RAPID LINK INC
Form 10QSB
September 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2007

[ ] 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

(Exact name of small business issuer as specified in its charter)

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

17383 SUNSET BOULEVARD, SUITE 350, LOS ANGELES, CA 90272

(Address of principal executive offices)

(310) 566-1700

(Issuer's telephone number)

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 Yes [X] No [ ]

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

As of August 31, 2007, there were 60,804,401 shares of registrant's common stock, par value $.001 per share, outstanding.

Transitional Small Business Disclosure Format (check one): Yes[ ] No [X]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

RAPID LINK, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	July 31, 2007	October 31, 2006
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 218,158	$ 30,136
Accounts receivable, net of allowances of $61,931 and $99,666, respectively	1,051,528	1,400,568
Prepaid expenses	125,749	204,335

Other current assets	82,117	16,382
Total current assets	1,477,552	1,651,421
Property and equipment, net	245,842	379,027
Customer lists, net	2,643,036	3,222,142
Goodwill	2,868,461	2,868,461
Other assets	107,504	121,286
Total Assets	$ 7,342,395	$ 8,242,337

LIABILITIES AND SHAREHOLDERS' DEFICIT

Current liabilities:		
Bank overdrafts	$ -	$ 101,097
Accounts payable	2,316,410	2,203,072
Accrued interest (including $386,723 and $183,304, respectively, to related parties)	875,742	491,299
Other accrued liabilities	568,850	507,581
Deferred revenue	106,868	183,510
Deposits and other payables	75,606	66,889
Contingent purchase price consideration	500,000	500,000
Convertible notes, current portion, net of debt discount of $265,151 and $343,333, respectively		

2,997,306

716,667

Related party convertible notes, net of debt discount of $19,302 and $0, respectively

1,885,776

-

Related party notes, current portion

1,300,000

380,965

Net current liabilities from discontinued operations

1,162,000

1,162,000

Total current liabilities

11,788,558

6,313,080

Convertible notes, long-term, net of debt discount of $610,308

-

1,622,149

Convertible notes payable to related parties, long-term, net of debt discount of $44,120

-

	1,860,958	
Related party note, long-term	-	1,000,000
Total liabilities	11,788,558	10,796,187
Commitments and contingencies		
Shareholders' deficit:		
Preferred stock, \$.001 par value; 10,000,000 shares uthorized; none issued and outstanding	-	-
Common stock, \$.001 par value; 175,000,000 shares uthorized; 52,161,544 and 51,181,994 issued at July 31, 2007 and October 31, 2006, respectively	52,162	51,182
Additional paid-in capital	47,530,725	47,248,729
Accumulated deficit		

	(51,974,180)	(49,798,891)
Treasury stock, at cost; 12,022 shares	(54,870)	(54,870)
Total shareholders' deficit	(4,446,163)	(2,553,850)
Total liabilities and shareholders' deficit	$ 7,342,395	$ 8,242,337

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Revenues	$4,229,804	$4,842,904	$12,402,878	$ 8,950,034
Costs and expenses:				
Costs of revenues	2,982,544	3,441,046	8,932,807	6,582,121
Sales and marketing	303,410	334,836	923,326	577,045
General and administrative	828,622	1,034,036	2,675,877	2,424,455
Depreciation and amortization	229,853	283,620	707,996	487,799
Loss on disposal of property and equipment	-	-	10,061	34,229
Gain on reduction/settlement of liabilities	-	(308,879)	-	(308,879)

Total costs and expenses	4,344,429	4,784,659	13,250,067	9,796,770
Operating income (loss)	(114,625)	58,245	(847,189)	(846,736)
Other income (expense):				
Noncash interest expense	(174,954)	(439,652)	(835,584)	(949,778)
Interest expense	(70,991)	(62,051)	(212,884)	(155,676)
Related party interest expense	(74,081)	(62,088)	(214,930)	(128,502)
Foreign currency exchange gains (losses)	69	(4,948)	4,020	18,693
Other	(70,825)	-	(68,722)	-
Total other expense, net	(390,782)	(568,739)	(1,328,100)	(1,215,263)
Net loss	$(505,407)	$(510,494)	$(2,175,289)	$(2,061,999)
Earnings per share information:				
Basic and diluted weighted average shares outstanding	51,974,854	45,345,456	51,630,459	35,012,074
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.06)

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

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

	Nine Months Ended July 31,	
	2007	2006
Cash flows from operating activities:		
Net loss	$(2,175,289)	$(2,061,999)
Adjustments to reconcile net loss to net cash Provided by (used in) operating activities:		
Noncash interest expense	835,584	951,757
Other non-cash expense	70,825	-
Depreciation and amortization	707,996	487,799
Bad debt expense	90,000	106,509
Share-based compensation expense	17,775	-
Loss on disposal of property and equipment	10,061	34,229

Gain on reduction/settlement of liabilities	-	(308,879)
Changes in operating assets and liabilities:		
Accounts receivable	259,040	(170,461)
Prepaid expenses and other current assets	96,866	89,520
Other assets	10,811	(48,221)
Accounts payable	113,338	(78,361)
Accrued liabilities	378,797	293,343
Deferred revenue	(76,641)	(13,884)
Deposits and other payables	8,717	(131,549)
Net cash provided by (used in) operating activities	347,879	(850,197)
Cash flows from investing activities:		
Purchases of property and equipment	(3,094)	(147,367)
Cash acquired in Telenational acquisition	-	158,135
Proceeds from sale of property and equipment	300	-
Net cash (used) provided by investing activities	(2,794)	10,768
Cash flows from financing activities:		
Reduction of bank overdrafts	(101,097)	-
Proceeds from sale of common stock	25,000	-
Proceeds from convertible debentures	-	1,000,000
Payment of financing fees	-	(44,150)
Proceeds from related party notes and shareholder advances	-	550,000
Payments on related party notes and shareholder advances	(80,966)	(550,000)
Net cash provided by (used in) financing activities	(157,063)	955,850
Net increase in cash and cash equivalents	188,022	116,421
Cash and cash equivalents, beginning of period	30,136	172,164
Cash and cash equivalents, end of period	$ 218,158	$ 288,585

