RAPID LINK INC
Form 10-K
February 16, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10-K

(Mark One)

T ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2009

£ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

COMMISSION FILE NUMBER 0-22636

RAPID LINK, INCORPORATED
(Name of issuer in its charter)

DELAWARE	75-2461665
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5408 N. 99th Street; Omaha, NE 68134
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (402) 392-7561

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

Check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. £

Check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. £

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. T

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. T

Check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller

reporting company pursuant to Rule 12b-2 of the Exchange Act:

Large accelerated filer £ Accelerated filer £ Non-accelerated filer £ Smaller reporting company T

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of February 15, 2010 was approximately $1,016,192 based on the average bid and ask price of a share of common stock as quoted on the OTC Bulletin Board of $0.02.

As of February 15, 2010, there were 74,647,667 shares of registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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, (i) changing consumer demand, technological developments and industry standards that characterize the industry, (j) failure to close the acquisition of Mr. Prepaid and Yak America, and (k) risks related to the Mr. Prepaid and Yak America businesses. 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. The following discussion and analysis of financial condition and results of operations covers the years ended October 31, 2009 and 2008 and should be read in conjunction with our Financial Statements and the Notes thereto commencing at page F-1 included hereof.

PART I

Item 1. Description of Business.

General

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

We are currently in the process of disposing our two current operating subsidiaries Telenational and One Ring and acquiring two new businesses known as Mr. Prepaid and Yak America. Mr Prepaid is in the business of providing prepaid telecom and transaction based POSA (point of sale activation) solutions through 1,000 independent retailers in the Eastern United States. Products include prepaid wireless PINs for use with various mobile phone providers. Yak America is a long distance reseller offering high value dial around (10-10) and pre-subscribed long distance services (1+) across the United States utilizing its network and telecommunication switch based in Miami, Florida. Pursuant to the 14F-1 filed on February 3, 2010 we anticipate the initial closing of this set of transactions during February, 2010, thus changing the direction of the company substantially.

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

Proposed Acquisition of Mr. Prepaid and Yak America

On October 13, 2009, the Registrant and its principal stockholders entered into a Share Exchange Agreement (as amended, "Share Exchange Agreement") with Blackbird Corporation ("Blackbird"), and its principal stockholders, pursuant to which the Registrant would grant newly-issued shares of its common stock to the Blackbird stockholders in exchange for all outstanding shares of Blackbird ("Share Exchange"). Following the Share Exchange, it was contemplated that Blackbird shareholders would hold approximately 80% of the Registrant's then-issued and outstanding shares of common stock.

Under the Share Exchange Agreement, it was originally contemplated that the Registrant would acquire all or substantially all of the outstanding shares of capital stock of Blackbird which would result in Blackbird becoming an operating subsidiary of the Registrant. In consideration for the Blackbird shares, the Registrant was required to issue an aggregate of 520,000,000 shares of its common stock to the shareholders of Blackbird, which would constitute approximately 80% of the Registrant's then-issued and outstanding shares of common stock.

As of January 15, 2010, the Registrant entered into an Amendment to the Share Exchange Agreement (the "Amendment") with Blackbird, certain Registrant shareholders, certain principal shareholders of Blackbird (the "Blackbird Shareholders"), and a wholly-owned subsidiary of Blackbird, Mr. Prepaid, Inc. ("Mr. Prepaid"). The

Amendment modified the Share Exchange Agreement.

Under the Amendment, the transaction contemplated by the Share Exchange Agreement has been modified to provide for an initial closing at which Rapid Link shall acquire all of the issued and outstanding shares of capital stock of Mr. Prepaid in exchange for 10,000,000 shares of the Registrant's newly-formed class of preferred stock, "Series A Preferred Stock", and Mr. Prepaid will become a wholly-owned subsidiary of the Registrant. The Registrant's preferred stock shall have certain rights and preferences including that the shares of preferred stock will be initially convertible into 520,000,000 shares of Registrant common stock. On an as-converted basis, these 520,000,000 shares of common stock would constitute approximately 80% of the Registrant's then-issued and outstanding shares of common stock. Prior to the initial closing, the outstanding capital stock of Telenational Communications, Inc. ("Telenational") and One Ring Networks, Inc. ("One Ring") will be transferred from Rapid Link to a third party ("New Rapid Link"), controlled by one or more of the Rapid Link Principal Stockholders or a designee without recourse or liability to Rapid Link. In addition, on the terms and subject to the conditions set forth in the Amendment, at a subsequent closing, subject to the satisfaction of certain additional conditions including obtaining consents to transfer certain telecommunications licenses from the Federal Communication Commission and state regulatory authorities, Blackbird will also deliver to Rapid Link all of the issued and outstanding shares of capital stock of Yak America, Inc. and the capital stock of any other Blackbird subsidiary.

Mr Prepaid is in the business of providing prepaid telecom and transaction based POSA (point of sale activation) solutions through 1,000 independent retailers in the Eastern United States. Products include prepaid wireless PINs for use with various mobile phone providers. Yak America is a long distance reseller offering high value dial around (10-10) and pre-subscribed long distance services (1+) across the United States utilizing its network and telecommunication switch based in Miami, Florida.

In addition, Blackbird and the Company have entered into a management agreement on October 13, 2009 pursuant to which representatives designated by Blackbird shall manage certain Telenational assets during the period between the execution of the Share Exchange Agreement and the closing of such transaction. Such Blackbird representatives shall receive a management fee of $40,000 per month for such services after Telenational's accounts payable have been satisfied.

The description of the Share Exchange Agreement, the Amendment to the Share Exchange Agreement, and Management Agreement are qualified in its entirety by reference to such agreement attached hereto as Exhibit 2.11, 2.12 and 10.40, respectively.

For more information regarding the Share Exchange, please see the Registrant's Form 8-Ks filed with the Securities & Exchange Commission on October 19, 2009 and January 27, 2010.

We have included a description of the businesses of Mr. Prepaid and Yak America in this report; however, the acquisitions of Mr. Prepaid and Yak America are subject to the satisfaction of various conditions and are subject to certain risks more fully described in this report.

Business Strategy

Communication Services

We 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.

4

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 local and long distance calling, internet access, and wholesale services to carriers. With the addition of the advanced technology and management expertise acquired in the acquisition of One Ring Networks during the second quarter of fiscal 2008, the Company continues to build-out an extensive hybrid fiber wireless broadband network allowing its customers to access services without relying on the local exchange carrier (LEC). The Company's strategy includes providing service via its own facilities to insure reliable delivery of its current and future services. Fixed wireless technology allows for swift and cost efficient deployment of high speed networks. The Company will utilize WiMAX and other carrier-grade equipment operating in microwave and millimeter-wave spectrum bands. Through organic growth and acquisitions in targeted areas, the Company believes it will possess 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 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. 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 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 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.

Acquisition-related Strategies.

We are in the process of acquiring Mr. Prepaid and Yak America. Mr Prepaid is in the business of providing prepaid telecom and transaction based POSA (point of sale activation) solutions through 1,000 independent retailers in the Eastern United States. Products include prepaid wireless PINs for use with various mobile phone providers. Yak America is a long distance reseller offering high value dial around (10-10) and pre-subscribed long distance services (1+) across the United States utilizing its network and telecommunication switch based in Miami, Florida. Pursuant to the 14F-1 filed on February 3, 2010 we anticipate the intial closing of these transactions beginning February, 2010, thus substantially changing the direction of the company in its entirety.

5

Products and Services

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, and Washington DC. We have plans to enter additional markets during our fiscal year 2010.

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

These services, while still contributing a portion of our revenues, will continue to decrease as a percentage of our total revenues as we continue to develop and market new services, including services in connection with the Mr. Prepaid and Yak acquisitions.

