

RAPID LINK INC  
Form 10QSB  
March 14, 2008

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended January 31, 2008

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  
(State or other jurisdiction of incorporation or  
organization)

75-2461665  
(I.R.S. Employer Identification No.)

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

(402) 392-7561  
(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 T No o

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

Edgar Filing: RAPID LINK INC - Form 10QSB

As of March 13, 2008, there were 65,149,522 shares of registrant's common stock, par value \$.001 per share, outstanding.

---

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

---

---

1

---

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

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

	January 31, 2008	October 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 258,393	\$ 496,306
Accounts receivable, net of allowance of \$57,565 and \$53,584, respectively	932,467	1,090,954
Prepaid expenses	36,703	36,537
Other current assets	154,745	200,809
<b>Total current assets</b>	<b>1,382,308</b>	<b>1,824,606</b>
Property and equipment, net	304,915	273,390
Customer lists, net	2,350,600	2,536,400
Goodwill	3,107,062	3,107,062
Other assets	95,388	98,032
<b>Total assets</b>	<b>\$ 7,240,273</b>	<b>\$ 7,839,490</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,804,244	\$ 2,319,099
Accrued interest (including \$64,800 and \$0, respectively, to related parties)	325,158	227,037
Other accrued liabilities	345,282	617,454
Deferred revenue	245,684	66,113
Deposits and other payables	62,565	77,106
Capital lease obligations, current portion	9,140	-
Convertible notes, current portion, net of debt discount of \$37,879 and \$151,515, respectively	1,804,621	1,690,985
Convertible notes payable to related parties, current	1,000,000	1,000,000
Related party notes, current	50,000	50,000
Net current liabilities from discontinued operations	1,162,000	1,162,000
<b>Total current liabilities</b>	<b>6,808,694</b>	<b>7,209,794</b>
Capital lease obligations, net of current portion	40,497	
Convertible notes, long-term	1,201,277	1,201,277
Convertible notes payable to related parties, long term	2,240,000	2,240,000
<b>Total liabilities</b>	<b>10,290,468</b>	<b>10,651,071</b>
Commitments and contingencies		

Edgar Filing: RAPID LINK INC - Form 10QSB

Shareholders' deficit:

Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.001 par value; 175,000,000 shares authorized; 65,161,544 shares issued	65,162	65,162
Additional paid-in capital	48,990,576	48,976,402
Accumulated deficit	(52,051,063)	(51,798,275)
Treasury stock, at cost; 12,022 shares	(54,870)	(54,870)
Total shareholders' deficit	(3,050,195)	(2,811,581)
Total liabilities and shareholders' deficit	\$ 7,240,273	\$ 7,839,490

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

	Three Months Ended January 31,	
	2008	2007
Revenues	\$ 4,013,479	\$ 4,452,977
Costs and expenses:		
Costs of revenues	2,715,771	3,388,768
Sales and marketing	232,887	312,525
General and administrative	817,701	1,005,578
Depreciation and amortization	218,289	242,524
Loss on disposal of property and equipment	-	10,040
	3,984,648	4,959,435
Operating income (loss)	28,831	(506,458)
Other income (expense):		
Noncash financing expense	(154,189)	(367,885)
Related party noncash interest expense	-	(8,272)
Interest expense	(64,485)	(71,224)
Related party interest expense	(65,269)	(82,357)
Foreign currency exchange gain	2,324	1,508
Other	-	2,103
	(281,619)	(526,127)
Net loss	\$ (252,788)	\$ (1,032,585)
Loss per share:		
Basic and diluted weighted average shares outstanding	65,149,522	51,169,972
Basic and diluted loss per share	\$ (.00)	\$ (.02)