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

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

NOTE 1 - NATURE OF BUSINESS AND CONSOLIDATED FINANCIAL STATEMENTS

Nature of Business

Rapid Link, Incorporated, a Delaware corporation, and its subsidiaries (collectively referred to as "Rapid Link" or the "Company"), have served as facilities-based, communications companies providing various forms of telephony services to customers around the world. Rapid Link provides a multitude of communications services targeted to individual customers, as well as small and medium sized enterprises. 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. To insure optimal quality and redundancy, the Company utilizes the Public Switched Telecommunications Network, as well as the Internet, to transport communications services.

The Company has shifted its retail product focus to broadband wireless internet services. Rapid Link focuses on key niche markets. These niche markets include specific ethnic demographics, targeted geographic locations both domestically and internationally, and the United States military. The Company's strategy includes plans to offer broadband access via its own facilities to insure reliable delivery of its current and future services. Technology now allows for cost efficient and rapid build out of broadband facilities. Wi-MAX and other technologies can bring fast, reliable, high speed internet access to areas that have traditionally been unreachable or underserved. Through acquisitions and organic growth in targeted rural areas, the Company believes it will possess a strategic advantage over carriers that do not provide their own network access. "Net Neutrality" is still in question and Rapid Link believes the potential for unfair and/or monopolistic behavior by incumbent providers, necessitates our strategy to "own" the customer by providing the service directly, rather than utilizing the networks of others. This will allow the Company to provide its bundled products and communications services without the threat of compromised service quality.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements at July 31, 2007, and for the three and nine months ended July 31, 2007 and 2006, are unaudited and reflect all adjustments of a normal recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain amounts previously reported have been reclassified to conform to the current period presentation.

The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's annual report on Form 10-KSB for the fiscal year ended October 31, 2006. The results of operations for the three and nine months ended July 31, 2007 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending October 31, 2007.

Estimates and Assumptions

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

Restatements and Reclassifications

The Company has restated its consolidated financial statements as of and for the nine months ended July 31, 2006 to reflect in the proper quarterly period certain amounts that were recorded in the consolidated financial statements during fiscal 2006. The restated quarterly information was presented in the Company's annual report on Form 10-KSB for the fiscal year ended October 31, 2006. (See Note 2 - Gain on reduction/settlement of liabilities for further details). Certain balance sheet amounts as of October 31, 2006 have been reclassified to be properly presented (see *Acquisition* below for further details).

Acquisition

On May 5, 2006, the Company acquired 100% of the outstanding stock of Telenational Communications, Inc. ("Telenational") from Apex Acquisitions, Inc. ("APEX"). The primary purpose of the acquisition was to enable the Company to expand its market share in the telecommunications industry and eliminate certain costs by gaining operational efficiencies. The consolidated financial statements at October 31, 2006 and July 31, 2007, and for the three and nine months ended July 31, 2007, include amounts acquired from, as well as results of operations of, the acquired business. The Company reclassified certain amounts on its October 31, 2006 consolidated balance sheet to apply a $250,000 payment made to APEX in October 2006 against a note owed to APEX (at the request of APEX management) rather than as a reduction of purchase price consideration owed related to the acquisition of Telenational. Accrued purchase price consideration of $500,000, which represents the remaining unpaid cash portion of the purchase consideration, was past due at July 31, 2007 and October 31, 2006, however the $500,000 contingent purchase consideration has subsequently been extended by the Company and APEX in the form of an 8% Note (see Note 8 - Subsequent Events).

Financial Condition and Going Concern

The Company is subject to various risks in connection with the operation of its business including, among other things, (i) changes in external competitive market factors, (ii) inability to satisfy anticipated working capital or other cash requirements, (iii) changes in the availability of transmission facilities, (iv) changes in the Company's business strategy or an inability to execute its strategy due to unanticipated changes in the market, (v) various competitive factors that may prevent the Company from competing successfully in the marketplace, and (vi) the Company's lack of liquidity and limited ability or inability to raise additional capital. The Company has an accumulated deficit of approximately $52 million as of July 31, 2007, as well as a working capital deficit of approximately $10.3 million. In addition, a significant amount of the Company's trade accounts payable and accrued liabilities are past due. Funding of the Company's working capital deficit, its current and future anticipated operating losses, and expansion of the Company will require continuing capital investment. Historically, some of the Company's funding has been provided by a major shareholder. The Company's strategy is to fund these cash requirements through debt facilities and additional equity financing. Although the Company has been able to arrange debt facilities and equity financing to date, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to the Company. Failure to obtain sufficient capital could materially affect the Company's operations in the short term and hinder expansion strategies. At July 31, 2007, approximately 50% of the Company's debt is due to a Director of the Company, senior management or an entity owned by senior management.

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

NOTE 2 - GAIN ON REDUCTION/SETTLEMENT OF LIABILITIES

The Company determined during the third quarter of fiscal 2006, based on a review of applicable statute of limitations regulations and/or current correspondence with vendors, that approximately $309,000 of liabilities were no longer due and payable as of July 31, 2006. Accordingly, this amount was recorded as "gain on reduction/settlement of liabilities" during the first nine months of fiscal 2006. (See Note 1 - Nature of Business and Consolidated Financial Statements for discussion of restatement of quarterly information).