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 TDM voice network expertise without having to establish dozens of new relationships with smaller providers. Our extensive experience and exiting 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 through 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 phone-to-phone calls from locations throughout the world using specific toll-free access numbers. This service enables customers to receive the cost 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 SMEs 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 aggressively priced by the larger carriers.
Mr. Prepaid/Yak

Mr. Prepaid delivers a comprehensive and ever-growing array of electronic products and services through stand-alone point-of-service (POS) terminals, Web based or can be integrated into major retailers' electronic cash register system, also known as EPoS. Mr. Prepaid also provides prepaid solutions including prepaid wireless airtime, prepaid calling

cards (virtual), Bill Payment and prepaid wireless handsets. Mr. Prepaid serves upward of 1,000 merchant locations in the Eastern United States.

Yak

Yak America is a switched based long distance reseller offering high value dial around and pre-subscribed long distance services (1+ in contiguous United States).

Segment Information

Management regularly reviews one set of financial information and all of our products share similar economic characteristics. Therefore, the Company has determined that it has one operating segment.

Completed Acquisitions

In addition to the pending acquisition of Mr. Prepaid and Yak America, the Company has made the following acquisitions:

On July 11, 2008, the Company purchased certain assets and assumed certain liabilities of iBroadband Networks, Inc. and iBroadband of Texas, Inc. (“iBroadband”). Assets acquired in the iBroadband acquisition are highly complementary to our existing business, particularly the operations of our subsidiary One Ring Networks, Inc. In addition, the iBroadband acquisition provided that the seller of the assets agreed to purchase (2) 36 month, 10% notes from the Company for the purpose of restructuring existing debt and providing needed operating capital.

On March 28, 2008, the Company acquired 100% of the outstanding stock of One Ring Networks, Inc. The purpose of the One Ring acquisition was to acquire an existing carrier class network for the transport of voice and data, and an experienced management team. Through this effort, we further evolve our goal of becoming a provider of communication services via fixed wireless and fiber optic transport of voice and data.

On October 31, 2007, the Company acquired 100% of the assets of Communications Advantage, LLC (“Communications Advantage”), and Web-Breeze Networks, LLC (“Web Breeze”). The assets include a sizable wireless broadband network in a rural geographic area of California that fits into the Company’s niche market business model, a base of customers and revenues that are immediately accretive to our revenues and earnings, and a staff of tenured professionals with vast knowledge and experience in the wireless broadband sector.

On May 5, 2006, the Company acquired 100% of the outstanding stock of Telenational Communications, Inc. (“Telenational”). Telenational historically serviced a sizable base of both retail and commercial customers which very closely mirror those customers Rapid Link has served. This acquisition allows us to expand our market share in the telecommunications industry while taking advantage of several significant economies of scale, both in respect to direct cost reductions, as well as operational efficiencies. We have subsequently moved substantially all of our operational and administrative functions to the Telenational headquarters in Omaha, Nebraska.

Competition

The “Diversified Communication Services” industry is highly competitive, rapidly evolving, and subject to constant technological change. Other providers currently offer one or more of each of the services offered by us. Communications service companies compete for consumers based on price and quality, with the dominant providers conducting extensive advertising campaigns to capture market share. As a service provider in this industry, we compete with dominant players such as Comcast Corp. (CMCSA), AT&T (T), all of which are substantially larger than we are and have the resources, history and customer bases to dominate virtually every segment of the broadband internet and voice service market.

7

We also compete with other small companies including Towerstream Corp. (TWER), and Cbeyond Inc. (CBEY). We also believe that existing competitors are likely to continue to expand their service offerings to appeal to retailers and consumers especially in the area of wireless broadband internet service.

The market for international voice completion services is also highly competitive. We compete both in the market for enhanced internet communications services and in the market for carrier transmission services. We believe that the primary competitive factors in the internet and voice communications business are quality of service, price, convenience, and bandwidth options. We believe that the ability to offer enhanced service capabilities, including new services, will become an increasingly important competitive factor in the near future.

Mr. Prepaid/Yak

Mr. Prepaid ranks among the top providers of POS terminals for the distribution of prepaid wireless airtime, prepaid calling cards (virtual), Bill Payment and prepaid wireless handsets in a highly competitive market. The terminals are placed in small retail stores and the store owner receives a discount. Mr. Prepaid competes based on the discount offered and the quality of its service. Mr. Prepaid's competitors include:Via One Corporation, Payspot and Prepaid Experts.

Yak competes with other businesses in its industry through maintaining competitive prices per minute offered to the consumer.

Suppliers

Our principal suppliers consist of domestic and international telecommunications carriers, Internet Service Providers, and Broadband suppliers. Relationships currently exist with a number of reliable carriers. During the fiscal year ended October 31, 2009, one of the Company's suppliers accounted for approximately 31% of the Company's total costs of revenues. Due to the highly competitive nature of the telecommunications business, we believe that the loss of any carrier would not have a long-term material impact on our business.

Mr. Prepaid/Yak

Mr. Prepaid's principal supplier of POSA Terminals is TASQ Technologies and/or other distributors. Its wireless prepaid PIN's and virtual calling cards are supplied through Debisys and Direct Wholesale. Wireless Prepaid Phones are supplied through Spot Mobile and any other supplier depending on specific requirements. Mr. Prepaid has indicated that there are many alternate suppliers available for the products and markets it offers.

Yak's Genband G9 Converged Gateway switch has positioned it to efficiently accommodate the expansion of its customer base. The switch acts as a gateway to both traditional PSTN (TDM) networks and IP networks. Yak has achieved national coverage by interconnecting with Level 3 Communications Inc., a major U.S. wholesale carrier (formerly Wiltel Communications LLC which was acquired as of December 23, 2005). Its Carrier Identification Codes ("CIC") are programmed into the Level 3 switches and therefore Yak takes advantage of Level 3's extensive network access arrangements with the Regional Bell Operating Companies ("RBOC"s) and most major LECs. U.S. originated calls are hauled to its switch in Miami. The switch is co-located at the NAP of the Americas which is operated by Terremark. The NAP is one of the premiere co-location facilities in North America and is the gateway for the majority of traffic to Latin America and gives Yak access to 160 global carriers.

Sales and Marketing

We sell and market our services through our in house sales staff, independently contracted sales agents, and third-party resellers. Our Company also receives a good deal of referrals from existing customers. We focus our sales efforts on small to medium sized businesses (“SME’s”), and vertical market demographics.

We offer businesses and individuals the opportunity to become resellers of our services through our affiliate and reseller programs. Resellers are able to purchase bulk accounts and hardware at reseller specific pricing and they are then able to resell these accounts to private individuals under the Rapid Link brand.

Historically, we have had substantial revenues in foreign markets. For the fiscal years ended October 31, 2009 and 2008, $5.4 million or 36% and $6.6 million or 39% of our total revenue from continuing operations for each year, respectively, originated from foreign markets.

Mr. Prepaid/Yak

Mr. Prepaid sells and markets its products through its sales force and through the Internet. Yak also markets through the Internet and distribution of flyers.

Customers

We focus our current retail sales and marketing efforts on our Wireless Broadband Internet products and services, targeting residential customers and SMEs. We rely heavily on the use of local advertising to generate retail sales in markets where we offer our broadband service. Additionally, we utilize agent sales channels to generate revenues. By doing so, we believe that we establish a wide base of customers with little vulnerability based on lack of customer loyalty. Our wholesale customers are primarily large telecommunications customers in the United States, and medium to large foreign Postal, Telephone and Telegraph companies, which are those entities responsible for providing telecommunications services in foreign markets and are usually government owned or controlled.

