DIAL THRU INTERNATIONAL CORP
Form 10-Q
March 16, 2004

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended January 31, 2004

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ______ to _____

Commission File Number 0-22636

DIAL THRU INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	75-2461665
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
17383 Sunset Boulevard, Suite 350 Los Angeles, California	90272
(Address of principal executive offices)	(Zip Code)

(310) 566-1700
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of March 12, 2004, 16,189,781 shares of common stock, $.001 par value per share, were outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 2004	October 31, 2003
	(unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	$ 573,279	$ 505,256
Trade accounts receivable, net of allowance for doubtful accounts of $294,265 at January 31, 2004 and $295,094 at October 31, 2003	835,962	872,610
Prepaid expenses and other current assets	248,866	230,997
Total current assets	1,658,107	1,608,863
PROPERTY AND EQUIPMENT, net	1,215,933	1,340,986
GOODWILL, net	1,796,917	1,796,917
OTHER ASSETS	73,168	91,434
NET LONG-TERM ASSETS OF DISCONTINUED OPERATIONS	-	242,334
TOTAL ASSETS	$ 4,744,125	$ 5,080,534
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Current portion of capital leases	$ 134,291	$ 146,140
Trade accounts payable	2,729,822	2,814,472
Accrued liabilities	2,370,952	2,098,939
Deferred revenue	330,596	356,999
Deposits and other payables	428,178	430,678
Convertible debentures, net of debt discount of $102,535 at January 31, 2004	947,465	-
Notes payable, net of debt discount of $17,129 at January 31, 2004 and $2,847 at October 31, 2003	1,232,871	547,153
Notes payable to related parties	2,348,401	2,348,401
Net current liabilities of discontinued operations	1,100,000	2,843,481
Total current liabilities	11,622,576	11,586,263
NOTE PAYABLE, net of debt discount of $22,838 at October 31, 2003	-	1,227,162
CONVERTIBLE DEBENTURES, net of debt discount of $10,756 at October 31, 2003	-	489,244
SHAREHOLDERS' DEFICIT		
Preferred stock, $.001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, $.001 par value; 44,169,100 shares authorized; 16,201,803 shares issued at January 31, 2004 and October 31, 2003	16,202	16,202
Additional paid-in capital	39,174,322	39,070,237
Accumulated deficit	(46,014,105)	(47,253,704)
Treasury stock, 12,022 common shares at cost	(54,870)	(54,870)
Total shareholders' deficit	(6,878,451)	(8,222,135)

TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 4,744,125	$ 5,080,534

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

DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended January 31,	
	2004	2003
REVENUES	$ 4,344,692	$ 4,275,580
COSTS AND EXPENSES		
Costs of revenues	3,327,061	3,032,303
Sales and marketing	181,809	199,240
General and administrative	803,059	1,054,802
Depreciation and amortization	154,754	426,033
Total costs and expenses	4,466,683	4,712,378
Operating loss	(121,991)	(436,798)
OTHER INCOME (EXPENSE)		
Interest expense and financing costs	(95,595)	(254,417)
Related party interest expense and financing costs	(58,710)	(140,657)
Foreign currency exchange gains	14,748	3,486
Total other income (expense), net	(139,557)	(391,588)
LOSS FROM CONTINUING OPERATIONS	(261,548)	(828,386)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of income taxes of $0 for all periods	1,501,147	(253,727)
NET INCOME (LOSS)	$ 1,239,599	$(1,082,113
NET INCOME (LOSS) PER SHARE:		
Basic and diluted net income (loss) per share		
Continuing operations	$ (0.01)	$ (0.05)
Discontinued operations	0.09	(0.02)
	$ 0.08	$ (0.07)
SHARES USED IN THE CALCULATION OF PER SHARE AMOUNTS:		
Basic and diluted common shares	16,189,781	15,720,053

The accompanying notes are an integral part of these consolidated financial statement

DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended January 31, 2004	Three Months Ended January 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
Net loss from continuing operations	$ (261,548)	$ (828,386)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:		
Bad debt expense	-	10,000
Non-cash interest expense (including related party interest of $0 and $81,947)	41,128	260,396
Depreciation and amortization	154,754	426,033
Effects of changes in foreign exchange rates	-	12,399
(Increase) decrease in:		
Trade accounts receivable	36,648	138,331
Prepaid expenses and other current assets	(17,869)	(49,394)
Other assets	(2,000)	23,283
Increase (decrease) in:		
Trade accounts payable	(74,541)	(629,038)
Accrued liabilities	272,013	177,440
Deferred revenue	(26,403)	57,780
Deposits and other payables	(2,500)	-
Net cash provided by (used in) operating activities of continuing operations	119,682	(401,156)
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS		
Purchase of property and equipment	(29,701)	(21,207)
Net cash used in investing activities of continuing operations	(29,701)	(21,207)
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
Proceeds from note payable	-	1,250,000
Payments on capital leases	(21,958)	(46,317)
Deferred financing fees	-	(47,441)
Payments on convertible debentures	-	(443,000)
Net cash provided by (used in) financing activities of continuing operations	(21,958)	713,242
NET CASH USED IN DISCONTINUED OPERATIONS	-	(71,851)
NET INCREASE IN CASH AND CASH EQUIVALENTS	68,023	219,028
Cash and cash equivalents at beginning of period	505,256	269,313
Cash and cash equivalents at end of period	$ 573,279	$ 488,341

SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES
Conversion of convertible debenture and accrued

interest to common stock	$ -	$ 55,734
Fair value of warrants issued with debt	-	45,677
Beneficial conversion feature of convertible debentures recorded as debt discount	104,085	-
Note payable replaced by convertible debenture	550,000	-

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

DIAL THRU INTERNATIONAL CORPORATION
AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - OPERATIONS AND BASIS OF PRESENTATION

The consolidated financial statements of Dial Thru International Corporation and its subsidiaries, "DTI" or "the Company", included in this Form 10-Q are unaudited and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and operating results for the three month periods ended January 31, 2004 and 2003 have been included. Operating results for the three month period ended January 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended October 31, 2003.