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

	Three Months Ended January 31,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (252,788)	\$ (1,032,585)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Noncash financing expense	154,189	376,157
Depreciation and amortization	218,289	242,524
Bad debt expense	(1,027)	40,000
Loss on disposal of property and equipment	-	10,040
Share-based compensation expense	8,794	5,990
Noncash gain on reduction and settlement of liabilities	-	-
Changes in operating assets and liabilities		
Accounts receivable	159,514	140,905
Prepaid expenses and other current assets	(167)	113,951
Other assets	12,545	4,394
Accounts payable	(514,855)	175,731
Accrued liabilities	(174,050)	196,868
Deferred revenue	179,571	81,822
Deposits and other payables	(14,541)	2,297
Net cash provided by (used in) operating activities	(224,526)	358,094
Cash flows from investing activities:		
Purchases of property and equipment	(10,156)	(556)
Net cash used in investing activities	(10,156)	(556)
Cash flows from financing activities:		
Reduction of bank overdrafts	-	(101,097)
Payments on capital leases	(3,231)	-
Net cash used in financing activities	(3,231)	(101,097)
Net increase (decrease) in cash and cash equivalents	(237,913)	256,441
Cash and cash equivalents, beginning of period	496,306	30,136
Cash and cash equivalents, end of period	\$ 258,393	\$ 286,577

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, 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 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 communication services.

The Company has shifted its product focus 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. The Company plans to build an extensive hybrid fiber wireless (HFW) 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 key to its success. This strategy insures that the Company can provide its bundled products and communication services without the threat of compromised service quality, and at significant cost savings when compared with other technologies.

Basis of Presentation

The accompanying unaudited financial data for the three months ended January 31, 2008 and 2007 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company’s annual report on Form 10-KSB for the year ended January 31, 2007. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows for the three months ended January 31, 2008 and 2007 have been made. The results of operations for the three months ended January 31, 2008 are not necessarily indicative of the expected operating results for the full year. Certain reclassifications have been made to conform prior year data to the current year presentation.

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.





## 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.

## Financial Condition

The Company is subject to various risks in connection with the operation of its business including, among other things, (i) changes in external competitive market factors, (ii) inability to satisfy anticipated working capital or other cash requirements, (iii) changes in the availability of transmission facilities, (iv) changes in the Company's business strategy or an inability to execute its strategy due to unanticipated changes in the market, (v) various competitive factors that may prevent the Company from competing successfully in the marketplace, and (vi) the Company's lack of liquidity and limited ability or inability to raise additional capital.

For the three months ended January 31, 2008, the Company recorded net losses from continuing operations of approximately \$253,000 on revenues from continuing operations of approximately \$4 million. Additionally, at January 31, 2008, the Company's current liabilities exceeded its current assets by \$5.4 million and the Company had an accumulated deficit totaling \$52 million. In order to service debt obligations over the course of the 2008 fiscal year, the Company must generate significant cash flow through additional financing or an equity infusion. If the Company is unable to do so or is otherwise unable to obtain funds necessary to make required payments on its trade debt and other indebtedness, the Company's ability to continue operations may be jeopardized.

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

## NOTE 2 – STOCK-BASED COMPENSATION

### Stock-Based Compensation

The Company adopted SFAS No. 123R "Share-Based Payment" ("SFAS 123R") as of November 1, 2006. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107, "Share-Based Payment", which does not modify any of SFAS 123R's conclusions or requirements, but rather includes recognition, measurement and disclosure guidance for companies as they implement SFAS 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 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 123R is adopted, through the end of the requisite service period. SFAS 123R requires that forfeitures be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. 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 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 123R had no effect on cash flows or basic and diluted loss per share. No share-based compensation costs were capitalized during the three months ended January 31, 2008 and 2007. Noncash share-based compensation costs recorded in general and administrative expenses during the three months ended January 31, 2008 and 2007 were \$8,794 and \$5,990, respectively.

During the three months ended January 31, 2008, there were no stock options granted, exercised or cancelled. During the three months ended January 31, 2007, there were no stock options granted or exercised, and 5,000 stock options were cancelled. The Company issues new shares of common stock upon exercise.

As of January 31, 2008, the total unrecognized compensation cost related to non-vested options was \$52,489, and the weighted average over which it will be recognized is 4 years.

#### NOTE 3 - CONVERTIBLE DEBENTURES, NOTES PAYABLE AND CAPITAL LEASES, INCLUDING RELATED PARTY NOTES

The Company has various debt obligations as of January 31, 2008, including amounts due to independent institutions and related parties. No new debt obligations were entered into during the first three months of fiscal 2008. Descriptions of these debt obligations are included below. The following tables summarize outstanding debt as of January 31, 2008:

Edgar Filing: RAPID LINK INC - Form 10QSB

Brief Description of Debt	Information as of January 31, 2008				
	Balance	Int. Rate	Due Date	Discount	Net
Convertible notes, current					
GC-Conote	\$ 1,200,000	10.08%	2/28/2008	\$ 37,879	\$ 1,162,121
Debenture	600,000	10%	3/8/2008	-	600,000
Other	42,500	10%	2/28/2008	-	42,500
Related party notes, current	50,000	10%	4/30/2008	-	50,000
Convertible notes payable to related parties, current	1,000,000	8%	On Demand	-	1,000,000
Capital lease obligations, current portion	9,140	8%	10/31/2008	-	9,140
Convertible notes, long-term					
GCA-Debenture	630,333	6%	10/31/2009	-	630,333
GCA-Debenture	570,944	6%	10/31/2009	-	570,944
Convertible notes payable to related parties, long-term	2,240,000	8%	11/01/2009	-	2,240,000
Capital lease obligations, less current portion.	40,497	8%	9/30/2011	-	40,497

Debt obligations as of January 31, 2008 are due as follows:

	Within 1 year	1-4 years	Total
Debt Obligations	\$ 2,901,640	\$ 3,481,774	\$ 6,383,414

#### GC-Conote

During the three months ended January 31, 2008, the Company amortized \$113,636 of the debt discount relating to the GC-Conote. The unamortized debt discount at January 31, 2008 was \$37,879.

#### Related Party Notes

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

On October 31, 2007, the Company entered into an agreement, which modified its debt structure with Apex. The agreement calls for the outstanding note due in November of 2007 payable to Apex to be extended to November 1, 2009. The note was also modified to allow for the balance to be convertible to common stock at market pricing. The

outstanding balance of the Apex Notes, including \$120,000 of accrued interest that was rolled into the note, was \$1,120,000 at October 31, 2007 and January 31, 2008.

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

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

#### Capital Lease Obligations

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

#### NOTE 4 – COMMON STOCK AND 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 Company'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 with the exception of the first 4,000,000 increment which vested immediately, resulting in the recognition of approximately \$71,000 of expense. 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 outstanding Warrants shall expire. On February 24, 2008, the 4,000,000 warrants issued to Westside Capital expired.

#### NOTE 5 - BUSINESS AND CREDIT CONCENTRATIONS

During the first quarter of fiscal 2008, one customer in the Netherlands accounted for revenues of approximately \$1,225,984, or 31% of the Company's total revenues of \$4,009,284. During the same period in fiscal 2008, two of the Company's suppliers accounted for approximately 16% and 25%, respectively, of the Company's total costs of revenues. At January 31, 2008 and October 31, 2007, one customer accounted for 12% and 10%, respectively, of the Company's trade accounts receivable.

The Company provided services to one customer who accounted for 29% of overall revenues during the first quarter of fiscal 2007. During the first quarter of fiscal 2007, 29% of the Company's revenues were generated from customers in the Netherlands. During the same period in fiscal 2007, two of the Company's suppliers accounted for approximately 33% and 19%, respectively, of the Company's total costs of revenues.

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

#### NOTE 6 - 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) totaling \$1.1 million. On August 5, 2005, the State of Texas filed a lawsuit in the 53rd Judicial District Court of Travis County, Austin, Texas against the Company. The lawsuit requests payment of approximately \$1.162 million, including penalties and for state and local sales tax. The sales tax amount due is attributable to audit findings of the State of Texas for the years 1995 to 1999 associated with Canmax Retail Systems, 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 of Texas determined that Canmax Retail Systems did not properly remit sales tax on certain transactions.

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 of Texas 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.

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. On January 8, 2008, the Attorney General of Texas offered to settle all sales tax claims against the Company for a sum total of \$250,000, which must be paid by April 1, 2008 to relieve the Company from any and all sales tax liabilities including penalties and interest. The Company is currently considering whether to accept the offer, and is in active negotiations with the Attorney General to bring expedient resolution to this matter.

#### NOTE 7 – SUBSEQUENT EVENTS

On February 22, 2008, the Company executed a Letter of Intent to purchase the capital stock of One Ring Networks for 4 million shares of the Company's stock with an approximate value of \$360,000. Additional consideration can be attained by One Ring Networks with certain performance objectives being achieved. The Company plans to finalize the purchase during the second quarter of fiscal 2008.

On February 28, 2008, the \$1,200,000 "GC-Conote" convertible note matured. The Company is currently negotiating an extension of the maturity date with Global Capital Funding Group, L.P. The Company is also currently negotiating an extension of the \$600,000 convertible note, which matured on March 8, 2008, with Trident Growth Fund, L.P.