During the fiscal year ended October 31, 2009, we did not provide wholesale services to any customer that accounted for more than 10% of our revenue.

Employees

As of December 31, 2009, we have twenty nine full-time employees and two part-time employees. Twelve of which perform technical duties, eleven of which perform administrative and financial functions, four of which perform customer support duties and four of which perform sales duties. Six employees are located in Omaha, Nebraska; eleven employees are located in Texas; eight employees are located in Georgia; two employees are located in California; and four employees are located in South Africa. None of our employees are represented by a labor union, and we consider our employee relations to be excellent.

Mr. Prepaid has four full-time employees and one contractual salesperson paid on a commission basis. Yak has 15 full time and three part-time employees. None of these employees are represented by a labor union, and Mr. Prepaid and Yak each consider their employee relations to be excellent.

Debt Arrangements

Global Telecom

9

On April 30, 2008, the Company entered into a four-year financing agreement with Global Telecom Solutions ("GTS") in the principal amount of $460,000. The agreement calls for monthly payments of $10,000 and interest accrues at 5% per annum, and may be converted into the common stock of the Company in accordance with the terms of the agreement.

Laurus/Valens

Effective March 31, 2008, the Company modified its debt structure by entering into a Security Agreement with certain lenders ("Lenders") Upon the signing of the Security Agreement, Valens II provided the Company with $1,800,000 of gross financing, and the Company issued Valens II a 10% Secured Term A Note ("Valens II Term A") in the principal amount of $1,800,000.

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

Effective July 14, 2008, Valens purchased from the Company a 10% secured term note ("Term B Note") in the principal amount of $1.5 million and a Warrant to purchase 4,437,870 shares of common stock at $0.01 per share for a purchase price of $1.5 million. Interest accrues at 10% per annum and is payable monthly commencing August 1, 2008. Concurrent with the Valens Term B financing arrangement, the Company purchased the assets of iBroadband and assumed secured promissory notes in the aggregate amount of approximately $2.58 million ("Deferred Purchase Price Notes"), including approximately a $293,000 loan from Valens and a $2.3 million loan from Laurus Master Fund. Interest accrues at 10% per annum and is payable monthly commencing the month after the Note has been assumed.

Global Capital

On March 31, 2008, Global Capital Funding Group, LP ("Global"), which is the holder of the GC Conote, modified its debt structure with the Company by entering into a Subordination Agreement with L.V., acting as agent for itself and the Lenders. The agreement calls for the GC-Conote to become subordinate to the Valens II Term A note. In addition, GCA extended the maturity date of the two debentures to June 30, 2011. In consideration, the Company made a principal payment of $600,000 on the GC-Conote and agreed to pay Global the principal sum of $420,000 upon closing of the Valens II Term B note; with the remainder of the outstanding principal amount of $180,000, which shall not accrue interest after March 31, 2008, to be converted into the common stock of the Company in accordance with the terms of the Securities Purchase Agreement dated as of November 8, 2002.

As of July 11, 2008, and upon closing of the Valens II Term B note, the Company paid Global the principal sum of $420,000. In consideration for the principal payment of $420,000, Global forgave accrued interest in the amount of $163,750, and is restricted from the selling of any shares of the Company's common stock for a period of two years from the effective date of this amendment, and agreed that there are no additional cash monies owed to Global by the Company other than the remaining principal balance of $180,000, which is to be converted into the common stock of the Company.

As of October 31, 2008, GCA Strategic Investment Fund Limited ("GCA") held two Company debentures having principal amounts of $630,333 and 570,944, respectively. On March 31, 2008, GCA modified its debt structure with

the Company by entering into a subordination agreement with L.V., which acted as agent for itself and for the lenders. The agreement called for the GCA debentures to become subordinate to the Valens II Term A note. The Company may prepay the GTS debentures by paying 100% of the outstanding principal and accrued interest. In addition, GCA extended the maturity date of the two debentures to June 30, 2011, and is restricted from the selling of any shares of the Company's common stock for a period of two years from the effective date of this amendment.

Intellectual Property

We do not hold any patents or trademarks. Our products and services are available to other telecommunications companies.

Mr. Prepaid/Yak.

Yak does not hold any patents or trademarks. Mr. Prepaid has trademarked the name “Mr. Prepaid” with the Patent and Trademark Office (Reg. No. 3,693,212).

Government Regulation

Telecommunications services are subject to extensive government regulation at both the federal and state levels in the United States. Any violations of these regulations may subject us to enforcement penalties. The Federal Communications Commission (“FCC”) has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications services, including the use of local networks to originate or terminate such services. Each state regulatory commission has jurisdiction over the same carriers with respect to their provision of local and intrastate long distance communications services. Significant changes to the applicable laws or regulations imposed by any of these regulators could have a material adverse effect on our business, operating results and financial condition.

The following summary of regulatory developments and legislation is intended to describe what we believe to be the most important, currently effective and proposed international, federal, state, and local regulations and legislation that are likely to materially affect us. Some of these and other existing federal and state regulations are the subject of judicial proceedings and legislative and administrative proposals that could change, in varying degrees, the manner in which this industry operates. We cannot predict the outcome of any of these proceedings or their impact on the telecommunications industry or us at this time. Some of these future legislative, regulatory, or judicial changes could have a material adverse impact on our business.

Regulation by the Federal Communications Commission - Universal Service Funds

In 1997, the FCC issued an order, referred to as the Universal Service Order, to implement the provisions of the Telecommunications Act of 1996 relating to the preservation and advancement of universal telephone service. The Universal Service Order requires all telecommunications carriers providing interstate telecommunications services to periodically contribute to universal service support programs administered by the FCC (the "Universal Service Funds"). The periodic contribution requirements to the Universal Service Funds under the Universal Service Order are currently assessed based on a percentage of each contributor's interstate and international end user telecommunications revenues reported to the FCC, which we measure and report in accordance with the legislative rules adopted by the FCC. The contribution rate factors are determined quarterly and carriers, including us, are billed for their contribution requirements each month based on projected interstate and international end-user telecommunications revenues, subject to periodic reconciliation. We, and most of our competitors, pass through these Universal Service Fund contributions in the price of our services, either as a separate surcharge or as part of the base rate. In addition to the FCC universal service support mechanisms, state regulatory agencies also operate parallel universal service support systems. As a result, we are subject to state, as well as federal, universal service support contribution requirements, which vary from state to state. As with any regulatory obligation, if a federal or state regulatory body determines that we have incorrectly calculated and/or remitted any universal service fund contribution, we could be subject to the assessment and collection of past due remittances as well as interest and penalties thereon. Furthermore, if the FCC determines that we have incorrectly calculated and overstated a separately invoiced line item identified as a recovery of contributions to the Universal Service Funds we could be required to repay any such over-collection and be subject to penalty.

The FCC is currently considering several proposals that would fundamentally alter the basis upon which our Universal Service Fund contributions are determined and the means by which such contributions may be recovered from our customers, changing from a revenue percentage measurement to a connection (capacity), or telephone number (access) measurement. Because we pass through these contributions to consumers, a change in the contribution methodology would not directly affect our net revenues; however, a change in how contributions are assessed might affect our customers differently than the customers of competing services, and therefore could either increase or decrease the attractiveness of our services. The timing and effect of any FCC action on this proposal is not yet known.

Access Charges

As a long distance provider, we remit access fees directly to local exchange carriers or indirectly to our underlying long distance carriers for the origination and termination of our long distance telecommunications traffic. Generally, intrastate access charges are higher than interstate access charges. Therefore, to the degree access charges increase or a greater percentage of our long distance traffic is intrastate, our costs of providing long distance services will increase.