The Company is a full service, facility-based provider of communication products to small and medium size businesses, both domestically and internationally. The Company provides a variety of international and domestic communication services including international dial thru, Internet voice and fax services, e-commerce solutions and other value-added communication services, using its Voice over Internet Protocol ("VoIP") Network to effectively deliver these services to the end user.

In addition to helping customers achieve significant savings on long-distance voice and fax calls by routing calls over the Internet, the Company also offers new opportunities for existing Internet Service Providers who want to expand into voice services, private corporate networks seeking to lower long-distance costs, and Web-enabled corporate call centers engaged in electronic commerce.

The Company has recently introduced Internet phones to the end user, business or consumer. These phones allow the user to make calls from phone to phone absolutely free and enjoy huge savings using these phones at their home or office and traveling domestically or abroad as their phone and number follow them everywhere. Not only does the customer enjoy huge savings in local, long distance and international calling, they can save by not having to pay for taxes and regulatory fees customary with normal phone lines. In addition, bulk minute buying, such as unlimited calling to the US from abroad for a single user has set a new standard for international calling.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - GOING CONCERN

The Company has an accumulated deficit of approximately $46.0 million as well as a working capital deficit of approximately $10.0 million as of January 31, 2004. Funding of the Company's working capital deficit, current and future operating losses, and expansion will require continuing capital investment. The Company expects to fund these cash requirements through debt facilities, additional equity financing and potentially through cash generated by operations.

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 and expansion strategies. The Company will continue to explore external financing opportunities and renegotiation of its short-term debt with its current financing partners in order to extend the terms or retire these obligations. Approximately 52% of the short-term debt is due to the senior management of the Company. Management is committed to the growth and success of the Company as is evidenced by the level of financing it has made available to the Company.

As a result of the aforementioned factors and related uncertainties, there is doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible effects of recoverability and classification of assets or classification of liabilities which may result from the inability of the Company to continue as a going concern.

NOTE 3 - CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

The Company provided wholesale services to a single customer who accounted for 20% of the overall revenue of the Company for the three months ended January 31, 2004 and 11% of the Company's trade accounts receivable at January 31, 2004. The Company also provided wholesale services to another customer who accounted for 16% of the overall revenue of the Company for the three months ended January 31, 2004 and 26% of the Company's trade accounts receivable at January 31, 2004.

NOTE 4 - STOCK-BASED COMPENSATION

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company accounts for its stock-based employee compensation plans using the intrinsic valued method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. As such, compensation expense is recorded on the date of grant to the extent the current market price of the underlying stock exceeds the option exercise price. The Company did not record any stock-based compensation expense in the three months ended January 31, 2004 and 2003.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and

Disclosure" ("SFAS 148"), which amends SFAS 123. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. The Company anticipates that it will continue to apply APB 25. Accordingly, the Company believes that the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

Had the Company determined compensation based on the fair value at the grant date for its stock options in accordance with SFAS 123, as amended by SFAS 148, net income (loss) and net income (loss) per share would have been as follows:

	Three Months Ended January 31, 2004	Three Months Ended January 31, 2003
Net income (loss), as reported	$ 1,239,599	$ (1,082,113)
Add: Stock-based employee compensation included in reported net income (loss)	-	-
Deduct: Stock-based employee compensation expense determined under fair value based method	(44,553)	(61,463)
	$ 1,195,046	$ (1,143,576)
Net income (loss) per share		
As reported		
Basic and diluted	$ 0.08	$ (0.07)
Pro forma		
Basic and diluted	$ 0.07	$ (0.07)

The fair values under FAS 123 for options granted were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Three Months Ended January 31, 2004	Three Months Ended January 31, 2003
Expected life (years)	2	3
Interest rate	3%	4%
Volatilty	215%	221%
Dividend yield	0%	0%

NOTE 5 - DISCONTINUED OPERATIONS

Rapid Link Telecommunications GMBH

In the fourth quarter of fiscal year 2003, the Company's German Subsidiary, Rapid Link Telecommunications GMBH ("Rapid Link Germany"), filed for insolvency. The net liability of approximately $2.3 million was included in the balance sheet and classified as Discontinued Operations. During the quarter ended January 31, 2004, the Company determined that it no longer controlled the operations of this subsidiary and that the parent entity had no legal obligation to pay the liabilities of Rapid Link Germany. Accordingly, the Company has written off the remaining net liability of $2,251,000 and included the gain in Discontinued Operations during the first quarter of fiscal year 2004.

The following table presents selected unaudited financial information for Rapid Link Germany for the quarter ended January 31, 2003:

	Three Months Ended January 31, 2003
Revenue	$ 1,379,121
Net Loss	$ (253,727)

Canmax Retail Systems

During the quarter ended January 31, 2004, the Company determined based on final written communications with the State of Texas that the liability for sales taxes (including penalties and interest) totaled $1.1 million. The Company had previously accrued an estimated settlement amount of $350,000. During the quarter ended January 31, 2004, the Company accrued an additional $750,000. The sales tax amount due is attributable to audit findings of the Company's former parent, Canmax Retail Systems, from the State of Texas for the years 1995 to 1999. These operations were previously classified as discontinued after the Company changed its business model from a focus on domestic prepaid phone cards to international wholesale and retail business, operating as a facilities-based global Internet protocol communications company providing connectivity to international markets. The State of Texas determined that the Company did not properly remit sales tax on certain transactions. The Company's current and former management believe that the amount due has not been properly assessed and will continue to pursue a lesser settlement amount. Since this sales tax liability represents an adjustment to amounts previously reported in Discontinued Operations, the amount is classified in the current period as Discontinued Operations. The Company's estimated liability at January 31, 2004 is $1.1 million and is included in the Balance Sheet as Discontinued Operations. (See Note 7.)

