss carryforwards	$ 31,526	$ 12,584
Reserves not currently deductible	2,554	4,342
Start-up costs	1,839	2,600
Deferred rent	246	467
Impairment loss on long-lived assets	13,328	13,328
Tax credit carryforwards	4,622	4,532
Total deferred tax asset	54,115	37,853
Less: Valuation allowance	(43,140)	(29,318)
Net deferred tax asset	10,975	8,535
Deferred tax liabilities:		
Accumulated depreciation and amortization	(10,843)	(8,243)
Other	(132)	(292)
Total deferred tax liability	(10,975)	(8,535)
Net deferred tax asset (liability)	$	$

At December 31, 2005, we had approximately $70,931,000 and $104,695,000 of federal and state net operating loss carryforwards, respectively. These net operating loss carryforwards expire during the years 2007 to 2025. 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.

9. Net Loss Per Share

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

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

	Average Shares		
	2005	**2004**	**2003**
		(In thousands)	
Weighted average common shares outstanding (used in computing basic net loss per share)	25,002	24,869	24,706
Potential common shares			
Weighted average common shares outstanding (used in computing diluted net loss per share)	25,002	24,869	24,706

Options to purchase approximately 2,873,000, 3,028,000, and 2,889,000 shares of common stock were outstanding at December 31, 2005, 2004, and 2003, respectively, but were not included in the computation of diluted net loss per share because their effect would be anti-dilutive.

10. 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 employees current taxable income under the provisions of Internal Revenue Code Section 401(k). Employees become eligible to participate in the savings plan six months following the initial date of employment. Employees must also complete at least 500 hours of service in any twelve-month period to be eligible for participation. Under the plan, we can make discretionary contributions to the plan as approved by the board of directors. Participants interest in our contributions to the plan vest over a four-year period. We made contributions of approximately $145,000, $180,000 and $196,000 during 2005, 2004 and 2003, respectively.

Supplemental Information

Quarterly Financial Data (Unaudited)

	Quarter ended			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands except per share amounts)			
2005				
Revenues	$ 18,379	$ 20,149	$ 19,211	$ 20,071
Direct operating expense	17,220	14,743	15,390	11,890
Selling, general and administrative expense	14,829	14,976(2)	15,528(2)	13,450(2)
Loss from operations	(13,670)	(9,570)	(11,707)	(5,269)
Net loss	(13,375)	(9,247)	(11,895)	(5,273)
Basic net loss per share	(0.53)	(0.37)	(0.48)	(0.21)
Diluted net loss per share	(0.53)	(0.37)	(0.48)	(0.21)
2004				
Revenues	$ 43,529	$ 43,539	$ 27,694	$ 25,607
Direct operating expense	25,543	24,174	17,585	17,029
Selling, general and administrative expense	25,954	25,030	21,119	54,297(1)
Loss from operations	(7,969)	(5,665)	(11,010)	(45,719)
Net loss	(7,849)	(5,497)	(7,887)	(41,932)
Basic net loss per share	(0.32)	(0.22)	(0.32)	(1.68)
Diluted net loss per share	(0.32)	(0.22)	(0.32)	(1.68)

(1) In the fourth quarter of 2004, we recorded an impairment charge of $32.2 million to write down certain long-lived assets.

(2) Includes, $1.3 million, $2.7 million and $2.8 million of restructuring charges in the quarters ended June 30, September 30 and December 31, 2005, respectively.

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