In April 2001, the FCC released a Notice of Proposed Rulemaking in which it proposed a "fundamental re-examination of all currently regulated forms of intercarrier compensation." Several different industry groups have submitted access charge reform proposals to the FCC. The FCC has not yet acted on these proposals and it is not yet known when it will act. Therefore, at this time we cannot predict the effect that the FCC's ultimate determinations regarding access charge reform may have upon our business.

Taxes and Regulatory Fees

We are subject to numerous local, state, and federal taxes and regulatory fees, including, but not limited to, the Federal excise tax, FCC universal service fund contributions and regulatory fees, and numerous public utility commission regulatory fees. We have procedures in place to ensure that we properly collect taxes and fees from our customers and remit such taxes and fees to the appropriate entity pursuant to applicable law and/or regulation. If our collection procedures prove to be insufficient or if a taxing or regulatory authority determines that our remittances were inadequate, we could be required to make additional payments, which could have a material adverse effect on our business.

International Telecommunications Services - Section 214. In the United States, to the extent that we offer services as a carrier, we are required to obtain authority under Section 214 of the Communications Act of 1934 to provide telecommunications service that originates within the United States and terminates outside the United States. We have obtained the required Section 214 authorization from the FCC to provide U.S. international service. As a condition to our Section 214 authorization, we are subject to various communications-oriented reporting and filing requirements. Failure to comply with the FCC's rules could result in fines, penalties, forfeitures, or revocation of our FCC authorization, each of which could have a material adverse effect on our business, financial condition, and results of operation.

International Telecommunications Services - International Settlements

The FCC's International Settlements Policy ("Policy") restricts the terms on which U.S. based carriers and certain of their foreign correspondents settle the cost of terminating each other's traffic over their respective networks. Under the International Settlements Policy, absent approval from the FCC, international telecommunications service agreements with dominant foreign carriers must be non-discriminatory, provide for settlement rates usually equal to one-half of the accounting rate, and require proportionate share of return traffic. This Policy, however, does not apply to arrangements with any non-dominant foreign carrier or, since March 30, 2005, with any dominant foreign carrier on routes where a demonstration has been made that at least one U.S. carrier has a settlement arrangement with the dominant foreign carrier that is compliant with the FCC's applicable benchmark settlement rates. This action has greatly lessened the number of instances in which the Policy applies, effectively granting U.S. and foreign carriers greater freedom to set rates and terms in their agreements. As a result, 164 countries currently are exempt from the International Settlements Policy, representing over 90% of all U.S.-originated international traffic. Notwithstanding the foregoing, the FCC could find that we do not meet certain International Settlements Policy requirements with respect to certain of our foreign carrier agreements. Although the FCC generally has not issued penalties in this area, it has issued a Notice of Apparent Liability to a U.S. company for violations of the International Settlements Policy and it could, among other things, issue a cease and desist order, impose fines or allow the collection of damages if it finds that we are not in compliance with the International Settlements Policy. Any of these events could have a material adverse effect on our business, financial condition, or results of operation.

State Regulations

Our intrastate long distance operations are subject to various state laws and regulations, including, in most jurisdictions, certification, and tariff filing requirements. As a certificated carrier, consumers may file complaints against us at the public service commissions. Certificates of authority can generally be conditioned, modified, canceled, terminated, or revoked by state regulatory authorities for failure to comply with state law and/or the rules, regulations and policies of the state regulatory authorities. Fines and other penalties also may be imposed for such violations. Public service commissions also regulate access charges and other pricing for telecommunications services within each state. The Regional Bell Operating Companies and other local exchange carriers have been seeking reduction of state regulatory requirements, including greater pricing flexibility, which, if granted, could subject us to

increased price competition.

Regulation of Internet Telephony and Other IP-Enabled Services

The use of the Internet to provide telephone service is a fairly recent market development. At present, we are not aware of any domestic, and are aware of only a few foreign, laws or regulations that prohibit voice communications over the Internet.

United States

We believe that, under U.S. law, the Internet-related services that we provide constitute information services as opposed to regulated telecommunications services and, as such, are not currently actively regulated by the FCC or any state agencies charged with regulating telecommunications carriers. We cannot provide assurances that our Internet-related services will not be actively regulated in the future. Several efforts have been made in the U.S. to enact federal legislation that would either regulate or exempt from regulation services provided over the Internet. Increased regulation of the Internet may slow its growth, particularly if other countries also impose regulations. Such regulation may negatively impact the cost of doing business over the Internet and materially adversely affect our business, operating results, financial condition and future prospects.

The advent of VoIP services being provided by pure play VoIP providers, such as Vonage, cable television and other companies, and the increased number of traditional telephone companies entering the retail VoIP space has heightened the need for U.S. regulators to determine whether VoIP is subject to the same regulatory and financial constraints as wire line telephone service. On November 9, 2004, the FCC issued an order in response to a petition from Vonage declaring that Vonage-style VoIP services were exempt from state telecommunications regulations. The FCC order applies to all VoIP offerings provided over broadband services. However, this order did not clarify whether, or under what terms, VoIP traffic may be subject to intercarrier compensation requirements; whether VoIP was subject to state tax or commercial business regulations; or whether VoIP providers had to comply with obligations related to 911 emergency calls, and the Universal Service Fund (“USF”) of the Communications Assistance for Law Enforcement Act (“CALEA”). The FCC is addressing many of these issues through its “IP-Enabled Services Proceeding,” which opened in February 2004.

Due to perceived urgency, however, the FCC did take some specific actions outside of the broad IP-Enabled Services Proceeding to address emergency services and law enforcement issues. On June 3, 2005, the FCC issued an order establishing rules requiring interconnected VoIP service providers to incorporate 911 emergency call capabilities for their customers as a standard feature of their services, rather than an optional enhancement. And, on August 5, 2005, the FCC announced the extension of CALEA to certain types of VoIP providers. Any additional regulation of IP-based services concerns us and we must therefore remain diligent with respect to evaluating the impact of FCC proposals and decisions. However, based on the nature of the IP-enabled services we currently provide, we do not believe either FCC decision will materially adversely affect our business, operating results, financial condition, or future prospects.

The FCC has also considered whether to impose surcharges or other common carrier regulations upon certain providers of VoIP or Internet telephony. While the FCC has presently refrained from such regulation, the regulatory classification of Internet telephony remains unresolved. If the FCC were to determine that certain Internet-related services including Internet telephony services are subject to FCC regulations as telecommunications services, the FCC could subject providers of such services to traditional common carrier regulation, including requirements to make universal service contributions, and pay access charges to local telephone companies. A decision to impose such charges could also have a retroactive effect, which could materially adversely affect us. It is also possible that the FCC will adopt a regulatory framework other than traditional common carrier regulation that would apply to Internet telephony providers. Any such determinations could materially adversely affect our business, financial condition, operating results and future prospects to the extent that any such determinations negatively affect the cost of doing

business over the Internet or otherwise slow the growth of the Internet. Congressional dissatisfaction with FCC conclusions could result in requirements that the FCC impose greater or lesser regulation, which in turn could materially adversely affect our business, financial condition, operating results and future prospects.

States

State regulatory authorities may also retain jurisdiction to regulate certain aspects of the provision of intrastate Internet telephony services. Several state regulatory authorities have initiated proceedings to examine the regulation of such services. Others could initiate proceedings to do so.

International

The regulatory treatment of Internet telephony outside of the U.S. varies widely from country to country. A number of countries that currently prohibit competition in the provision of voice telephony also prohibit Internet telephony. Other countries permit but regulate Internet telephony. Some countries will evaluate proposed Internet telephony service on a case-by-case basis and determine whether it should be regulated as a voice service or as another telecommunications service. Finally, in many countries, Internet telephony has not yet been addressed by legislation or regulation. Increased regulation of the Internet and/or Internet telephony providers or the prohibition of Internet telephony in one or more countries could materially adversely affect our business, financial condition, operating results and future prospects.