NOTE 3 - SHARE-BASED COMPENSATION

Accounting for Share-Based Payments Pursuant to Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R")

The Company adopted SFAS No. 123R as of November 1, 2006 applying the modified prospective transition method. This revised accounting standard addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based compensation transactions with employees using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and requires that the fair value of such share-based payments be recognized in the consolidated statement of operations using a fair-value-based method. SFAS No. 123R requires publicly-traded entities to record compensation expense related to payment for employee services by an equity award in their financial statements over the requisite service period. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107, "Share-Based Payment," which does not modify any of SFAS No. 123R's conclusions or requirements, but rather includes recognition, measurement and disclosure guidance for companies as they implement SFAS No. 123R.

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

Effective November 1, 2006, the Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123R and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur.

The adoption of SFAS No. 123R had no effect on cash flows or basic and diluted loss per share. No share-based compensation costs were capitalized during the first nine months of fiscal 2007. Noncash share-based compensation costs recorded in general and administrative expenses during the third quarter and first nine months of fiscal 2007 were approximately $6,000 and $18,000, respectively.

A summary of stock options as of July 31, 2007 and changes during the nine months then ended was as follows:

Stock Options	Shares	Weighted -Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value

Outstanding at October 31, 2006	1,242,500	$ 0.12		
Granted	-	-		
Exercised	-	-		
Cancellations	(310,000)	0.13		
Outstanding at July 31, 2007	932,500	$ 0.12	4.6	$ -
Exercisable at July 31, 2007	290,000	$ 0.13	6.0	$ -

There were no options issued to employees during the first nine months of fiscal 2007. No options were exercised during the first nine months of fiscal 2007. The Company issues new shares of common stock upon option exercise.

As of July 31, 2007, there were unrecognized compensation costs of $50,000 related to nonvested stock options which the Company expects to recognize over a weighted-average period of 2.2 years.

Accounting for Share-Based Payments Prior to Adoption of SFAS No. 123R

Prior to November 1, 2006, the Company accounted for its stock-based employee compensation arrangements under the intrinsic value method in accordance with APB Opinion No. 25 and followed the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure." Under APB Opinion No. 25, compensation expense for employees is based on the excess, if any, on the date of grant, of fair value of the Company's stock over the exercise price. Accordingly, compensation cost was not recognized related to stock options in the financial statements as the fair market value on the grant date approximated the exercise price. Prior to the adoption of SFAS No. 123R, the Company calculated stock-based compensation pursuant to the disclosure provisions of SFAS No. 123 using the straight-line method over the vesting period of the option. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, as amended by SFAS No. 148, the Company's pro forma net loss for third quarter and first nine months of fiscal 2006 would not have been materially different.

The fair value of options for shares of the Company's common stock issued to employees has been determined using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123. There were no options issued to employees during the first nine months of fiscal 2006.

NOTE 4 - CONVERTIBLE DEBENTURES AND NOTES PAYABLE, INCLUDING RELATED PARTY NOTES

The Company has various debt obligations as of July 31, 2007 and October 31, 2006, including amounts due to independent institutions and related parties. No new debt obligations were entered into during the first nine months of fiscal 2007. The following tables summarize outstanding debt as of each balance sheet date:

INFORMATION AS OF JULY 31, 2007

Description	Balance	Int. Rate	Due Date	Discount	Net

Convertible notes, current					
GC-Conote2	$ 30,000	0%	on demand	$ -	$ 30,000
GCA-Debenture	430,000	6%	11/1/2007	-	430,000
GCA-Debenture	552,457	6%	11/1/2007	-	552,457
GC-Conote	1,250,000	10.08%	2/28/2008	265,151	984,849
Debentures	1,000,000	10%	3/8/2008	-	1,000,000
Related party conv. notes, current					
Notes (Executives)	1,905,078	10%	2/28/2008	19,302	1,885,776
Related party notes, current					
Exec. Demand Note	300,000	8%	on demand	-	300,000
APEX Note 1	1,000,000	8%	11/5/2007	-	1,000,000

INFORMATION AS OF OCTOBER 31, 2006

Description	Balance	Int. Rate	Due Date	Discount	Net
Convertible notes, current					
GC-Conote2	$ 60,000	0%	3/31/2007	$ 10,000	$ 50,000
Debentures	1,000,000	10%	3/8/2007	333,333	666,667
Related party notes, current					
Exec. Demand Note	300,000	8%	on demand	-	300,000
APEX Note 2	80,965	8%	7/15/2007	-	80,965
Convertible notes, long-term					
GCA-Debenture	430,000	6%	11/1/2007	-	430,000
GCA-Debenture	552,457	6%	11/1/2007	4,247	548,210
GC-Conote	1,250,000	10.08%	2/28/2008	606,061	643,939
Related party conv. notes, long-term					
Notes (Executives)	1,905,078	10%	2/28/2008	44,120	1,860,958
Related party note, long-term					
APEX Note 1	1,000,000	8%	11/5/2007	-	1,000,000

Debentures totaling $1,000,000 with an original March 8, 2007 maturity date were extended during the second quarter of fiscal 2007 to March 8, 2008. The term of the original 2,000,000 warrants issued related to these Debentures was extended by one year, which had an insignificant financial impact. In connection with the extension, however, 2,000,000 additional warrants were issued, resulting in deferred financing fees of $139,000, of which $55,000 was expensed as noncash interest expense during the first nine months of fiscal 2007. The fair value of the warrants was determined on the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 4.5%; volatility factor of the expected market price of the Company's common stock of 287%; and an expected life of the warrants of four years. Remaining deferred financing fees, classified as other current assets, will be amortized through March 8, 2008. In connection with these Debentures, the lenders are each entitled to an additional 50,000 warrants monthly with exercise prices of $0.25 and $0.10, respectively. These warrants vest and are exercisable each fiscal quarter until the Debentures are paid in full. The fair value of these additional warrants is calculated on the date earned using the Black-Scholes pricing model using applicable risk-free interest rates based on current treasury-bill interest rates; volatility factors of the expected market price of the Company's common stock over the expected term; and an expected life of the warrants of four years. Under the terms of this agreement, the Company has granted 500,000 warrants to the lenders as of July 31, 2007.