NOTE 6 - NOTE PAYABLE

In July 2003, the Company executed a 10% note payable (the "GCA-Note") with GCA Strategic Investment Fund Limited, which provided financing of $550,000. The GCA-Note provided for a maturity date of December 23, 2003 and is unsecured. In the event the GCA-Note was not repaid in full within 10 days of the maturity date, the GCA-Note shall be replaced by a 6% convertible debenture. This convertible debenture would have a maturity date of November 8, 2004 and be secured by certain property and equipment held for resale. The conversion price would be equal to the lesser of (i) 100% of the volume weighted average of sales price as reported by the Bloomberg L.P. of the common stock on the last trading day immediately preceding the Closing Date and (ii) 85% of the average of the three lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty Trading Days immediately preceding but not including the date of the related Notice of Conversion (the "Formula Conversion Price"). In an event of default, the amount declared due and payable on the Debenture would be at the Formula Conversion Price. In the event the GCA-Note was replaced by a convertible debenture, the GCA-Note would have a beneficial conversion feature. In accordance with EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF-98-5"), the intrinsic value of the beneficial conversion feature was calculated as approximately $104,000 at the commitment date using the stock price as of that date, and would be recorded if the note was not repaid as noted above.

The GCA-Note matured during December 2003 and, accordingly, since the GCA-Note remained unpaid as of January 2004, the Company replaced the note with a convertible debenture. Upon the replacement of the GCA-Note with a convertible debenture, the Company recorded the debt discount of $104,000 and is amortizing this discount over the life of the new convertible debenture. During the three months ended January 31, 2004, the Company recorded approximately $10,000 as interest expense relating to the amortization of the debt discount. In connection with the GCA-Note, the Company paid $35,000 as financing fees, which were capitalized and amortized over the original life of the GCA-Note. For the three months ended January 31, 2004, the Company recorded approximately $13,000 as interest expense relating to these deferred financing fees. The Company also issued to the holder of the GCA-Note warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of $0.14 per share, which expire on July 24, 2008. The Company recorded a debt discount of approximately $7,000, the fair value of the warrants, relating to the issuance of the warrants. For the three months ended January 31, 2004, the Company recorded approximately $3,000 as interest expense relating to the warrants.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

On June 12, 2001, Cygnus Telecommunications Technology, LLC ("Cygnus"), filed a patent infringement suit (case no. 01-6052) in the United States District court, Central District of California, with respect to the Company's "international reorigination" technology. The injunctive relief that Cygnus sought in this suit has been denied, but Cygnus continues to seek a license fee for the use of the technology. The Company believes that no license fee is required as the technology described in the patent is different from the technology used by the Company.

In August 2002, Cygnus filed a motion for a preliminary injunction to prevent the Company from providing "reorigination" services. The Company filed a cross motion for summary judgment of non-infringement. Both motions were denied. On August 22, 2003, the Company re-filed the motion for summary judgment for non-infringement. The Company has not received a decision regarding this filing. The Company intends to continue defending this case vigorously, though its ultimate legal and financial liability with respect to such legal proceeding cannot be estimated with any certainty at this time.

The State of Texas ("State") performed a sales tax audit of the Company's former parent, Canmax Retail Systems ("Canmax"), for the years 1995 to 1999. The State determined that the Company did not properly remit sales tax on certain transactions, including asset purchases and software development projects that Canmax performed for specific customers. The Company's current and former managements filed exceptions, through its outside sales tax consultant, to the State's audit findings, including the non-taxable nature of certain transactions and the failure of the State to credit the Company's account for sales tax remittances. In correspondence from the State in June 2003, the State agreed to consider offsetting remittances received by Canmax during the audit period. The State has refused to consider other potential offsets. Based on this correspondence with the State, Management's estimate of the potential liability was originally recorded at $350,000 during the fiscal year ended October 31, 2003. Based on further correspondence with the State, this estimated liability was increased to $1.1 million during the first quarter of 2004. Since this sales tax liability represents an adjustment to amounts previously reported in discontinued operations, it is classified separately in the current period in discontinued operations, and is included in the January 31, 2004 consolidated balance sheet in "Net current liabilities from discontinued operations". Management does not believe the State's position reflects the appropriate amount of tax remitted during the audit period mentioned above and will continue to pursue this issue with the State. The Company is also aggressively pursuing the collection of unpaid sales taxes from former customers of Canmax.

NOTE 8 - RECLASSIFICATIONS

Certain reclassifications were made to the 2003 consolidated financial statements to conform to current year presentation.

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

The following discussion and analysis of financial condition and results of operations covers the three-month periods ended January 31, 2004 and 2003 and should be read in conjunction with our financial statements and the notes thereto.

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as "projects", "believe", "anticipates", "estimate", "plans", "expect", "intends", and similar words and expressions are intended to identify forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Factors that could cause actual results to differ materially from such expectations are disclosed in our annual report on Form 10-K for the year ended October 31, 2003. All of our forward-looking statements are expressly qualified in their entirety by such language and we do not undertake any obligation to update any forward-looking statements. You are also urged to carefully review and consider the various disclosures we have made throughout this report on Form 10-Q which describe certain factors which affect our business.

