RAPID LINK INC
Form 10-Q
March 17, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2009

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________

COMMISSION FILE NUMBER 0-22636

RAPID LINK, INCORPORATED
(Name of issuer in its charter)
5408 N. 99th Street; Omaha, NE 68134
(Address of principal executive offices) (Zip Code)

(402) 392-7561
Issuer's telephone number

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT: None
SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:
COMMON STOCK, $0.001 PAR VALUE

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 requirement for the past 90 days. Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

As of March 12, 2009, there were 71,862,827 shares of registrant's common stock, par value $0.001 per share, outstanding.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

RAPID LINK, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

	January 31, 2009	October 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 606,948	$ 230,841
Accounts receivable, net of allowance of $178,618	1,025,682	950,089
Prepaid expenses	36,686	44,790
Other current assets	9,615	327,665
Total current assets	1,678,931	1,553,385
Property and equipment, net	2,272,814	2,394,188
Customer lists, net	1,744,483	1,954,414
Goodwill	5,174,012	5,174,012
Deposits and other assets	493,146	484,675
Deferred financing fees, net	586,784	672,144
Total assets	$ 11,950,170	$ 12,232,818
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Revolving line of credit	$ 312,269	$ -
Accounts payable	1,783,353	1,595,714
Accrued interest (including $123,478 and $21,600, respectively, to related parties)	335,668	231,329
Other accrued liabilities	361,166	507,501
Deferred revenue	269,363	313,979
Deposits and other payables	13,319	75,486
Capital lease obligations, current portion	576,414	585,002
Convertible notes, current portion	162,500	162,500
Notes payable, current portion, net of debt discount of $278,392 and $23,470, respectively	335,619	140,447
Total current liabilities	4,149,671	3,611,958
Capital lease obligations, less current portion	698,949	742,784
Due to sellers	595,790	-
Convertible notes, less current portion	2,231,277	2,261,277
Convertible notes payable to related parties, less current portion	3,240,000	3,240,000
Notes payable, less current portion, net of debt discount of $155,987 and $483,873, respectively	5,162,377	5,288,030
Total liabilities	16,078,064	15,144,049

Commitments and contingencies		
Shareholders' deficit:		
Preferred stock, $.001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $.001 par value; 175,000,000 shares authorized; 71,874,849 and 69,847,444 shares issued and 71,862,827 and 69,835,422 shares outstanding at January 31, 2009 and October 31, 2008, respectively	71,875	69,848
Additional paid-in capital	50,423,821	50,386,214
Accumulated deficit	(54,568,720)	(53,312,423)
Treasury stock, at cost; 12,022 shares	(54,870)	(54,870)
Total shareholders' deficit	(4,127,894)	(2,911,231)
Total liabilities and shareholders' deficit	$ 11,950,170	$ 12,232,818

See accompanying notes to unaudited consolidated financial statements

RAPID LINK, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended January 31,	
	2009	2008
Revenues	$ 4,856,630	$ 4,013,479
Costs and expenses:		
Costs of revenues	3,292,884	2,715,771
Sales and marketing	143,667	232,887
General and administrative	1,399,402	817,701
Depreciation and amortization	457,009	218,289
Gain on disposal of property and equipment	(2,072)	-
Gain on legal settlements	(231,658)	-
	5,059,232	3,984,648
Operating (loss) income	(202,602)	28,831
Other income (expense):		
Noncash financing expense	(158,325)	(154,189)
Interest expense	(232,438)	(64,485)
Related party interest expense	(65,988)	(65,269)
Foreign currency exchange gain (loss)	(1,154)	2,324
	(457,905)	(281,619)
Net loss	$ (660,507)	$ (252,788)
Loss per share:		
Basic and diluted weighted average shares outstanding	70,891,430	65,149,522
Basic and diluted loss per share	$ (.01)	$ -

See accompanying notes to unaudited consolidated financial statements

RAPID LINK, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ending January 31, 2009	Three Months Ending January 31, 2008
Cash flows from operating activities:		
Net loss	$ (660,507)	$ (252,788)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Noncash financing expense	158,325	154,189
Depreciation and amortization	457,009	218,289
Bad debt expense	-	(1,027)
Gain on disposal of property and equipment	(2,072)	-
Share-based compensation expense	9,509	8,794
Changes in operating assets and liabilities (net of effect of acquisitions):		
Accounts receivable	(75,593)	159,514
Prepaid expenses and other current assets	235,151	(167)
Deposits and other assets	81,542	12,545
Accounts payable	187,639	(514,855)
Accrued liabilities	(41,996)	(174,050)
Deferred revenue	(44,616)	179,571
Deposits and other payables	(62,168)	(14,541)
Net cash provided by (used in) operating activities	242,223	(224,526)
Cash flows from investing activities:		
Purchases of property and equipment	(23,887)	(10,156)
Proceeds from sale of property and equipment	2,072	-
Net cash used in investing activities	(21,815)	(10,156)
Cash flows from financing activities:		
Proceeds from revolving line of credit	1,649,000	-
Proceeds from sale of common stock	30,125	-
Payments on revolving line of credit	(1,336,731)	-
Payments on capital leases	(153,249)	(3,231)
Payments on notes	(33,446)	-
Net cash provided by (used in) financing activities	155,699	(3,231)
Net increase (decrease) in cash and cash equivalents	376,107	(237,913)
Cash and cash equivalents, beginning of period	230,841	496,306
Cash and cash equivalents, end of period	$ 606,948	$ 258,393

See accompanying notes to unaudited consolidated financial statements

RAPID LINK, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - NATURE OF BUSINESS

Rapid Link, Incorporated, a Delaware corporation, and its subsidiaries (collectively referred to as “Rapid Link” or the “Company”), have served as facilities-based, communication companies providing various forms of voice and data services to customers around the world. Rapid Link provides a multitude of communication services targeted to small and medium sized businesses, as well as individual consumers. These services include the transmission of voice and data traffic over public and private networks. The Company also sells foreign and domestic termination of voice traffic into the wholesale market. The Company’s product focus is to provide a variety of voice and data services over its own facilities using alternative access methods. These services include broadband internet access, wholesale services to carriers, as well as local and long distance calling. Fixed wireless technology allows for swift and cost efficient deployment of high-speed networks. The Company utilizes WiMAX and other carrier-grade equipment operating in microwave and millimeter-wave spectrum bands. As a leading Alternative Access Provider, Rapid Link has added a full portfolio of managed network services to respond to increasing demand from enterprise customers. Rapid Link leverages its extensive hybrid fiber and fixed wireless network assets currently serving eight major metropolitan areas. In a Rapid Link managed network, customers’ locations can be connected to the national point of presence (“POP”) via fiber, fixed wireless, or leased lines. The result is a network architecture comprising best of breed access and high performance routing, which deliver consistent, cost-effective performance within a distributed enterprise environment.

Through organic growth and acquisitions in targeted areas, the Company believes it possesses a strategic advantage over carriers that do not provide their own network access. The Company believes that its strategy of “owning” the customer by providing the service directly, rather than utilizing the networks of others, is important to its success. This strategy insures that the Company can provide its bundled products and communication services without the threat of compromised service quality from underlying carriers, and at significant cost savings when compared with other technologies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial data for the three months ended January 31, 2009 and 2008 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s annual report on Form 10-K for the year ended October 31, 2008. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows for the three months ended January 31, 2009 and 2008 have been made. The results of operations for the three months ended January 31, 2009 are not necessarily indicative of the expected operating results for the full year.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Alternative access revenues

Revenues generated through the sale of voice and data services via fixed wireless and fiber optic transport, are an increasingly significant component of the Company’s revenues, are based on set capacity limits, and generally carry recurring monthly charges for up to three year contracted terms. Revenue from these services is recognized monthly as services are provided. The Company records payments received in advance as deferred revenue until such services are provided.

Long distance revenue

Revenues generated by domestic residential and enterprise long distance service, domestic and international wholesale termination, and international re-origination, which represent the primary sources of the Company’s revenues, are recognized as revenue based on minutes of customer usage. Revenue from these services is recognized monthly as services are provided. The Company records payments received in advance as deferred revenue until such services are provided.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalent are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts.

Accounts Receivable

Trade accounts receivable are due from commercial enterprises and residential users in both domestic and international markets. Trade accounts receivable are stated at the amount the Company expects to collect. The Company regularly monitors credit risk exposures in accounts receivable and maintains a general allowance for doubtful accounts based on historical experience for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for doubtful accounts. Specifically, if the financial condition of the Company's customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. The

Company reviews its credit policies on a regular basis and analyzes the risk of each prospective customer individually in order to minimize risk. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Interest is typically not charged on overdue accounts receivable. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Equipment held under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the remaining lease term or the estimated useful life of the related asset ranging from two to five years. Expenditures for repairs and maintenance are charged to expense as incurred. Major renewals and betterments are capitalized.

Goodwill

The Company reviews goodwill for impairment annually or more frequently if impairment indicators arise. Impairment indicators include (i) a significant decrease in the market value of an asset, (ii) a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, (iii) a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action by a regulator, and (iv) a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue.