The Company has two 6% convertible debentures totaling $982,457 with maturity dates of November 1, 2007 (the "GCA-Debentures") with GCA Strategic Investment Fund Limited ("GCA") that became current liabilities during the first nine months of fiscal 2007. During the second quarter of fiscal 2007, GCA elected to convert $30,000 of the GC-Conote2 into approximately 622,000 shares of common stock. The remaining $30,000 owed on the GC-Conote2 became due on March 31, 2007 and is currently due on demand.

An 8% related party note payable to APEX that is due on November 5, 2007 in the amount of $1,000,000 ("Apex Note 1") became a current liability during the first nine months of fiscal 2007. The Company's Chief Financial Officer, Chris Canfield, is the majority shareholder of APEX. Additionally, two 10% related party notes that are payable (1) to the Company's CEO and (2) to a former officer of the Company that are due on February 28, 2008 in the combined amount of $1,905,078 ("the Executive Notes") became current liabilities during the first nine months of fiscal 2007.

During fiscal 2006, in conjunction with, but unrelated to the total purchase consideration paid for Telenational, the Company issued an 8% note payable to APEX in the original amount of $436,560 ("APEX Note 2"). APEX Note 2 was payable in 12 equal monthly payments of principal and interest until fully satisfied in July 2007. However, the Company reclassified certain amounts on its October 31, 2006 consolidated balance sheet to apply a $250,000 payment made to APEX in October 2006 against APEX Note 2 (at the request of APEX management) rather than as a reduction of accrued purchase price consideration owed related to the acquisition of Telenational.

In August 2007, the Company's Chief Executive Officer elected to convert $900,000 of the 10% "related party convertible notes" due February 28, 2008 into 9,000,000 shares of common stock, reflecting a conversion price of $0.10 per share.

NOTE 5 - COMMON STOCK WARRANTS

On June 15, 2007, the Company entered into a series of agreements with Westside Capital, LLC whereby the Company sold 357,143 shares of the Company's common stock to Westside Capital for a purchase price of $25,000 and issued to Westside Capital Common Stock Purchase Warrants (the "Warrants") to purchase up to an additional 50,000,000 shares of the Registrant's common stock ("Warrant Shares") at exercise prices as follows: 20,000,000 Warrant Shares exercisable at $0.10 per share (Warrant "A"); 15,000,000 Warrant Shares exercisable at $0.20 per share (Warrant "B"); and 15,000,000 Warrant Shares exercisable at $0.30 per share (Warrant "C"). The Warrants vest in 4,000,000 share increments at such time as the previous increment has been fully exercised. Should the Company not receive cumulative gross proceeds of at least three million dollars ($3,000,000) in the form of equity, debt, any other injection of capital into the Company, or any combination thereof from Westside Capital or from sources introduced by Westside Capital by February 24, 2008, then all remaining outstanding Warrants shall expire. On June 15, 2007, 4,000,000 warrants vested resulting in the recognition of approximately $71,000 of expense included in "other" on the accompanying statement of operations for the three and nine months ended July 31, 2007. The fair value of the warrants was determined on the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate of 5.38%; volatility factor of the expected market price of the Company's common stock of 1.38; and an expected life of the warrants of eight months.

NOTE 6 - BUSINESS AND CREDIT CONCENTRATIONS

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

The Company provided services to one customer that accounted for 27% and 25%, respectively, of overall revenues during the third quarter and first nine months of fiscal 2007. During the third quarter and first nine months of fiscal 2007, 27% and 25%, respectively, of the Company's revenues were generated from customers in the Netherlands. During the third quarter of fiscal 2007, three of the Company's suppliers accounted for approximately 33%, 24% and 14%, respectively, of the Company's total costs of revenues. During the first nine months of fiscal 2007, three of the Company's suppliers accounted for approximately 32%, 13% and 12%, respectively, of the Company's total costs of revenues. At July 31, 2007, one customer accounted for 14% of the Company's trade accounts receivable. At October 31, 2006, one customer accounted for 13% of the Company's trade accounts receivable.

The Company provided services to one customer who accounted for 17% of overall revenues during the third quarter 2006 and the company provided services to two customers who accounted for 12% and 18%, respectively, of overall revenues during the first nine months of fiscal 2006. During the third quarter of fiscal 2006, 10% of the Company's revenues were generated from customers in South Africa. During the third quarter of fiscal 2006, one of the Company's suppliers accounted for 29% of the Company's total costs of revenues. During the first nine months of fiscal 2006, one of the Company's suppliers accounted for approximately 15% of the Company's total costs of revenues.

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Cygnus Telecommunications Technology, LLC

. On June 12, 2001, Cygnus Telecommunications Technology, LLC ("Cygnus"), filed a patent infringement suit (case no. 01-6052) in the United States District Court, Central District of California, with respect to the Company's "international re-origination" technology. On March 29, 2007 the United States District Court in San Jose, California ruled that all Cygnus "international re-origination" patents are invalid, and dismissed all cases against Rapid Link (fka Dial Thru International Corporation) and related parties. Cygnus is appealing to a higher court.

State of Texas

. During fiscal 2004, the Company determined, based on final written communications with the State of Texas (the "State"), that it had a liability for sales taxes (including penalties and interest). On August 5, 2005, the State filed a lawsuit in the 53rd Judicial District Court of Travis County, Austin, Texas against the Company. The lawsuit requests payment of approximately $1.162 million for state and local sales tax, penalties and interest, which has been accrued at

July 31, 2007 and October 31, 2006. The sales tax amount due is attributable to audit findings of the State for the years 1995 to 1999 associated with Canmax Retail Systems, a current subsidiary of ours, and former operating subsidiary providing retail automation software and related services to the retail petroleum and convenience store industries. The State determined that Canmax Retail Systems did not properly remit sales tax on certain transactions. Management believes that it will be able to negotiate a reduced settlement amount with the State, although there can be no assurance that the Company will be successful with respect to such negotiations. These operations were classified as discontinued after the Company sold its retail automation software business in December 1998 and changed its business model.

