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DIAL THRU INTERNATIONAL CORP  
Form 10-K  
January 29, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC. 20549

FORM 10-K

(mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

COMMISSION FILE NUMBER 0-22636

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

DELAWARE

75-2461665

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State or other jurisdiction of  
Incorporation or organization

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(I.R.S. Employer Identification No.)

17383 SUNSET BOULEVARD, SUITE 350 LOS ANGELES, CA 90272  
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(Address of principal executive offices) (Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, \$0.001 PAR VALUE  
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(title of class)

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 requirements the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as

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defined in Rule 12b-2 of the act). Yes / / No /X/

The aggregate market value of shares of common stock held by non-affiliates of the registrant as of April 30, 2003 was approximately \$1,761,583 based on the average bid and ask price of common stock as quoted on the OTC Bulletin Board of \$0.13.

As of January 23, 2004, 16,201,803 shares of common stock of the registrant were outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE.

None.

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements 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 Form 10-K 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. We do not undertake to update any forward-looking statements contained herein. For a discussion of these factors and others, please see "Risk Factors" in Item 1 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.

### PART I

Item 1. Business

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### Our Company

Throughout this Annual Report, the term "we", "Dial Thru" and the "Company" refer to Dial Thru International Corporation and its subsidiaries, a Delaware corporation formerly known as ARDIS Telecom & Technologies, Inc., successor by merger to Canmax Inc. The Company was incorporated on July 10, 1986 under the Company Act of the Province of British Columbia, Canada. On August 7, 1992, we renounced our original province of incorporation and elected to continue our domicile under the laws of the State of Wyoming, and on November 30, 1994 our name was changed to "Canmax Inc." On February 1, 1999, we reincorporated under the laws of the State of Delaware under the name "ARDIS Telecom & Technologies, Inc." On November 2, 1999, we acquired (the "DTI Acquisition") substantially all of the business and assets of Dial Thru International Corporation, a California corporation, and, on January 19, 2000, we changed our name from ARDIS Telecom & Technologies, Inc. to "Dial Thru International Corporation." Our common stock currently trades on the OTC Bulletin Board under the symbol "DTIX."

From our inception until 1998 we provided retail automation software and related services to the retail petroleum and convenience store industries. In 1998 we decided that the rapidly expanding telecommunications market presented an opportunity to utilize some of the technology and support capabilities that we had developed, and we entered into the telecommunications industry via the pre-paid long distance market. In December 1998, we sold our retail automation software business and now operate only in the telecommunications marketplace.

Our principal executive offices are located at 17383 Sunset Boulevard, Suite 350, Los Angeles, California 90272, our telephone number is (310) 566-1700 and our web site address is [www.dialthru.com](http://www.dialthru.com).

### Recent Developments

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

On January 27, 2003, we amended our 6% convertible debenture with GCA Strategic Investment Fund Limited to change the debenture's maturity date from January 28, 2003 to November 8, 2004. In addition, we cancelled the existing warrants to purchase 50,000 shares of common stock at an exercise price of \$0.41 and issued warrants to purchase 150,000 shares of common stock at an exercise price of \$0.21 which expire on February 8, 2008.

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

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

### Development of Our Telecommunications Business

In January 1998, we acquired US Communication Services, Inc. ("USC"), a provider of prepaid phone cards, public Internet access kiosks and pay

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telephones. While the USC acquisition did not proceed as intended, leading to our rescission of the transaction in May 1998, we decided to develop our in-house capabilities to expand our telecommunications operations and continued to focus on the rapidly growing prepaid phone card market. In the second quarter of fiscal 1999, we purchased telecommunications switching equipment and an enhanced services platform. Following a period of development, implementation and testing, we commenced operations as a facilities-based carrier in the fourth quarter of our 1999 fiscal year. Calls made with our prepaid phone cards were then routed through our switching facilities, giving us better control over costs and quality of service.

In November 1999, we completed the DTI Acquisition and continued operations of its facilities-based telecommunications carrier business through its subsidiary, Dial Thru.com. During the first quarter of fiscal 2000, we appointed John Jenkins (founder of the acquired business) to the position of President and Chief Operating Officer of our Company. In the third quarter of fiscal 2000, we relocated our Texas operations, including our switching facilities, to a location in downtown Los Angeles, California. During the fourth quarter of fiscal 2001, Mr. Jenkins was appointed by our Board of Directors to the position of Chairman of the Board and also became our Chief Executive Officer. At that time we announced the creation of our "Bookend Strategy" and the roll out of our facilities-based Internet Protocol network, whereby we sell voice over Internet protocol ("VoIP") to allow us to compete in the international telecommunications market.

Mr. Jenkins continued the merger of operations of the two businesses and increased our emphasis on the international wholesale and retail business segment while reducing our focus on the prepaid domestic market. We now operate as a facilities-based global Internet protocol ("IP") communications company providing connectivity to international markets experiencing significant demand for IP enabled services. We provide a variety of international telecommunications services, including the transmission of voice and data traffic and the provision of Web-based and other communications services, which are targeted to small and medium sized enterprises ("SMEs"), wholesale carriers providing international and domestic long distance traffic and consumers. We utilize VoIP packetized voice technology (and other compression techniques) to improve both costs and efficiencies of telecommunication transmissions, and are developing a private VoIP telephony network. We utilize digital fiber optic cable, oceanic cable transmission facilities, international satellites and the Internet to transport our communications.

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

### Our Business Strategy

Our primary business concentrates on the marketing of IP telephony services, including voice, fax, data and other Web-based services. The term Bookend Strategy describes our primary focus, which is to provide telecommunication services originating in foreign countries and in the corresponding ethnic segment domestically in the United States via the Internet to transport

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various forms of communications. These services are provided primarily via the public Internet, utilizing VoIP and other digitized voice technologies. VoIP is voice communication that has been converted into digital packets and is then addressed, prioritized, and transmitted over any form of broadband network utilizing the technology that makes the Internet possible. These technologies allow us to transmit voice communications with the same high-density compression as networks initially designed for data transmission, and at the same time utilize a common network for providing customers with data and other Web-based services.

By utilizing VoIP over the public Internet, we avoid the high network cost associated with private line connections to each international destination, which would require us to lease a dedicated line for a set period of time at a set rental rate and to "fill" idle network capacity with traffic in order to offset the high fixed costs of such a private line. The primary focus of our business is to sell a bundled solution of communication services, such as international dial thru, re-origination, fax over the Internet to SMEs worldwide. We also sell telecommunications services for both the foreign and domestic termination of international long distance traffic into the wholesale market. Our primary objective in selling into the wholesale market is to take advantage of below market international rates that arise from time to time while we are developing revenue from our retail marketing operations. We expanded the offering of our wholesale services in the 2002 and 2003 fiscal years and believe that additional market opportunities for select wholesale routes will be available to us in our current fiscal year. In some markets, where the price advantages and capacity limitations do not provide for significant retail opportunities, we sell only wholesale terminations.

A key part of the Bookend Strategy is the establishment of direct routes for telecommunications traffic to and from a target country. Once we have determined that a particular country meets our requirements for availability of retail revenue opportunities, we then must determine the best manner to establish dedicated connectivity. This is usually accomplished by establishing a licensing agreement within the country, whereby we are licensed to sell these communication products. We then make these products available to SMEs in the target country through public Internet connections and apply the appropriate technology to provide for the compression of the telecommunications traffic over these routing options. The emerging technology that is best suited for the majority of these installations is VoIP.

We primarily focus on markets where competition is not keen, thereby giving us opportunities for greater profit margins. These markets include regions where the deregulation of telecommunications services has not been completed and smaller markets that have not attracted large multi-national providers. South Africa, Asia, and parts of South America offer the greatest abundance of these target markets.