The Company performs its annual impairment test of goodwill as of October 31 of each year. The valuation process appraised the Company's enterprise value using a combination of market capitalization and multiples of earnings valuation techniques. The valuation process indicated that the enterprise fair value exceeded the carrying value of the Company's net assets and liabilities. Accordingly, the Company concluded that no impairment of goodwill existed at October 31, 2008 and 2007.

Long-Lived Assets

Long-lived assets, including the Company’s customer lists, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if an impairment is indicated by its carrying value not being recoverable through undiscounted cash flows. The impairment loss is the difference between the carrying amount and the fair value of the asset. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell.

Financial Condition

The Company is subject to various risks in connection with the operation of its business including, among other things, (i) changes in external competitive market factors, (ii) inability to satisfy anticipated working capital or other cash requirements, (iii) changes in the availability of transmission facilities, (iv) changes in the Company's business strategy or an inability to execute its strategy due to unanticipated changes in the market, (v) various competitive factors that may prevent the Company from competing successfully in the marketplace, and (vi) the Company's lack of liquidity and its ability to raise additional capital. The Company has an accumulated deficit of approximately $54 million as of January 31, 2009, as well as a working capital deficit of approximately $2.6 million. For the fiscal year ended October 31, 2008, the Company’s net loss was approximately $1.5 million, on revenues of $17.2 million. For the three months ended January 31, 2009, the Company’s net loss was approximately $660,000.

Funding of the Company's working capital deficit, its current and future anticipated operating losses, and expansion of the Company will require continuing capital investment. The Company's strategy is to fund these cash requirements through debt facilities and additional equity financing.

Although the Company has been able to arrange debt facilities and equity financing to date, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to the Company. Failure to obtain sufficient capital could materially affect the Company's operations in the short term and hinder expansion strategies. The Company continues to explore external financing opportunities. Historically, some of the Company’s funding has been provided by a major shareholder. At January 31, 2009, approximately 25% of the Company’s debt is due to the senior management and a Director of the Company, as well as an entity owned by senior management.

The Company’s operating history makes it difficult to accurately assess its general prospects in the hybrid fiber wireless broadband internet sector of the Diversified Communication Services industry and the effectiveness of its business strategy. As of the date of this report, a majority of the Company’s revenues are not derived from broadband internet services. Instead, the Company generated most of its revenues from retail fixed-line and wholesale communication services. In addition, the Company has limited meaningful historical financial data upon which to forecast its future sales and operating expenses. The Company’s future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, the Company cannot assure that it will successfully implement its business strategy or that its actual future cash flows from operations will be sufficient to satisfy debt obligations and working capital needs.

NOTE 3 – CONTINGENT CONSIDERATION

On March 28, 2008, the Company acquired 100% of the outstanding stock of One Ring Networks, Inc. ("One Ring") for initial consideration of 3,885,900 common shares and 114,100 warrants valued at $319,393. The purchase price also contained contingent consideration, which included Secondary Shares, True Up Shares, and True Up Cash, and is based on performance objectives for One Ring being achieved within certain time periods. The issuance of the True Up Shares and True Up Cash are based on the market price of the Company’s stock. The Company intends to issue shares of its common stock as payment of the True Up Shares and Secondary Shares, and will issue promissory notes to One Ring Shareholders as payment of True Up Cash in the second quarter of fiscal 2009.

At December 31, 2008, The Company calculated the contingent consideration consisting of True Up Shares and True Up Cash to be 1,489,475 and $595,790, respectively, including 445,639 common shares and $178,255, respectively, issued to Matthew Liotta, the Company's Chief Technology Officer. The True Up Shares were valued at the fair market value of the Company's common stock at the end of the True Up period as defined. The fair value of the True Up Cash and the fair value of the True Up Shares were recorded as a reduction in the value of the previously issued common stock in connection with the acquisition. The Company intends to issue promissory notes and shares of its common stock during the second quarter of fiscal 2009 as payment of the True Up Cash and True Up Shares. Additional contingent consideration includes Secondary Shares, which will be calculated and recorded in the second quarter of fiscal 2009 when the contingency is resolved. The fair value of any Secondary Shares will be recorded as an additional cost of the acquisition.

NOTE 4 – UNAUDITED PRO FORMA SUMMARY INFORMATION

The Company acquired One Ring and Ibroadband during the second and third quarters of fiscal 2008, respectively. The following unaudited pro forma summary approximates the consolidated results of operations as if the One Ring and iBroadband acquisitions had occurred as of November 1, 2007, after giving effect to certain adjustments, including amortization of specifically identifiable intangibles and interest expense. The pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the transactions taken place at the beginning of the period presented or of future results of operations.

	Three Months Ended January 31,			
		2009		2008
Revenues	$	4,856,630	$	5,005,064
Net loss	$	(660,507)	$	(841,126)
Basic and diluted net loss per share	$	(.01)	$	(.01)
Weighted-average shares of common stock outstanding (basic and diluted)		70,891,430		70,891,430

NOTE 5 – STOCK-BASED COMPENSATION

Noncash share-based compensation costs recorded in general and administrative expenses for the three months ended January 31, 2009 and 2008 were $9,509 and $8,794, respectively. During the three months ended January 31, 2009, there were no new stock options granted, exercised, or canceled. The Company issues new shares of common stock upon exercise of stock options.

As of January 31, 2009, the total unrecognized compensation cost related to non-vested options was $36,737, and the weighted average period over which it will be recognized is 2.08 years.

NOTE 6 – CAPITAL LEASES, CONVERTIBLE DEBENTURES AND NOTES PAYABLE, INCLUDING RELATED PARTY NOTES

The Company has various debt and capital lease obligations as of January 31, 2009 including amounts due to independent institutions and related parties. Descriptions of these obligations are included below. The following tables summarize outstanding debt and capital leases as of January 31, 2009:

Information as of January 31, 2009

Brief Description of Debt		Balance	Int. Rate	Maturity Date	Discount		Net
Notes payable, current							
Vehicles	$	14,010	7%	Varies	-	$	14,010
Valens Offshore (Valens II)		340,000	10%	3/31/2011	147,211		192,889
Valens U.S. SPV I		260,000	10%	3/31/2011	131,280		128,720
Convertible notes, current							
Global Telecom Solutions		120,000	5%	4/30/2012	-		120,000
Other		42,500	10%	2/28/2008	-		42,500
Capital lease obligations, current		576,414	8%	Varies	-		576,414
Notes payable, less current portion							
Vehicles		35,204	7%	Varies	-		35,204
Valens Offshore (Valens II)		1,460,000	10%	3/31/2011	79,238		1,380,762
Valens U.S. SPV I		1,240,000	10%	3/31/2011	76,749		1,163,251
Laurus Master Fund (Deferred)		2,290,451	10%	3/31/2011	-		2,290,451
Valens U.S. SPV I (Deferred)		292,709	10%	3/31/2011	-		292,709
Convertible notes, less current portion							
GCA-Debenture		630,333	6%	6/30/2011	-		630,333
GCA-Debenture		570,944	6%	6/30/2011	-		570,944
GC-Conote		180,000	-	6/30/2011	-		180,000
Trident-Debenture		600,000	10%	6/30/2011	-		600,000
Global Telecom Solutions		250,000	5%	4/30/2012	-		250,000
Convertible notes payable to related parties, less current portion		3,240,000	8%	6/30/2011	-		3,240,000
Capital lease obligations, less current portion		698,949	8%	Varies	-		698,949

Debt and capital lease obligations as of January 31, 2009 are due as follows:

Within 1 year	1-3 years	3-5 years	Thereafter	Total
$1,352,924	$11,203,322	$94,556	$190,712	$12,841,514

Notes Payable - Vehicles

On March 28, 2008, the Company acquired 100% of the outstanding stock of One Ring Networks, Inc., which included the assumption of two notes for vehicles. The agreements call for monthly payments of $485 and $368, respectively, and interest accrues at 0% and 7.02%, respectively. The principal balance of these two notes at January 31, 2009 was $11,640 and $14,897, respectively, and the notes mature on January 31, 2011, and November 30, 2012, respectively.

On August 15, 2008, the Company purchased a vehicle for $34,538, which included a cash payment of $10,000 a five–year note payable for $24,538, which matures on August 14, 2013. The agreement calls for monthly payments of $440, which includes interest at an annual percentage rate of 2.82% on the outstanding principal balance. The principal balance of this note at January 31, 2009 was $22,677.

Global Telecom Solutions - Convertible Note

On April 30, 2008, the Company entered into a four-year financing agreement with Global Telecom Solutions ("GTS") in the principal amount of $460,000 as repayment of carrier costs payable to GTS in the same amount. The unsecured convertible note called for monthly payments of $10,000 and interest accrues at 5% per annum, and may be converted at any time into common stock of the Company at market price with a floor conversion price of $.10 per common share. The market price will be the closing bid price on Bloomberg the day prior to the receipt by Company from GTS to convert all or a portion of note at any time during the term of the note. The Company may prepay the note by paying 100% of the outstanding principal and accrued interest. The principal balance of this note at January 31, 2009 was $370,000.