General

On November 2, 1999, we acquired (the "DTI Acquisition") substantially all of the business and assets of Dial Thru International Corporation, a California corporation, and, on January 19, 2000, we changed our name from ARDIS Telecom & Technologies, Inc. to "Dial Thru International Corporation." Our common stock currently trades on the OTC Bulletin Board under the symbol "DTIX." In the second quarter of fiscal 2000, we shifted focus toward our global VoIP strategy. This strategy allows us to form local partnerships with foreign Postal, Telephone and Telegraph companies (those entities responsible for providing telecommunications services in foreign markets and are usually government owned or controlled) and to provide IP enabled services based on the in-country regulatory environment affecting telecommunications and data providers.

During the fourth quarter of fiscal 2001, we acquired the assets and certain of the liabilities of Rapid Link, Incorporated, ("Rapid Link") a provider of integrated data and voice communications services to both wholesale and retail customers around the world. Rapid Link's global VoIP network reaches thousands of retail customers, primarily in Europe and Asia. This acquisition has significantly enhanced our product lines, particularly our Dial Thru and Re-origination services, Global Roaming products, and wholesale termination. Furthermore, the acquisition has allowed us to roll out services to additional international markets and more rapidly expand our VoIP strategy due to the engineering and operational expertise acquired in the transaction.

On November 19, 2002 we entered into an agreement with Global Capital Funding Group, L.P. that provided us with a two-year loan of $1.25 million. A portion of the proceeds from this financing were used to pay off the remaining balance of Dial Thru's April 2001 convertible debenture with Global Capital while the remaining $807,000 has been used for our ongoing working capital needs.

On January 27, 2003, we amended our 6% convertible debenture with GCA Strategic Investment Fund Limited to change the debenture's maturity date from January 28, 2003 to November 8, 2004. In addition, we adjusted the exercise price of the existing warrants to purchase 50,000 shares of common stock to $0.41 and issued warrants to purchase 100,000 shares of common stock at an exercise price of $0.21 which expire on February 8, 2008.

On January 27, 2003, we amended our 10% convertible notes with three of our executives to change the notes' maturity dates from October 24, 2003 to February 24, 2004. The notes are currently due on demand.

On July 24, 2003 we entered into an agreement with GCA Strategic Investment Fund Limited that provided us with a loan of $550,000, which has been and will be used for the Company's ongoing working capital needs. During January 2004, as per the terms of the agreement, this loan became a convertible debenture with a maturity date of November 8, 2004.

On August 1, 2003, our German Subsidiary, Rapid Link Telecommunications GMBH, received approval for it's insolvency filing and has been turned over to a trustee who is responsible for liquidating the operation. During the quarter ended January 31, 2004, we determined that we no longer controlled the operations of this subsidiary and that the parent entity had no legal obligation to pay the liabilities of Rapid Link Telecommunications GMBH. Accordingly, we have written off the remaining net liability of $2,251,000 and included the gain in Discontinued Operations during the first quarter of fiscal year 2004.

Critical Accounting Policies

The consolidated financial statements include our accounts and those of our majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these consolidated financial statements, we have made certain estimates and judgments of amounts included in the consolidated financial statements, giving due consideration to materiality. The application of these accounting policies involves the exercise of judgment and use of available information, historical results and other assumptions. As a result, actual results could differ from these estimates.

Revenue Recognition

Our revenues are generated at the time a customer uses our network to make a phone call. We sell our services to small and medium-sized enterprises ("SMEs") and end-users who utilize our network for international re-origination and dial thru services, and to other providers of long distance usage who utilize our network to deliver domestic and international termination of minutes to their own customers. At times, we receive payment from our customers in advance of their usage, which we record as deferred revenue, recognizing revenue as calls are made. The Securities and Exchange Commission's Staff Accounting Bulletin No. 104, "Revenue Recognition", which superceded SAB 101, "Revenue Recognition in Financial Statements", provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. We have concluded that our revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and SAB No. 104.

Allowance for Uncollectible Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. All of our receivables are due from commercial enterprises and residential users in both domestic and international markets. The estimated allowance for uncollectible amounts is based primarily on our evaluation of the financial condition of the customer, and our estimation of the customer's willingness to pay amounts due. We review our credit policies on a regular basis and analyze the risk of each prospective customer individually in order to minimize our risk.

Goodwill and Other Long-Lived Assets

Property, plant and equipment and other long-lived assets are amortized over their useful lives. Useful lives are based on our estimate of the period that the assets will generate revenue. Goodwill is assessed for impairment at least annually.

Financing, Warrants and Amortization of Warrants and Fair Value Determination

We have traditionally financed our operations through the issuance of debt instruments that are convertible into our common stock, at conversion rates at or below the fair market value of our common stock at the time of conversion, and typically include the issuance of warrants. We have recorded these financing transactions in accordance with Emerging Issues Task Force Nos. 98-5 and 00-27. Accordingly, we recognize the beneficial conversion feature imbedded in the financings and the fair value of the related warrants on the balance sheet as debt discount. The debt discount is amortized over the life of the respective debt instrument.

Carrier Disputes

We review our vendor bills on a monthly basis and periodically dispute amounts invoiced by our carriers. We record cost of revenues excluding these disputed amounts. We review our outstanding disputes on a quarterly basis as part of the overall review of our accrued carrier costs, and adjust our liability based on management's estimate of amounts owed.

Components of Statements of Operations

Revenues

Our primary source of revenue is the sale of voice and fax traffic internationally over our VoIP network, which is measured in minutes, primarily to SMEs, residential users, and wholesale customers. We charge our customers a fee per minute of usage that is dependent on the destination of the call and is recognized in the period in which the call is completed.

Costs of Revenues

Our costs of revenues are termination fees, purchased minutes and fixed costs for specific international and domestic Internet circuits and private lines used to transport our minutes. Termination fees are paid to local service providers and other international and domestic carriers to terminate calls received from our network. This traffic is measured in minutes, at a negotiated contract cost per minute. Our fixed costs are insignificant, consisting primarily of low cost Internet access.

