RAPID LINK INC
Form 10-Q
September 21, 2009

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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 July 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

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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

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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 September 18, 2009, there were 74,635,642 shares of registrant's common stock, par value $0.001 per share, outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

RAPID LINK, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | July 31, 2009 (unaudited) | October 31, 2008 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 176,335 | $ 230,841 |
| Accounts receivable, net of allowance of $144,534 and $178,618, respectively | 785,031 | 950,089 |
| Prepaid expenses | 17,134 | 44,790 |
| Other current assets | 13,861 | 327,665 |
| Total current assets | 992,361 | 1,553,385 |
| | | |
| Property and equipment, net | 2,327,443 | 2,394,188 |
| Customer lists, net | 1,324,620 | 1,954,414 |
| Goodwill | 4,257,197 | 5,174,012 |
| Deposits and other assets | 469,130 | 484,675 |
| Deferred financing fees, net | 417,876 | 672,144 |
| | | |
| Total assets | $ 9,788,627 | $ 12,232,818 |
| | | |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| | | |
| Current liabilities: | | |
| Revolving line of credit | $ 512,554 | $ - |
| Accounts payable | 2,777,228 | 1,595,714 |
| Accrued interest (including $260,208 and $21,600, respectively, to related parties) | 601,336 | 231,329 |
| Other accrued liabilities | 208,345 | 507,501 |
| Deferred revenue | 127,489 | 313,979 |
| Deposits and other payables | 10,898 | 75,486 |
| Capital lease obligations, current portion | 802,964 | 585,002 |
| Convertible notes, current portion | 162,500 | 162,500 |
| Notes payable, current portion, net of debt discount of $229,287 and $23,470, respectively | 1,283,363 | 140,447 |
| Total current liabilities | 6,486,677 | 3,611,958 |
| | | |
| Capital lease obligations, less current portion | 661,222 | 742,784 |
| Due to sellers | 595,790 | - |
| Convertible notes, less current portion | 2,174,427 | 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 $62,334 and $483,873, respectively | 4,350,432 | 5,288,030 |
| Total liabilities | 17,508,548 | 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; 74,647,664 and 69,847,444 shares issued and 74,635,642 and 69,835,422 shares outstanding at July 31, 2009 and October 31, 2008, respectively | 74,648 | 69,848 |
| Additional paid-in capital | 49,927,847 | 50,386,214 |
| Accumulated deficit | (57,667,546) | (53,312,423) |
| Treasury stock, at cost; 12,022 shares | (54,870) | (54,870) |
| Total shareholders' deficit | (7,719,921) | (2,911,231) |
| | | |
| Total liabilities and shareholders' deficit | $ 9,788,627 | $ 12,232,818 |

See accompanying notes to unaudited consolidated financial statements

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

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | $ 3,319,691 | $ 4,483,714 | $ 12,529,181 | $ 11,947,543 |
| Costs and expenses: | | | | |
| Costs of revenues | 2,302,594 | 3,144,823 | 8,607,297 | 8,183,948 |
| Sales and marketing | 119,256 | 193,693 | 375,333 | 619,986 |
| General and administrative | 2,503,202 | 1,316,067 | 5,359,451 | 3,196,820 |
| Depreciation and amortization | 484,326 | 419,047 | 1,423,239 | 905,768 |
| Gain on recovery of accrued interest | - | (163,750) | - | (163,750) |
| Gain on disposal of property and equipment | (2,024) | - | (13,016) | |
| Gain on legal settlements | - | - | (231,658) | - |
| | 5,407,354 | 4,909,880 | 15,520,646 | 12,742,772 |
| Operating loss | (2,087,663) | (426,166) | (2,991,465) | (795,229) |
| Other income (expense): | | | | |
| Noncash financing expense | (157,531) | (67,404) | (469,990) | (301,521) |
| Interest expense | (226,664) | (103,292) | (691,928) | (242,195) |
| Related party interest expense | (68,365) | (64,800) | (202,718) | (194,869) |
| Foreign currency exchange gain (loss) | 861 | (1,272) | 2,878 | (1,744) |
| | (451,699) | (236,768) | (1,361,758) | (740,329) |
| Loss from continuing operations | (2,539,362) | (662,934) | (4,353,223) | (1,535,558) |
| Discontinued operations | | | | |
| Gain on disposal of discontinued operations | - | - | - | 1,062,000 |
| Net loss | $ (2,539,362) | $ (662,934) | $ (4,353,223) | $ (473,558) |
| Basic and diluted income (loss) per share: | | | | |
| Loss per share from continuing operations | $ (0.03) | $ (.01) | $ (0.06) | $ (0.03) |
| Income per share from discontinued operations | - | - | - | 0.02 |
| Net loss per share | $ (0.03) | $ (.01) | $ (0.06) | $ (.01) |
| Basic and diluted weighted average shares outstanding | 74,635,642 | 69,835,422 | 72,769,148 | 67,326,456 |