Other General Regulations

Although we do not know of any other specific new or proposed regulations that will affect our business directly, the regulatory scheme for competitive telecommunications market is still evolving, and there could be unanticipated changes in the competitive environment for communications in general. For example, the FCC is currently considering rules that govern how Internet providers share telephone lines with local telephone companies and compensate local telephone companies. These rules could affect the role that the Internet ultimately plays in the telecommunications market.

Mr. Prepaid/Yak

Mr. Prepaid is not required to obtain any licenses or approvals in order to operate its principal products and services. Yak America is approved by the FCC as a reseller of Long Distance Services.

Risk Factors

Risks Related to Current Operations

Without the Mr. Prepaid Acquisition, our cash flow will likely not be sufficient to satisfy our cost of operations.

For the fiscal years ended October 31, 2009 and 2008, we recorded net losses from continuing operations of approximately $11.8 and $2.6 million, respectively, on revenues from continuing operations of approximately $14.9 and $17.2 million, respectively. For fiscal year 2009, our net loss from continuing operations included approximately $9.5 million in non-cash expenses, primarily depreciation expense and non-cash interest expense. As a result of 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, 2009, which states "The Company has suffered recurring losses from continuing operations during each of the last two fiscal years. Additionally, at October 31, 2009, the Company's current liabilities exceeded its current assets by $13.3 million and the Company has a shareholders' deficit totaling $15.2 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern." The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, if the Mr. Prepaid Acquisition does not occur, our actual future cash flows from operations will likely be insufficient to satisfy our debt obligations and working capital needs and we may be forced to liquidate our assets.

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

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

We have pledged our assets to existing creditors.

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

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

The regulatory environment in our industry is very uncertain.

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

16

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.

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.

Risks related to our securities

Potential for substantial dilution to our existing stockholders exists.

The issuance of convertible shares of preferred stock upon the closing of the Mr. Prepaid Acquisition, the conversion of secured convertible notes or upon exercise of outstanding warrants and/or stock options will cause immediate and substantial dilution to our existing stockholders. In particular, the Mr. Prepaid Acquisition will mean that Blackbird (or in turn its stockholders) will hold 80% of the outstanding common stock (on an as-converted basis) following the Mr. Prepaid Acquisition. In addition, any additional financing may result in significant dilution to our existing stockholders.

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.

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 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.

Risks related to the proposed Mr. Prepaid Acquisition

We may not successfully close the proposed acquisition.

The Share Exchange Agreement includes various closing conditions which must be satisfied before the acquisition of Mr. Prepaid and subsequently Yak America will occur. In the event that these conditions are not satisfied or waived by the respective party, the acquisitions may not occur.

We may have difficulties integrating our current business with the business of Mr. Prepaid.

If the proposed Mr. Prepaid Acquisition were to be consummated, the Company will be integrating Mr. Prepaid and Yak's products and services offerings. If the Company cannot integrate the products effectively or if management spends too much time on integration issues, it could harm the combined company's business, financial condition and results of operations. The difficulties, costs and delays involved in integrating the companies, which could be substantial, include the following:

- distraction of management and other key personnel from the business of the combined company;

- integrating technology, product lines, services and development plans;

- inability to demonstrate to customers and suppliers that the business combination will not result in adverse changes in product standards or business focus;

- inability to retain and integrate key personnel;

- disruptions in the combined sales forces that may result in a loss of current customers or the inability to close sales with potential customers;

- expending time, money and attention on integration that would otherwise be spent on developing either company's own products and services;

- additional financial resources that may be needed to fund the combined operations; and

- impairment of relationships with employees and customers as a result of changes in management.

The proposed Mr. Prepaid Acquisition may result in additional Sarbanes-Oxley issues and material weaknesses in the control structure of the Company.

Mr. Prepaid and Yak are private corporations that have not been subject to the requirements of the Sarbanes-Oxley Act of 2002. The operations of Mr. Prepaid and Yak are expected to be material to the results of the post-acquisition combined entity and management may not have sufficient time to document, assess, test, and remedy the control structure of such companies, to identify any material control weaknesses; and to disclose any such weaknesses in time to comply with the reporting requirements of Sarbanes-Oxley.

Item 2. Description of Property.

We lease approximately 11,500 square feet in Omaha, Nebraska, located at 5408 N. 99th Street. Our current operations, information systems, and executive headquarters are located in the Omaha facility. We also have operational offices in Atlanta, Georgia, Athens, Texas, Sutter Creek, California, and a small sales and administrative office in Johannesburg, South Africa. We believe that our facilities are sufficient for the operation of our current business for the foreseeable future. The expiration dates of the above-mentioned lease agreements are as follows:

19

June 30, 2011	Omaha - Operational and Administrative Headquarters
November 30, 2011	South Africa - Sales and Administrative Office
March 31, 2016	Atlanta - Operational Office
Month to month	Athens - Operational Office
Month to month	Sutter Creek - Operational Office

Item 3. 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 On May 5, 2008, the Company filed a lawsuit against Coastline Capital for Declaratory Relief related to the Valens and Laurus debenture transactions. The Company's suit for Declaratory Relief seeks a Judgment from the Court that Coastline Capital has not earned a broker's fee in the Valens/Laurus transaction in that Coastline Capital did not represent the Company in the transaction that closed and, pursuant to the terms of the brokerage contract Coastline Capital was not entitled to a broker's fee. On June 23, 2008, Coastline Capital filed an answer and cross-complained against the Company contending that Coastline Capital earned a broker's fee when the Valens/Laurus debenture transaction closed. The Company has filed an answer to the Cross Complaint which denied the allegations of the Cross Complaint and asserted affirmative defenses. The parties have agreed to binding arbitration to resolve this dispute. The Company will pursue this arbitration and vigorously defend the Cross Complaint as the Company is confident that its claims are supported by the facts and written documents relevant to this litigation.

Ian Caplan On June 23, 2009, Ian Caplan and Click Connect LLC filed a lawsuit in the Los Angeles Superior Court against the Company claiming the Plaintiffs were not paid commissions for revenues generated by one of the Companies subsidiaries. On September 2, 2009, the Company filed an answer to the complaint which denied the allegations of the Complaint and asserted affirmative defenses. The Plaintiffs have never executed a contract with the Company who is the only defendant in the litigation and the Company has not located any documents were it assumed any obligations to pay commissions to the Plaintiff's. The litigation is in the discovery phase. It is expected that the Company will be successful in the litigation based on the lack of privity of contract between the Plaintiff's and the Company and the lack of any course of dealing between the Company and the Plaintiffs.

Qwest Qwest filed an arbitration proceeding, in Colorado, claiming unpaid fees for telecommunication services provided to one of the Company's subsidiaries. On December 21, 2009 the arbitrator awarded $1,782,259.87 in favor of Qwest against one of the Company's subsidiaries. The Company believes that its subsidiary was not afforded due process in the arbitration proceedings and that the Arbitrator did not take into consideration the excess billings of Qwest that were not due and payable by its subsidiary. The Company will review with its counsel the option of disputing the arbitration award after its subsidiary is served with a Civil Action to Enforce the Arbitration Award.

Liotta Litigation On November 24, 2009 Matthew Liotta filed his First Amended Complaint, in Fulton County Georgia, against the Company and one of its subsidiaries alleging wrongful termination and damages for unpaid compensation pursuant to a written employment contract. On January 12, 2010, the Company and its subsidiary filed its answer to the First Amended Complaint which denied the allegations of the Complaint and asserted affirmative defenses asserting that neither the Company nor its subsidiary had ever executed an employment contract with Matthew Liotta. Upon Matthew Liotta's termination "for cause" he was paid all of his salary and benefits thus the Company believes that Mr. Liotta has initiated this lawsuit, along with the litigation discussed below, based upon his vendetta against the Company as a result of his dismissal for cause as an employee of Telenational, a subsidiary of the

Company.