Valens II Term A Note

Effective March 31, 2008, the Company modified its debt structure by entering into a Security Agreement with L.V. Administrative Services, Inc. ("L.V.") and certain lenders ("Lenders") including Valens U.S. SPV I ("Valens"), and Valens Offshore SPV II Corp. ("Valens II"). L.V. acts as administrative and collateral agent for the Lenders. Upon the signing of the Security Agreement, Valens II provided the Company with $1,800,000 of gross financing, and the Company issued Valens II a 10% Secured Term A Note ("Valens II Term A") in the principal amount of $1,800,000. As collateral agent for the Lenders, L.V. maintains a continuing security interest in and lien upon all assets of Company. The Company has also executed a Stock Pledge Agreement pledging all of the stock of Telenational and One Ring to L.V. on behalf of the Lenders.

In connection with the sale of the Term A Note, The Company issued Valens II a common stock purchase warrant to purchase 5,625,000 common shares at $0.01 per share. These warrants were valued at $441,903 using the Black-Scholes model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.14%; volatility factor of the expected market price of the Company's common stock of 165%; and a life of the warrants of five years. The relative fair value of the warrants of $354,799 was recorded as a debt discount. This debt discount is being amortized over the term of the Valens Term A note using the interest method. The Company recognized $38,619 of non-cash financing expense associated with these warrants using the interest method during the three months ended January 31, 2009. The unamortized debt discount at January 31, 2009 was $226,349. In addition, the Company incurred legal, professional, and administrative costs associated with the Valens II Security Agreement, which resulted in $375,778 of deferred financing fees, of which $40,902 was expensed using the interest method as noncash financing fees during the three months ended January 31, 2009.

Interest accrues under the Term A Note at 10% per annum and is payable monthly commencing April 1, 2008. Amortizing payments of principal shall commence on October 1, 2009 of $85,000 per month, plus accrued interest and any other fees then due. The Term A Note matures on March 31, 2011. The Company may prepay the Term A Note by paying 100% of the outstanding principal and repaying all amounts owed under the Security Agreement and all ancillary documents.

Valens Term B Note

On July 14, 2008 the Company completed the terms and conditions set forth in the Security Agreement dated as of March 31, 2008, and further amended on July 11, 2008, to obtain additional financing by and among L.V. and certain other lenders ("Lenders"). The completed financing agreement includes Valens U.S. SPV I ("Valens") purchasing a secured term note ("Term B Note"), the Lenders agreeing to lend secured revolving loans under certain conditions including the Company attaining specific financial covenants, and Laurus Master Fund and Valens purchasing secured promissory notes related to the asset purchase of iBroadband Networks, Inc., a Texas corporation, and iBroadband of Texas, Inc., a Delaware corporation in the amounts of approximately $2.3 million and $293 thousand, respectively. As collateral agent for the Lenders, L.V. maintains a continuing security interest in and lien upon all assets of Company.

Effective July 14, 2008, Valens purchased from the Company a 10% secured term note ("Term B Note") in the principal amount of $1.5 million and a warrant to purchase 4,437,870 shares of common stock at $0.01 per share. Interest accrues at 10% per annum and is payable monthly commencing August 1, 2008. Amortizing payments of principal shall commence on October 1, 2009 of $65,000 per month, plus accrued interest and any other fees then due. The Term B Note matures on March 31, 2011. The Company may prepay the Term B Note by paying 100% of the outstanding principal and repaying all amounts owed under the Security Agreement and all ancillary documents.

The sale of the Term B Note and Warrant was dated as of July 11, 2008. The Company received gross proceeds of $1,500,000. Of the gross proceeds, approximately $26,500 was directed to pay legal fees for investors' counsel, $94,500 was directed to Valens for administrative fees, and $420,000 was used as principal payment on the GC-Conote to Global. The remaining $959,000 was retained by the Company.

In connection with the sale of the Term B Note, the Company issued Valens a common stock purchase warrant to purchase 4,437,870 common shares at $0.01 per share. These warrants were valued at $349,478 using the Black-Scholes model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.14%; volatility factor of the expected market price of the Company's common stock of 171%; and a life of the warrants of five years. $283,440 represented cash received relative to the warrants and the remaining amount of $1,216,560 was allocated to the Term B Note resulting in a debt discount of $283,440. The relative fair value of the warrants of $283,440 was recorded as a debt discount. This debt discount is being amortized over the term of the Valens Term B note using the interest method. The Company recognized $34,346 of expense associated with these warrants for the fiscal quarter ended January 31, 2009. The unamortized debt discount at January 31, 2009 was $208,029. In addition, the Company incurred legal, professional, and administrative costs associated with the Valens Security Agreement, which resulted in $120,967 of deferred financing fees, of which $14,658 was expensed as noncash financing fees using the interest method for the fiscal quarter ended January 31, 2009. The unamortized deferred financing fees at January 31, 2009 were $88,783.

On October 31, 2008, the Company issued warrants to purchase 8,750,000 Company shares of its common stock upon exercise at $0.01 per share to Valens in consideration for amendments to the Security Agreement dated March 31, 2008. These warrants were valued at $288,066 using the Black-Scholes model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 3.75%; volatility factor of the expected market price of the Company's common stock of 125%; and a life of the warrants of five years. The relative fair value of the warrants of $288,066 was recorded as an asset and will be amortized monthly as non-cash financing fees using the straight-line method beginning fiscal year 2009 and ending March 31, 2011, which is the maturity date of the Term A Note. For the three months ended January 31, 2009, the Company recognized $29,800 as non-cash financing fees.

Revolving Line of Credit

In connection with the Security Agreement dated as of March 31, 2008, and further amended on July 11, 2008, and further amended on October 31, 2008, to obtain additional financing by and among L.V. and certain other lenders ("Lenders"). The Lenders agreed to lend a 10% secured revolving line of credit which expires on March 31, 2011 to the Company under certain conditions as specified in the Security Agreement and subsequent amendments. As collateral agent for the Lenders, L.V. maintains a continuing security interest in and lien upon all assets of the Company.

The Company may draw up to a maximum amount of $600,000 on the secured revolving line of credit provided the eligible borrowing base is greater than or equal to the balance due on the revolving line of credit. Interest accrues daily on the outstanding principal balance of the revolving line of credit and is payable monthly. At January 31, 2009, accrued interest on the revolving line of credit was $1,736. The balance of the secured revolving loan at January 31, 2009 was $312,269 and the available amount upon which the Company could access was $287,731.

Deferred Purchase Price Notes

Concurrent with the Valens Term B financing arrangement, the Company purchased the assets of iBroadband and assumed secured promissory notes in the aggregate amount of approximately $2.58 million ("Deferred Purchase Price Notes"), including approximately a $293,000 loan from Valens and a $2.3 million loan from Laurus Master Fund. As collateral agent for the Lenders, L.V. maintains a continuing security interest in and lien upon all assets of Company. Interest accrues at 10% per annum and is payable monthly commencing the month after the Notes were assumed. The outstanding principal of both notes is due on their maturity date, March 31, 2011. The Company may prepay these Deferred Purchase Price Notes by paying 100% of the outstanding principal and repaying all amounts owed under the Security Agreement and all ancillary documents.

GC-Conote

On March 31, 2008, Global Capital Funding Group, LP ("Global"), which is the holder of the GC-Conote, modified its debt structure with the Company by entering into a subordination agreement with L.V., acting as agent for itself and the Lenders. The agreement calls for the GC-Conote to become subordinate to the Valens II Term A note. In connection with the subordination agreement, Global subordinated all claims and security interests it may have against any of the assets of the Company, to the security interests granted by the Company to L.V., acting as collateral agent for the Lenders. In addition, Global extended the maturity date of two debentures to June 30, 2011 (see below "GCA Debentures"). In consideration, the Company made a principal payment of $600,000 on the GC-Conote and agreed to pay Global the principal sum of $420,000 upon closing of the Term B Note; with the remainder of the outstanding principal amount of $180,000, which shall not accrue interest after March 31, 2008. The GC-Conote is convertible at any time into common shares of the Company at the conversion price equal to 80% of the average of the three lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty Trading Days immediately preceding the related Notice of Conversion. However, the conversion price of the Company's stock is not to be lower than $0.10 and not to exceed $0.25.

As of July 11, 2008, and upon closing of the Valens II Term B note, the Company paid Global the principal sum of $420,000 on the GC-Conote. In consideration for the principal payment of $420,000, Global forgave accrued interest in the amount of $163,750, and is restricted from the selling of any shares of the Company's common stock for a period of two years from the effective date of the amendment to the GC-Conote. The Company recorded $163,750 as "Gain on Forgiveness of Liabilities" in its Consolidated Statement of Operations for fiscal 2009. In addition, Global agreed that there are no additional cash monies owed to Global by the Company other than the remaining principal balance of $180,000 of the GC-Conote. The principal balance of the GC-Conote was $180,000 at January 31, 2009.

GCA Debentures

As of January 31, 2009, GCA Strategic Investment Fund Limited (“GCA”) held two Company convertible debentures having principal amounts of $630,333 and 570,944, respectively. The conversion terms of the debentures allow the Company to elect to pay in GCA cash in lieu of conversion. Additionally, GCA is limited to only converting up to 4.99% ownership at a time and there is a floor of $.10 per share on the conversion which limits the number of common shares for which the notes are convertible into.