See accompanying notes to unaudited consolidated financial statements

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

| | Nine Months Ended July 31, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (4,353,223) | $ (473,558) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Noncash financing expense | 497,580 | 301,521 |
| Depreciation and amortization | 1,423,236 | 905,768 |
| Loss on impairment of goodwill | 1,000,000 | - |
| Bad debt expense | - | 52,726 |
| Gain on disposal of property and equipment | (13,016) | - |
| Share-based compensation expense | 27,012 | 26,191 |
| Gain on recovery of accrued interest | - | (163,750) |
| Gain on disposal of discontinued operations | - | (1,062,000) |
| Changes in operating assets and liabilities, net of effects of acquisition | | |
| Accounts receivable | 165,058 | 122,481 |
| Prepaid expenses and other current assets | 254,703 | 20,573 |
| Other assets | 71,743 | 20,718 |
| Accounts payable | 1,181,514 | (1,236,863) |
| Accrued liabilities | 70,851 | 230,565 |
| Deferred revenue | (186,490) | 111,101 |
| Deposits and other payables | (64,588) | (2,952) |
| Net cash provided by (used in) operating activities | 74,380 | (1,147,479) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (72,620) | (58,115) |
| Cash received in acquisition | - | 25,396 |
| Advances to One Ring | - | (30,000) |
| Cash received in iBroadband acquisition | | 25,560 |
| Proceeds from sale of property and equipment | 13,016 | - |
| Net cash used in investing activities | (59,604) | (37,159) |
| | | |
| Cash flows from financing activities: | | |
| Advances from revolving line of credit | 7,341,708 | - |
| Payments on revolving line of credit | (6,829,154) | - |
| Proceeds from notes payable | - | 3,300,000 |
| Proceeds from sale of common stock | 30,125 | 120,000 |
| Payments of financing fees | - | (496,745) |
| Payments on convertible notes | (97,254) | (1,052,555) |
| Payments on related party notes | - | (50,000) |
| Payments on capital leases | (514,707) | (212,487) |
| Net cash (used in) provided by financing activities | (69,282) | 1,608,213 |
| | | |
| Net (decrease) increase in cash and cash equivalents | (54,506) | 423,575 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents, beginning of period | | 230,841 | | 496,306 |
| Cash and cash equivalents, end of period | $ | 176,335 | $ | 919,881 |

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 and nine months ended July 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 periods ended July 31, 2009 and 2008 have been made. The results of operations for the three and nine months ended July 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 based on set capacity limits and generally carry recurring monthly charges for up to three year contracted terms, although some contracts stipulate terms up to five years. 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 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.

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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.

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.

Subsequent to the end of the third quarter the Company began a goodwill impairment analysis in accordance with SFAS 142. The initial analysis (first step) was performed by the Company's management team after the conclusion of the quarter. Based on a combination of factors, including the current economic environment and the Company's operating results, management concluded that there were a number of indicators which required the Company to perform a goodwill impairment analysis in between annual tests. As of the filing of this Quarterly Report on Form 10-Q for the third quarter ended July 31, 2009, management had not completed the entire two-step analysis. However, based on the work performed to date, management has concluded that an impairment loss is probable and can be reasonably estimated. This relates primarily to the Company's CLEC business, One Ring Networks, Inc. business and its fixed wireless broadband Internet access business in Northern California. Accordingly, the Company has recorded a $1 million non-cash goodwill impairment charge, representing management's best estimate of the impairment loss. The Company expects to finalize its goodwill impairment analysis during the fourth quarter of fiscal 2009. Further adjustments to the estimated goodwill impairment charge could result when the goodwill impairment analysis is completed. Any required adjustments to the Company's preliminary estimates as a result of completing this evaluation will be recorded in the Company's consolidated financial statements for the respective quarter and fiscal year ended October 31, 2009.

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 $56.7 million as of July 31, 2009, as well as a working capital deficit of approximately $5.5 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 July 31, 2009, the Company’s net loss was approximately $1.5 million, and revenues were approximately $3.3 million, which represents $1.1 million decrease in revenues over the same period in fiscal 2008.

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 July 31, 2009, approximately 23% 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.

Recent Accounting Pronouncements

In June 2009, the FASB approved its Accounting Standards Codification (“Codification”) as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, in the annual financial statements of fiscal year 2009, all references made to US GAAP will use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on the Company’s consolidated financial position or results of operations.

In June 2008, the Financial Accounting Standards Board (“FASB”) issued EITF Issue No. 07-5 (“EITF 07-5”), Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock. EITF No. 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company), and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of SFAS No. 133 - specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. The Company is evaluating the impact of EITF 07-5 to its consolidated financial statements.