Cooperating with overseas carriers and the incumbent, usually government owned, telephone companies, gives us better opportunities to engage in the co-branding of jointly marketed products, including IP-based enhancements that they have developed, rather than simply basing a strategy on pricing arbitrage. As a result, we are regularly invited to participate in new markets.

The explosive growth of the Internet has accelerated the rapid merger of the worlds of voice-based and data-based communications. By first digitizing voice signals, then utilizing the same packetizing technology that makes the Internet possible, VoIP provides for a cost effective manner in which to perform the signal compression needed to maximize the return from the use of the public Internet. In this way, not only has efficiency of the dedicated

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circuits been improved, but use of the public Internet provides a much more cost effective means of transmission and rapid deployment compared to traditional private leased lines and circuits.

We currently operate our domestic telecommunications switching facilities in Los Angeles, California and New York, New York, providing for long distance services worldwide. Development of the private IP network and the use of VoIP technology have improved both the cost and quality of telecommunications services, as well as facilitating our expansion into other Internet related opportunities.

### Our Products and Services

#### Dial Thru and Re-origination Services

We provide a variety of international Dial Thru and Re-origination services. These services, while still contributing a significant portion of our revenues, will continue to decrease as a percentage of our total revenues as we continue to develop and market new services. Generally, the Dial Thru and Re-origination services are provided to customers that establish deposits or prepayments with us to be used for long-distance calling. The Dial Thru service allows customers the convenience of making local and/or international calls in the same manner as traditional long distance dialing. In those markets in which we cannot currently provide Dial Thru service, we offer our Re-origination service, which allows a caller outside of the United States to place a long distance telephone call that appears to have originated from our switch in Los Angeles to the customer's location, and then connects the call through our network to anywhere in the world. By completing the calls in this manner, we are able to provide very competitive rates to the customer. Wherever possible, we route calls over our private network. By using VoIP to compress voice and data transmissions across the public Internet, we are able to offer these services at costs that are substantially less than traditional communications services.

#### International Wholesale Termination

Primarily as a result of our acquisition of Rapid Link, we began offering international call completion on a wholesale basis to international telecommunications companies. Our service enables our customers to offer their own customers phone to phone global voice and fax services. This service provides our customers with high quality and low cost long distance without our customers having to deploy their own VoIP infrastructure. We can also provide additional termination opportunities to customers that have developed their own VoIP networks with nearly instant access to our termination points by connecting to these customers via the Internet. Therefore, we have the capability to offer our services to carriers connecting to our network through traditional dedicated switch to switch connections, and through the public Internet whereby our customers connect to our network using their own VoIP equipment.

#### Global Roaming

Our Global Roaming service provides customers a single account number to use to initiate phone-to-phone calls from locations throughout the world using specific toll-free access numbers. This service enables customers to receive the cost benefits associated with our telecommunications network throughout the world. This product will begin to account for a more significant amount of our revenue due to the acquisition of Rapid Link, which provides this product to its retail customers around the world.

#### FaxThru

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We offer FaxThru and "store and forward" fax services, which allow a customer to send a fax to another party utilizing the Internet without incurring long distance or similar charges. From the customer's perspective, these products function exactly like traditional fax services, but with significant savings in long distance charges.

### 1+ Services and Dial Around Products

We are licensed to provide long distance service in most of the United States and now have begun selling our 1+ long distance service and dial around products to our SME customer base. We are also targeting ethnic segments of the United States which correspond to foreign countries in which we have facilities. This allows us to add a complete package of communication services to the SME customer, furthering our Bookend Strategy.

### Suppliers

Our principal suppliers consist of domestic and international telecommunications carriers. Relationships currently exist with a number of reliable carriers. Due to the highly competitive nature of the telecommunications business, we believe that the loss of any carrier would not have a long-term material impact on our business.

### Customers

We focus our retail sales and marketing efforts toward SMEs, particularly those located in foreign markets where telecommunications deregulation has not taken place or is in the process of taking place, residential customers in those same markets and in the United States, and wholesale customers located both domestically and internationally. We rely heavily on the use of commissioned agents to generate retail sales in the foreign markets. By doing so, we believe that we establish a wide base of customers with little vulnerability based on lack of customer loyalty. Our wholesale customers are primarily large public telecommunications customers in the United States, and medium to large foreign Postal, Telephone and Telegraph companies, which are those entities responsible for providing telecommunications services in foreign markets and are usually government owned or controlled. We believe the loss of any individual customer would not materially impact our business.

### Competition

The telecommunications services industry is highly competitive, rapidly evolving and subject to constant technological change. Other providers currently offer one or more of each of the services offered by us. Telecommunication service companies compete for consumers based on price, with the dominant providers conducting extensive advertising campaigns to capture market share. As a service provider in the long distance telecommunications industry, we compete with such dominant providers as AT&T Corp., MCI, Sprint Corporation and Qwest Communications International, all of which are substantially larger than us and have the resources, history and customer bases to dominate virtually every segment of the telecommunications market.

A substantial majority of the telecommunications traffic around the world is carried by dominant carriers in each market. These carriers, such as British Telecom and Deutsche Telekom, have started to deploy packet-switch networks for voice and fax traffic. In addition, other industry leaders, such as AT&T, MCI, Sprint and Qwest Communications International have recently announced their intention to offer Internet telephony services both in the United States and internationally. These and other competitors may be able to bundle services and products that are not offered by us, together

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with Internet telephony services, to gain a competitive advantage over us in the marketing and distribution of products and services

We also compete with other smaller, emerging carriers including IDT Corp., ITXC Corporation, deltathree.com, Primus Telecommunications Group, Inc., and Net2Phone Inc. We believe that additional competitors may be attracted to the market, including internet-based service providers and other telecommunications companies. We also believe that existing competitors are likely to continue to expand their service offerings to appeal to retailers and consumers.

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

Future competition could come from a variety of companies both in the Internet and telecommunications industries. We also compete in the growing markets of providing Re-origination services, Dial Thru services, dial-around, 10-10-XXX calling and other calling services. In addition, some Internet service providers have begun enhancing their real-time interactive communications and, although these companies have initially focused on instant messaging, we expect them to provide PC-to-phone services in the future.

### Internet Telephone Service Providers

During the past several years, a number of companies have introduced services that make Internet telephony or voice services over the Internet available to businesses and consumers. ITXC, iBasis and the wholesale divisions of Net2Phone and deltathree.com route traffic to destinations worldwide and compete directly with us. Other Internet telephony service providers focus on a retail customer base and may in the future compete with us. These companies may offer the kinds of voice services we intend to offer in the future. In addition, companies currently in related markets have begun to provide VoIP services or adapt their products to enable voice over the Internet services. These companies may potentially migrate into the Internet telephony market as direct competitors.

### Regulation of Internet Telephony and the Internet

The use of the Internet and private IP networks to provide voice communications services, is a relatively recent market development. Although the provision of such services is currently permitted by United States law and remains largely unregulated within the United States, several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provision of voice communications services over the Internet or private IP networks. More aggressive regulation of the Internet in general, and Internet telephony providers and services specifically, may materially and adversely affect our business, financial conditions, operating results and future prospects, particularly if increased numbers of governments impose regulations restricting the use and sale of IP telephony services.