General and Administrative Expenses

General and administrative expenses include salaries, payroll taxes, benefit expenses and related costs for general corporate functions, including executive management, finance and administration, legal and regulatory, information technology and human resources. Sales and marketing expenses include salaries, payroll taxes, benefits and commissions that we pay for sales personnel and advertising and marketing programs, including expenses relating to our outside public relations firms. Interest expense and financing costs relate primarily to the amortization of deferred financing fees and debt discounts on our various debt instruments.

RESULTS OF OPERATIONS

Our operating results for the quarters ended January 31, 2004 and 2003 are as follows:

	Quarter Ended Jan 31, 2004	% of Revenue Quarter Ended Jan 31, 2004	% Change Q1 2004 to Q1 2003 Increase (Decrease)	Quarter Ended Jan 31, 2003	% Qu Ja
REVENUES	$ 4,344,692	100%	2%	$ 4,275,580	
COSTS AND EXPENSES					
Costs of revenues	3,327,061	77%	10%	3,032,303	
Sales and marketing	181,809	4%	(9%)	199,240	
General and administrative	803,059	18%	(24%)	1,054,802	
Depreciation and amortization	154,754	4%	(64%)	426,033	
Total costs and expenses	4,466,683	103%	(5%)	4,712,378	
Operating loss	(121,991)	(3%)	(72%)	(436,798)	
OTHER INCOME (EXPENSE)					
Interest expense and financing costs	(154,305)	(4%)	(61%)	(395,074)	
Foreign exchange	14,748	-	323%	3,486	
Total other income (expense), net	(139,557)	(3%)	(64%)	(391,588)	
LOSS FROM CONTINUING OPERATIONS	(261,548)	(6%)	(68%)	(828,386)	
INCOME (LOSS) FROM DISCONTINUED OPERATIONS NET OF INCOME TAXES OF $0 FOR ALL PERIODS	1,501,147	35%	(692%)	(253,727)	
NET INCOME (LOSS)	$ 1,239,599	29%	(215%)	$ (1,082,113)	

NET INCOME (LOSS) PER SHARE:		
Basic and diluted net income (loss) per share		
Continuing operations	$ (0.01)	$ (0.05)
Discontinued operations	0.09	(0.02)
	$ 0.08	$ (0.07)
SHARES USED IN THE CALCULATION OF PER SHARE AMOUNTS:		
Basic and diluted common shares	16,189,781	15,720,053

RESULTS OF OPERATIONS - COMPARISON OF THE THREE MONTHS ENDED JANUARY 31, 2004 AND 2003

REVENUES

For the three months ended January 31, 2004, 78% and 22% of our revenues were derived from our wholesale and retail customers, respectively, compared to 60% and 40%, respectively, for the three months ended January 31, 2003. Our wholesale revenues have increased by 32% from the three months ended January 31, 2003 compared to the three months ended January 31, 2004, while our retail revenues have decreased by 44% over the comparable period.

The increase in wholesale revenues for the three months ended January 31, 2004 is attributable to additions to our wholesale sales force during fiscal year 2002, which focuses on developing greater wholesale opportunities both in customer growth and the development of additional points of termination. We have successfully added new customers and increased our termination points. The decrease in retail revenues for the three months ended January 31, 2004 is primarily attributable to increased competition in our largest foreign markets, including competition from the incumbent phone company in each market. Furthermore, a significant portion of our retail business comes from members of the United States military stationed in foreign markets. The redeployment of troops into Iraq, where the Company has not historically provided long distance service, in March 2003 resulted in a decline in retail customers. We anticipate being able to offer services to these same troops in Iraq sometime in the first half of 2004 and we are exploring opportunities to grow our retail business through advertising and the introduction of new products and services.

OPERATING EXPENSES

Costs of revenues: Our costs of revenues as a percentage of revenues has increased due to a decline in our retail traffic which realizes higher margins than our wholesale traffic. As 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 period to period, depending on the traffic mix between our wholesale and retail products.

Sales and Marketing Expenses: A significant component of our revenues is generated by outside agents or through newspaper and periodical advertising, which is managed by a small in-house sales and marketing organization. We will continue to focus our sales and marketing efforts on newspaper and periodical 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: We have significantly reduced our general and administrative costs for the three months ended January 31, 2004 through the elimination of personnel and personnel related costs. We review our general and administrative expenses regularly, and continue to manage the costs accordingly to support the current and anticipated future business.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization has decreased as a portion of our assets still in use have become fully depreciated, including a majority of the assets acquired from Rapid Link. A majority of our depreciation and amortization expense relates to the equipment utilized in our VoIP network. In accordance with Statement of Accounting Standards No. 142, effective November 1, 2001, we no longer amortize goodwill.

INTEREST EXPENSE AND FINANCING COSTS

Interest expense and financing costs were due primarily to the amortization of deferred financing fees and debt discount on our convertible debentures and our related party notes payable. The decrease in interest expense and financing costs from the quarter ended January 31, 2003 to the quarter ended January 31, 2004 is primarily due to our related party notes payable reaching their maturity date during the fourth quarter of 2003 as well as the early repayment of one of our convertible debentures through the issuance of a note payable during the first quarter of 2003. All unamortized debt discount associated with this convertible debenture was expensed at the time of repayment. A further explanation of these changes can be found in the Liquidity and Capital Resources section.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS

Income (loss) from discontinued operations relates to our Germany subsidiary and a sales tax settlement.