On March 31, 2008, GCA modified its debt structure with the Company by entering into a subordination agreement with L.V., which acted as agent for itself and for the Lenders. The agreement called for the GCA debentures to become subordinate to the Valens II Term A note. In connection with the subordination agreement, GCA subordinated all claims and security interests it may have against any of the assets of the Company, including VoIP technology and certain equipment, to the security interests granted by the Company to L.V., acting as collateral agent for the Lenders. The Company may prepay the GCA debentures by paying 100% of the outstanding principal and accrued interest. In addition, GCA extended the maturity date of the two debentures to June 30, 2011, and is restricted from the selling of any shares of the Company’s common stock for a period of two years from the effective date of this amendment.

Trident Debenture

As of January 31, 2009, “Trident Growth Fund, L.P. (“Trident”) held a Company convertible debenture having a principal balance of $600,000. The debenture is convertible into common stock of the Company at $.14 per common share.

During the second quarter of fiscal 2007, Trident extended the $600,000 debenture with an original due date of March 8, 2007 to March 8, 2008. In connection with the extension, the Company issued Trident 1,200,000 additional warrants, resulting in deferred financing fees of $83,708, of which $29,401 and $54,307 was expensed as noncash interest expense during fiscal years 2008 and 2007, respectively. The fair value of the warrants was determined on the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.5%; volatility factor of the expected market price of the Company's common stock of 287%; and an expected life of the warrants of four years. Also in connection with extension, the Company issued Trident additional warrants to purchase 150,000 shares of the Company’s stock at $.10 per share during fiscal 2008. The fair value of the warrants of $8,966 was determined on the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.5%; dividend yield of 0%; volatility factor of the expected market price of the Company's common stock of 295%, and a life of the warrants of four years. The Company recognized $8,966 of expense associated with the warrants during fiscal year 2008.

On March 31, 2008, Trident modified its debt structure with the Company by entering into a subordination agreement with L.V., which acted as agent for itself and for the Lenders. The agreement called for the Trident debenture to become subordinate to the Valens II Term A note. In connection with the subordination agreement, Trident subordinated all claims and security interests it may have against any of the assets of the Company, to the security interests granted by the Company to L.V., acting as collateral agent for the Lenders. In addition, Trident agreed to extend the maturity date of the principal amount of the $600,000 debenture to June 30, 2011. In consideration for the subordination and maturity date extension, the Company issued Trident a common stock purchase warrant to purchase 60,000 common shares of the Company’s stock at $0.07 per share. The fair value of the warrants totaled $4,503 and was determined on the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.14%; volatility factor of the expected market price of the Company's common stock of 165%; and a life of the warrants of five years. The Company recognized $4,503 of expense associated with the warrants during the fiscal year ended October 31,

2008. The Company may prepay the Trident debenture by paying 100% of the outstanding principal and accrued interest.

Debenture

During the second quarter of fiscal 2007, a $400,000 debenture with an original due date of March 8, 2007 was extended to March 8, 2008. In connection with the extension, the Company issued 800,000 warrants, resulting in deferred financing fees of $55,805, of which $19,534 and $36,271 was expensed as noncash interest expense during fiscal years 2008 and 2007, respectively. The fair value of the warrants was determined on the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.5%; volatility factor of the expected market price of the Company's common stock of 287%; and a life of the warrants of four years. On October 31, 2007, debentures totaling $350,000 were converted into 2,500,000 shares of common stock, and $50,000 of debentures was transferred by the debenture holders to John Jenkins, the Company’s Chairman. As of January 31, 2009, the principal balance of the debenture was $0.

Related Party Notes

On May 5, 2006, the Company acquired 100% of the outstanding stock of Telenational Communications, Inc. (“Telenational”) for $4,809,750, including acquisition costs of $50,000. The purchase consideration included a contingent cash payment in the amount of $500,000 and 19,175,000 shares of the Company’s common stock valued at $3,259,750. On October 31, 2007, the contingent purchase price consideration was converted to a convertible demand note payable to Apex Acquisitions, Inc. ("Apex”) in the amount of $500,000. The Company Chief Executive Officer is the majority stockholder of Apex.

On October 31, 2007, the Company entered into an agreement, which modified its debt structure with Apex. The agreement called for the outstanding note originally due in November of 2007 payable to Apex to be extended to November 1, 2009. The note was also modified to allow for the balance to be convertible to common stock at market pricing. The outstanding balance of the Apex Note, including $120,000 of accrued interest that was rolled into the note, was $1,120,000 at January 31, 2009 and October 31, 2008, respectively.

On October 31, 2007, $50,000 of debentures including $65,889 of accrued interest was transferred by the debenture holders to John Jenkins, the Company’s Chairman. These amounts, along with a $300,000 related party demand note including accrued interest of $84,111, were rolled into a $500,000 convertible demand note payable to Mr. Jenkins.

On October 31, 2007, the Company entered into an agreement, which modified its debt structure with the Company's Chairman, John Jenkins. The agreement called for the outstanding note due in February of 2008 payable to John Jenkins to be extended to November 1, 2009. The outstanding balance of these notes payable to Mr. Jenkins, including $241,000 of accrued interest that was rolled into the note, was $1,120,000 at January 31, 2009 and October 31, 2008, respectively.

On March 31, 2008, Apex entered into a subordination agreement with L.V., which acted as agent for itself and for the Lenders. The agreement called for the Apex demand note to become subordinate to the Valens II Term A note. In addition, Apex agreed to amend the note by stipulating a maturity date of June 30, 2011. The outstanding balance of the Apex note was $500,000 at January 31, 2009 and October 31, 2008, respectively.

On March 31, 2008, Apex entered into a subordination agreement with L.V., which acted as agent for itself and for the Lenders. The agreement called for the Apex demand note to become subordinate to the Valens II Term A note. In addition, Apex agreed to amend the note by stipulating a maturity date of June 30, 2011. The outstanding balance of the Apex notes was $1,120,000 at January 31, 2009 and October 31, 2008, respectively.

On March 31, 2008, Mr. Jenkins entered into a subordination agreement with L.V., which acted as agent for itself and for the Lenders. The agreement called for Mr. Jenkins' demand note to become subordinate to the Valens II Term A note. In addition, Mr. Jenkins agreed to amend the note by stipulating a maturity date of June 30, 2011. The outstanding balance of this note was $500,000 at January 31, 2009 and October 31, 2008, respectively.

On March 31, 2008, Mr. Jenkins entered into a subordination agreement with L.V., which acted as agent for itself and for the Lenders. The agreement called for Mr. Jenkins' note to become subordinate to the Valens II Term A note. In addition, Mr. Jenkins agreed to amend the note by stipulating a maturity date of June 30, 2011. The outstanding balance of this note was $1,120,000 at January 31, 2009 and October 31, 2008, respectively.

Mr. Jenkins and APEX may at any time elect to convert their related party convertible notes into common stock of the Company using a conversion price equal to the bid price at the day of conversion as shown on Bloomberg. In connection with the subordination agreements, Mr. Jenkins and APEX subordinated all claims and security interests it may have against any of the assets of the Company, to the security interests granted by the Company to L.V., acting as collateral agent for the Lenders. The Company may prepay the related party notes to Mr. Jenkins and to APEX by paying 100% of the outstanding principal and accrued interest.

Due to Sellers

In connection with the acquisition of One Ring Networks on March 28, 2008, the Company calculated the contingent payment of True Up Cash to be $595,790, including $417,535 to formers shareholders of One Ring and $178,255 to Matthew Liotta, the Company's Chief Technology Officer, respectively. The Company intends to issue promissory notes in the second quarter of fiscal 2009 as payment of the True Up Cash.

Capital Lease Obligations

On November 1, 2007, the Company entered into a five-year lease agreement with Graybar Financial Services (“Graybar”) and acquired equipment valued at approximately $52,968. The agreement calls for monthly payments of approximately $1,058. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On March 31, 2008, the Company acquired 100% of the outstanding stock of One Ring Networks, Inc. ("One Ring"), which included all of One Ring’s capital lease agreements with Farnam Street Financial, Inc. (“Farnam”) and NorCal Capital, Inc. (“NorCal”).