## 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, 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. We continue to seek opportunities to grow our business through strategic acquisitions of fixed wireless, fiber and other diversified communication operators that complement our business model. In order to support this growth, we will add key personnel who have demonstrated a proven track record of success in sales, marketing, and operations.

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.

We seek to provide our services to high average revenue per user customers via WiMAX, 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. We plan to offer an integrated product that includes local and long distance calling with internet access in order to satisfy this demand. Concurrently, we remain focused on the growth of our internet offerings to residential customers in underserved areas.





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, 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 February 26, 2008, the Company signed a letter of intent to acquire One Ring Networks, Inc. One Ring Networks operates one of the largest hybrid fiber and fixed wireless networks in the United States and is one of the few carriers offering end-to-end communications and networking services.

#### Critical Accounting Policies

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

#### Revenue Recognition

##### Long distance revenue

Revenues generated by international re-origination, dial thru services and international wholesale termination, which are the primary source of the Company’s revenues, are based on minutes of customer usage. The Company records payments received in advance as deferred revenue until such services are provided.

##### VoIP service revenue

The Company defers revenue recognition of new subscriber revenue from its service offerings until the acceptance period has expired. New customers may terminate their service within thirty days of order placement and receive a full refund of fees previously paid. The Company has been providing its VoIP services for a limited period of time, has an insignificant amount of revenue to date, and therefore, has not developed sufficient history to apply a cancellation rate to reserve against new order revenue. Accordingly, the Company defers new subscriber revenue for thirty days to ensure that the thirty-day trial period has expired.

Emerging Issues Task Force Consensus No. 00-21 (“EITF No. 00-21”), “Accounting for Revenue Arrangements with Multiple Deliverables” 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 VoIP service with the accompanying hardware that customers use to access the Internet constitutes a revenue arrangement with multiple deliverables. In accordance with the guidance of EITF No. 00-21, the Company allocates VoIP revenues, including activation fees, among the hardware and subscriber services. Revenues allocated to the hardware are recognized as product revenues at the end of thirty days after order placement, provided the customer does not cancel their service. All other revenues are recognized as service revenues when the related services are provided.



#### 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.

#### Stock-Based Compensation

We have used stock grants and stock options to attract and retain directors and key executives and intend to use stock options in the future to attract, retain and reward employees for long-term service.

We account for these stock options under SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). In accordance with SFAS 123R, compensation cost is recognized for all share-based payments granted. We have used the Black-Scholes valuation model to estimate fair value of our stock-based awards which requires various judgmental assumptions including estimating stock price volatility, forfeiture rates and expected life. Our computation of expected volatility is based on a combination of historical and market-based implied volatility. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

## Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes,” which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company adopted FIN 48 on November 1, 2007, and has determined that FIN 48 does not significantly affect its consolidated financial condition or statement of operations.

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

In February 2007, the FASB issued 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. This becomes available when the Company adopts SFAS 157, which will be fiscal year 2009. The Company is analyzing the expected impact from adopting this statement on its financial statements, but currently does not believe its adoption will have a significant impact on the financial position or results of operations of the Company.

In December 2007, the FASB issued SFAS No. 141(revised 2007), “Business Combinations” (“SFAS 141R”). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, IPR&D and restructuring costs. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008 and, as such, we will adopt this standard in fiscal 2010. The Company has not yet determined the impact, if any, of SFAS 141R on 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:

	Three Months Ended January 31, 2008		Three Months Ended January 31, 2007	
	Amount	% of Rev	Amount	% of Rev
Revenues	\$ 4,013,479	100.0%	\$ 4,452,977	100.0%
Costs and expenses:				
Costs of revenues	2,715,771	67.7	3,388,768	76.1
Sales and marketing	232,887	5.8	312,525	7.0
General and administrative	817,701	20.4	1,005,578	22.6
Depreciation and amortization	218,289	5.4	242,524	5.5
Loss on disposal of property and equip.	-	-	10,040	.2