United States. In an April 10, 1998 Report to Congress, the Federal Communications Commission (FCC) declined to conclude that IP telephony services constitute telecommunications services and instead indicated that it would undertake a subsequent examination of the question whether certain



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forms of phone-to-phone Internet telephony are information services or telecommunications services. The FCC indicated that, in the future, it would consider the extent to which phone-to-phone Internet telephony providers could be considered "telecommunications carriers" such that they could be subject to the regulations governing traditional telephone companies such as the imposition of access charges. The FCC stated that, although it did not have a sufficient record upon which to make a definitive ruling, the record suggested that, to the extent that certain forms of phone-to-phone IP telephone appear to possess the same characteristics as traditional telecommunications services and to the extent the providers of those services obtain the same circuit-switched access as obtained by interexchange carriers, the FCC may find it reasonable that they pay similar access charges. The FCC also recognized, however, that it would consider whether it should forbear from imposing any of the rules that would apply to phone-to-phone Internet telephony providers as "telecommunications carriers." To date, the FCC has not imposed regulatory surcharges or traditional common carrier regulation upon providers of Internet communications services.

Although the FCC treats providers of Internet telephony services no differently from providers of other information and enhanced services that are exempt from payment of interstate access charges, this decision may be reconsidered in the future. For instance, on April 19, 2001, in Docket No. CC 01-92 the FCC adopted a proposal to begin a fundamental examination of all forms of intercarrier compensation - the payments among telecommunications carriers resulting from their interconnecting networks. The FCC could adopt an intercarrier compensation mechanism and other regulations that could result in an increase in the cost of the local transmission facilities necessary to complete our calls or a decrease in the costs of such facilities to traditional long distance telephone companies. An increase in our rates as a result of new FCC regulations could have a material adverse effect on our ability to compete with long distance carriers.

There are several proceedings pending before the FCC that may affect the regulatory status of Internet telephony. On October 18, 2002, AT&T filed a petition with the FCC seeking a declaratory ruling that would prevent incumbent local exchange carriers, or ILECs, from imposing traditional circuit-switched access charges on phone-to-phone IP services. On February 5, 2003, pulver.com filed a petition with the FCC seeking a declaratory ruling that its "Free World Dialup," which facilitates point-to-point broadband Internet protocol voice communications, is neither telecommunications nor a telecommunications service as these terms are defined in section 153 of the Telecommunications Act of 1996. More recently, Vonage filed a petition for declaratory ruling requesting that the FCC find an Order of the Minnesota Public Utilities Commission (MNPUC) requiring Vonage to comply with state laws governing providers of traditional telephone service to be preempted because Vonage's broadband Internet telephony service is an information service. These petitions and subsequent industry reactions may exert pressure on the FCC to render a decision regarding the regulation of phone-to-phone IP services. The FCC could determine, for instance, that certain types of Internet telephony should be regulated like basic interstate telecommunications services. Thus, Internet telephone would no longer be exempt from the access charge regime that permits local telephone companies to charge long distance carriers for the use of the local telephone networks to originate and terminate long-distance calls, generally on a per minute basis, which in turn could have a material adverse effect on the company.

The FCC could also conclude that Internet telephony providers should contribute to the Universal Service Fund, which provides support to ensure universal access to telephone service. The imposition of interstate access

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charges or universal service contributions would substantially increase our costs of serving our customers in the U.S. The imposition of regulation and contribution requirements might also negatively affect the incentives for companies to continue to develop IP technologies to offer VoIP services. It is also possible that the FCC might adopt a regulatory framework that is unique to IP telephony providers or one where IP telephony providers are subject to reduced regulatory requirements. We cannot predict what regulations, if any, the FCC will impose.

Other aspects of our services may be subject to state or federal regulation, such as regulations relating to the confidentiality of data and communications, copyright issues, taxation of services, and licensing. In addition, changes in the legal and regulatory environment relating to the Internet connectivity market, including regulatory changes that affect telecommunications costs or that may increase the likelihood of competition from the regional Bell operating companies, or RBOCs, or other telecommunications companies, could increase our costs of providing service.

Moreover, state governments and their regulatory authorities may assert jurisdiction over the provision of intra-state IP communications services where they believe that their telecommunications regulations are broad enough to cover regulation of IP services. Various state regulatory authorities have initiated proceedings to examine the regulatory status of Internet telephony services. While a majority of state commissions have not imposed traditional telecommunications regulatory requirements on IP telephony at this time, some states have issued rulings that may be interpreted differently. For instance, a state court in Colorado has ruled that the use of the Internet to provide certain intrastate services does not exempt an entity from paying intrastate access charges. Prior to imposing any regulatory burdens on VoIP providers, however, the Colorado Public Utilities Commission has opened a docket to investigate whether it has jurisdiction to regulate VoIP services. The State Public Service Commission of New York (NYPSC) has ruled that another company's particular IP telephony services may be considered telecommunications services subject to access charges. The NYPSC has, however, declined to issue a broad regulatory policy related to VoIP services in general. On October 9, 2003, the NY PSC published a notice seeking comment regarding the regulatory classification of another provider's VoIP services offered over broadband connections. On the other hand, following an investigative workshop held by the Florida Public Service Commission on VoIP, the Florida Legislature passed a bill that exempts VoIP services offered over broadband from regulation, but some local exchange companies have attempted to interpret the new law as leaving open the issue of access charges. On October 16, 2003, a Federal court in Minnesota issued a permanent injunction against the MNPUC preventing the MNPUC from imposing state regulations on another provider's VoIP services offered over broadband connections. This permanent injunction was recently upheld in the face of multiple challenges. Prior to the Minnesota Federal court ruling, several states, including California, Washington, Wisconsin and Florida issued directives to various VoIP providers directing them to register as telecommunications providers. There can be no assurance that these states will respect the Minnesota Federal court ruling or accept the position asserted by the subject VoIP providers that they are information, as opposed to telecommunications, service providers. If the states require these VoIP providers to register as telecommunications providers, others VoIP providers may be targeted and subjected to significant additional fees and charges.

International. The regulatory treatment of IP communications outside the United States varies significantly from country to country. The regulations global IP providers are subject to in many jurisdictions change from time to time, they may be difficult to obtain or it may be difficult to obtain accurate legal translations where official legal translations are

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unavailable. Additionally, in our experience, the enforcement of these regulations does not always track the letter of the law. Accordingly, although we devote considerable resources to maintaining compliance with these regulations, we cannot be certain that we are in compliance with all of the relevant regulations at any given point in time.

While some countries prohibit IP telecommunications, others have determined that IP services offer a viable alternative to traditional telecommunications services. As the Internet telephony market has expanded, regulators have begun to reconsider whether to regulate Internet telephony services. Some countries currently impose little or no regulation on Internet telephony services. For instance, on January 5, 2001, in the European Union (EU), the European Commission (EC) released a decision concluding that VoIP, in general, continues to fall outside the definition of voice telephony, except where the services satisfy all of four specific conditions. To date, the EC has not ruled that any particular type of VoIP service (such as computer-to-computer or phone-to-phone) satisfies all of these exception conditions. As a result, the EC directed Member States to permit providers to offer VoIP under data transmission general authorizations and without requiring compliance with more burdensome individual licenses and regulations applicable to traditional voice telephony. While the EC monitors and supervises the Member States of the EU subject to the principle of supremacy of EU law, the primary responsibility for implementing the provisions of specific EU legislation lies with regulatory authorities of the Member States. Accordingly, although the Member States are required to adhere to the EU laws, an individual country may decide that a particular VoIP service meets all of the conditions necessary to be regulated as traditional voice services. We cannot guarantee that Member States will refrain from imposing additional regulations on our specific VoIP services.

Other countries, including those in which the governments prohibit or limit competition for traditional voice telephony services, generally do not permit Internet telephony services or strictly limit the terms under which those services may be provided. Still other countries regulate Internet telephony services like traditional voice telephony services, requiring Internet telephony companies to make universal service contributions and pay other taxes. While some countries subject IP telephony providers to reduced regulations, other have moved towards liberalization of the IP telecommunications sector and have lifted bans on provision of IP telecommunications services. We cannot predict how a regulatory or policy change of a particular country might affect the provision of our services. We believe that while increased regulations and restrictions could materially threaten our ability to provide services, the lifting of regulations in a country generally will enable use to expand our services and presence in that country.