In April 2008, the FASB issued FSP SFAS 142-3, Determination of the Useful Life of Intangible Assets. FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. Previously, under the provisions of SFAS No. 142, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or material modifications. FSP SFAS 142-3 removes the requirement of SFAS No. 142 for an entity to consider whether an intangible asset can be

renewed without substantial cost or material modification to the existing terms and conditions and requires an entity to consider its own experience in renewing similar arrangements. FSP SFAS 142-3 also increases the disclosure requirements for a recognized intangible asset to enable a user of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent or ability to renew or extend the arrangement. FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. Accordingly, the Company does not anticipate that the initial application of FSP SFAS No. 142-3 will have an impact on the Company. The disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51 ("SFAS 160") which becomes effective for fiscal periods beginning after December 15, 2008 (November 1, 2009 for the Company). This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. In addition, this statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The Company does not expect the adoption of this statement to have a material impact on its financial statements.

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.

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Fair value of financial instruments:

The carrying amounts of cash, accounts receivable, and accounts payable are approximated fair value as of July 31, 2009 and 2008, due to the relatively short maturities of these instruments. The carrying amounts of notes payable, excluding related party notes payable, approximated fair value as of July 31, 2009 and 2008, based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding debt. The fair value of related party notes payable is impracticable to estimate due to the related party nature of the underlying transactions.

Effective November 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. As permitted by FSP FAS 157-2, the Company elected to defer the adoption of the nonrecurring fair value measurement disclosure of nonfinancial assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on the Company's financial position, results of operations or cash flows.

To increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 — quoted prices (unadjusted) in active markets for identical asset or liabilities;

Level 2 — observable inputs other than Level I, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment.

There were no financial assets or liabilities measured at fair value as of July 31, 2009 with the exception of cash which is measured using level 1 inputs. There were no changes in the Company's valuation techniques used to measure fair value on a recurring basis as a result of partially adopting SFAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment to FASB Statement No. 115. This statement permits companies to choose to measure many financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement of accounting for financial instruments. The fair value option established by this statement permits all entities to measure eligible items at fair value at specified election dates. SFAS 159 was effective for the Company on November 1, 2008. The adoption of SFAS 159 did not have a material impact on the consolidated financial statements.

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 has issued shares of its common stock as payment of the True Up Shares and Secondary Shares, and has issued promissory notes to One Ring Shareholders as payment of True Up Cash in the second and third fiscal quarters of 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 former 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 issued promissory notes and shares of its common stock during the second fiscal quarter of 2009 as payment of the True Up Cash and True Up Shares. At March 31, 2009, the Company calculated additional contingent consideration consisting of Secondary Shares to be 2,772,815, including 829,602 shares issued to Matthew Liotta. The fair value of the Secondary Shares was determined to be $83,184 based on the quoted price of $.03 per share at the end of the contingency period. The fair value of the Secondary Shares was recorded as an additional cost of the acquisition resulting in an increase to goodwill of $83,184.

## NOTE 4 – STOCK-BASED COMPENSATION

Noncash share-based compensation costs recorded in general and administrative expenses for the three and nine months ended July 31, 2009 were $7,994 and $27,012, respectively. For the three and nine months ended July 31, 2008, noncash share-based compensation costs recorded in general and administrative expenses were $8,794 and $26,191, respectively. During the three months ended July 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 July 31, 2009, the total unrecognized compensation cost related to non-vested options was $15,313, and the weighted average period over which it will be recognized is 1.12 years.

## NOTE 5 – CAPITAL LEASES, CONVERTIBLE DEBENTURES AND NOTES PAYABLE, INCLUDING RELATED PARTY NOTES

The Company has various debt and capital lease obligations as of July 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 July 31, 2009:

Information as of July 31, 2009

| Brief Description of Debt | Balance | Int. Rate | Maturity Date | Discount | Net |
|---|---|---|---|---|---|
| Notes payable, current | | | | | |
| Vehicles | $ 12,650 | 7% | Varies | - | $ 12,650 |
| Valens Offshore (Valens II) | 850,000 | 10% | 3/31/2011 | 120,073 | 729,927 |
| Valens U.S. SPV I | 650,000 | 10% | 3/31/2011 | 109,214 | 540,786 |
| 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 | 802,964 | 8% | Varies | - | 802,964 |
| Notes payable, less current portion | | | | | |
| Vehicles | 29,606 | 7% | Varies | - | 29,606 |
| Valens Offshore (Valens II) | 950,000 | 10% | 3/31/2011 | 31,090 | 918,910 |
| Valens U.S. SPV I | 850,000 | 10% | 3/31/2011 | 31,244 | 818,756 |
| 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 | 193,150 | 5% | 4/30/2012 | - | 193,150 |
| 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 | 661,222 | 8% | Varies | - | 661,222 |
| Due to One Ring Sellers | 595,790 | | | | 595,790 |
| Revolving Line of Credit | 512,554 | | | | 512,554 |