Former One Ring Networks Shareholders litigation 5 of the 11 former shareholders (which include Matthew Liotta, and his father, Dennis Liotta) of One Ring Networks, Inc., a subsidiary of the Company, filed a lawsuit, in The District Court of Nebraska, against the Company claiming that a portion of the payment for their shares pursuant to the terms of a Stock Purchase Agreement between One Ring Networks, Inc and the Company dated March 28, 2008 entitled the "True Up" portion of the purchase price were incorrectly calculated and unpaid. On January 27, 2010, the Company filed an answer to the Complaint which denied the allegations of the Complaint and asserted affirmative defenses based upon the Company's documents that support the fact that the "True Up" calculations were accurately prepared and were properly paid to all of the former shareholders of One Ring Networks, Inc. On January 20, 2010, the Court denied the Application for a Preliminary Injunction brought by the Plaintiff's requesting that the Company not transfer or spin off its subsidiary One Ring Networks, Inc. pending the resolution of this litigation. The Order denying the Preliminary Injunction was based upon the opposition filed by the Company to the application for the Preliminary Injunction. Based upon the Court's Order and the documents between the Company and One Ring Networks, Inc the Company is very confident that this litigation will be resolved favorably for the Company.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during fiscal 2009.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market for the Company's Common Stock

The Company's common stock, $0.001 par value, is quoted on the OTC Bulletin Board under the trading symbol "RPID". Each share ranks equally as to dividends, voting rights, participation in assets on winding-up and in all other respects. No shares have been or will be issued subject to call or assessment. There are no preemptive rights, provisions for redemption or for either cancellation or surrender, or provisions for sinking or purchase funds.

The following table sets forth, for the fiscal periods indicated, the high and low closing sales price per share of our common stock as reported on the OTC Bulletin Board:

	High		Low	
Fiscal Year Ended October 31, 2009				
Fourth Quarter	$	0.04	$	0.02
Third Quarter	$	0.07	$	0.02
Second Quarter	$	0.07	$	0.03
First Quarter	$	0.09	$	0.04
Fiscal Year Ended October 31, 2008				
Fourth Quarter	$	0.14	$	0.06
Third Quarter	$	0.10	$	0.05
Second Quarter	$	0.10	$	0.06
First Quarter	$	0.12	$	0.06

The market quotations presented reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily reflect actual transactions.

The closing price for our common stock on February 15, 2010, as reported on the OTC Bulletin Board, was $0.015.

Dividends

We have never declared or paid any cash dividends on our common stock and do not presently intend to pay cash dividends on our common stock in the foreseeable future. We intend to retain future earnings for reinvestment in our business.

Holders of Record

There were 484 stockholders of record as of February 15, 2010.

Equity Compensation Plans

The following table sets forth, as of October 31, 2009, certain information related to the Company's compensation plans under which shares of our common stock are authorized for issuance.

Plan Category	Number of securities to be Issued upon Exercise of Outstanding Options Warrants and Rights column (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans(Excluding Securities Reflected in column in column (a))
Equity compensation plans approved by security holders	915,000 (1)	$ 0.11	3,085,000 (2)
Equity compensation plans not approved by securityholders	-	n/a	-
Total	915,000	$ 0.11	3,085,000

(1) Includes outstanding options granted pursuant to the Company's 2002 Equity Incentive Plan.
(2) Includes shares remaining available for future issuance under the Company's 2002 Equity Incentive Plan.

The Company's 2002 Equity Incentive Plan (the "Equity Incentive Plan"), as amended, authorizes the Board of Directors to grant options to purchase up to 4,000,000 shares of the Company's common stock. On October 31, 2002 at our stockholder's annual meeting, our stockholders approved the adoption of the Equity Incentive Plan. The maximum number of shares of common stock that may be issuable under the Equity Incentive Plan to any individual plan participant is 1,000,000 shares. All options granted under the Equity Incentive Plan have vesting periods up to a maximum of five years. The exercise price of an option granted under the Equity Incentive Plan shall not be less than 85% of the fair value of the common stock on the date such option is granted.

The Company's 1990 Stock Option Plan (the "Option Plan"), as amended, authorized the Board of Directors to grant options to purchase up to 2,300,000 shares of the Company's common stock. No options were to be granted to any individual director or employee, which when exercised, would exceed 5% of the issued and outstanding shares of the Company. The term of any option granted under the 1990 Stock Option Plan was fixed by the Board of Directors at the time the options were granted, provided that the exercise period was not to be longer than 10 years from the date of grant. All options granted under the 1990 Stock Option Plan have up to 10-year terms and have vesting periods that range from 0 to three years from the grant date. The exercise price of any options granted under the 1990 Stock Option Plan is the fair market value at the date of grant. On October 31, 1990 at our stockholder's annual meeting, our stockholders approved the adoption of the Option Plan. Subsequent to the adoption of the Equity Incentive Plan, no further options will be granted under the Option Plan.

Recent Sales of Unregistered Securities

During the fiscal year ended October 31, 2009, we did not issue any securities that were not registered under the Securities Act of 1933, as amended, except as disclosed in previous SEC filings.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of equity securities by the issuer or affiliated purchasers during the fiscal year ended October 31, 2009.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis or Plan of Operation.

Forward-Looking Statements

This Annual Report on Form 10-K 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, (i) changing consumer demand, technological developments and industry standards that characterize the industry, (j) failure to close the acquisition of Mr. Prepaid and Yak America, and (k) risks related to the Mr. Prepaid and Yak America businesses. 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. The following discussion and analysis of financial condition and results of operations covers the years ended October 31, 2009 and 2008 and should be read in conjunction with our Financial Statements and the Notes thereto commencing at page F-1 included hereof.

Overview

Proposed Acquisition

On October 13, 2009, the Registrant and its principal stockholders entered into a Share Exchange Agreement (as amended, "Share Exchange Agreement") with Blackbird Corporation ("Blackbird"), and its principal stockholders, pursuant to which the Registrant would grant newly-issued shares of its common stock to the Blackbird stockholders in exchange for all outstanding shares of Blackbird ("Share Exchange"). Following the Share Exchange, it was contemplated that Blackbird shareholders would hold approximately 80% of the Registrant's then-issued and outstanding shares of common stock.

Under the Share Exchange Agreement, it was originally contemplated that the Registrant would acquire all or substantially all of the outstanding shares of capital stock of Blackbird which would result in Blackbird becoming an operating subsidiary of the Registrant. In consideration for the Blackbird shares, the Registrant was required to issue an aggregate of 520,000,000 shares of its common stock to the shareholders of Blackbird, which would constitute approximately 80% of the Registrant's then-issued and outstanding shares of common stock.

As of January 15, 2010, the Registrant entered into an Amendment to the Share Exchange Agreement (the "Amendment") with Blackbird, certain Registrant shareholders, certain principal shareholders of Blackbird (the "Blackbird Shareholders"), and a wholly-owned subsidiary of Blackbird, Mr. Prepaid, Inc. ("Mr. Prepaid"). The Amendment modified the Share Exchange Agreement.