In the fourth quarter of fiscal 2003, our German Subsidiary, Rapid Link Telecommunications GMBH, filed for insolvency. The net liability associated with the disposal of the assets and liabilities of Rapid Link Telecommunications GMBH of approximately $2.3 million was included in the balance sheet and classified as Discontinued Operations. During the quarter ended January 31, 2004, we determined that we no longer controlled the operations of this subsidiary and that the parent entity had no legal obligation to pay the liabilities of Rapid Link Telecommunications GMBH. Accordingly, we have written off the remaining net liability of $2,251,000 and included the gain in Discontinued Operations during the first quarter of fiscal year 2004.

During the quarter ended January 31, 2004, we determined based on final written communications with the State of Texas that the liability for sales taxes (including penalties and interest) totaled $1.1 million. We had previously accrued an estimated settlement amount of $350,000. Accordingly, we accrued an additional $750,000. The sales tax amount due is attributable to audit findings of our former parent, Canmax Retail Systems, from the State of Texas for the years 1995 to 1999. These operations were previously classified as discontinued after we changed our business model from a focus on domestic prepaid phone cards to international wholesale and retail business, operating as a facilities-based global Internet protocol communications company providing connectivity to international markets. The State of Texas determined that we did not properly remit sales tax on certain transactions. Our current and former management believe that the amount due has not been properly assessed and will continue to pursue a lesser settlement amount. Since this sales tax liability represents an adjustment to amounts previously reported in Discontinued Operations, the amount is classified in the current period as Discontinued Operations. (See Note 7 to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

The growth model for our business provides for rapid expansion of our network infrastructure through the addition of new VoIP hardware, which can be purchased and entered into service in a matter of days. This allows us to add customers and additional points of termination on an as needed basis, avoiding significant network build out well in advance of anticipated growth, however, the rate of growth is dependent on the availability of future financing for capital resources. Our funding of additional infrastructure development will be provided through the operations of our telecommunications business and externally through debt and/or equity offerings. We plan to obtain vendor financing for any equipment needs associated with expansion. We believe that, with sufficient capital, we can significantly accelerate our growth plan. Our failure to obtain additional financing could delay the implementation of our business plan and have a material adverse effect on our business, financial condition and operating results.

At January 31, 2004, we had cash and cash equivalents of $573,000, an increase of $68,000 from the balance at October 31, 2003. We had significant working capital deficits at both January 31, 2004 and 2003.

Net cash provided by operating activities of continuing operations was $120,000 for the three months ended January 31, 2004, compared to net cash used in operating activities of continuing operations of $401,000 for the three months ended January 31, 2003. The net cash provided by operating activities of continuing operations for the three months ended January 31, 2004 was due to a net loss of $262,000 adjusted for: non-cash interest expense of $41,000; depreciation and amortization of $155,000; and net changes in operating assets and liabilities of $185,000. For the three months ended January 31, 2003, the net cash used in operating activities of continuing operations of $401,000 was primarily due to a net loss of $828,000 adjusted for: non-cash interest expense of $260,000; depreciation and amortization of $426,000; and net changes in operating assets and liabilities of ($282,000).

During the three months ended January 31, 2004, net cash used in investing activities of continuing operations was $30,000, compared to $21,000 for the three months ended January 31, 2003. This is due to capital expenditures for both periods.

Net cash used in financing activities of continuing operations for the three months ended January 31, 2004, totaled $22,000, compared to net cash provided by financing activities of continuing operations of $713,000 for the three months ended January 31, 2003. For the three months ended January 31, 2004, net cash used in financing activities from continuing operations is due to payments on capital leases. For the three months ended January 31, 2003, the significant components of net cash provided by financing activities of continuing operations included $1,250,000 in proceeds from the issuance of a note payable; offset by $46,000 in payments on capital leases; $47,000 of deferred financing fees; and $443,000 in payments on convertible debentures.

We are subject to various risks in connection with the operation of our 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 our business strategy or an inability to execute our strategy due to unanticipated changes in the market, (v) various competitive factors that may prevent us from competing successfully in the marketplace, (vi) our lack of liquidity, and (vii) our ability to raise additional capital. We have an accumulated deficit of approximately $46.0 million as of January 31, 2004, 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. Our strategy is to fund these cash requirements through operations, debt facilities and additional equity financing.

Although we have 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 us. As of January 31, 2004, we had $4.6 million of notes payable and convertible debentures which mature within the next year as well as a significant amount of trade payables and accrued liabilities which are past due. We will continue to explore external financing opportunities and renegotiation of our short-term debt with our current financing partners in order to extend the terms or retire these obligations. Approximately 52% of the short-term debt is due to our senior management. Our management is committed to the growth and success of our Company as is evidenced by the level of financing it has made available to our Company. Failure to obtain sufficient capital could materially affect our Company's operations and expansion strategies. As a result of the aforementioned factors and related uncertainties, there is doubt about our Company's ability to continue as a going concern.

Our current capital expenditure requirements are not significant, primarily due to the equipment acquired from Rapid Link. Our capital expenditures for the three months ended January 31, 2004 were $30,000 and we do not anticipate significant spending for the remainder of fiscal 2004.

In April 2001, we executed a 6% convertible debenture with Global Capital Funding Group L.P, which provided financing of $1,000,000. During November 2002, the Debenture's outstanding balance of $443,000 was paid in full pursuant to an issuance of a note payable with Global Capital Funding Group L.P.

In October 2001, we executed 10% convertible notes (the "Notes") with three of our executives, which provided financing of $1,945,958. The Notes were amended and are now currently due on demand. These Notes are secured by selected Company assets and are convertible into our common stock at the option of the holder at any time prior to maturity. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. We also issued to the holders of the Notes warrants to acquire an aggregate of 1,945,958 shares of common stock at an exercise price of $0.78 per share, which warrants expire on October 24, 2006. For the year ended October 31, 2002, an additional $402,433 was added to the Notes and an additional 402,433 warrants to acquire our common stock were issued in connection with the financing.