Regulation of the Internet. In addition to regulations addressing Internet telephony and broadband services, other regulatory issues relating to the Internet in general could affect our ability to provide our services. Congress has adopted legislation that regulates certain aspects of the Internet, including online content, user privacy, taxation, liability for third-party activities and jurisdiction. In addition, a number of initiatives pending in Congress and state legislatures would prohibit or restrict advertising or sale of certain products and services on the Internet, which may have the effect of raising the cost of doing business on the Internet generally. The European Union has also enacted several directives relating to the Internet, one of which addresses online commerce. Recently, the European Union adopted a privacy directive that establishes certain requirements with respect to, among other things, the confidentiality, processing and retention of personally identifiable subscriber information and usage patterns. The potential effect, if any, of

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these data protection rules on the development of our business remains uncertain.

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate the Internet. We cannot predict whether new taxes will be imposed on our services both nationally and internationally, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition and results of operations.

### Sales and Marketing

We market long distance telecommunications products and services from our office in Los Angeles, California. We also have a regional sales office located in Johannesburg, South Africa and an office in Caracas, Venezuela. Our revenues are primarily derived from direct sales to business accounts, sales through commissioned agents and wholesale sales to other telecommunications providers. We plan to expand our sales effort to both domestic and international business accounts, as well as add products and services targeted toward residential customers in both markets.

We have substantial revenues in foreign markets. For the years ending October 31, 2003, 2002 and 2001, \$2.7 million or 15%, \$2.6 million or 14%, and \$5.1 million or 76% of our total revenue from continuing operations for each year, respectively, originated from Western Europe, Africa and South East Asia.

### Intellectual Property

We don't hold any significant patents or trademarks. Our products and services are available to other telecommunication companies.

### Employees

As of January 23, 2004, we have 40 full-time and 1 part-time employees, 9 of which perform administrative and financial functions, 23 of which perform customer support duties and 9 of which have experience in telecommunications operations and/or sales. 17 current employees are located in Los Angeles, California, and Atlanta, Georgia, and 24 employees operate in offices worldwide. No employees are represented by a labor union, and we consider our employee relations to be good.

### Availability of Reports

We file reports on a regular basis with the Securities and Exchange Commission, including, but not limited to Forms 8-K, 10-K, 10-Q, 14-A and S-3. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

### Risk Factors

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

For the years ended October 31, 2003, 2002 and 2001, we recorded net losses

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from continuing operations of approximately \$5.4 million, \$3.5 million and \$2.5 million, respectively, on revenues from continuing operations of approximately \$17.7 million, \$18.4 million and \$6.6 million, respectively. As a result, we currently have a substantial working capital deficit. In addition, we have a significant amount of trade payables, of which approximately 36% is past due. To be able to service our debt obligations over the course of the 2004 fiscal year we must generate significant cash flow and obtain additional financing. If we are unable to do so or otherwise to obtain funds necessary to make required payments on our trade debt and other indebtedness, we may not be able to continue our operations.

Our operating history makes it difficult to accurately assess our general prospects in the VoIP portion of the telecommunications industry and the effectiveness of our business strategy. In addition, we have limited meaningful historical financial data upon which to forecast our future sales and operating expenses. Our future performance will also be subject to prevailing economic conditions and to financial, business and other factors. Accordingly, we cannot assure you that we will successfully implement our business strategy or that our actual future cash flows from operations will be sufficient to satisfy our debt obligations and working capital needs.

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

We face competition from numerous, mostly well-capitalized sources

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

The regulatory environment in our industry is very uncertain

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

In addition, the regulatory treatment of Internet telephony outside of the

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

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

Changes in the technology relating to Internet telephony could threaten our operations

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

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

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

We rely on two key senior executives

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

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

We intend to expand our VoIP network and the range of enhanced telecommunications services that we provide. Our expansion prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets.

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

Our common stock currently trades on the OTC Bulletin Board. Therefore, no assurances can be given that a liquid trading market will exist at the time any investor desires to dispose of any shares of the our common stock. In addition, our common stock is subject to the so-called "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally defined as an investor with a net worth in

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excess of \$1 million or annual income exceeding \$200,000, or \$300,000 together with a spouse). For transactions covered by the penny stock rules, a broker-dealer must make a suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. Consequently, both the ability of a broker-dealer to sell our common stock and the ability of holders of our common stock to sell their securities in the secondary market may be adversely affected. The Securities and Exchange Commission has adopted regulations that define a "penny stock" to be an equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is to sell the securities as a market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

### Item 2. Properties

Our principal executive office is located in Los Angeles, California, where we lease 6,796 square feet in two locations. Our operations and information systems are located in Los Angeles and New York, New York, where we lease 104 square feet under a co-location agreement. We also have sales and administrative offices in Caracas, Venezuela and Johannesburg, South Africa. We believe that our facilities are sufficient for the operation of our business for the foreseeable future.

### Item 3. Legal Proceedings

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 our "international reorigination" technology. The injunctive relief that Cygnus sought in this suit has been denied, but Cygnus continues to seek a license fee for the use of the technology. We believe that no license fee is required as the technology described in the patent is different from the technology used by us.

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

The State of Texas ("State") performed a sales tax audit of our former parent, Canmax Retail Systems ("Canmax"), for the years 1995 to 1999. The State determined that we did not properly remit sales tax on certain transactions, including asset purchases and software development projects that Canmax performed for specific customers. Our current and former managements filed exceptions, through its outside sales tax consultant, to the State's audit findings, including the non-taxable nature of certain transactions and the failure of the State to credit our account for sales tax remittances. In correspondence from the State in June 2003, the State agreed to consider offsetting remittances received by Canmax during the

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audit period. The State has refused to consider other potential offsets.

Based on the correspondence with the State, during the fiscal year ended October 31, 2003, our estimate of the potential liability has been recorded at \$350,000, however, we cannot provide assurance that the ultimate liability will not be greater. We are continuing to pursue our options to appeal the decision by the State. Furthermore, we are aggressively pursuing the collection of unpaid sales taxes from former customers of Canmax.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Report.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

#### Market For Our Common Stock

We have only one class of shares, common stock, \$.001 par value, which is traded on the OTC Bulletin Board. Each share ranks equally as to dividends, voting rights, participation in assets on winding-up and in all other respects. No shares have been or will be issued subject to call or assessment. There are no preemptive rights, provisions for redemption or purpose for either cancellation or surrender or provisions for sinking or purchase funds.

Our Common Stock is currently traded on the OTC Bulletin Board under the symbol "DTIX." Our principal executive offices are located at 17383 Sunset Boulevard, Suite 350, Los Angeles, California, 90272, and its telephone number is (310) 566-1700.

The following table sets forth, for the fiscal periods indicated, the high and low closing sales price per share of our Common Stock as reported on the OTC Bulletin Board. The market quotations presented reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily reflect actual transactions.

	COMMON STOCK CLOSING PRICES	
	HIGH	LOW
	-----	-----
FISCAL 2002		
First Quarter . . . . .	\$ 0.70	\$ 0.29
Second Quarter . . . . .	\$ 0.50	\$ 0.21
Third Quarter . . . . .	\$ 0.29	\$ 0.09
Fourth Quarter . . . . .	\$ 0.13	\$ 0.09
FISCAL 2003		
First Quarter . . . . .	\$ 0.40	\$ 0.12
Second Quarter . . . . .	\$ 0.33	\$ 0.11
Third Quarter . . . . .	\$ 0.19	\$ 0.10
Fourth Quarter . . . . .	\$ 0.26	\$ 0.10

The closing price for our Common Stock on January 23, 2003 as reported on



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the OTC Bulletin Board was \$0.19.