Under the Amendment, the transaction contemplated by the Share Exchange Agreement has been modified to provide for an initial closing at which Rapid Link shall acquire all of the issued and outstanding shares of capital stock of Mr. Prepaid in exchange for 10,000,000 shares of the Registrant's newly-formed class of preferred stock, "Series A Preferred Stock", and Mr. Prepaid will become a wholly-owned subsidiary of the Registrant. The Registrant's preferred stock shall have certain rights and preferences including that the shares of preferred stock will be initially convertible into 520,000,000 shares of Registrant common stock. On an as-converted basis, these 520,000,000 shares of common stock would constitute approximately 80% of the Registrant's then-issued and outstanding shares of common stock. Prior to the initial closing, the outstanding capital stock of Telenational Communications, Inc. ("Telenational") and One Ring Networks, Inc. ("One Ring") will be transferred from Rapid Link to a third party ("New Rapid Link"), controlled by one or more of the Rapid Link Principal Stockholders or a designee without recourse or liability to Rapid Link. In addition, on the terms and subject to the conditions set forth in the Amendment, at a subsequent closing, subject to the satisfaction of certain additional conditions including obtaining consents to transfer certain telecommunications licenses from the Federal Communication Commission and state regulatory authorities, Blackbird will also deliver to Rapid Link all of the issued and outstanding shares of capital stock of Yak America, Inc. and the capital stock of any other Blackbird subsidiary.

Mr. Prepaid is in the business of providing prepaid telecom and transaction based POSA (point of sale activation) solutions through 1,000 independent retailers in the Eastern United States. Products include prepaid wireless PINs for use with various mobile phone providers. Yak America is a long distance reseller offering high value dial around (10-10) and pre-subscribed long distance services (1+) across the United States utilizing its network and telecommunication switch based in Miami, Florida. Following the acquisitions, the primary operations of the Company are intended to be the business of Mr. Prepaid and Yak America.

In addition, Blackbird and the Company have entered into a management agreement on October 13, 2009 pursuant to which representatives designated by Blackbird shall manage certain Telenational assets during the period between the execution of the Share Exchange Agreement and the closing of such transaction. Such Blackbird representatives shall receive a management fee of $40,000 per month for such services after Telenational's accounts payable have been

satisfied.

The description of the Share Exchange Agreement, the Amendment to the Share Exchange Agreement, and Management Agreement are qualified in its entirety by reference to such agreement attached hereto as Exhibit 2.11, 2.12 and 10.40, respectively.

Current Operations

We are a facilities-based, diversified communication services company providing various forms of voice, internet and data services to wholesale and retail customers throughout the world. We offer a wide array of communication services targeted to individuals, enterprises and wholesale customers.

The Diversified Communication Services industry continues to evolve towards an increased emphasis on Ethernet based products and services. We have focused our business towards these types of products and services for the last couple of years. Furthermore, we believe the use of our networks, either as a stand-alone solution or bundled with other IP products, provide our customers with the best possible communications experience.

During the third quarter of fiscal 2008, we acquired certain assets and assumed certain liabilities of iBroadband Networks, Inc, and iBroadband of Texas Inc. Included in the asset base, among other assets, are several significant fixed wireless broadband customers, strategic deployment sites and equipment inventories in the Dallas, Texas area, as well as several thousand retail customers in Athens, Texas who are provided local and long distance telephony services. The acquisition of these strategic assets allows us to quickly and efficiently expand into this significant marketplace without the typical upfront costs required to build infrastructure and develop a market of this size.

During the second quarter of fiscal 2008, we acquired One Ring Networks, Inc., which operates one of the largest hybrid fiber wireless broadband networks in the United States, and is one of the few carriers offering end-to-end communications and networking services, without reliance on third party providers. This acquisition allows us to provide services to high average revenue per user customers via fixed wireless and fiber optic transport. Typically, these customers are small to medium size businesses, enterprises, and carriers. We recognize that these customers require a reliable and cost-effective voice solution. In addition, we offer an integrated product that includes local and long distance calling with internet access in order to satisfy this demand.

On October 31, 2007, we acquired 100% of the assets of Communications Advantage, LLC (“Communications Advantage”), and Web-Breeze Networks, LLC (“Web Breeze”). The assets include a sizable wireless broadband network in a rural geographic area of California that fits into the Company’s niche market business model, a base of customers and revenues that are immediately accretive to our revenues and earnings, and a staff of tenured professionals with vast knowledge and experience in the wireless broadband sector.

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.

27

Revenue Recognition

Long distance revenue

Revenues generated by international re-origination, domestic residential and enterprise long distance service, and international wholesale termination, 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.

Alternative access revenues

The acquisition of One Ring Networks further enhances the Company's ability to provide services via fixed wireless and fiber optic transport. Revenues generated through the sale of voice and data services via fixed wireless and fiber optic transport, which are an increasingly significant component of the Company's revenues, are based on set capacity limits, and generally carry recurring monthly charges for up to three year contracted terms. The Company records payments received in advance as deferred revenue until such services are provided.

Allowance for Uncollectable Accounts Receivable

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

Purchase Price Allocation and Impairment Testing

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

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

Stock-Based Compensation

We adopted FASB Accounting Standards Codification 718 ("ASC 718") (formerly SFAS No. 123R, "Share-Based Payment") as of November 1, 2006. All of our existing share-based compensation awards have been determined to be equity awards. Under the modified prospective transition method, we are required to recognize noncash compensation costs for the portion of share-based awards that are outstanding as of November 1, 2006 for which the requisite service has not been rendered (i.e. nonvested awards) as the requisite service is rendered on or after that date. The compensation cost is based on the grant date fair value of those awards, with grant date fair value currently being estimated using the Black-Scholes option-pricing model, a pricing model acceptable under ASC 718. We are recognizing compensation cost relating to the nonvested portion of those awards in the consolidated financial statements beginning with the date on which ASC 718 is adopted, through the end of the requisite service period. ASC 718 requires that forfeitures be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“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 September 2006, the FASB issued guidance under ASC 820 (“ASC 820”) (formerly SFAS No. 157, “Fair Value Measurements”). ASC 820 defines fair value, established a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 is generally effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted this guidance at the beginning of fiscal year 2009. The adoption of this guidance did not significantly affect the Company’s consolidated financial condition or consolidated results of operations.

In February 2007, the FASB issued guidance under ASC 825 (formerly SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”), which allows companies the option to measure financial assets or liabilities at fair value and include unrealized gains and losses in net income rather than equity. The Company adopted this guidance at the beginning of fiscal year 2009. The adoption of this guidance had no significant impact on the financial position or results of operations of the Company.

In December 2007, the FASB issued guidance under ASC 805 (formerly SFAS No. 141(revised 2007), “Business Combinations” (“SFAS 141R”)). ASC 805 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 ASC 805, 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. ASC 805 is effective for fiscal years beginning after December 15, 2008 and, as such, we will adopt this standard in fiscal 2010. The provisions of ASC 805 will impact the Company if it is a party to a business combination after the pronouncement is adopted.

In December 2007, the FASB issued guidance under ASC 810 (formerly SFAS No. 160, Non-controlling 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 April 2008, the FASB issued guidance under ASC 350 (formerly FSP SFAS 142-3, Determination of the Useful Life of Intangible Assets.) This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. Previously, 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. This guidance removes the requirement 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. This guidance 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. This guidance 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 This guidance 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 June 2008, the FASB issued guidance under ASC 815 (formerly EITF Issue No. 07-5, Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock.) This guidance 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. 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. This guidance 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 scope exception. The Company is evaluating the impact of this guidance to its consolidated financial statements.