Edgar Filing: RAPID LINK INC - Form 10QSB

Total costs and expenses	3,984,648	99.0	4,959,435	111.4
Operating income (loss)	28,831	.7	(506,458)	(11.4)
Other income (expense):				
Noncash financing expense	(154,189)	(3.8)	(367,885)	(8.4%)
Related party non-cash interest expense	-	-	(8,272)	(%)
Interest expense	(64,485)	(1.6)	(71,224)	(1.6%)
Related party interest exp.	(65,269)	(1.6)	(82,357)	(1.9%)
Foreign currency exchange gains	2,324	.1	1,508	-
Other	-		2,103	0.1%
Total other income (expense)	(281,619)	(7.0)	(526,127)	(11.8%)
Net loss	\$ (252,788)	(6.3%)	\$ (1,032,585)	(23.2%)

### Operating Revenues

Revenues for the first quarter of fiscal 2008 decreased \$439,000, or 10%, as compared to the same period of fiscal 2007. This decrease is primarily attributable to the expected variable nature of the wholesale revenue component, which decreased \$200,000 and the retail revenue component that decreased 250,000.

### Costs of Revenues

Costs of revenues for the first quarter of fiscal 2008 decreased \$673,000, or 20%, as compared to the same period of fiscal year 2007. The decrease in costs of revenues is primarily attributable to decreased revenues, newly negotiated contracts with carriers, and the expected variable nature of cost of revenues; all of which resulted in a higher gross profit percentage, and lower cost of revenues.

Costs of revenues as a percentage of revenues decreased during the first quarter of fiscal 2008 as compared to the same period of fiscal 2007. Costs of revenues as a percentage of revenues for the first quarter of fiscal 2008 decreased 8% as compared to the same period of fiscal 2007. 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

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

Our sales and marketing costs decreased \$80,000, or 25%, as compared to the same period of fiscal 2007. This decrease is attributable to higher marketing costs and agent commissions incurred during the fiscal quarter of fiscal 2007. During the first quarter of fiscal 2008, comparable expenses were not incurred. In addition, agent commissions decreased as a direct result of decreased revenues. We will continue to focus our sales and marketing efforts on web portal and magazine advertising, the establishment of distribution networks to facilitate the introduction and growth of new products and services, and agent related expenses to generate additional revenues.

### General and Administrative Expenses

General and administrative expenses for the first quarter of fiscal 2008 decreased \$188,000, or 19%, as compared to the same period of fiscal 2007. This decrease is the result of management's efforts to streamline operations and reduce duplicate costs. We review our general and administrative expenses regularly and continue to manage the costs accordingly to support our current and anticipated future business; however, it may be difficult to achieve significant reductions in future periods due to the relatively fixed nature of our general and administrative expenses.

### Depreciation and Amortization

Depreciation and amortization expenses for the first quarter of fiscal 2008 decreased \$24,000, or 10%, as compared to the same period of fiscal 2007. Fixed assets have steadily been reaching the end of their estimated useful lives resulting in decreased depreciation expense. A majority of our depreciation expense relates to the equipment utilized in our VoIP network.

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

Non cash financing expense, related party non-cash financing expense, interest expense, and related party interest expense decreased \$246,000, or 46% during the first quarter of fiscal 2008 as compared to the same period in fiscal 2007. The decrease was primarily attributable to expensing certain debt discounts during the first quarter of fiscal 2007, and not expensing comparable amounts during the first quarter of fiscal 2008 due to the full amortization of such debt discounts. Noncash financing expense results from the amortization of deferred financing fees and debt discounts on our debts to third party lenders and related parties. The decrease in noncash interest expense was partially offset by increased interest expense and related party interest expense.

Related party interest expense for the first quarter fiscal 2008 decreased \$17,000, or 21%, as compared to the same period of fiscal 2007, and was primarily due to certain related party notes being paid off.

### Liquidity and Sources of Capital

During Fiscal 2007, we generated approximately \$659,000 of positive operating cash flow, and we anticipate achieving positive operating cash flow during Fiscal 2008. Prior to fiscal 2007, we generally were unable to achieve positive operating cash flow on a quarterly basis primarily due to the fact that our previous lines of business did not generate a volume of business sufficient to cover our overhead costs.

Our major growth areas are anticipated to include the establishment of additional wholesale points of termination to offer our existing wholesale and retail customers, the introduction of wireless broadband internet services, as well as 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 wireless broadband internet and VoIP lines of products and services. We anticipate a positive operating cash flow during the fiscal year ending October 31, 2008. 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. 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.