### Dividends

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

### Holdings of Record

There were 470 stockholders of record as of January 23, 2004.

### Recent Sales of Unregistered Securities

In July 2003, we executed a 10% note payable with GCA Strategic Investment Fund Limited, which provided financing of \$550,000. This note's maturity date was December 23, 2003. Per the terms of the agreement, in the event this note is not repaid in full within 10 days of the maturity date, the note becomes a convertible debenture. Effective January 2, 2004, the note became a convertible debenture. The conversion price is equal to the lesser of (i) 100% of the volume weighted average of sales price as reported by the Bloomberg L.P. of the common stock on the last trading day immediately preceding the Closing Date and (ii) 85% of the average of the three (3) lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty (20) Trading Days immediately preceding but not including the date of the related Notice of Conversion. In an event of default the amount declared due and payable on this debenture shall be at the price set forth in clause (ii) above. We also issued to the holder of the this note warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of \$0.14 per share, which expire on July 24, 2008. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had a pre-existing relationship with us.

In November 2002, we executed a 12% note payable with Global Capital Funding Group, L.P., which provided financing of \$1,250,000. The GC-Note's maturity date is November 8, 2004. The Company also issued to the holder of the note warrants to acquire an aggregate of 500,000 shares of common stock at an exercise price of \$0.14 per share, which expire on November 8, 2007. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had a pre-existing relationship with us.

In July 2002, we issued an amended 10% convertible note to Mr. Jenkins to reflect the advance of an additional \$300,000, which matures on February 24, 2004. The note was originally convertible at six-month intervals only, but was subsequently amended in November 2002 to provide for conversion into shares of our common stock at the option of Mr. Jenkins at any time prior to maturity. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. In connection with the issuance of the amended note we also issued a warrant to Mr. Jenkins to purchase 300,000 shares of our common stock at an exercise price of \$0.75 per share, which expires on July 8, 2007. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had a pre-existing relationship with us.

In January 2002, we issued an amended 10% convertible note to Mr. Jenkins to

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reflect the advance of an additional \$102,433, which matures on February 24, 2004. The note was originally convertible at six-month intervals only, but was subsequently amended in November 2002 to provide for conversion into shares of our common stock at the option of Mr. Jenkins at any time prior to maturity. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. In connection with the issuance of the amended note we also issued a warrant to Mr. Jenkins to purchase 102,433 shares of our common stock at an exercise price of \$0.75 per share, which expires on January 28, 2007. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had a pre-existing relationship with us.

In January 2002, we executed a 6% convertible debenture with GCA Strategic Investment Fund Limited, which provided financing of \$550,000. This debenture's original maturity date was January 28, 2003. The conversion price is equal to the lesser of (i) 100% of the volume weighted average of sales price as reported by the Bloomberg L.P. of the common stock on the last trading day immediately preceding the Closing Date and (ii) 85% of the average of the three lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty Trading Days immediately preceding but not including the date of the related Notice of Conversion. In an event of default the amount declared due and payable on this debenture shall be at the price set forth in clause (ii) above. We also issued to the holder of the debenture warrants to acquire an aggregate of 50,000 shares of common stock at an exercise price of \$0.41 per share, which expire on January 28, 2007. In January 2003, we and the holder of the debenture agreed to extend the maturity date of the debenture to November 8, 2004. In consideration for this extension, in February 2003, we adjusted the exercise price of the previously issued warrants to \$0.21 per share. We also issued to the holder of the debenture warrants to purchase an additional 100,000 shares of common stock also at an exercise price of \$0.21 per share, which expire on February 8, 2008. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had a pre-existing relationship with us.

On October 24, 2001, we issued 10% convertible notes to three of our executives, which provided financing of \$1,945,958. These notes were issued to our Chief Executive Officer for \$1,745,958, our Chief Financial Officer for \$100,000, and our Executive Vice President for \$100,000. The original maturity date of each note was October 24, 2003. In January 2003, the Company extended the maturity date of each note to February 24, 2004. The note was originally convertible at six-month intervals only, but was subsequently amended in November 2002 to provide for conversion into shares of our common stock at the option of the holders of the notes at any time prior to maturity. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a limited number of purchasers with financial experience who had pre-existing relationships with us.

On October 12, 2001, we completed the acquisition of certain assets and liabilities of Rapid Link. The aggregate purchase price was \$2,116,481, including \$1,450,000 in cash, \$198,481 in acquisition related costs, and the issuance of 600,000 shares of our common stock, valued at \$468,000. The value of the 600,000 common shares was determined based on the closing market price of our common stock, \$0.78, on October 12, 2001. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to

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a single purchaser with financial experience who had access to our books and records.

On April 11, 2001, we issued a 6% convertible debenture to Global Capital Funding Group L.P, which provided financing of \$1,000,000. This debenture was subsequently paid in full following the issuance of a note payable to the holder of this debenture during November 2002. On April 11, 2001, in connection with the issuance of this debenture, we issued to the holder of the debenture warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of \$0.89 per share, which expire on April 11, 2006. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had access to our books and records.

For services rendered in connection with the above April 11, 2001 debenture, we issued to DP Securities, Inc. 25,000 warrants to acquire common stock at an exercise price of \$0.89, which expire on April 11, 2006. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had access to our records.

On December 15, 2000, we issued 90,000 shares of common stock to an accredited investor, Scotty Cook, a former Director, at no cost as compensation for consulting services performed for us. At the time of issuance, our common stock price was \$1.125. We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for this non-public offering because the securities were sold to a single purchaser with financial experience who had a pre-existing relationship with us.

### Item 6. Selected Financial Data

	FISCAL YEARS ENDED OCTOBER 31,				
	2003	2002	2001	2000	1999
<b>CONSOLIDATED STATEMENT OF OPERATIONS</b>					
DATA (1):					
Revenues	\$ 17,655	\$ 18,409	\$ 6,642	\$ 8,591	\$ 3,117
Cost of revenues	13,129	11,540	4,668	9,971	2,982
Operating expenses	8,578	9,124	5,147	9,142	4,028
Other income (expense)	(1,367)	(1,270)	646	(665)	79
Gain on sale of software business	-	-	-	-	5,309
Income (loss) from continuing operations	(5,419)	(3,525)	(2,527)	(11,187)	(3,814)
Income (loss) from discontinued operations	(1,203)	(1,159)	(157)	-	218
Extraordinary item - forgiveness of debt	-	-	-	-	-
Net income (loss)	(6,622)	(4,684)	(2,684)	(11,187)	1,713
Income (loss) from continuing operations per share	\$ (0.34)	\$ (0.25)	\$ (0.23)	\$ (1.31)	\$ (0.56)
Net income (loss) per share	\$ (0.41)	\$ (0.34)	\$ (0.25)	\$ (1.31)	\$ 0.25
<b>CONSOLIDATED BALANCE SHEET DATE (1):</b>					
Total assets					
Continuing operations	\$ 4,839	\$ 8,338	\$ 11,255	\$ 6,102	\$ 4,467
Discontinued operations	242	742	1,389	-	-

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Working capital (deficiency)					
Continuing operations	(7,484)	(6,774)	(6,626)	(4,829)	1,251
Discontinued operations	(2,493)	(2,030)	-	-	-
Noncurrent obligations					
Continuing operations, net of debt discount	1,716	892	1,967	119	562
Discontinued operations	-	-	-	-	-
Shareholders' equity (deficit)	(8,222)	(1,975)	2,079	508	2,865

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(1) All numbers, other than per share numbers, are in thousands. The results of operations of our German subsidiary, Rapid Link Telecommunicaitons, GmbH, and our predecessor software business have been presented in the financial statements as discontinued operations. Results of operations in prior years have been restated to reclassify these businesses as discontinued operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for the Fiscal Years Ended October 31, 2003, 2002 and 2001

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as "projects", "believe", "anticipates", "estimate", "plans", "expect", "intends", and similar words and expressions are intended to identify forward-looking statements. Although the Company believes that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Factors that could cause actual results to differ materially from such expectations are disclosed herein including, without limitation, in the "Risk Factors" located in PART I, Item 1. All forward-looking statements attributable to the Company are expressly qualified in their entirety by such language and we do not undertake any obligation to update any forward-looking statements. You are also urged to carefully review and consider the various disclosures we have made which describe certain factors which affect our business throughout this Report. The following discussion and analysis of financial condition and results of operations covers the years ended October 31, 2003, 2002, and 2001 and should be read in conjunction with our Financial Statements and the Notes thereto commencing at page F-1 hereof.