On April 23, 2008, the Company entered into a four-year lease agreement with Graybar Financial Services (“Graybar 2”) and acquired equipment valued at approximately $53,514. The agreement calls for monthly payments of approximately $1,289. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On May 1, 2008, the Company entered into a two-year lease agreement with Farnam (“Farnam 6”) and acquired equipment valued at approximately $107,439. The agreement calls for monthly payments of approximately $4,827. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On May 7, 2008, the Company entered into a three-year lease agreement with The Huntington National Bank (“Huntington”) and acquired equipment valued at approximately $22,888. The agreement calls for monthly payments of approximately $708. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On June 1, 2008, the Company entered into a two-year lease agreement with Farnam (“Farnam 7”) and acquired equipment valued at approximately $129,993. The agreement calls for monthly payments of approximately $5,840. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On June 1, 2008, the Company entered into a two-year lease agreement with Farnam (“Farnam 8”) and acquired equipment valued at approximately $169,528. The agreement calls for monthly payments of approximately $7,089. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On July 16, 2008, the Company entered into a three-year lease agreement with Leaf Financial Corporation (“Leaf”) and acquired equipment valued at approximately $71,082. The agreement calls for monthly payments of approximately $2,198. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On July 27, 2008, the Company entered into a ten-year lease agreement with AGL Networks, Inc. (“AGL-1”) and acquired equipment valued at approximately $300,838. The agreement calls for monthly payments of approximately $3,650. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On September 1, 2008, the Company entered into a three-year lease agreement with AEL Financial Services, LLC (“AEL 1”) and acquired equipment valued at approximately $32,805. The agreement calls for monthly payments of approximately $1,017. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On September 1, 2008, the Company entered into a three-year lease agreement with AEL Financial Services, LLC ("AEL 2") and acquired equipment valued at approximately $59,958. The agreement calls for monthly payments of approximately $1,831. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On September 17, 2008, the Company entered into a three-year lease agreement with General Electric Capital Corporation ("GE-1") and acquired equipment valued at approximately $71,715. The agreement calls for monthly payments of approximately $2,247. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On October 1, 2008, the Company entered into a two-year lease agreement with Farnam ("Farnam 9") and acquired equipment valued at approximately $269,699. The agreement calls for monthly payments of approximately $11,404. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On November 1, 2008, the Company amended its original lease agreement with AGL Networks, Inc. ("AGL-1") by acquiring additional equipment valued at approximately $60,853 ("AGL-2"). The amendment calls for an additional $750 monthly lease payment. The Company is entitled to purchase the equipment for $1 at the end of the lease term.

On December 1, 2008, the Company entered into a three-year lease agreement with General Electric Capital Corporation ("GE-2") and acquired equipment valued at approximately $41,977. The agreement calls for monthly payments of approximately $1,304. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

The Company accounts for these leases in accordance with SFAS No. 13 "Accounting for Leases". The following table summarizes the Company's outstanding capital lease obligations as of January 31, 2009:

Information as of January 31, 2009					
Brief Description of Capital Lease	Equipment Value	Lease Term Ends	Monthly Payment	Capital Lease Obligations Short-term	Long-term
Graybar-1	$ 52,868	11/01/2012	$ 1,058	$ 9,833	$ 31,454
Graybar-2	53,514	04/23/2012	1,289	12,637	29,808
Farnam-3	56,216	08/01/2009	3,691	21,784	-
Farnam-4	83,391	10/01/2009	4,899	38,296	-
Farnam-5	90,367	12/01/2009	4,809	46,684	-
Farnam-6	107,439	04/30/2010	4,827	54,757	14,385
Farnam-7	129,992	05/31/2010	5,840	65,813	23,130
Farnam-8	169,528	05/31/2010	7,089	79,886	28,076
Farnam-9	269,700	10/01/2010	11,404	125,140	89,145
Huntington	22,888	05/07/2011	708	7,464	9,495
Leaf	71,082	07/16/2011	2,198	22,873	33,478
AGL-1	300,838	07/27/2018	3,650	21,954	264,696
AGL-2	60,854	07/27/2018	750	4,436	55,363
AEL-1	32,805	09/01/2011	1,017	10,368	18,204
AEL-2	58,958	09/01/2011	1,831	18,672	32,785
GE-1	71,715	09/17/2011	2,247	22,776	42,150
GE-2	41,977	11/01/2011	1,304	13,039	26,780
				$ 576,414	$ 698,949

NOTE 7 – COMMON STOCK AND WARRANTS

During fiscal 2008, the Company issued 3,885,900 shares of its common stock in connection with the acquisition of 100% of the outstanding stock of One Ring Networks, Inc., valued at $310,872 at the date of issuance.

During fiscal 2008, the Company sold 300,000 shares of its common stock for $45,000 to Matthew Liotta, the Company's Chief Technology Officer.

During fiscal 2008, the Company sold 500,000 shares of its common stock for $75,000 to an unrelated party.

During fiscal 2009, the Company issued 1,489,475 shares of its commons stock in connection with the contingent payment of True Up Shares related to the acquisition of One Ring Networks, Inc.

During the first quarter of fiscal 2009, the Company sold 125,000 shares of its common stock for $7,000 to an unrelated party.

During the first quarter of fiscal 2009, the Company sold 412,930 shares of its common stock for $23,124 to Matthew Liotta, the Company's Chief Technology Officer.

NOTE 8 - BUSINESS AND CREDIT CONCENTRATIONS

In the normal course of business, the Company extends unsecured credit to virtually all of its customers. Management has provided an allowance for doubtful accounts, which reflects its estimate of amounts, which may become uncollectible. In the event of complete non-performance by the Company's customers, the maximum exposure to the Company is the outstanding accounts receivable balance at the date of non-performance.

During the first quarter of fiscal 2009, two customers accounted for revenues of $988,593 and $868,166, or 20% and 18%, respectively, of the Company's total revenues of $4,856,630. During the same period in fiscal 2009, one of the Company's suppliers accounted for approximately $1,182,282, or 36% of the Company's total costs of revenues of $3,292,884. At January 31, 2009 and October 31, 2008, three customers accounted for 18% and 15%, respectively, of the Company's trade accounts receivable. During the first quarter of fiscal 2008, one customer in the Netherlands accounted for revenues of approximately $1,225,984, or 31% of the Company's total revenues of $4,009,284. During the same period in fiscal 2008, two of the Company's suppliers accounted for approximately 16% and 25%, respectively, of the Company's total costs of revenues.

Due to the highly competitive nature of the telecommunications business, the Company believes that the loss of any carrier would not have a long-term material impact on its business.

NOTE 9 - GAIN ON LEGAL SETTLEMENTS

During the first quarter of fiscal 2009, the Company executed a settlement agreement over a past business dispute and received $231,658, net of attorney fees. The net amount received was recorded in the first quarter of fiscal 2009 as a "Gain on legal settlements".

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company, from time to time, may be subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks and other intellectual property of third parties by the Company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

Coastline Capital. The Company filed a lawsuit against Coastline Capital on May 5, 2008 for Declaratory Relief from interference in the Valens and Laurus debenture transactions and Coastline Capital subsequently sued the Company on

June 23, 2008 for broker's fees on the same transaction. The Company does not believe any fees are due on the transaction pursuant to the non-exclusiveness of the contract and other contractual provisions. As a result, the Company will pursue this lawsuit and defense adamantly, and believes that no fees will be due Coastline Capital.

ITEM 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Throughout this Quarterly Report on Form 10-Q, the terms "we," "Rapid Link," and the "Company" refer to Rapid Link, Incorporated, a Delaware corporation, and its subsidiaries.

This Quarterly Report on Form 10-Q contains "forward-looking statements", which are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by the use of such terms as "expects," "will," "anticipates," "estimates," "believes," "plans" and words of similar meaning. These forward-looking statements relate to business plans, programs, trends, results of future operations, satisfaction of future cash requirements, funding of future growth, acquisition plans, and other matters. In light of the risks and uncertainties inherent in all such projected matters, the inclusion of forward-looking statements in this report should not be regarded as a representation by us or any other person that our objectives or plans will be achieved or that our operating expectations will be realized. Revenues and results of operations are difficult to forecast and could differ materially from those projected in forward-looking statements contained herein, including without limitation statements regarding our belief of the sufficiency of capital resources and our ability to compete in the telecommunications industry. Actual results could differ from those projected in any forward-looking statements for, among others, the following reasons: (a) increased competition from existing and new competitors using fixed wireless broadband technology to deliver internet and telecommunications services, (b) the relatively low barriers to entry for start-up companies using fixed wireless broadband technology to provide internet and telecommunications services, (c) the price-sensitive nature of consumer demand, (d) the relative lack of customer loyalty to any particular provider of voice and data services, (e) our dependence upon favorable pricing from our suppliers to compete in the diversified communication services industry, (f) increased consolidation in the telecommunications industry, which may result in larger competitors being able to compete more effectively, (g) failure to attract or retain key employees, (h) continuing changes in governmental regulations affecting the telecommunications industry and the Internet and (i) changing consumer demand, technological developments and industry standards that characterize the industry. You are also urged to carefully review and consider the various disclosures we have made which describe certain factors that affect our business throughout this Report. For a discussion of these factors and others, please see "Risk Factors" below in this section of this report. Readers are cautioned not to place undue reliance on the forward-looking statements made in this report or in any document or statement referring to this report. All forward-looking statements attributable to the Company are expressly qualified in their entirety by such language, and we are not obligated, and do not intend, to update any forward-looking statements at any time unless an update is required by applicable securities laws.

General

Rapid Link, Incorporated, a Delaware corporation, and its subsidiaries (collectively referred to as "Rapid Link" or the "Company"), have served as facilities-based, communication companies providing various forms of voice and data services to customers around the world. Rapid Link provides a multitude of communication services targeted to small and medium sized businesses, as well as individual consumers. These services include the transmission of voice and data traffic over public and private networks. The Company also sells foreign and domestic termination of voice traffic into the wholesale market.