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

| Within 1 year | 1-3 years | 3-5 years | Thereafter | Total |
|---|---|---|---|---|
| $2,761,381 | $10,773,496 | $77,091 | $171,284 | $13,783,252 |

Revolving Line of Credit

In connection with the Security Agreement dated as of March 31, 2008, and further amended on July 11, 2008, and 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 that 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. The revolving line of credit carries an over-advance provision, whereby the lender, in its sole discretion, may advance cash amounts in excess of the $600,000 contracted. Interest accrues daily on the outstanding principal balance of the revolving line of credit and is payable monthly. The balance of the secured revolving loan at July 31, 2009 was $512,554 and the available amount upon which the Company could access without an over-advance, was $87,446.

Capital Lease Obligations

The Company has entered into various equipment lease agreements with financial institutions and accounts for these leases in accordance with SFAS No. 13 "Accounting for Leases". During the fiscal quarter ended July 31, 2009, the Company entered into one new capital lease.

On March 1, 2009, the Company entered into a two-year lease agreement with a financial institution and acquired equipment valued at approximately $235,177. The agreement calls for monthly payments of approximately $10,566. The lease contains a provision that entitles the Company to purchase the equipment for fair market value at the end of the lease term.

On April 1, 2009, the Company entered into a two-year lease agreement with a financial institution and acquired equipment valued at approximately $7,941. The agreement calls for monthly payments of approximately $357. The lease contains a provision that entitles the Company to purchase the equipment for $1 at the end of the lease term.

On July 1, 2009, the Company entered into a two-year lease agreement with a financial institution and acquired equipment valued at approximately $268,256. The agreement calls for monthly payments of approximately $18,760. The lease contains a provision that entitles the Company to purchase the equipment for fair market value at the end of the lease term.

NOTE 6 – COMMON STOCK AND WARRANTS

During fiscal 2009, the Company issued 1,489,475 shares of its common 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.

During fiscal 2009, the Company issued 2,772,815 shares of its common stock in connection with the contingent payment of Secondary Shares related to the acquisition of One Ring Networks, Inc.

NOTE 7 - 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 third quarter of fiscal 2009, the Company provided services to a customer in Europe that accounted for 24% of overall revenues. This customer accounted for 23% of overall revenues for the first nine months of fiscal 2009. The Company also provided services to a second customer in Europe that accounted for 12% of overall revenues during the first nine months of fiscal 2009.

During the third quarter of fiscal 2009, one of the Company's suppliers accounted for approximately 44% of the Company's total costs of revenues. This supplier accounted for approximately 36% of the costs of revenues for the first nine months of fiscal 2009. There was a second supplier that accounted for approximately 33% of the Company's total costs of revenues for the first nine months of fiscal 2009.

At July 31, 2009 and October 31, 2008, no customer accounted for more than 10% of the Company's trade accounts receivable.

During the third quarter and first nine months of fiscal 2008, the Company provided services to a customer in Europe that accounted for 20% and 23%, respectively, of overall revenues. The Company provided services to a customer in Europe that accounted for 15% of overall revenues during the third quarter of fiscal 2008. During the third quarter of fiscal 2008, two of the Company's suppliers accounted for approximately 18% and 35%, respectively, of the Company's total costs of revenues. During the first nine months of fiscal 2008, two of the Company's suppliers accounted for approximately 21% and 20%, 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 8 - 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 9 - 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.

Militel Calling Services.  On June 29, 2009 the Company received written communication from Militel Calling Services, an independent sales entity indicating that Militel Calling Services was seeking approximately $75,000 in damages based on breach of an Agency Agreement.  The Company does not believe any monies are due to Militel Calling Services.  Furthermore the Company does not believe it was adequately served for process, and does not intend to communicate with Militel Calling Services in any regard, barring proper legal notice.

During the quarter ended July 31, 2009, a former vendor has alleged that the Company was notified of a significant price increase in relation to a telecommunication contract between the vendor and the Company.  The Company has responded that it was not properly notified of any changes, which is required under the contract.  Additionally, the Company has requested proof of notification from the vendor, which has not yet been provided.  The vendor has requested arbitration pursuant to the contract, and claims that the Company owes approximately $1.7 million for services provided.  The Company’s position is that under the contracted pricing structure the Company owes $0.8 million.  This amount is accrued in the financial statements.  Although it is not possible at this time to determine the ultimate outcome of this matter, no litigation claim has been filed against the Company and management believes that the contract supports its position.