### General

On November 2, 1999, we consummated the DTI Acquisition and, in the second quarter of fiscal 2000, we shifted focus toward our global VoIP strategy. This change in focus has lead to a significant shift from our prepaid long distance operations toward higher margin international wholesale and retail telecommunication opportunities. This strategy allows us to form local partnerships with foreign PTT's and to provide IP enabled services based on the in-country regulatory environment affecting telecommunications and data providers. In the third quarter of fiscal 2000, we further concentrated our efforts toward our global VoIP telecommunications strategy by moving our operations to Los Angeles, California. This consolidation and reduction in staff has allowed us to significantly reduce our overhead, and although our operations have not yet produced positive cash flow, we believe that continued cost reductions and moderate revenue growth would allow us to achieve positive results in the near future.

On October 12, 2001, we completed the acquisition from Rapid Link of certain assets and executory contracts of Rapid Link, USA, Inc. and 100% of the

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common stock of Rapid Link Telecommunications, GmbH, a German company. Rapid Link provides integrated data and voice communications services to both wholesale and retail customers around the world. Rapid Link built a large residential retail customer base in Europe and Asia, using Rapid Link's network to make international calls anywhere in the world. Furthermore, Rapid Link developed a VoIP network using Clarent and Cisco technology which we have used to take advantage of wholesale opportunities where rapid deployment and time to market are critical. A significant majority of our revenue in our 2003 and 2002 fiscal years was derived from our Rapid Link acquisition.

On November 19, 2002 we entered into an agreement with Global Capital Funding Group, L.P. that provided us with a two year loan of \$1.25 million. \$443,000 of the proceeds from this financing were used to pay off the remaining balance of Dial Thru's April 2001 convertible debenture with Global Capital while the remaining \$807,000 has been and will be used for the Company's ongoing working capital needs.

On July 24, 2003 we entered into an agreement with GCA Strategic Investment Fund Limited that provided us with a 152-day loan of \$550,000. On January 2, 2004, per the terms of this loan agreement, the maturity date became November 8, 2004. The loan proceeds have been and will be used for the Company's ongoing working capital needs.

On August 1, 2003, our German Subsidiary, Rapid Link Telecommunications GmbH received approval for its insolvency filing and has been turned over to a trustee who is responsible for liquidating the operation.

The telecommunications industry continues to evolve towards an increased emphasis on IP related products and services. We have focused our business towards these types of products and services for the last couple of years and feel we are one of the front runners in this industry. Furthermore, we believe the use of the Internet to provide IP related telephony services to the end user customer, either as a stand alone solution or bundled with other IP products, will continue to impact the industry as large companies like Time Warner and ATT look to capitalize on their existing cable infrastructures, and smaller companies look to provide innovative solutions to attract commercial and residential users to their product offerings.

We expect to focus on the growth of our VoIP business through adding new products and services residing on our existing network which we can offer to end user customers. We are also exploring opportunities to provide current customers, and attract new customers, through the sale of Internet phones that allow users to connect specialized Internet phones to their existing Dial-Up or DSL Internet connections. These Internet phones will allow the user to originate phone calls over the Internet, thereby bypassing the normal costs associated with originating phone calls through the traditional Public Switched Telephone Network. By avoiding 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 believe there will be considerable demand for this type of product in certain foreign markets, where end users pay a significant premium to their local phone companies to make long distance phone calls. It is our intention to secure a purchase agreement with a supplier of Internet phones during the second quarter of fiscal 2004.

While we expect the growth in our customers and suppliers and the introduction of innovative product offerings to retail users, specifically Internet phones, to have a positive impact on our revenues and earnings, we cannot predict when this will happen, or be certain that it will happen at all. The revenue and costs associated with the Internet phone product

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offerings will depend on the number of customers and contracts we obtain.

See "Risk Factors" above for discussion of the impact of market risks, financial risks and other uncertainties. Please also see "Forward-Looking Statements" above relating to statements other than historical information or statements of current condition.

### Critical Accounting Policies

The consolidated financial statements include accounts of our Company and all of our majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

### Revenue Recognition

Our revenues are generated at the time a customer uses our network to make a phone call. We sell our services to SMEs and end-users who utilize our network for international re-origination and dial thru services, and to other providers of long distance usage who utilize our network to deliver domestic and international termination of minutes to their own customers. At times we receive payment from our customers in advance of their usage, which we record as deferred revenue, recognizing revenue as calls are made. The Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "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. 101.

### Allowance for Uncollectible Accounts Receivable

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

### Goodwill and Other Long-Lived Assets

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

### Financing, Warrants and Amortization of Warrants and Fair Value Determination

We have traditionally financed our operations through the issuance of debt instruments that are convertible into our common stock, at conversion rates

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

### Carrier Disputes

We review our vendor bills on a monthly basis and periodically dispute amounts invoiced by our carriers. Prior to the second quarter of fiscal 2001, we recorded as trade accounts payable the entire amounts owed to our vendors, including amounts in dispute. Any disputes resolved and credited to us were recorded as other income at the time the credit was issued. We subsequently changed our policy to record cost of revenues excluding disputed amounts. We review our outstanding disputes on a quarterly basis as part of the overall review of our accrued carrier costs, and adjust our liability based on management's estimate of amounts owed.

### Results of Operations

Our operating results for the last three fiscal years are as follows:

	Year Ended Oct 31 2003	% of Revenue 2003	% Change 2002 to 2003 Increase (Decr)	Year Ended Oct 31 2002	% of Revenue 2002
	-----	----	-----	-----	----
REVENUES	\$ 17,654,794	100%	-4%	\$ 18,408,649	100%
COSTS AND EXPENSES					
Costs of revenues	13,128,924	74%	14%	11,539,562	63%
Sales and marketing	700,404	4%	-21%	885,661	5%
Non-cash sales and marketing expense	-	-	-	-	-
General and administrative	3,812,639	22%	-34%	5,760,179	31%
Impairment charge related to write down of advertising credits	2,376,678	13%	-	-	-
Impairment charge related to write down of assets held for resale	-	-	-100%	320,307	2%
Depreciation and amortization	1,338,351	8%	-38%	2,158,135	12%
Sales tax settlement	350,000	2%	-	-	-
	-----	-----	-----	-----	-----
Total costs and expenses	21,706,996	123%	5%	20,663,844	112%
	-----	-----	-----	-----	-----
Operating loss	(4,052,202)	-23%	80%	(2,255,195)	-12%
OTHER INCOME (EXPENSE)					
Interest expense and financing costs	(1,131,806)	-6%	-9%	(1,247,488)	-7%
Other income related to settlement of disputes	-	-	-	-	-
Foreign exchange	7,097	-	-122%	(31,976)	-
Write off of investment in marketable securities	-	-	-	-	-
Gain (loss) on disposal of equipment	(241,935)	-1%	-2772%	9,053	-
	-----	-----	-----	-----	-----
Total other income (expense)	(1,366,644)	-8%	8%	(1,270,411)	-7%
	-----	-----	-----	-----	-----