In January 2002, we executed a 6% convertible debenture (the "Second Debenture") with GCA Strategic Investment Fund Limited, which provided financing of $550,000. With an original maturity date of January 28, 2003, the Second Debenture was amended during fiscal year 2003 and now matures on November 8, 2004. The conversion price is equal to the lesser of (i) 100% of the volume weighted average of sales price as reported by the Bloomberg L.P. of the common stock on the last trading day immediately preceding the Closing Date ("Fixed Conversion Price") and (ii) 85% of the average of the three (3) lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty (20) Trading Days immediately preceding but not including the date of the related Notice of Conversion ("the "Formula Conversion Price"). In an event of default the amount declared due and payable on the Second Debenture shall be at the Formula Conversion Price.

In November 2002, we executed a 12% note payable (the "GC-Note") with Global Capital Funding Group, L.P., which provided financing of $1,250,000. The GC-Note's maturity date is November 8, 2004. The Company also issued to the holder of the GC-Note warrants to acquire an aggregate of 500,000 shares of common stock at an exercise price of $0.14 per share, which expire on November 8, 2007.

In July 2003, we executed a note payable (the "GCA-Note") with GCA Strategic Investment Fund Limited, which provided financing of $550,000. The GCA-Note's terms are the same as those of the Second Debenture. We also issued to the holder of the GCA-Note warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of $0.14 per share, which expire on July 24, 2008.

Risk Factors

Our cash flow may not be sufficient to satisfy our cost of operations

For the three months ended January 31, 2004, we recorded a net profit of $1.2 million, which included discontinued operations non-cash income of $1.5 million, and for the years ended October 31, 2003 and 2002, we recorded net losses of approximately $6.6 million and $4.7 million, respectively, on revenues of approximately $4.3 million, $17.7 million and $18.4 million, respectively. As a result, we currently have a significant working capital deficit. In addition, we have a significant amount of trade payables and accrued liabilities, of which approximately 29% is past due. To be able to service our debt obligations over the course of the 2004 fiscal year we must generate significant cash flow and obtain additional financing. If we are unable to do so or otherwise to obtain funds necessary to make required payments on our trade debt and other indebtedness, we may not be able to continue our operations.

Our operating history makes it difficult to accurately assess our general prospects in the VoIP portion of the telecommunications industry and the effectiveness of our business strategy. 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 will be sufficient to satisfy our debt obligations and working capital needs.

To implement our business strategy, we will also need to seek additional financing. There is no assurance that adequate levels of additional financing will be available at all or on acceptable terms. In addition, any additional financing will likely result in significant dilution to our existing stockholders. If we are unable to obtain additional financing on terms that are acceptable to us, we could be forced to dispose of assets to make up for any shortfall in the payments due on our debt under circumstances that might not be favorable to realizing the highest price for those assets. A portion of our assets consist of intangible assets, the value of which will depend upon a variety of factors, including the success of our business. As a result, if we do need to sell any of our assets, we cannot assure you that our assets could be sold quickly enough, or for amounts sufficient, to meet our obligations.

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. If we are unable to provide value-added Internet products and services then we will be unable to compete in certain segments of the market, which could have an adverse impact on our business.

The regulatory environment in our industry is very uncertain

The legal and regulatory environment pertaining to the Internet is uncertain and changing rapidly as the use of the Internet increases. For example, in the United States, the FCC is considering whether to impose surcharges or additional regulations upon certain providers of Internet telephony.

In addition, the regulatory treatment of Internet telephony outside of the United States varies from country to country. There can be no assurance that there will not be legally imposed interruptions in Internet telephony in these and other foreign countries. Interruptions or restrictions on the provision of Internet telephony in foreign countries may adversely affect our ability to continue to offer services in those countries, resulting in a loss of customers and revenues.

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 existing 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 Internet telephony 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 need to develop and maintain strategic relationships around the world to be successful

Our international business, in part, is dependent upon relationships with distributors, governments or providers of telecommunications services in foreign markets. The failure to develop or maintain these relationships could have an adverse impact on our business.

We rely on two key senior executives

Our success is dependent on our senior management team of John Jenkins and Allen Sciarillo and our future success will depend, in large part, upon our ability to retain these two individuals.

The expansion of our VoIP product offerings is essential to our survival

We intend to expand our VoIP network and the range of enhanced telecommunications 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 common stock price may fluctuate substantially and your investment could suffer a decline in value.

The market price of our common stock may be volatile and could fluctuate substantially from quarter to quarter and year to year due to a number of factors, many of which are beyond our control and some of which are only indirectly related to our business, including:

* actual or anticipated fluctuations in our net revenue or operating results;

* our failure to meet the expectations of market analysts or investors with respect to our financial performance;

* actual or anticipated changes in our growth rate;

* actual or anticipated fluctuations in our competitors' operating results or change in their growth rate;

* the sale of our common stock or other securities in the future;

* our ability to raise additional capital;

* the trading volume of our common stock; and

* changed market conditions in our industry, the industries of our customers, the financial markets and the economy as a whole.

Several of our outstanding notes are convertible into our common stock at a price that fluctuates based on the market price of our common stock. A material decrease in the market price of our common stock could result in the issuance of a significant number of additional shares of our common stock upon the conversion of these notes. This, in turn, may result in significant dilution to our stockholders and could further depress the market price of your investment.

In addition, the stock market in general, and stocks quoted on the OTC Bulletin Board in particular, have experienced extreme price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of the quoted companies. These broad market factors may materially harm the market price of our common stock, regardless of our operating performance.