NOTE 10 – SUBSEQUENT EVENTS

On September 4, 2009, the Company accepted a binding letter of intent (the "LOI") from Blackbird Corporation ("Blackbird") with regards to the acquisition by the Company of all or substantially all of the outstanding shares of capital stock of Blackbird (the "Transaction") held by a group of majority shareholders of Blackbird (the "Blackbird Shareholders") resulting in Blackbird becoming an operating subsidiary of the Company. In consideration for the Blackbird shares, the Company is to issue an aggregate of 520,000,000 shares of its common stock to the Blackbird Shareholders, which will constitute approximately 80% of the Company then-issued and outstanding shares of common stock. The parties expect the Transaction to close on or about October 31, 2009 (the "Closing").

The closing of the Transaction will be subject to certain conditions, including the following:

The Registrant must dispose of its CLEC business, its One Ring Networks, Inc. (“One Ring”) business, and its fixed wireless broadband Internet access business in Northern California prior to signing a definitive agreement.

The Registrant must convert all of its subordinated debt into shares of its common stock or One Ring equity prior to signing a definitive agreement.

The Registrant must obtain a reduction of the aggregate amounts outstanding under certain senior notes due to Laurus Master Fund, Ltd. and its affiliates including, without limitation, Valens U.S. SPV I, LLC, Valens Offshore SPV II Corp., and LV Administrative Services, Inc. (collectively, “Laurus”), down to $2,500,000 that will be senior to all of the Registrant’s obligations.

The aggregate amount of shares of the Registrant’s issued and outstanding common stock as of the Closing (taking into account each of the debt conversions described above) shall be no more than 130,000,000 shares.

At the Closing, the Registrant must only be responsible for the following indebtedness: (i) senior secured debt due to Laurus must be restructured to provide for a maximum principal amount of $2,500,000 to accrue interest at 8.00% interest with all amounts due and payable in one balloon payment on the third anniversary of the Closing; and (ii) junior indebtedness in the total outstanding amount of $600,000. The restructured Laurus debt will be allocated as follows: (A) $1,250,000 as a senior obligation of the Registrant; and (B) $1,250,000 as a senior obligation to be secured by the Telenational assets to be transferred as described above.

Except for certain outstanding warrants issued to Laurus, Trident Growth Fund, L.P., and Global Capital Funding Group, LP, all outstanding options, warrants, stock awards, and other securities convertible into shares of the Registrant’s common stock, including, without limitation, any such convertible securities or other derivatives held by any of the following: (i) John Jenkins and Apex Acquisitions, Inc., the Registrant’s principal shareholders (the “Principal Rapid Link Shareholders”), (ii) all of the Registrant’s and its subsidiaries’ employees, and (iii) any other lender of the Registrant, must be terminated and cancelled with no further obligation on the part of the Registrant with respect thereto.

The company has evaluated events through September 21, 2009 for consideration as a subsequent event to be included in its July 31, 2009 financial statements issued September 21, 2009.

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## 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.

### Recent Developments

On September 4, 2009, the Registrant accepted a binding letter of intent (the "LOI") from Blackbird Corporation ("Blackbird") with regards to the acquisition by the Registrant of all or substantially all of the outstanding shares of capital stock of Blackbird (the "Transaction") held by a group of majority shareholders of Blackbird (the "Blackbird Shareholders") resulting in Blackbird becoming an operating subsidiary of the Registrant. Blackbird is a company engaged in various forms of telecommunications services including prepaid cellular phone sales. In consideration for the Blackbird shares, the Registrant will issue an aggregate of 520,000,000 shares of its common stock to the Blackbird Shareholders, which will constitute approximately 80% of the Registrant's then-issued and outstanding shares of common stock. The parties expect the Transaction to close on or about October 31, 2009 (the "Closing"). After the Closing, the parties believe that the primary of business of the Registrant shall be the business of Blackbird prior to the transaction.

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Business Strategy

Pending the acquisition of Blackbird which would dramatically alter the business of Rapid Link, the following has been our 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.

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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.

Subsequent to the end of the third quarter the Company began a goodwill impairment analysis in accordance with SFAS 142. The initial analysis (first step) was performed by the Company’s management team after the conclusion of the quarter. Based on a combination of factors, including the current economic environment and the Company’s operating results, management concluded that there were a number of indicators which required the Company to perform a goodwill impairment analysis in between annual tests. As of the filing of this Quarterly Report on Form 10-Q for the third quarter ended July 31, 2009, management had not completed the entire two-step analysis. However, based on the work performed to date, management has concluded that an impairment loss is probable and can be reasonably estimated. This relates primarily to the Company’s CLEC business, One Ring Networks, Inc. business and its fixed wireless broadband Internet access business in Northern California. Accordingly, the Company has recorded a $1 million non-cash goodwill impairment charge, representing management’s best estimate of the impairment loss. The Company expects to finalize its goodwill impairment analysis during the fourth quarter of fiscal 2009. Further adjustments to the estimated goodwill impairment charge could result when the goodwill impairment analysis is completed. Any required adjustments to the Company’s preliminary estimates as a result of completing this evaluation will be recorded in the Company’s consolidated financial statements for the respective quarter and fiscal year ended October 31, 2009.