Management believes that it will be able to negotiate a reduced settlement amount with the State, although there can be no assurance that the Company will be successful with respect to such negotiations. The Company will continue to aggressively pursue the collection of unpaid sales taxes from former customers of Canmax Retail Systems, primarily Southland Corporation, now 7-Eleven Corporation ("7-Eleven"), as a majority of the amount owed to the State is the result of uncollected taxes from the sale of software to 7-Eleven during the period under audit. However, there can be no assurance that the Company will be successful with respect to such collections.

On January 12, 2004, the Company filed a suit against 7-Eleven in the 162nd District Court in Dallas, Texas. The Company's suit claims a breach of contract on the part of 7-Eleven in failing to reimburse it for taxes paid to the State as well as related taxes for which the Company is currently being held responsible by the State. The Company's suit seeks reimbursement for the taxes paid and a determination by the court that 7-Eleven is responsible for paying the remaining tax liability to the State.

NOTE 8 - Subsequent Events

On September 1, 2007, the Company issued APEX an 8% $500,000 note ("APEX Note 3") as payment for the contingent purchase consideration. Interest and principal are due on demand.

On August 9, 2007, the Company filed an SB-2 registration statement with the Securities Exchange Commission, seeking the registration of 64,572,173 shares of common stock, which includes 50,000,000 shares underlying warrants as discussed in Note 5. The registration statement was declared effective by the SEC on August 24, 2007.

On August 17, 2007, the Company's Chief Executive Officer elected to convert $900,000 of the 10% "related party convertible notes" due February 28, 2008 into 9,000,000 shares of common stock.

On September 5, 2007 the Company executed a Letter of Intent to acquire the assets of Web Breeze, LLC, and Communications Advantage, LLC, for a combination of cash and common stock with an approximate total consideration of $225,000. Additional consideration can be attained with certain growth objectives being achieved. The Company plans to finalize the acquisition in the fourth quarter of 2007, and plans to enter into an employment agreement with the principal of Web Breeze, LLC, and Communications Advantage, LLC.

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

Forward-Looking Statements

This report includes 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 Voice over Internet Protocol ("VoIP") to provide telecommunications services over the Internet, (b) the relatively low barriers to entry for start-up companies using VoIP to provide telecommunications services over the Internet, (c) the price-sensitive nature of consumer demand, (d) the relative lack of customer loyalty to any particular provider of services over the Internet, (e) our dependence upon favorable pricing from our suppliers to compete in the telecommunications industry, (f) increased consolidation in the telecommunications industry, which may result in larger competitors being able to compete more effectively, (g) failure to attract or retain key employees, (h) continuing changes in governmental regulations affecting the telecommunications industry and the Internet and (i) changing consumer demand, technological developments and industry standards that characterize the industry. 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. In addition, 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.

Overview

We are a facilities-based, communications company providing various forms of telephony services to customers around the world. We offer a multitude of communications services targeted to individual customers, as well as small and medium sized enterprises. 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. To insure optimal quality and redundancy, the Company utilizes the Public Switched Telecommunications Network, as well as the Internet, to transport communications services

We continue to seek opportunities to grow our business through strategic acquisitions that will complement our retail strategy as well as adding key personnel that have demonstrated a proven track record in sales, marketing and operations of retail communications organizations.

On May 5, 2006, we completed the acquisition of all of the issued and outstanding shares of capital stock of Telenational Communications, Inc., who historically has serviced a sizable base of both retail and commercial customers which very closely mirror those customers Rapid Link has served prior to the acquisition. This acquisition allows us to take advantage of several significant economies of scale, both in respect to direct cost reductions, as well as operational efficiencies.

The telecommunications industry continues to evolve towards an increased emphasis on VoIP related products and services. Accordingly, we have increased our focus on these types of products and services. We believe the use of the Internet to provide bundled services to the end user customer, either as a stand alone solution or supplemented with VoIP products, will continue to impact the industry as large companies like Time Warner, Comcast and AT&T look to capitalize on their existing network infrastructures, and smaller companies look to provide innovative solutions to attract commercial and residential users to their product offerings.

We are focused on the growth of our business by adding new products and services that can be offered to end user customers. We are committed to building our own broadband wireless network in selected target markets in order to offer the highest quality internet connectivity in these areas. This will allow us the control we feel is required to insure high quality VoIP voice service transport. We are attempting to transition our current customers, and attract new customers through the sale of specialized VoIP Internet Access Devices, or IADs, that allow customers to connect their phones to their existing high-speed Internet connections, or whenever possible, over our own broadband connection. These IADs allow the user to originate phone calls over the Internet, thereby bypassing the normal costs associated with originating phone calls over existing land lines. By reducing these costs, we are able to offer lower priced services to these customers, which we believe will allow us to attract additional users. We also feel that by owning and maintaining our own broadband network we will be able to bundle myriad of related products and services which will supplement our existing offerings. We are targeting business and residential customers, as well as customers in niche markets, such as underserved rural areas domestically. While we expect the growth in our customer base, and the introduction of innovative product offerings to have a positive impact on our revenues and earnings, we cannot predict our ability to significantly grow this line of business. The revenue and costs associated with the VoIP and broadband wireless product offerings will depend on the number of customers and contracts we obtain.

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 the consolidated financial statements. Actual results could differ from those estimates. The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

For a majority of our products, our revenues are generated at the time a customer uses our network to initiate a phone call. We sell our services to small and medium sized enterprises and end-users that utilize our network for international re-origination and dial thru services, and to other providers of long distance usage who utilize our network to deliver domestic and international termination of minutes to their own customers. At times we receive payment from our customers in advance of their usage, which we record as deferred revenue, recognizing revenue as calls are made.

