

RAPID LINK INC
Form 10-Q
June 11, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-22636

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

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

(402) 392-7561
Issuer's telephone number

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT: None
SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:
COMMON STOCK, \$0.001 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act).

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

As of June 11, 2009, there were 74,635,642 shares of registrant’s common stock, par value \$0.001 per share, outstanding.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	April 30, 2009	October 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 270,278	\$ 230,841
Accounts receivable, net of allowance of \$151,728 and \$178,618, respectively	958,679	950,089
Prepaid expenses	33,611	44,790
Other current assets	14,952	327,665
Total current assets	1,277,520	1,553,385
Property and equipment, net	2,268,820	2,394,188
Customer lists, net	1,534,551	1,954,414
Goodwill	5,257,196	5,174,012
Deposits and other assets	497,709	484,675
Deferred financing fees, net	503,236	672,144
Total assets	\$ 11,339,032	\$ 12,232,818
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Revolving line of credit	\$ 250,761	\$ -
Accounts payable	2,213,514	1,595,714
Accrued interest (including \$191,843 and \$21,600, respectively, to related parties)	445,859	231,329
Other accrued liabilities	282,760	507,501
Deferred revenue	209,171	313,979
Deposits and other payables	13,376	75,486
Capital lease obligations, current portion	665,533	585,002
Convertible notes, current portion	162,500	162,500
Notes payable, current portion, net of debt discount of \$259,095 and \$23,470, respectively	805,009	140,447
Total current liabilities	5,048,483	3,611,958
Capital lease obligations, less current portion	681,931	742,784
Due to sellers	595,790	-
Convertible notes, less current portion	2,201,277	2,261,277
Convertible notes payable to related parties, less current portion	3,240,000	3,240,000
Notes payable, less current portion, net of debt discount of \$104,697 and \$483,873, respectively	4,760,106	5,288,030
Total liabilities	16,527,587	15,144,049

Commitments and contingencies

Shareholders' deficit:

Preferred stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.001 par value; 175,000,000 shares authorized; 74,647,664 and 69,847,444 shares issued and 74,635,642 and 69,835,422 shares outstanding at April 30, 2009 and October 31, 2008, respectively	74,648	69,848
Additional paid-in capital	49,917,951	50,386,214
Accumulated deficit	(55,126,284)	(53,312,423)
Treasury stock, at cost; 12,022 shares	(54,870)	(54,870)
Total shareholders' deficit	(5,188,555)	(2,911,231)
Total liabilities and shareholders' deficit	\$ 11,339,032	\$ 12,232,818

See accompanying notes to unaudited consolidated financial statements

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2009	2008	2009	2008
Revenues	\$ 4,352,860	\$ 3,450,350	\$ 9,209,490	\$ 7,463,829
Costs and expenses:				
Costs of revenues	3,011,819	2,323,353	6,304,703	5,039,124
Sales and marketing	112,410	193,406	256,077	426,293
General and administrative	1,456,847	1,063,053	2,856,249	1,880,754
Depreciation and amortization	481,904	268,432	938,913	486,721
Gain on disposal of property and equipment	(8,920)	-	(10,992)	-
Gain on legal settlements	-	-	(231,658)	-
	5,054,060	3,848,244	10,113,292	7,832,892
Operating loss	(701,200)	(397,894)	(903,802)	(369,063)
Other income (expense):				
Noncash financing expense	(154,134)	(79,928)	(312,459)	(234,117)
Interest expense	(232,827)	(74,418)	(465,264)	(138,903)
Related party interest expense	(68,365)	(64,800)	(134,353)	(130,069)
Foreign currency exchange gain (loss)	3,172	(2,796)	2,017	(472)
	(452,154)	(221,942)	(910,059)	(503,561)
Loss from continuing operations	(1,153,354)	(619,836)	(1,813,861)	(872,624)
Discontinued operations				
Gain on disposal of discontinued operations	-	1,062,000	-	1,062,000
Net income (loss)	\$ (1,153,354)	\$ 442,164	\$ (1,813,861)	\$ 189,376
Basic and diluted income (loss) per share:				
Loss per share from continuing operations	\$ (0.02)	\$ (.01)	\$ (0.03)	\$ (0.02)
Income per share from discontinued operations	-	.02	-	0.02
Net income (loss) per share	\$ (0.02)	\$.01	\$ (0.03)	\$ -
Basic and diluted weighted average shares outstanding	72,787,099	66,987,044	71,820,432	66,058,187

See accompanying notes to unaudited consolidated financial statements

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

	Six Months Ended April 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (1,813,861)	\$ 189,376
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Noncash financing expense	312,458	234,117
Depreciation and amortization	938,913	486,721
Bad debt expense	-	7,726
Loss on disposal of property and equipment	(10,992)	-
Share-based compensation expense	19,018	17,397
Gain on disposal of discontinued operations	-	(1,062,000)
Changes in operating assets and liabilities, net of effects of acquisition		
Accounts receivable	(8,590)	117,702
Prepaid expenses and other current assets	238,226	19,914
Other assets	70,651	(1,285)
Accounts payable	617,800	(1,052,458)
Accrued liabilities	(10,211)	248,410
Deferred revenue	(104,808)	98,336
Deposits and other payables	(62,110)	791
Net cash provided by (used in) operating activities	186,494	(695,253)
Cash flows from investing activities:		
Purchases of property and equipment	(47,757)	(36,455)
Cash received in acquisition	-	25,396
Advances to One Ring	-	(130,000)
Proceeds from sale of property and equipment	10,992	-
Net cash used in investing activities		