Recent Accounting Pronouncements

In June 2009, the FASB approved its Accounting Standards Codification (“Codification”) as the single source of authoritative <?xml:namespace prefix = st1 ns = "urn:schemas-microsoft-com:office:smarttags" />United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, in the annual financial statements of fiscal year 2009, all references made to US GAAP will use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on the Company’s consolidated financial position or results of operations.

In June 2008, the Financial Accounting Standards Board (“FASB”) issued EITF Issue No. 07-5 (“EITF 07-5”), Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock. EITF No. 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company), and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of SFAS No. 133 - specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to

the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. The Company is evaluating the impact of EITF 07-5 to its consolidated financial statements.

In April 2008, the FASB issued FSP SFAS 142-3, Determination of the Useful Life of Intangible Assets. FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. Previously, under the provisions of SFAS No. 142, an entity was precluded from using its own assumptions about renewal or extension of an arrangement where there was likely to be substantial cost or material modifications. FSP SFAS 142-3 removes the requirement of SFAS No. 142 for an entity to consider whether an intangible asset can be renewed without substantial cost or material modification to the existing terms and conditions and requires an entity to consider its own experience in renewing similar arrangements. FSP SFAS 142-3 also increases the disclosure requirements for a recognized intangible asset to enable a user of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity’s intent or ability to renew or extend the arrangement. FSP SFAS 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset is applied prospectively to intangible assets acquired after the effective date. Accordingly, the Company does not anticipate that the initial application of FSP SFAS No. 142-3 will have an impact on the Company. The disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51 (“SFAS 160”) which becomes effective for fiscal periods beginning after December 15, 2008 (November 1, 2009 for the Company). This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. In addition, this statement establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The Company does not expect the adoption of this statement to have a material impact on its financial statements.

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 July 31, | | | | Nine Months Ended July 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Amount | % of Rev. | Amount | % of Rev. | Amount | % of Rev. | Amount | % of Rev. |
| Revenues | $ 3,319,691 | 100.0% | $ 4,483,714 | 100.0% | $ 12,529,181 | 100.0% | $ 11,947,543 | 100.0% |
| Costs and expenses: | | | | | | | | |
| Costs of revenues | 2,302,594 | 69.4 | 3,144.823 | 70.1 | 8,607,297 | 68.7 | 8183,948 | 68.5 |
| Sales and marketing | 119,256 | 3.6 | 193,693 | 4.3 | 375,333 | 3.0 | 619,986 | 5.2 |
| General and administrative | 2,503,202 | 75.4 | 1,316,067 | 29.4 | 5,359,451 | 42.8 | 3,196,820 | 26.8 |
| Depreciation and amortization | 484,326 | 14.6 | 419,047 | 9.3 | 1,423,239 | 11.4 | 905,768 | 7.6 |
| Gain on recovery of accrued interest | - | | (163,750) | (3.7) | - | - | (163,750) | (1.4) |
| | | | | | | | | |
| Gain on disposal of property and equipment | (2,024) | (0.1) | - | - | (13,016) | (0.1) | - | - |
| Gain on legal settlements | - | - | - | - | (231,658) | (1.8) | - | - |
| Total costs and expenses | 5,407,354 | 162.8 | 4,909,880 | 109.5 | 15,520,646 | 123.8 | 12,742,772 | 106.7 |
| Operating loss | (2,087,663) | (62.9) | (426,166) | (9.5) | (2,991,465) | (23.9) | (795,229) | (6.7) |
| Other income (expense): | | | | | | | | |
| Noncash financing expense | (157,531) | (4.7) | (67,404) | (1.5) | (469,990) | (3.8) | (301,521) | (2.5) |
| Interest expense | (226,664) | (6.8) | (103,292) | (2.3) | (691,928) | (5.5) | (242,195) | (2.0) |
| Related party interest expense | (68,365) | (2.1) | (64,800) | (1.4) | (202,718) | (1.6) | (194,869) | (1.6) |
| | 861 | 0.0 | (1,272) | (0.0) | 2,878 | 0.0 | (1,744) | (0.0) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign currency exchange gains (loss) | | | | | | | | |
| Total other income (expense), net | (451,699) | (13.6) | (236,768) | (5.3) | (1,361,758) | (10.9) | (740,329) | (6.2) |
| Net loss from continuing operations | (2,539,362) | (76.4) | (662,934) | (14.8) | (4,353,223) | (34.7) | (1,535,558) | (12.9) |
| Discontinued operations: | | | | | | | | |
| Gain on disposal of discontinued operations | - | - | - | - | - | - | 1,062,000 | 8.9 |
| | | | | | | | | |
| Net income (loss) | $ (2,539,362) | (76.4)% | $ (662,934) | (14.8)% | $ (4,353,223) | (34.7)% | $ (473,558) | (4.0)% |