At January 31, 2008, we had cash and cash equivalents balance of \$258,000, a decrease in cash and cash equivalents of \$238,000 from the balance at October 31, 2007. We had working capital deficits at January 31, 2008 and October 31, 2007 of \$5.4 million.



Net cash used by operating activities during the first three months of fiscal 2008 was \$225,000 as compared to cash provided by operating activities of \$358,000 during the same period of fiscal 2007. During the first three months of fiscal 2008, to compute operating cash flows, our net loss of \$253,000 was positively adjusted for noncash interest expense of \$154,000, depreciation and amortization of \$218,000, share-based compensation expense of \$9,000, partially offset by recoveries of bad debts of \$1,000 and decreases in operating assets and liabilities of \$352,000. During the first three months of fiscal 2007, to compute operating cash flows, our net loss of \$1,033,000 was positively adjusted for noncash interest expense of \$376,000, depreciation and amortization of \$243,000, bad debt expense of \$40,000, loss on disposal of fixed assets of \$10,000, share-based compensation expense of \$6,000, and net changes in operating assets and liabilities of \$716,000.

Net cash used by investing activities during the first three months of fiscal 2008 resulted from the purchase of property and equipment of \$10,000. During the first three months of fiscal 2007, cash used by investing activities resulted primarily from small purchases of property and equipment.

Net cash used in financing activities during the first three months of fiscal 2008 was \$3,000, resulting from capital lease payments of \$3,000, as compared to cash used by financing activities of \$101,000 during the same period of fiscal 2007, which resulted from a reduction of bank overdrafts and payments on related party notes and shareholder advances.

We have an accumulated deficit of approximately \$52.0 million as of January 31, 2008 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. 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 do not plan significant capital expenditures during 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.

For the fiscal year ended October 31, 2007, and the quarter ended January 31, 2008, we recorded net losses from continuing operations of approximately \$2 million and \$252,000, respectively, on revenues from continuing operations of approximately \$17.3 million and \$4 million, respectively. For fiscal year 2007, our net loss from continuing operations included approximately \$2 million in non-cash expenses, primarily depreciation expense and non-cash interest expense. In addition, we generated approximately \$659,000 of positive cash flow from operations during fiscal year 2007. As a result of historical losses, we currently have a substantial working capital deficit. To be able to service our debt obligations over the course of the 2008 fiscal year, we must generate significant cash flow through additional financing or an equity infusion. 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, our ability to continue operations may be jeopardized.

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, 2007, which states "The Company has suffered recurring losses from continuing operations during each of the last two fiscal years. Additionally, at October 31, 2007, the Company's current liabilities exceeded its current assets by \$5.4 million and the Company had a shareholders' deficit totaling \$2.8 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern."



Our operating history makes it difficult to accurately assess our general prospects in the broadband wireless internet sector of the Diversified Communications Service industry and the effectiveness of our business strategy. As of the date of this report, most of our revenues are not derived from broadband internet services. Instead, we generated most of our revenues from retail fixed-line and wholesale communication services. In addition, we have limited meaningful historical financial data upon which to forecast our future sales and operating expenses. Our future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, we cannot assure 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 an additional equity infusion. There is no assurance that adequate levels of additional equity or financing will be available at all or on acceptable terms. If we are unable to obtain additional equity or 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 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, 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 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 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%.

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 enacted laws may cover issues that include sales and other taxes, access charges, user privacy, pricing controls, characteristics and quality of products and services, consumer protection, contributions to the Universal Service Fund, an FCC-administered fund for the support of local telephone service in rural and high-cost areas, cross-border commerce, copyright, trademark and patent infringement, and other claims based on the nature and content of Internet materials.

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

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

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

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

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

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

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

We will be subject to the 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 will be 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. This section also requires that our independent registered public accounting firm opine on those internal controls and management's assessment of those controls. We are currently evaluating our 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 intend to implement the requisite changes to become compliant with existing and new requirements that apply to our Company.

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



ITEM 3. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the fiscal quarter ended January 31, 2008, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the first quarter of fiscal 2008 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  
(Principle Executive Officer)

*/s/ Christopher J. Canfield*  
Christopher J. Canfield  
President, Chief Financial Officer, Treasurer and Director  
(Principle Financial and  
Accounting Officer)

Date: March 14, 2008

EXHIBIT INDEX

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)

24

---