For our newer VoIP product offerings, specifically our Rapid Link service, we recognize revenue in accordance with Emerging Issues Task Force ("EITF") consensus No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" which requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. In addition, arrangement consideration must be allocated among the separate units of accounting based on their relative fair values, with certain limitations. The provisioning of the Rapid Link service with the accompanying desktop terminal adapter or other customer premise equipment constitutes a revenue arrangement with multiple deliverables. In accordance with the guidance of EITF No. 00-21, we allocate Rapid Link revenues, including activation fees, among the customer premise equipment and subscriber services. Revenues allocated to the customer premise equipment are recognized as product revenues at the end of 30 days after order placement, provided the customer does not cancel their Rapid Link service. All other revenues are recognized as license and service revenues when the related services are provided. We defer the cost of goods sold of products sold for which the end customer or distributor has a right of return. The cost of the products sold is recognized, contemporaneously with the recognition of revenue, when the subscriber has accepted the service. To date, our new VoIP product offerings have generated insignificant revenues.

The Securities and Exchange Commission's Staff Accounting Bulletin No. 104, "Revenue Recognition," provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. We have concluded that our revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and Staff Accounting Bulletin No. 104.

Allowance for Uncollectible Accounts Receivable

We regularly monitor credit risk exposures in our accounts receivable and maintain a general allowance for doubtful accounts based on historical experience. Our receivables are due from commercial enterprises and residential users in both domestic and international markets. In estimating the necessary level of our allowance for doubtful accounts, we consider the aging of our customers' accounts receivable and our estimation of each customer's willingness and ability to pay amounts due, among other factors. 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.

Purchase Price Allocations 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.

Carrier Disputes

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

Results of Operations

The following table set forth certain financial data and the percentage of total revenues of the Company for the periods indicated (amounts in thousands):

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2007		2006		2007		2006	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues	$ 4,230	100.0	$ 4,843	100.0	$ 12,403	100.0	$ 8,950	100.0
Costs and expenses:								

Costs of revenues	2,983	70.5	3,441	71.1	8,933	72.0	6,582	73.5
Sales and marketing	303	7.2	335	6.9	923	7.4	578	6.4
General and administrative	829	19.6	1,034	21.4	2,676	21.6	2,424	27.1
Depreciation and amortization	230	5.4	284	5.9	708	5.7	488	5.5
Loss on disposal of property and equipment	-	-	-	-	10	0.1	34	0.4
Gain on reduction/ settlement of liabilities	-	-	(309)	(6.4)	-	-	(309)	(3.5)
Total costs and expenses	4,345	102.7	4,785	98.8	13,250	106.8	9,797	109.5
Operating income (loss)	(115)	(2.7)	58	1.2	(847)	(6.8)	(847)	(9.5)
Other income (expense):								
Noncash interest expense	(175)	(4.1)	(440)	(9.1)	(835)	(6.7)	(950)	(10.6)
Interest expense	(70)	(1.6)	(61)	(1.3)	(213)	(1.7)	(155)	(1.7)
Related party interest expense	(74)	(1.8)	(62)	(1.3)	(215)	(1.7)	(129)	(1.4)
Foreign currency exchange gains	-	-	(5)	(.1)	4	-	19	0.2
Other	(71)	(1.7)	-	-	(69)	(.6)	-	-
Total other expense, net	(390)	(9.2)	(568)	(11.7)	(1,328)	(10.7)	(1,215)	(13.6)
Net loss	$ (505)	(11.9)%	$ (510)	(10.5)%	$ (2,175)	(17.5)%	$ (2,062)	(23.0)%

Revenues

Revenues for the third quarter of fiscal 2007 decreased $0.6 million, or 13%, as compared to the same period of fiscal 2006. This decrease is primarily attributable to the expected variable nature of the wholesale revenue component. Revenues for the first nine months of fiscal 2007 increased $3.5 million, or 39%, as compared to the same period of fiscal 2006. This increase is primarily attributable to the inclusion of Telenational revenues gained in the May 2006 acquisition of Telenational, which were included for only a portion of the comparable nine month period of 2006.

Costs of Revenues

Costs of revenues for the third quarter of fiscal 2007 decreased $0.5 million, or 13%, as compared to the same period of fiscal 2006. This decrease is primarily attributable to a proportionate decrease in revenues for the period. Costs of revenues for the first nine months of fiscal 2007 increased $2.4 million, or 36%, as compared to the same period of fiscal 2006. This increase is primarily attributable to the inclusion of Telenational costs of revenues since the May 2006 acquisition of Telenational that were included for only a portion of the comparable nine month fiscal period of 2006.

Costs of revenues as a percentage of revenues were unchanged during the third quarter of fiscal 2007 as compared to the same period of fiscal 2006. Costs of revenues as a percentage of revenues for the nine months of fiscal 2007 decreased 2% as compared to the same period of fiscal 2006. This decrease is a standard acceptable variance in this industry. As a majority of our costs of revenues are variable, based on per minute transportation costs, costs of revenues as a percentage of revenues will fluctuate, from 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

Sales and marketing expenses for the third quarter of fiscal 2007 decreased $32,000, or 9%, as compared to the same period of fiscal 2006. Sales and marketing expenses for the first nine months of fiscal 2007 increased $345,000, or 60%, as compared to the same period of fiscal 2006. This increase is attributable to higher marketing costs and agent commissions attributed to the inclusion of Telenational revenues and the associated cost of commissions and advertising for the comparable nine month period of fiscal 2006. A significant component of our revenue is generated by outside agents, a small in-house sales force, and marketing through web portals and magazine advertising, which is managed by a small in-house sales and marketing organization.