Operating Revenues

Revenues for the third quarter of fiscal 2009 decreased $1.2 million, or 26%, as compared to the same period of fiscal year 2008. This decrease is primarily attributable to a reduction in revenues from a single large wholesale customer, and is not viewed by the Company to be an unusual fluctuation. Revenues for the first nine months of fiscal 2009 increased approximately $.6 million, or 5%, as compared to the same period of fiscal 2008. The increase is primarily attributable to the inclusion of One Ring revenues, which was acquired March 31, 2008 and due to the inclusion of iBroadband revenues, which was acquired July 11, 2008. Since the acquisition of One Ring and iBroadband, the Company has made significant investments in increasing the broadband capacity and capabilities. These investments have resulted in increasing revenues on a month-to-month basis, and the Company fully expects broadband access revenues to continue increasing.

Costs of Revenues

Costs of revenues for the third quarter of fiscal 2009 decreased $843 thousand, or 27%, as compared to the same period of fiscal year 2008. The decrease in costs of revenues is directly proportional to the decrease in revenues compared to the same period of fiscal year 2008.

Costs of revenues for the first nine months of fiscal 2008 increased approximately $423 thousand, or 5%, compared to the same nine month period of fiscal 2008. The increase in costs is directly proportional to the increase in revenues and primarily resulted from the acquisitions of One Ring and iBroadband. 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

A significant component of our revenue is generated by outside agents, a small in-house sales force, and marketing through web portals and magazine advertising, which is managed by an in-house sales and marketing organization.

Sales and marketing costs for the third quarter of fiscal 2009 decreased $74 thousand, or 38%, as compared to the same period of fiscal 2008. For the nine months ended July 31, 2009, our sales and marketing costs decreased $245 thousand, or 40%, as compared to the first nine months of fiscal 2008. These decreases are primarily attributable to higher marketing costs and agent commissions incurred during the first three quarters of fiscal 2008 as compared to the same period in 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

General and administrative expenses increased 1.2 million, or 90%, for the third quarter of fiscal 2009 as compared to the same period of fiscal year 2008. This increase is primarily attributable to a $1 million impairment loss discussed above and to the acquisition of One Ring and iBroadband. For the nine month period ending July 31, 2009, general and administrative expenses increased $2.2 million, or 68% as compared to the same nine month period ending in fiscal 2008. The increase is due to a $1 million impairment loss discussed above and including a full nine months of operating expenses for One Ring and iBroadband in the current fiscal year, whereas a lesser portion was included in the first nine months of fiscal 2008.

As part of our strategy to provide fixed wireless services utilizing our own network, we have increased our sales and marketing staff who are dedicated to acquiring and supporting customer growth. These customers generally yield higher gross profit margins, are likely to sign long-term service agreements, and often purchase complementary products and services from the Company. As our business model matures, we anticipate continued improvement in reducing uncollectible accounts through improved customer retention, which will result in increasingly competitive gross profit margins.

We review our general and administrative expenses regularly and continue to manage the costs accordingly to support our current and anticipated future business; however, it may be difficult to achieve significant reductions in future periods due to the relatively fixed nature of our general and administrative expenses.

Depreciation and Amortization

Depreciation and amortization expense increased $65 thousand, or 16%, during the third quarter of fiscal 2009 as compared to the same period of fiscal 2008. This increase is primarily attributable to additional expenses associated with the One Ring acquisition including depreciation of equipment and amortization of equipment under capital leases. Depreciation and amortization expense for the first nine months of fiscal 2009 increased $517 thousand, or 57%, as compared to the same nine month period of fiscal 2008. The increase is due to additional depreciation expense associated with the One Ring and iBroadband acquisition, and amortization expense associated with equipment under capital leases.

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

Noncash interest expense, related party non-cash interest expense, interest expense, and related party interest expense increased $215 thousand, or 91% during the third quarter of fiscal 2009 as compared to the same quarter in fiscal 2008. Noncash interest expense, related party non-cash interest expense, interest expense, and related party interest expense increased $621 thousand, or 84% for the first nine months of fiscal 2009 as compared to the same nine month period in fiscal 2008. The increase was primarily due to amortizing certain debt discounts and loan fees in fiscal 2009 that were not amortized during the same periods of fiscal 2008.