Corporate History and Information

The Company was incorporated on July 10, 1986 under the Company Act of the Province of British Columbia, Canada. On August 7, 1992, we renounced our original province of incorporation and elected to continue our domicile under the laws of the State of Wyoming, and on November 30, 1994, our name was changed to "Canmax Inc." On February 1, 1999, we reincorporated under the laws of the State of Delaware under the name "ARDIS Telecom & Technologies, Inc." On November 2, 1999, we acquired substantially all of the business and assets of Dial Thru International Corporation, a California corporation (the "DTI Acquisition"), and, on January 19, 2000, we changed our name from ARDIS Telecom & Technologies, Inc. to Dial Thru International Corporation. On November 1, 2005, we changed our name to "Rapid Link, Incorporated" as we believe this name will receive better market recognition and acceptance than its previous name, especially as the Company continues to roll out wireless broadband internet related services.

Our principal executive offices are located at 5408 N. 99th Street, Omaha, Nebraska, 68134; our telephone number is 402-392-7561; our website address is www.rapidlink.com; and our common stock currently trades on the OTC Bulletin Board under the symbol RPID.

Business Strategy

Communication Services

The Company's product focus is to provide a variety of voice and data services over its own facilities using alternative access methods. These services include broadband internet access, wholesale services to carriers, as well as local and long distance calling. Fixed wireless technology allows for swift and cost efficient deployment of high-speed networks. The Company utilizes WiMAX and other carrier-grade equipment operating in microwave and millimeter-wave spectrum bands. As a leading Alternative Access Provider, Rapid Link has added a full portfolio of managed network services to respond to increasing demand from enterprise customers. Rapid Link leverages its extensive hybrid fiber and fixed wireless network assets currently serving eight major metropolitan areas. In a Rapid Link managed network, customers' locations can be connected to the national point of presence ("POP") via fiber, fixed wireless, or leased lines. The result is a network architecture comprising best of breed access and high performance routing, which deliver consistent, cost-effective performance within a distributed enterprise environment.

Through organic growth and acquisitions in targeted areas, the Company believes it possesses a strategic advantage over carriers that do not provide their own network access. The Company believes that its strategy of "owning" the customer by providing the service directly, rather than utilizing the networks of others, is important to its success. This strategy insures that the Company can provide its bundled products and communication services without the threat of compromised service quality from underlying carriers, and at significant cost savings when compared with other technologies.

Development of Wireless Broadband Internet

The tremendous growth of internet utilization worldwide has led to dramatic changes in how individuals and business consumers are able to access the internet. Regional incumbents are generally offering broadband services over their legacy cable or telephone networks in most metropolitan areas of the United States. Often, wireless internet service providers are able to provide services to customers in areas where the incumbent providers cannot.

Recent advances in wireless Ethernet equipment now make it possible to build carrier-grade networks with significantly less capital investment than required in the past. As recently as three years ago, a wireless-based service which provided broadband speeds of 100Mbps or more to an end-user, would have been prohibitively expensive. Today, even faster speeds are available to business customers at commercially reasonable rates. With the increased bandwidth now available to our customers, we are able to tailor our service offerings to suit the end-users' needs. Synchronous connections (those with matching upload and download speeds) are more important now than ever, and new wireless technologies make this possible. Integrated voice services utilizing voice over internet protocol (VoIP) are a perfect example of the flexibility and performance synchronous connections allow.

Non-traditional broadband service offerings

The legacy services provided by telecommunications incumbents have very specific limitations with regard to broadband speeds, and are relatively expensive. Cable incumbents are generally not offering synchronous broadband speeds at all, thus limiting the scope of their products and services. Wireless broadband technology enables the Company to provide services outside the limits of traditional telecommunications and cable based offerings. Additionally, wireless broadband services can be easily and cost effectively upgraded to match the consumers changing needs.

Products and Services

Our goal is to provide the best possible communication experience to both business and residential users at affordable prices, allowing them to communicate and transfer information seamlessly and effortlessly to and from anywhere in the world.

Rapid Link Internet and Voice Service

Rapid Link provides high speed internet and integrated voice services via its hybrid fiber wireless broadband network. Currently we offer this service in following major metropolitan markets: Atlanta GA, Dallas TX, Los Angeles CA, Omaha NE, St. Louis MO, and Washington DC. We have plans to enter additional markets during our fiscal year 2009.

Rapid Link also offers fixed wireless broadband internet access via our network in Amador County, California. This service has been available since October 31, 2008, and primarily serves residential and small businesses.

Legacy Products

Legacy services, while still contributing a significant portion of our revenues, will continue to decrease as a percentage of our total revenues as we continue to develop and market new services. We received approximately 91% of our 2008 revenue from these legacy services.

Wholesale Voice Termination

We offer call completion on a wholesale basis to domestic and international telecommunications companies. This service enables our carrier customers to benefit from our VoIP and Time Division Multiplex (TDM) voice network expertise without having to establish dozens of new relationships with smaller providers. Our extensive experience and existing relationships with voice service providers, allow us to offer reliable service to select destinations around the world at very competitive prices.

International Re-origination Services

Our re-origination service, allows a caller outside of the United States to place a long distance telephone call that originates from our US-based switch, calls the customer's location, and then connects the call utilizing our network to anywhere in the world. By completing the calls in this manner, we are able to provide very competitive rates to the customer. Generally, this service is provided to customers that establish deposits or prepayments with us.

International Calling Cards

Our “Global Roaming” service provides customers a single account number to initiate direct calls from locations throughout the world using specific toll-free access numbers. This service enables customers to receive the benefits associated with our telecommunications network throughout the world.

1+ Long Distance

We also offer traditional 1+ long distance service to business and residential users throughout the U.S. We currently focus on small to medium-sized businesses (“SME’s”) through the agent channel, as well as our niche markets, which generally have a large amount of international calling. By leveraging our long-standing international carrier relationships, we can provide low rates and excellent service when calling to countries that are not competitively priced by the larger carriers.

Critical Accounting Policies

This disclosure is based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of its consolidated financial statements. Actual results could differ from those estimates. The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

Alternative access revenues

Revenues generated through the sale of voice and data services via fixed wireless and fiber optic transport, are an increasingly significant component of the Company’s revenues. Revenue from these services is based on set capacity limits, and generally carries recurring monthly charges for up to five year contracted terms, although the majority of contracts are three years. The Company recognizes revenue monthly as services are provided and records payments received in advance as deferred revenue.

Long distance revenue

Revenues generated by domestic residential and enterprise long distance service, domestic and international wholesale termination, and international re-origination, which represent the primary sources of the Company’s revenues, are recognized as revenue based on minutes of customer usage. Revenue from these services is recognized monthly as services are provided. The Company records payments received in advance as deferred revenue until such services are provided.

Allowance for Uncollectable Accounts Receivable

Our receivables are due from commercial enterprises and residential users in both domestic and international markets. Trade accounts receivable are stated at the amount the Company expects to collect. We regularly monitor credit risk exposures in our accounts receivable and maintain a general allowance for doubtful accounts based on historical experience. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of the Company's future provision for doubtful accounts. Specifically, if the financial condition of the Company's customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. We review our credit policies on a regular basis and analyze the risk of each prospective customer individually in order to minimize our risk. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Interest is typically not charged on overdue accounts receivable. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Purchase Price Allocation and Impairment Testing

We account for our acquisitions using the purchase method of accounting. This method requires that the acquisition cost be allocated to the assets and liabilities we acquired based on their fair values. We make estimates and judgments in determining the fair value of the acquired assets and liabilities. We base our determination on independent appraisal reports as well as our internal judgments based on the existing facts and circumstances. We record goodwill when the consideration paid for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. If we were to use different judgments or assumptions, the amounts assigned to the individual assets or liabilities could be materially different.

Long-lived assets, including the Company’s customer lists, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. We assess our goodwill for impairment annually or more frequently if impairment indicators arise. In order to properly complete these assessments, we rely on a number of factors, including operating results, business plans, and anticipated future cash flows. Actual results that vary from these factors could have an impact on the amount of impairment, if any, which actually occurs.

Stock-Based Compensation

We adopted SFAS No. 123R “Share-Based Payment” (“SFAS 123R”) as of November 1, 2006. All of our existing share-based compensation awards have been determined to be equity awards. Under the modified prospective transition method, we are required to recognize noncash compensation costs for the portion of share-based awards that are outstanding as of November 1, 2006 for which the requisite service has not been rendered (i.e. nonvested awards) as the requisite service is rendered on or after that date. The compensation cost is based on the grant date fair value of those awards, with grant date fair value currently being estimated using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS 123R. We are recognizing compensation cost relating to the nonvested portion of those awards in the consolidated financial statements beginning with the date on which SFAS 123R is adopted, through the end of the requisite service period. SFAS 123R requires that forfeitures be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, established a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is generally effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to significantly affect its consolidated financial condition or consolidated results of operations.

In December 2007, the FASB issued SFAS No. 141(revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, IPR&D and restructuring costs. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and, as such, we will adopt this standard in fiscal 2010. The provisions of SFAS 141R will impact the Company if it is a party to a business combination after the pronouncement is adopted.