General and Administrative Expenses

General and administrative expenses for the third quarter of fiscal 2007 decreased $205,000, or 20%, as compared to the same period of fiscal 2006. General and administrative expenses for the first nine months of fiscal 2007 increased $252,000, or 10%, as compared to the same period of fiscal 2006. However, year-to-date general and administrative expenses decreased from 27% of revenues for fiscal 2006 to 22% for the same period of fiscal 2007. General and administrative expenses decreased by 5% during the first nine months of fiscal 2007 as compared to the same period of fiscal 2006, even with the addition of personnel and other costs related to the Telenational acquisition, because the Company was able to quickly eliminate duplicate costs between the combined entities, primarily related to salaries and corresponding benefits, as well as rent, telephone and utility cost reductions resulting from the closure of a couple of office locations. We review our general and administrative expenses regularly and continue to manage the costs accordingly to support our current and anticipated future business; however it may be difficult to achieve significant reductions in future periods due to the relatively fixed nature of many general and administrative expenses.

Depreciation and Amortization

Depreciation and amortization expenses for the third quarter of fiscal 2007 decreased $54,000, or 19%, as compared to the same period of fiscal 2006. Depreciation and amortization expenses for the first nine months of fiscal 2007 increased $220,000, or 45%, as compared to the same period of fiscal 2006. Fixed assets have steadily been reaching the end of their estimated useful lives. Although a large portion of our fixed assets still in use are fully depreciated, depreciation and amortization costs increased due to (1) amortization of Telenational customer lists during the first nine months of fiscal 2007 ($175,000 per quarter) with no corresponding expense during the same period of fiscal 2006 and (2) depreciation of fixed assets acquired as part of the May 2006 purchase of Telenational. A majority of our depreciation expense relates to the equipment utilized in our VoIP network.

Gain on Reduction/Settlement of Liabilities

The Company determined during the third quarter of fiscal 2006, based on a review of applicable statute of limitations regulations and/or current correspondence with customers, that approximately $309,000 of liabilities were no longer due and payable at the end of the third quarter of fiscal 2006. Accordingly, this amount was recorded as a gain from reduction of liabilities for the three months ending July 31, 2006.

Noncash Interest Expense, Interest Expense and Related Party Interest

Noncash interest expense results from the amortization of deferred financing fees and debt discounts on our debts to third party lenders. Noncash interest expense and interest expense for the third quarter of fiscal 2007 decreased by $256,000 or 51% compared to the same period of fiscal 2006. Noncash interest expense in the third quarter of fiscal 2007 decreased from prior quarter levels as certain debt discounts became fully amortized during the quarter. Noncash interest expense and interest expense for the first nine months of fiscal 2007 decreased $116,000, or 15%, as compared to the same period of fiscal 2006. Related party interest expense for the third quarter of fiscal 2007 increased $12,000, or 19%, as compared to the same period of fiscal 2006. Related party interest expense for the first nine months of fiscal 2007 increased $86,000, or 67%, as compared to the same period of fiscal 2006. This increase in noncash interest expense, interest expense and related party interest expense resulted primarily from the additional financing fees and/or debt discount recorded related to the extension of the maturity dates of our convertible debt instruments with our third party and related party lenders during fiscal 2006 and the second quarter of fiscal 2007, debt issued in connection with the acquisition of Telenational, and additional borrowings during fiscal 2006.

Deferred Warrant Costs

Deferred warrant costs resulted from the issuance of 4,000,000 warrants to Westside Capital, which vested during the third quarter of 2007. $71,000 of deferred costs associated with the issuance of these warrants was fully recognized as an expense during the third quarter of fiscal 2007.

Liquidity and Capital Resources

Our major growth areas are anticipated to include the establishment of additional wholesale points of termination to offer our existing wholesale and retail customers, and the introduction of new retail VoIP products, primarily our new Rapid Link products both domestically and internationally. Our future operating success is dependent on our ability to generate positive cash flow from our VoIP and other lines of products and services. We do not have any capital equipment commitments during the next twelve months. We are actively pursuing debt or equity financing opportunities to continue our business. Any failure of our business plan, including the risk and timing involved in rolling out retail products to end users, could result in a significant cash flow crisis and could force us to seek alternative sources of financing as discussed, or to greatly reduce or discontinue operations. Although various possibilities for obtaining financing or effecting a business combination have been discussed from time to time, there are no agreements with any party to raise money or for us to combine with another entity and we cannot assure you that we will be successful in our search for investors or lenders. Any additional financing we may obtain may involve material and substantial dilution to existing stockholders. In such event, the percentage ownership of our current stockholders will be materially reduced, and any new equity securities sold by us may have rights, preferences or privileges senior to our current common stockholders.

Our audit report for the fiscal year ended October 31, 2006 includes an explanatory paragraph indicating substantial doubt about our ability to continue as a going concern. At July 31, 2007, we had cash and cash equivalents of $218,000, a significant increase as compared to cash and cash equivalents of $30,000 at October 31, 2006. However, we had working capital deficits at July 31, 2007 and October 31, 2006 of $10.3 million and $4.7 million, respectively.

Net cash provided by operating activities during the first nine months of fiscal 2007 was $348,000 as compared to cash used in operating activities of $850,000 during the same period of fiscal 2006. During the first nine months of fiscal 2007, to compute operating cash flows, our net loss of $2,175,000 was positively adjusted for noncash interest expense of $836,000, deferred warrant costs of $71,000, depreciation and amortization of $708,000, bad debt expense of $90,000, share-based compensation expense of $18,000, loss on disposal of fixed assets of $10,000, and net changes in operating assets and liabilities of $791,000. During the first nine months of fiscal 2006, to compute operating cash flows, our net loss of $2,062,000 was positively adjusted for noncash interest expense of $952,000, depreciation and amortization of $488,000, and loss on disposal of fixed assets of $34,000, reduction of bad debt expense of $107,000, partially offset by the gain on reduction of liabilities of $309,000, and net changes in operating assets and liabilities of $60,000.