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LOSS FROM CONTINUING OPERATIONS	(5,418,846)	-31%	54%	(3,525,606)	-19%
LOSS FROM DISCONTINUED OPERATIONS	(1,203,465)	-7%	4%	(1,158,574)	-6%
	-----	-----	-----	-----	-----
NET LOSS	\$ (6,622,311)	-38%	41%	\$ (4,684,180)	-25%
	=====	=====	=====	=====	=====
LOSS PER SHARE:					
Basic and diluted loss per share					
Continuing operations	\$ (0.34)			\$ (0.25)	
Discontinued operations	(0.07)			(0.09)	
	-----			-----	
	\$ (0.41)			\$ (0.34)	
	=====			=====	
SHARES USED IN THE CALCULATION					
OF PER SHARE AMOUNTS:					
Basic and diluted common shares	15,999,179			13,935,782	
	=====			=====	

### Results of Operations - 2003 Versus 2002

#### Operating Revenues

Our wholesale revenues increased by 41% and our retail revenues decreased by 44% for the fiscal year ended October 31, 2003, compared to the prior fiscal year. The increase in wholesale revenues for the fiscal year ended October 31, 2003 is attributable to additions to our wholesale sales force during fiscal year 2002, which focuses on developing greater wholesale opportunities both in customer growth and the development of additional points of termination. The decrease in retail revenues for the fiscal year ended October 31, 2003 is primarily attributable to increased competition in our largest foreign markets, including competition from the incumbent phone company in each market. Furthermore, a significant portion of our retail business comes from members of the United States military stationed in foreign markets. The redeployment of troops into Iraq in March 2003 resulted in a decline in retail customers. We are exploring opportunities to grow our retail business through use of our advertising credits and newspaper advertising.

#### Costs of Revenues

Included in our cost of revenues for fiscal year 2002 are credits received from two vendors totaling \$729,000 relating to disputes for minutes billed in error for periods prior to fiscal 2002. Without these credits, costs of revenues as a percentage of revenues for the fiscal year ended October 31, 2002 would have been 67%. Our costs of revenues as a percentage of revenues has increased due to a decline in our retail traffic which realizes higher margins than our wholesale traffic. Costs of revenues as a percentage of revenues will fluctuate, from period to period, depending on the traffic mix between our wholesale and retail products.

#### General and Administrative Expenses

Included in general and administrative expenses is bad debt expense of \$28,000 and \$685,000 for the fiscal years ended October 2003 and 2002, respectively. For the 2002 fiscal year, bad debt expense includes \$216,000 attributable to non-payment from a single wholesale customer. We have implemented strict credit policies and systems to closely monitor our wholesale traffic daily to reduce the risk of bad debt. We have further reduced our general and administrative costs by approximately \$983,000, for



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the fiscal year ended October 31, 2003, through the elimination of personnel and personnel related costs. We review our general and administrative expenses regularly, and continue to manage the costs accordingly to support the current and anticipated future business.

### Sales and Marketing Expenses

A significant component of our revenues is generated by outside agents or through newspaper and periodical advertising, which is managed by a small in-house sales and marketing organization. We will continue to focus our sales and marketing efforts on newspaper and periodical advertising and agent related expenses to generate additional revenues. The use of our advertising credits is expected to increase sales and marketing expenses in absolute dollars in future periods.

### Impairment Charge Related to Write Down of Advertising Credits

During fiscal year 2000, we issued common stock in exchange for advertising credits. As our ability to use these credits is uncertain, in accordance with Generally Accepted Accounting Principles, we have written-off the remaining advertising credits during the fiscal year ended October 31, 2003. (See Note 5 to the Consolidated Financial Statements.)

### Impairment Charge Related to Write Down of Assets Held for Resale

Assets held for resale represents internally constructed equipment for prepaid telecommunications. As the potential ability to sell this equipment is uncertain, in accordance with Generally Accepted Accounting Principles, this equipment was written-off during the fiscal year ended October 31, 2002. (See Note 11 to the Consolidated Financial Statements.)

### Depreciation and Amortization

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

### Sales Tax Settlement

This estimated cost is attributable to audit findings on our former parent, Canmax Retail Systems, from the State of Texas for the years 1995 to 1999. The State of Texas determined that we did not properly remit sales tax on certain transactions. Our current and former managements have filed exceptions, through our outside sales tax consultant, to the State's audit findings. (See Note 14 to the Consolidated Financial Statements).

### Interest Expense and Financing Costs

Interest expense and financing costs were due primarily to the amortization of deferred financing fees and debt discount on our convertible debentures and our related party notes payable.

### Results of Operations - 2002 Versus 2001

#### Operating Revenues

Revenues for the fiscal year ended October 31, 2002 include \$15,436,000 resulting from the customers and infrastructure acquired from Rapid Link. Recurring revenues not related to Rapid Link were reduced in our 2002 fiscal

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year by \$1,005,000, primarily due to the loss of business from two large resellers. Our retail and wholesale revenues increased by 147% and 220%, respectively, for the fiscal year ended October 31, 2002 compared to the prior fiscal year. In addition to the growth obtained by the acquisition of Rapid Link, we successfully added new wholesale customers and new international points of termination. Furthermore, we added to our wholesale sales force to focus on developing greater wholesale opportunities.

### Costs of Revenues

Costs of revenues increased due to the growth in minutes and customers as well as the increased revenue and traffic acquired from Rapid Link. Included in our cost of revenues for fiscal year 2002 are credits received from two vendors totaling \$729,000 relating to disputes for minutes billed in error for periods prior to fiscal 2002. Without these credits, costs of revenues as a percentage of revenues for the fiscal year ended October 31, 2002 would have been 67%. Our costs of revenues as a percentage of revenues improved slightly as the retail revenue acquired from Rapid Link realized higher margins than our existing retail traffic. This margin improvement was reduced in part by growth in our wholesale traffic.

### General and Administrative Expenses

The increase in general and administrative expenses was primarily due to the addition of the Rapid Link operations. Included in general and administrative expenses is bad debt expense of \$685,000 and \$140,000 for the fiscal years October 31, 2002 and 2001, respectively. For the 2002 fiscal year, bad debt expense includes \$216,000 attributable to non-payment from a single wholesale customer. We implemented strict credit policies and systems to closely monitor our wholesale traffic daily to reduce the risk of bad debt.

### Sales and Marketing Expenses

The reduction of our sales and marketing expenses as a percentage of revenues was primarily due to the increase in wholesale customer revenues as a percentage of our total revenues. A majority of our retail revenues are generated by outside agents, or through newspaper and periodical advertising, which is managed by a small in-house sales and marketing group. Alternatively, we can generate significant revenues from our wholesale business with relatively few sales personnel, as wholesale customers are usually large international telecommunications companies that provide both retail and wholesale opportunities to millions of customers worldwide.

### Impairment Charge Related to Write Down of Assets Held for Resale

Assets held for resale represents internally constructed equipment for prepaid telecommunications. As the potential ability to sell this equipment is uncertain, in accordance with Generally Accepted Accounting Principles, this equipment was written-off during the fiscal year ended October 31, 2002. (See Note 11 to the Consolidated Financial Statements.)

### Depreciation and Amortization

The increase in depreciation and amortization is primarily related to the assets of the business acquired from Rapid Link. A majority of our depreciation and amortization expenses relate to the equipment utilized in our VoIP network. In accordance with Statement of Accounting Standards No. 142, effective November 1, 2001, we no longer amortize goodwill. Amortization of goodwill for the fiscal year ended October 31, 2001 was \$172,000.