Discontinued Operations

During fiscal 2004, the Company determined, based on final written communications with the State of Texas, that it had a liability for sales taxes (including penalties and interest) totaling $1.1 million.  On August 5, 2005, the State of Texas filed a lawsuit in the 53rd Judicial District Court of Travis County, Austin, Texas against the Company.  The lawsuit requests payment of approximately $1.162 million, including penalties and for state and local sales tax.  The sales tax amount due is attributable to audit findings of the State of Texas for the years 1995 to 1999 associated with Canmax Retail Systems ("Canmax"), a former operating subsidiary of ours, which provided retail automation software and related services to the retail petroleum and convenience store industries.

Effective April 30, 2008, the Company entered into a settlement agreement and release with the State of Texas ("State") whereby the State released the Company, with the exception of Canmax, from any and all claims related to the sales tax liability with the State.  In consideration for the release, the Company paid the State $100,000 during the second quarter of fiscal 2008.

Effective April 30, 2008, the Company entered into a purchase agreement to sell Canmax to a third party for a nominal fee.  The sale of Canmax resulted in a gain of $1,062,000, which was classified as a gain on disposal of discontinued operations in the accompanying statement of operations.

Liquidity and Sources of Capital

Our operating activities generated approximately $74 thousand of cash during the first nine 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 July 31, 2009, we had cash and cash equivalents of $176 thousand, a decrease in cash and cash equivalents of $55 thousand from the balance at October 31, 2008.  We had working capital deficits at July 31, 2009 and October 31, 2008 of $5.5 million and $2.1 million, respectively.

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Net cash provided by operating activities during the first nine months of fiscal 2009 was $74 thousand as compared to cash used by operating activities of $1.1 million during the same period of fiscal 2008. During the first nine months of fiscal 2009, to compute operating cash flows, our net loss of $3.3 million was positively adjusted for noncash interest expense of $498 thousand, depreciation and amortization of $1.4 million, share-based compensation expense of $27 thousand, and changes in operating assets and liabilities of $1.5 million, partially offset by the gain on disposal of property of $13 thousand. During the first nine months of fiscal 2008, to compute operating cash flows, our net loss of $474 thousand was positively adjusted for noncash interest expense of $301 thousand, bad debts expense of $53 thousand, depreciation and amortization of $906 thousand, share-based compensation expense of $26 thousand, offset by gains on settlements of liabilities of $1.1 million and $164 thousand, and decreases in operating assets and liabilities of $734 thousand.

Net cash used in investing activities during the first nine months of fiscal 2009 was $60 thousand, which resulted from purchases of property and equipment of $73 thousand, partially offset by proceeds from the sale of property equipment of $13 thousand. Net cash used by investing activities during the first nine months of fiscal 2008 was $37 thousand, which resulted from the purchase of property and equipment of $58 thousand offset by cash received in connection with the One Ring and iBroadband acquisitions.

Net cash used by financing activities during the nine months of fiscal 2009 was $69 thousand, resulting from net advances from the revolving line of credit of $513 thousand, proceeds from the sale of common stock of $30 thousand, offset by payments on capital leases of $514 thousand and payments on notes of $97 thousand. Net cash provided by financing activities during the first nine months of fiscal 2008 was $1.6 million, resulting from proceeds on the sale of common stock of $120 thousand, proceeds from the issuance of convertible debentures of $3.3 million, partially offset by capital lease payments of $212 thousand, payments on related party notes of $50 thousand, payments on notes payable of $1.1 million, and payment of financing fees of $497 thousand.

We have an accumulated deficit of approximately $56.7 million as of July 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. We do not have sufficient capital for the upcoming twelve months without additional debt or equity capital being raised. 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.

## 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.

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## ITEM 4T. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the fiscal quarter ended July 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 third 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.

### Item 1. 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.

Militel Calling Services. On June 29, 2009 the Company received written communication from Militel Calling Services, an independent sales entity indicating that Militel Calling Services was seeking approximately $75,000 in damages based on breach of an Agency Agreement. The Company does not believe any monies are due to Militel Calling Services. Furthermore the Company does not believe it was adequately served for process, and does not intend to communicate with Militel Calling Services in any regard, barring proper legal notice.

### Item 1A. 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 nine months ended July 31, 2009, and fiscal year ended October 31, 2008, we recorded net losses from continuing operations of approximately $3.4 million and $2.5 million, respectively, on revenues from continuing operations of approximately $12.5 million and $17.2 million, respectively. For the nine months ended July 31, 2009, our net loss from continuing operations included approximately $1.9 million 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 first three fiscal quarterly losses 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.

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 two key senior officers.

We rely heavily on our senior management team of Christopher Canfield and Michael Prachar, 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

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 three quarters 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.

Items 2-5.

Not applicable.

Item 6. Exhibits

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)