Results of Operations

The following table set forth certain financial data and the percentage of total revenues of the Company for the periods indicated:

	Three Months Ended January 31, 2009		Three Months Ended January 31, 2008	
	Amount	% of Rev	Amount	% of Rev
Revenues	$ 4,856,630	100.0%	$ 4,013,479	100.0%
Costs and expenses:				
Costs of revenues	3,292,884	67.8	2,715,771	67.7
Sales and marketing	143,667	3.0	232,887	5.8
General and administrative	1,399,402	28.8	817,701	20.4
Depreciation and amortization	457,009	9.4	218,289	5.4
Gain on disposal of property and equip.	(2,072)	-	-	-
Gain on legal settlement	(231,658)	(4.8)	-	-
Total costs and expenses	5,059,232	104.2	3,984,648	99.0
Operating income (loss)	(202,602)	(4.8)	28,831	.7
Other income (expense):				
Noncash financing expense	(158,325)	(3.2)	(154,189)	(3.8)
Interest expense	(232,438)	(4.8)	(64,485)	(1.6)
Related party interest expense	(65,988)	(1.4)	(65,269)	(1.6)
Foreign currency exchange (loss) gain	(1,154)	-	2,324	.1
Total other income (expense)	(457,905)	(9.4)	(281,619)	(7.0)
Net loss	$ (660,507)	(13.6%)	$ (252,788)	(6.3%)

Operating Revenues

Revenues for the first quarter of fiscal 2009 increased $843 thousand, or 21%, as compared to the same period of fiscal year 2008. This increase is primarily attributable to the inclusion of One Ring revenues, which was acquired in March 2008 and due to the inclusion of iBroadband revenues, which was acquired in July 2008.

Costs of Revenues

Costs of revenues for the first quarter of fiscal 2009 increased $162 thousand, or 21%, as compared to the same period of fiscal year 2009. The increase in costs of revenues is directly proportional to the increase in revenues over the same period of fiscal year 2008, both of which are primarily associated with the One Ring and iBroadband acquisitions.

The decrease in costs of revenues is primarily attributable to decreased revenues, newly negotiated contracts with carriers, and lower cost of sales, on a percentage basis, resulting from revenues generated from our hybrid fiber wireless broadband network, all of which resulted in a higher gross profit percentage, and lower cost of revenues. In addition, a majority of our costs of revenues are variable, based on per minute transportation costs, costs of revenues as a percentage of revenues will fluctuate, from quarter to quarter and year to year, depending on the traffic mix between our wholesale and retail products and total revenue for each year.

Sales and Marketing Expenses

We sell and market our services through our in-house sales staff, independently contracted sales agents, and third-party resellers. Our sales and marketing costs decreased from 6% of revenues for the first quarter of fiscal 2008 to 3% of revenues during the same period in fiscal 2009. The decrease of $89 thousand is primarily attributable to higher marketing costs and agent commissions incurred during the first quarter of fiscal 2008 as compared to fiscal 2009. In fiscal 2009, the revenue base used to calculate agent commissions decreased due to our increased focus on high-speed internet products, which yield lower agent commissions on a percentage basis. We will continue to focus our sales and marketing efforts on web portal and magazine advertising, the establishment of distribution networks to facilitate the introduction and growth of new products and services, and agent related expenses to generate additional revenues.

General and Administrative Expenses

Our general and administrative expenses increased $582 thousand million, or 71%, for the first quarter of fiscal year 2009 as compared to fiscal 2008. This increase is primarily attributable to the acquisitions of One Ring during the second quarter of fiscal 2008, and the acquisition of iBroadband in the third quarter of fiscal 2008. General and administrative expenses associated with these entities were not incurred in the first quarter of fiscal year 2008.

We review our general and administrative expenses regularly and continue to manage the costs accordingly to support our current and anticipated future business, particularly eliminating redundancies that have resulted from the above mentioned acquisitions. We have been proactive in managing our general & administrative expenses and controlling costs; however, it may be difficult to achieve significant reductions in future periods due to the relatively fixed nature of our general and administrative expenses.

Gain on Legal Settlement

During the first quarter of fiscal 2009, the Company executed a settlement agreement over a past business dispute and received $231,658, net of attorney fees. The net amount received was recorded in the first quarter of fiscal 2009 as a "Gain on legal settlement".

Noncash Financing Expense, Related Party Non-Cash Financing Expense, Interest Expense and Related Party Interest Expense

Noncash financing expense, interest expense, and related party interest expense increased $176,000, or 63% during the first quarter of fiscal 2009 as compared to the same period in fiscal 2008. The increase is directly attributable to the acquisitions and associated debt financing that occurred during the second and third quarters of fiscal 2008. Related party interest expense increased slightly during the first quarter of fiscal 2009 as compared to the same period during fiscal 2008.

Liquidity and Sources of Capital

Our operating activities generated approximately $242 thousand of cash during the first three months of fiscal 2009, which primarily resulted from increased operating revenues related to the acquisitions of One Ring and iBroadband, and changes in our current assets and liabilities. However, based on a negative operating cash flow during fiscal year 2008, and generally a history of negative operating cash flows, our fiscal 2008 audit report includes an explanatory paragraph indicating doubt about our ability to continue as a going concern.

Our major growth areas are anticipated to include the continued expansion of our broadband internet and voice services, the establishment of additional wholesale points of termination to offer our existing wholesale and retail customers. Our future operating success is dependent on our ability to generate positive cash flow from our broadband internet and voice services. Any failure of our business plan, including the risk and timing involved in rolling out retail products to end users, could result in a significant cash flow crisis, and could force us to seek alternative sources of financing as discussed, or to greatly reduce or discontinue operations. Although various possibilities for obtaining financing or effecting a business combination have been discussed from time to time, there are no agreements with any party to raise money or for us to combine with another entity and we cannot assure you that we will be successful in our search for investors or lenders. Any additional financing we may obtain may involve material and substantial dilution to existing stockholders. In such event, the percentage ownership of our current stockholders may be materially reduced, and any new equity securities sold by us may have rights, preferences, or privileges senior to our current common stockholders. If we do not obtain additional financings, divest of certain operating units or other capital assets, or engage in significant cost reductions, or any combination of the aforementioned, we expect that our ability to maintain our operations through fiscal 2009 may be significantly jeopardized.

At January 31, 2009, we had cash and cash equivalents of $607,000, an increase in cash and cash equivalents of $376,000 from the balance at October 31, 2008. We had working capital deficits at January 31, 2009 and October 31, 2008 of $2.6 million and $2.1 million, respectively.

Net cash provided by operating activities during the first three months of fiscal 2009 was $242,000 as compared to cash used by operating activities of $225,000 during the same period of fiscal 2008. During the first three months of fiscal 2009, to compute operating cash flows, our net loss of $661,000 was positively adjusted for noncash interest expense of $158,000, depreciation and amortization of $457,000, share-based compensation expense of $10,000, and changes in operating assets and liabilities of $280,000, partially offset by the gain on disposal of property of $2,000. During the first three months of fiscal 2008, to compute operating cash flows, our net loss of $253,000 was positively adjusted for noncash interest expense of $154,000, depreciation and amortization of $218,000, share-based compensation expense of $9,000, partially offset by recoveries of bad debts of $1,000 and decreases in operating assets and liabilities of $352,000.

Net cash used in investing activities during the first three months of fiscal 2009 was $22,000, which resulted from purchases of property and equipment of $24,000, partially offset by proceeds from the sale of property equipment of $2,000. Net cash used by investing activities during the first three months of fiscal 2008 resulted from the purchase of property and equipment of $10,000.

Net cash provided by financing activities during the three months of fiscal 2009 was $156,000, resulting from net proceeds from the revolving line of credit of $312,000, proceeds from the sale of common stock of $30,000, partially offset by payments on capital leases of $153,000 and payments on notes of $33,000. Net cash used in financing activities during the first three months of fiscal 2008 was $3,000, resulting from capital lease payments.

We have an accumulated deficit of approximately $54.0 million as of January 31, 2009 as well as a significant working capital deficit. Funding of our working capital deficit, current and future operating losses, and expansion will require continuing capital investment, which may not be available to us. Although to date we have been able to arrange the debt facilities and equity financing described below, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to us.

Risk Factors

Our business is subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this report, before you decide whether to purchase our common stock. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and a shareholder may lose all or part of its investment.

Our cash flow may not be sufficient to satisfy our cost of operations. If not, we must raise capital by selling equity or debt instruments. If we are unable to generate sufficient cash flow from operations or financings, we may be forced to sell our assets, terminate our business and cease our operations.

For the fiscal quarter ended January 31, 2009, and fiscal year ended October 31, 2008, we recorded net losses from continuing operations of approximately $661 thousand and $2.5 million, respectively, on revenues from continuing operations of approximately $4.9 and $17.2 million, respectively. For the fiscal quarter ended January 31, 2009, our net loss from continuing operations included approximately $900 thousand in non-cash expenses, primarily depreciation expense and non-cash interest expense, partially offset by a gain on legal settlements of $232 thousand. As a result of our fiscal first quarter loss and historical losses, we currently have a working capital deficit.

Our independent auditors have included a going concern paragraph in their audit opinion on our consolidated financial statements for the fiscal year ended October 31, 2008, which states “The Company has suffered recurring losses from continuing operations during each of the last two fiscal years. Additionally, at October 31, 2008, the Company's current liabilities exceeded its current assets by $2.1 million and the Company had a shareholders' deficit totaling $2.9 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern.”