Our OTC Bulletin Board listing negatively affects the liquidity of our common stock

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 investor desires to dispose of any shares of the 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 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our retail services are provided primarily to customers located outside of the U.S., thus, our financial results could be impacted by foreign currency exchange rates and market conditions abroad. However, the aggregate impact of any likely exchange rate fluctuations would be immaterial as most of our services are paid for in U.S. dollars. A strong dollar could make the cost of our services more expensive than the services of non-U.S. based providers in foreign markets. We have not used derivative instruments to hedge our foreign exchange risks though we may choose to do so in the future.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

2.1 Agreement and Plan of Merger dated as of January 30, 1998, among Canmax Inc., CNMX MergerSub, Inc. and US Communications Services, Inc. (filed as Exhibit 2.1 to Form 8-K dated January 30, 1998 (the "USC 8-K"), and incorporated herein by reference)

2.2 Rescission Agreement dated June 15, 1998 among Canmax Inc., USC and former principals of USC (filed as Exhibit 10.1 to Form 8-K dated January 15, 1998 (the "USC Rescission 8-K"), and incorporated herein by reference)

2.3 Asset Purchase Agreement by and among Affiliated Computed Services, Inc., Canmax and Canmax Retail Systems, Inc. dated September 3, 1998 (filed as Exhibit 10.1 to the Company's Form 8-K dated December 7, 1998 and incorporated herein by reference)

2.4 Asset Purchase Agreement dated November 2, 1999 among ARDIS Telecom & Technologies, Inc., Dial Thru International Corporation, a Delaware corporation, Dial Thru International Corporation, a California corporation, and John Jenkins (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 2, 1999 and incorporated herein by reference)

2.5 Stock and Asset Purchase Agreement, dated as of September 18, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.1 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)

2.6 First Amendment to Stock and Asset Purchase Agreement, dated as of September 21, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.2 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)

2.7 Second Amendment to Stock and Asset Purchase Agreement, dated as of October 12, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.3 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)

2.8 Third Amendment to Stock and Asset Purchase Agreement, dated as of October 30, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.4 to the Company's Form 8-K dated December 28, 2001 and incorporated herein by reference)

2.9 Fourth Amendment to Stock and Asset Purchase Agreement, dated as of November 30, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.5 to the Company's Form 8-K dated December 28, 2001 and incorporated herein by reference)

3.1 Certificate of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1999 (the "1999 Form 10-K") and incorporated herein by reference)

3.2 Amended and Restated Bylaws of Dial Thru International Corporation (filed as Exhibit 3.2 to the 1999 Form 10-K and incorporated herein by reference)

4.1 Registration Rights Agreement between Canmax and the Dodge Jones Foundation (filed as Exhibit 4.02 to Canmax's Quarterly Report on Form 10-Q for the period ended April 30, 1997 and incorporated herein by reference)

4.2 Registration Rights Agreement between Canmax and Founders Equity Group, Inc. (filed as Exhibit 4.02 to Canmax's Quarterly Report on Form 10-Q for the period ended April 30, 1997 and incorporated herein by reference)

4.3 Amended and Restated Stock Option Plan of Dial Thru International Corporation (filed as Exhibit 4.3 to the 1999 Form 10-K and incorporated herein by reference)

4.4 Securities Purchase Agreement dated April 11, 2001 (filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 2001 and incorporated herein by reference)

4.5 Registration Rights Agreement dated April 6, 2001 between Dial Thru International Corporation and Global Capital Funding Group, L.P. (filed as Exhibit 4.2 to the Company's Form S-3, File #333-71406, filed on October 11, 2001 and incorporated herein by reference)

4.6 6% Convertible Debenture of Dial Thru International Corporation and Global Capital Funding Group, L.P. (filed as Exhibit 4.3 to the Company's Form S-3, File 333-71406, filed on October 11, 2001 and incorporated herein by reference)

4.7 Form of Common Stock Purchase Warrant dated April 11, 2001 between Global Capital Funding Group, L.P. and Dial Thru International Corporation (filed as Exhibit 4.4 to the Company's Form S-3, File 333-71406, filed October 11, 2001 and incorporated herein by reference)

4.8 Form of Common Stock Purchase Warrant dated April 6, 2001 between D.P. Securities, Inc. and Dial Thru International Corporation (filed as Exhibit 4.5 to the Company's Form S-3, File 333-71406, filed on October 11, 2001 and incorporated herein by reference)

4.9 Securities Purchase Agreement issued January 28, 2002 between Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.1 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

4.10 Registration Rights Agreement dated January 28, 2002 between Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.2 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

4.11 6% Convertible Debenture of Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.3 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

4.12 Common Stock Purchase Warrant dated January 28, 2002 between GCA Strategic Investment Fund Limited and Dial Thru International Corporation (filed as Exhibit 4.4 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)

10.1 Employment Agreement, dated June 30, 1997 between Canmax Retail Systems, Inc. and Roger Bryant (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-3, File No. 333-33523 (the "Form S-3"), and incorporated herein by reference)

10.2 Commercial Lease Agreement between Jackson--Shaw/Jetstar Drive Tri-star Limited Partnership and the Company (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K dated October 31, 1998, and incorporated herein by reference)

10.3 Employment Agreement, dated November 2, 1999 between ARDIS Telecom & Technologies, Inc. and John Jenkins (filed as Exhibit 4.3 to the 2000 Form 10-K and incorporated herein by reference)

14.1 Code of Business Conduct and Ethics for Employees, Executive Officers and Directors (filed as Exhibit 14.1 to the 2003 Form 10-K and incorporated herein by reference)

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

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

32.1 Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350*

32.2 Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350*

* Filed herewith.

(b) The following reports on Form 8-K were filed or required to be filed for the last quarter.

None.

SIGNATURES

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

DIAL THRU INTERNATIONAL CORPORATION

By: /s/ Allen Sciarillo

Allen Sciarillo
Chief Financial Officer and Executive Vice President (Principal Financial and Principal Accounting Officer)

Dated March 16, 2004