Net cash used by investing activities during the first nine months of fiscal 2007 resulted from the purchase of property and equipment of $3,000. During the first nine months of fiscal 2006, cash provided by investing activities resulted from the Telenational acquisition of $158,000, partially offset by net purchases of property and equipment of $147,000.

Net cash used in financing activities during the first nine months of fiscal 2007 was $157,000, resulting from the reduction of bank overdrafts that existed at October 31, 2006, payment of $81,000 on a related party note, partially offset by the sale of common stock of $25,000, as compared to cash provided by financing activities of $956,000 during the same period of fiscal 2006, which represented proceeds received from convertible debentures, net of financing fees. Also during the first nine months of fiscal 2006, the Company received $500,000 in proceeds from a temporary loan from our chief executive officer, which was repaid during that same time period using proceeds from the convertible debentures.

We have an accumulated deficit of approximately $7.3 million as of July 31, 2007 as well as a significant working capital deficit. Funding of our working capital deficit, current and future operating losses, and expansion will require continuing capital investment, which may not be available to us. Although to date we have been able to arrange the debt facilities and equity financing described below, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to us. As of July 31, 2007, we have approximately $2,997,000 of convertible debentures (net of debt discount of $265,000), convertible notes to related parties of $1,886,000 (net of debt discount of $19,000) and notes payable to related parties of approximately $1,300,000, all of which are scheduled to mature within the next year, as well as a significant amount of trade payables and accrued liabilities that are past due. We were current on all but $95,000 of our debt obligations at July 31, 2007. However, the remaining contingent purchase consideration of $500,000 owed to Apex Acquisitions, Inc. was past due at July 31, 2007. We have subsequently extended the $500,000 due to Apex Acquisitions Inc (see Note 6 - Subsequent Events). We continue to explore external financing opportunities that will allow us to either convert our outstanding debt obligations into the new financing and/or pay down a portion or all of the amounts now due. Our management is committed to the success of our Company as is evidenced by the level of financing it has made available to our Company. However, if we are unable to obtain additional financing or extend the due date on current financing, our operations and financial condition in the short term may be materially affected, and we likely would not be able to remain in business during the next twelve months. As a result of the aforementioned factors and related uncertainties, there is significant doubt about our Company's ability to continue as a going concern.

Our current capital expenditure requirements are not significant, primarily due to the equipment acquired from Telenational and the subsequent consolidation of operating facilities into one operational facility. We currently do not plan significant capital expenditures during the rest of fiscal 2007 or in fiscal 2008.

Risk Factors

Our cash flow may not be sufficient to satisfy our cost of operations. If not, we must obtain equity or debt instruments.

As a result of historical operating losses, we currently have a substantial working capital deficit. In addition, a significant amount of our trade accounts payable and accrued liabilities are past due. Our independent auditors included a paragraph in their audit opinion on our consolidated financial statements for the fiscal year ended October 31, 2006 discussing that conditions exist that raise substantial doubt about the Company's ability to continue as a going concern. To be able to service our debt obligations over the course of the 2007 fiscal year, we must generate significant cash flow and obtain additional financing or extend the maturity date on current obligations. If we are unable to do so or are otherwise unable to obtain funds necessary to make required payments on our trade debt and other indebtedness, it is likely that we will not be able to continue our operations.

Our operating history makes it difficult to accurately assess our general prospects in the VoIP portion of the telecommunications industry and the effectiveness of our business strategy. As of the date of this report, most of our revenues are not derived from VoIP communication services. Instead, we generated most of our revenues from wholesale and retail fixed-line communication services. In addition, we have limited meaningful historical financial data upon which to forecast our future sales and operating expenses. Our future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, we cannot assure you that we will successfully implement our business strategy or that our actual future cash flows from operations will be sufficient to satisfy our debt obligations and working capital needs.

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

Potential for substantial dilution to our existing stockholders exists.

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

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

The market for our products and services is highly competitive. We face competition from multiple sources, virtually all 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 secured convertible notes are secured by a lien on substantially all of our assets. A default by us under the secured convertible notes would enable the holders of the notes to take control of substantially all of our assets. The holders of the secured convertible 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 convertible 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 telecommunication services is uncertain and changing rapidly as the use of the Internet increases. In addition, the regulatory treatment of Internet telephony outside of the United States varies from country to country. There can be no assurance that there will not be legally imposed interruptions in Internet telephony in these and other foreign countries. Interruptions or restrictions on the provision of Internet telephony in foreign countries may adversely affect our ability to continue to offer services in those countries, resulting in a loss of customers and revenues.

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

Changes in the telephony technology could threaten our operations.

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

We need to develop and maintain strategic relationships around the world to be successful.

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

We rely on three key senior executives.

We rely heavily on our senior management team of John Jenkins, Christopher Canfield and Michael Prachar, and our future success may depend, in large part, upon our ability to retain our senior executives. In addition to the industry experience and technical expertise they provide to the Company, senior management has been the source of significant amounts of funding that have helped to allow us to meet our financial obligations.

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. The 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 financial condition and results of operations.

We may be unable to manage our growth.

We intend to build and/or acquire our own Broadband Wireless network and expand the range of enhanced telecommunications services that we provide. Our expansion prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets. Our revenues will suffer if we are unable to manage this expansion properly.

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.

ITEM 3. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the fiscal quarter ended July 31, 2007, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the third quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

ITEMS 1-5.

Not applicable.

ITEM 6. EXHIBITS.

(a) Exhibits.

No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (furnished herewith)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID LINK, INCORPORATED
(Registrant)

/s/ John A. Jenkins

John A. Jenkins
Chief Executive Officer
and Chairman of the Board
(Principal Executive Officer)

/s/ Christopher J. Canfield

Christopher J. Canfield
President, Chief Financial Officer,
Treasurer and Director
(Principal Financial and
Accounting Officer)

Date: September 12, 2007

EXHIBIT INDEX

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