Our operating history makes it difficult to accurately assess our general prospects in the broadband wireless internet sector of the Diversified Communications Service industry and the effectiveness of our business strategy. As of the date of this report, a majority of our revenues are not derived from broadband internet services. Instead, we generated most of our revenues from retail fixed-line and wholesale communication services. In addition, we have limited meaningful historical financial data upon which to forecast our future sales and operating expenses. Our future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, we cannot assure you that we will successfully implement our business strategy or that our actual future cash flows from operations or financings will be sufficient to satisfy our debt obligations and working capital needs. If we do not obtain additional financings, divest of certain operating units or other capital assets, or engage in significant cost reductions, or any combination of the aforementioned, we expect that our ability to maintain our operations through fiscal 2009 may be significantly jeopardized.

Potential for substantial dilution to our existing stockholders exists.

The issuance of shares of common stock upon conversion of secured convertible notes or upon exercise of outstanding warrants and/or stock options may cause immediate and substantial dilution to our existing stockholders. In addition, any additional financing may result in significant dilution to our existing stockholders.

We face competition from numerous, mostly well-capitalized sources.

The market for our products and services is highly competitive. We face competition from multiple sources, many of which have greater financial resources and a substantial presence in our markets and offer products or services similar to our services. Therefore, we may not be able to successfully compete in our markets, which could result in a failure to implement our business strategy, adversely affecting our ability to attract and retain new customers. In addition, competition within the industries in which we operate is characterized by, among other factors, price, and the ability to offer enhanced services. Significant price competition would reduce the margins realized by us in our telecommunications operations. Many of our competitors have greater financial resources to devote to research, development, and marketing, and may be able to respond more quickly to new or merging technologies and changes in customer requirements.

We have pledged our assets to existing creditors.

Our notes are secured by a lien on substantially all of our assets. A default by us under the secured notes would enable the holders of the notes to take control of substantially all of our assets. The holders of the secured notes have no operating experience in our industry and if we were to default and the note holders were to take over control of our Company, they could force us to substantially curtail or cease our operations. If this happens, you could lose your entire investment in our common stock.

In addition, the existence of our asset pledges to the holders of the secured notes will make it more difficult for us to obtain additional financing required to repay monies borrowed by us, continue our business operations, and pursue our growth strategy.

The regulatory environment in our industry is very uncertain.

The legal and regulatory environment pertaining to the Internet and Diversified Communication Services industry is uncertain and changing rapidly as the use of the Internet increases. For example, in the United States, the FCC had been considering whether to impose surcharges or additional regulations upon certain providers of Internet telephony, and indeed the FCC has confirmed that providers must begin charging Universal Service access charges of roughly 6.5%.

New regulations could increase the cost of doing business over the Internet or restrict or prohibit the delivery of our products or services using the Internet. In addition to new regulations being adopted, existing laws may be applied to the Internet. Newly enacted laws may cover issues that include sales and other taxes, access charges, user privacy, pricing controls, characteristics and quality of products and services, consumer protection, contributions to the Universal Service Fund, an FCC-administered fund for the support of local telephone service in rural and high-cost areas, cross-border commerce, copyright, trademark and patent infringement, and other claims based on the nature and content of Internet materials.

Changes in the technology relating to Broadband Wireless Internet could threaten our operations.

The industries in which we compete are characterized, in part, by rapid growth, evolving industry standards, significant technological changes, and frequent product enhancements. These characteristics could render existing systems and strategies obsolete and require us to continue to develop and implement new products and services, anticipate changing consumer demands and respond to emerging industry standards and technological changes. No assurance can be given that we will be able to keep pace with the rapidly changing consumer demands, technological trends, and evolving industry standards.

We rely on four key senior officers.

We rely heavily on our senior management team of Christopher Canfield, Michael McGuane, Michael Prachar, and Matthew Liotta, and our future success may depend, in large part, upon our ability to retain these key officers. The loss of the services of our key personnel or the inability to attract and retain the additional, highly-talented employees required for the development, marketing and sales of our products and services may have a material adverse effect on us.

Any natural disaster or other occurrence that renders our operations center inoperable could significantly hinder the delivery of our services to our customers because we lack an off-site back-up communications system.

Currently, our disaster recovery systems focus on internal redundancy and diverse routing within our operations center. We currently do not have an off-site communications system that would enable us to continue to provide communications services to our customers in the event of a natural disaster, terrorist attack or other occurrence that rendered our operations center inoperable. Accordingly, our business is subject to the risk that such a disaster or other occurrence could hinder or prevent us from providing services to some or all of our customers. As a result of recent acquisitions, we have mitigated the risk that a natural disaster or other geographic-specific occurrence could hinder or prevent us from providing services to some or all of our customers. Nonetheless, a delay in the delivery of our services could cause some of our customers to discontinue business with us, which could have a material adverse effect on our financial condition, and results of operations.

We may be unable to manage our growth.

We intend to expand our fixed wireless and fiber optic carrier services network and the range of enhanced communication services that we provide. Our expansion prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets. Our revenues will suffer if we are unable to manage this expansion properly.

We face risks associated with the marketing, distribution, and sale of our products and services internationally, and if we are unable to effectively manage these risks, our ability to expand our business abroad could be impaired.

We sold many of our services to customers outside of the U.S. The marketing, international distribution, and sale of our products and services expose us to a number of risks, including the following:

- fluctuations in currency exchange rates;
- difficulty in engaging and retaining distributors who are knowledgeable about and, can function effectively in, overseas markets;
- increased costs associated with maintaining marketing efforts in various countries;
- difficulty and costs relating to compliance with the various commercial and legal requirements of the overseas markets in which we offer our products; and
- inability to obtain, maintain, or enforce intellectual property rights.

Our OTC Bulletin Board listing negatively affects the liquidity of our common stock as compared with other trading boards.

Our common stock currently trades on the OTC Bulletin Board. Therefore, no assurances can be given that a liquid trading market will exist at the time any stockholder desires to dispose of any shares of our common stock. In addition, our common stock is subject to the so-called "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of $1 million or annual income exceeding $200,000, or $300,000 together with a spouse). For transactions covered by the penny stock rules, a broker-dealer must make a suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. Consequently, both the ability of a broker-dealer to sell our common stock and the ability of holders of our common stock to sell their securities in the secondary market may be adversely affected. The Securities and Exchange Commission (the “SEC”) has adopted regulations that define a "penny stock" to be an equity security that has a market price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is to sell the securities as a market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Our executive officers, directors and major shareholders have significant shareholdings, which may lead to conflicts with other shareholders over corporate governance matters.

Our current directors, officers and more than 5% shareholders, as a group, beneficially own approximately 75% of our outstanding common stock. Acting together, these shareholders would be able to significantly influence all matters that our shareholders vote upon, including the election of directors and mergers or other business combinations. As a result, they have the ability to control our affairs and business, including the election of directors and subject to certain limitations, approval or preclusion of fundamental corporate transactions. This concentration of ownership of our common stock may delay or prevent a change in the control, impede a merger, consolidation, takeover or other transaction involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company.

We are subject to the ongoing requirements of section 404 of the Sarbanes-Oxley Act. If we are unable to timely comply with section 404 or if the costs related to compliance are significant, our profitability, stock price and results of operations and financial condition could be materially adversely affected.

We are required to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002, which requires that we document and test our internal controls and certify that we are responsible for maintaining an adequate system of internal control procedures. During fiscal 2008 and during the first quarter of fiscal 2009, we documented and tested certain existing controls and evaluated these existing controls against the standards adopted by the Committee of Sponsoring Organizations of the Treadway Commission. During the course of our ongoing evaluation and integration of the internal controls of our business, we may identify areas requiring improvement, and we may have to design enhanced processes and controls to address issues identified through this review.

We believe that the out-of-pocket costs, the diversion of management's attention from running the day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 of the Sarbanes-Oxley Act could be significant. If the time and costs associated with such compliance exceed our current expectations, our results of operations could be adversely affected. We cannot be certain at this time that we will be able to successfully complete the procedures, certification and attestation requirements of Section 404 or that our auditors will not have to report a material weakness in connection with the presentation of our financial statements. If we fail to comply with the requirements of Section 404 or if our auditors report such material weakness, the accuracy and timeliness of the filing of our annual report may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock. In addition, a material weakness in the effectiveness of our internal controls over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Related to Interest Rates

Our debt instruments contain fixed interest rate provisions; therefore, market risk related to changes in interest rates is immaterial or non-existent to our operations for fiscal year 2009.

Market Risk Related Foreign Currency Exchange Rates

We are exposed to foreign currency exchange rate risk resulting from our operations in South Africa and fluctuations in the value of the South African Rand. However, because our operations in South Africa are immaterial, our ability to conduct operations on a consolidated basis is unaffected by fluctuations in the value of the South African Rand.

ITEM 4T. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the fiscal quarter ended January 31, 2009, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the first quarter of fiscal 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

ITEMS 1-5.

Not applicable.

EXHIBIT INDEX

NO. DESCRIPTION OF EXHIBIT

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)