Results of Operations

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

	Year Ended October 31, 2009		% Change 2009 Over / (Under) 2008	Year Ended October 31, 2008	
	Amount	% of Rev.		Amount	% of Rev.
Revenues	$14,946,295	100.0 %	(13 %)	$17,238,948	100.0 %
Costs and expenses:					
Costs of revenues	10,113,325	67.7 %	(14 %)	11,705,294	67.9 %
Sales and marketing	599,323	4.0 %	(28 %)	826,856	4.8 %
General and administrative	12,492,438	83.6 %	160 %	4,797,337	27.9 %
Depreciation and amortization	1,980,106	13.2 %	43 %	1,384,526	8.0 %
Gain on forgiveness of liabilities	-	-	N/A	(163,750)	(0.9 %)
(Gain) loss on disposal of property and equipment	(13,016)	(0.1 %)	207 %	(4,240)	(0.0 %)
Total costs and expenses	25,172,176	168.4 %	36 %	18,546,023	107.6 %
Operating loss	(10,225,881)	(68.4 %)	682 %	(1,307,075)	(7.6 %)
Other income (expense):					
Noncash financing expense	(607,849)	(4.1 %)	33 %	(457,388)	(2.7 %)
Interest expense	(956,412)	(6.4 %)	76 %	(544,523)	(3.1 %)
Related party interest expense	(271,084)	(1.8 %)	4 %	(259,669)	(1.5 %)
Foreign currency exchange gain (loss)	12,051	0.1 %	(261 %)	(7,493)	(0.0 %)
Gain on legal settlement	231,658	1.5 %	N/A	-	-
Total other income(expense)	(1,591,636)	(10.6 %)	25 %	(1,269,073)	(7.3 %)
Loss from continuing operations	(11,817,517)	(79.1 %)	359 %	(2,576,148)	(14.9 %)
Discontinued operations					
Gain on disposal of discontinued operations	-	-	N/A	1,062,000	6.1 %
Net loss	(11,817,517)	(79.1 %)	680 %	(1,514,148)	(8.8 %)

Operating Revenues

Our revenues decreased by $2.3 million, or 13%, as compared to fiscal 2008. Our business model has shifted from providing low margin legacy products to providing high-speed internet and integrated voice services, which are high margin products. Revenues generated via our hybrid fiber wireless broadband network increased due to the acquisitions of One Ring and iBroadband, however, this was offset by decreased revenues from our legacy products that include traditional long distance services, international calling cards, and wholesale voice termination. In addition, revenues decreased due to the variable nature of our retail revenue component.

Costs of Revenues

Our costs of revenues for fiscal year 2009 decreased $1.6 million, or 14%, as compared to fiscal year 2008. Costs of revenues as a percentage of revenues were 67.7% for fiscal year 2009, compared to 67.9% for fiscal year 2008.

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

Sales and Marketing Expenses

We sell and market our services through our in house sales staff, independently contracted sales agents, and third-party resellers. Our sales and marketing costs decreased from 5% of revenues for fiscal 2008 to 4% of revenues for fiscal 2009. In fiscal 2009, the revenue base used to calculate agent commissions decreased due to our increased focus on high-speed internet products, which yield lower agent commissions on a percentage basis. We will continue to focus our sales and marketing efforts on web portal and magazine advertising, the establishment of distribution networks to facilitate the introduction and growth of new products and services, and agent related expenses to generate additional revenues.

General and Administrative Expenses

Our general and administrative expenses increased $7.7 million, or 160%, for fiscal year 2009 as compared to fiscal 2008. This increase includes a $5.3 million charge during fiscal 2009 relating to the impairment of goodwill and a $1.1 million charge during 2009 relating to the write-off of the remaining book value of customer lists. In addition, the Company completed the acquisition of One Ring during the second quarter of fiscal 2008, and the acquisition of iBroadband in the third quarter of fiscal 2008. General and administrative expenses with these entities were not incurred for the full year during fiscal 2008.

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

Gain on Forgiveness of Liabilities

The Gain on Forgiveness of Liabilities of $163,750 for fiscal 2008 was due to Global Capital Funding Group ("Global") forgiving any, and all, accrued interest on the GC-Conote as partial consideration for the Company paying Global the

principal sum of $420,000 on the GC-Conote during 2008.

Gain on Legal Settlement

During the first quarter of fiscal 2009, the Company executed a settlement agreement with 7-Eleven, Inc., f/k/a The Southland Corporation and received $231,658, net of attorney fees totaling $168,342. The agreement settled a dispute over a Master Agreement for computer software license and maintenance between the Company and 7-Eleven. The net amount received was recorded in the first quarter of fiscal 2009 as a "Gain on legal settlement".

Gain on Disposal of Discontinued Operations

The Gain on Disposal of Discontinued Operations of $1,062,000 for fiscal 2008 relates to the disposition of Canmax Retail Systems ("Canmx") a former operating subsidiary.

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

Non-cash financing expense, including related party non-cash financing expense, increased $150,000, or 33% during fiscal 2009 as compared to fiscal 2008. Non-cash financing expense results from the amortization of deferred financing fees and debt discounts on our debts to third party lenders and related parties.

Interest expense plus related party interest expense for fiscal 2009 increased $423,000, compared to fiscal 2008.

Liquidity and Sources of Capital

Our operating activities used $893,000 of cash during fiscal 2009, which was primarily due to the increased operating expenses related to our acquisitions of iBroadband and One Ring. Based on ongoing negative operating cash flow during the current fiscal year, our current audit report includes an explanatory paragraph indicating doubt about our ability to continue as a going concern.

At October 31, 2009, we had cash and cash equivalents of $128,000, a decrease of $103,000 from the balance at October 31, 2008. We had a working capital deficit of $13.3 million at October 31, 2009, compared to a working capital deficit of $2.1 million as of October 31, 2008.

Net cash (used in) operating activities was ($893,842) and ($1,576,000) during fiscal 2009 and 2008, respectively. Net cash used in operating activities during fiscal 2009 was primarily due to the operating loss, adjusted for non-cash financing expense, depreciation and amortization expense, loss on impairment of goodwill and customer lists, bad debt expense, share-based compensation expense, along with the effect of a positive net change in operating assets and liabilities of $1,869,000. Net cash used in operating activities during fiscal 2008 was also primarily due to the net loss, adjusted for non-cash interest expense, depreciation and amortization expense, bad debt expense, and share-based compensation expense. The net cash (used in) operating activities during fiscal 2008 also included the net change in operating assets and liabilities of $(789,000).

Net cash (used in) investing activities was $(101,000) and $(97,000) during fiscal 2009 and 2008, respectively. The net cash used in investing activities in both years is primarily due to purchases of property and equipment, offset by proceeds from the sale of property and equipment. In fiscal 2008, there was net cash received in connection with the One Ring acquisition and the iBroadband acquisition.

Net cash provided by financing activities was $690,000 during fiscal 2009 compared to $1,408,000 during fiscal 2008. Net cash provided by financing activities in fiscal 2009 was primarily net proceeds from the revolving line of credit, offset by repayment of notes payable and payments on capital leases. Net cash provided by financing activities in fiscal 2008 was primarily from proceeds from the issuance of secured notes, offset by payment of financing fees, repayment of convertible notes payable, and payments on capital leases.

We have an accumulated deficit of $65.1 million as of October 31, 2009, and a significant working capital deficit. Funding of our working capital deficit, current and future operating losses, and expansion will require continuing capital investment, which may not be available to us. Although to date we have been able to arrange the debt facilities and equity financing described below, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to us. Our current capital expenditure requirements are not significant, primarily due to the equipment acquired from One Ring, iBroadband, and equipment acquired through capital lease transactions, as well as the subsequent consolidation of operating facilities into one operational facility.

Debt Facilities and Equity Financing

The Company has various debt obligations as of October 31, 2009 and 2008, including amounts due to independent institutions and related parties. Descriptions of these debt obligations are included below. The following tables summarize outstanding debt as of October 31, 2009 and October 31, 2008:

Information as of October 31, 2009

Brief Description of Debt	Balance	Int. Rate	Due Date	Discount	Net