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### Interest Expense and Financing Costs

Interest expense and financing costs were due primarily to the amortization of deferred financing fees and debt discount on our convertible debentures and our related party notes payable. For the fiscal year ended October 31, 2001, \$710,000 of interest expense and financing costs were primarily attributable to amortization of deferred financing fees and debt discount associated with our convertible notes which were converted to equity in March 2001, and the fair value of additional warrants issued to the holders of the notes which were fully vested at the time of issuance.

### Other Income Related to Settlement of Dispute

Settlements with two major carriers over charges in prior periods amounted to a total credit to the statements of operations of \$1,789,000 for the fiscal year ended October 31, 2001. Of this amount, \$780,000 was the result of a settlement with Star Telecommunications. Also included was \$447,000 representing common stock received from Star in connection with our dispute settlement. This amount was subsequently written off due to the Chapter 11 bankruptcy filing by Star.

### Liquidity and Sources of Capital

The growth model for our business is scaleable, but the rate of growth is dependent on the availability of future financing for capital resources. Our funding of additional infrastructure development will be provided through the operations of our Telecommunications Business and externally through debt and/or equity offerings. We plan to obtain vendor financing for any equipment needs associated with expansion. We believe that, with sufficient capital, we can significantly accelerate our growth plan. Our failure to obtain additional financing could delay the implementation of our business plan and have a material adverse effect on its business, financial condition and operating results.

At October 31, 2003, we had cash and cash equivalents of approximately \$505,000, an increase of \$236,000 from the balance at October 31, 2002. We had significant working capital deficits at both October 31, 2003 and 2002. As of October 31, 2003, our current assets of approximately \$1,609,000 included net accounts receivable of approximately \$873,000, which has decreased over the balance of \$966,000 at October 31, 2002 due to a decline in revenues as well as the Company implementing more stringent credit requirements during fiscal 2002.

Net cash used in operating activities of continuing operations was \$684,000 for the fiscal year ended October 31, 2003, compared to net cash used in operating activities of continuing operations of \$56,000 for the fiscal year ended October 31, 2002. The net cash used in operating activities of continuing operations for the fiscal year ended October 31, 2003 was primarily due to a net loss from continuing operations of \$5,419,000 adjusted for: loss from disposal of fixed assets of \$242,000; non-cash interest expense of \$689,000; depreciation and amortization of \$1,338,000; net changes in operating assets and liabilities of \$48,000; and impairment charge related to write down of advertising credits of \$2,377,000. For the fiscal year ended October 31, 2002, the net cash used in operating activities of continuing operations was comprised of a net loss from continuing operations of \$3,526,000 adjusted for: impairment charge related to write down of assets held for resale of \$320,000; bad debt expense of \$685,000; non-cash interest expense of \$924,000; depreciation and amortization of \$2,158,000; and net changes in operating assets and liabilities of (\$583,000).

Net cash used in investing activities of continuing operations for the years

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ended October 31, 2003 and 2002 was \$192,000 and \$303,000, respectively, and relate to the purchase of property and equipment.

Net cash provided by financing activities of continuing operations for the fiscal year ended October 31, 2003, totaled \$1,169,000, compared to \$667,000 for the fiscal year ended October 31, 2002. For the fiscal year ended October 31, 2003, significant components of net cash provided by financing activities of continuing operations include \$1,800,000 in net proceeds from notes payable, offset by \$105,000 in payments on capital leases, \$82,000 of financing fees, and \$443,000 in payments on convertible debentures. For the fiscal year ended October 31, 2002, the significant components of net cash provided by financing activities include \$300,000 in net proceeds from a note issued to one of our executives, \$550,000 from the issuance of a convertible debenture, offset by \$106,000 in payments on capital leases, and \$93,000 of financing fees.

We have an accumulated deficit of approximately \$47.2 million as of October 31, 2003, as well as significant working capital deficit. Funding of our working capital deficit, current and future operating losses, and expansion will require continuing capital investment. Our strategy is to fund these cash requirements through operations, debt facilities and additional equity financing. As of the date of this report:

- 1) we obtained additional financing of \$1,250,000 in November 2002, a portion of which was used to fully pay the April 11, 2001 convertible debenture with Global Capital Funding Group, L.P.
- 2) we and GCA Strategic Investment Fund Limited agreed to extend the maturity date of the January 2002 debenture from January 28, 2003 to November 8, 2004.
- 3) we obtained additional financing of \$550,000 in July 2003.

Since the beginning of April 2001, we have raised \$5.7 million in debt financing.

Although we have been able to arrange debt facilities and equity financing to date, there can be no assurance that sufficient debt or equity financing will continue to be available in the future or that it will be available on terms acceptable to us. Failure to obtain sufficient capital could materially affect our operations and expansion strategies. As a result of the aforementioned factors and related uncertainties, there is considerable doubt about our ability to continue as a going concern.

Our current capital expenditure requirements are not significant, primarily due to the equipment acquired from Rapid Link. Our capital expenditures for the fiscal year ended October 31, 2003 were \$192,000 and we do not anticipate significant spending for fiscal year 2004.

On April 11, 2001, we executed a 6% convertible debenture (the "Debenture") with Global Capital Funding Group L.P, which provided financing of \$1,000,000. The Debenture's maturity date was April 11, 2003. Subsequent to fiscal year 2002, this debenture was paid in full through the issuance of a subsequent loan from Global Capital Funding Group, L.P.

In October 2001, we executed 10% convertible notes (the "Notes") with three of our executives, which provided financing of \$1,945,958. With an original maturity date of October 24, 2003, these Notes were amended subsequent to fiscal year 2002 and now mature on February 24, 2004. These Notes are secured by selected Company assets and are convertible into our common stock at the option of the holder at any time prior to maturity. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. We also issued to the holders of the Notes warrants to acquire an aggregate of 1,945,958 shares of

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common stock at an exercise price of \$0.78 per share, which warrants expire on October 24, 2006. For the year ended October 31, 2002, an additional \$402,433 was added to the Notes and an additional 402,433 warrants to acquire our common stock were issued in connection with the financing.

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

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

In July 2003, we executed a 10% note payable (the "GCA-Note") with GCA Strategic Investment Fund Limited, which provided financing of \$550,000. The GCA-Note's maturity date was December 23, 2003. Per the terms of the GCA-Note agreement, in the event the GCA-Note is not repaid in full within 10 days of the maturity date, the terms of the GCA-Note shall become the same as those of the Second Debenture. Effective January 2, 2003, the GCA-Note's terms became the same as those of the Second Debenture. We also issued to the holder of the GCA-Note warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of \$0.14 per share, which expire on July 24, 2008.

### Item 7a. Quantitative and Qualitative Disclosures About Market Risk

We provide our retail services primarily to customers located outside of the U.S. Thus, our financial results could be impacted by foreign currency exchange rates and market conditions abroad. As most of our services are paid for in U.S. dollars, a strong dollar could make the cost of our services more expensive than the services of non-U.S. based providers in foreign markets. In markets where we buy our services in local currency and sell those services to U.S. customers, a weak dollar could make our services more expensive than our competitors in foreign markets. We have not used derivative instruments to hedge our foreign exchange risks though we may choose to do so in the future.

### Item 8. Financial Statements and Supplementary Data

The information required by Item 8 of this Report is presented in Item 15.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Changes in our accountants were previously reported in current reports on

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Form 8-K filed on November 7, 2001, August 2, 2002 and August 23, 2002.

### Item 9a. Controls and Procedures

Within the 90 days prior to the filing date of this Annual Report, 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. 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 SEC rules and forms.

There have been no significant changes in our internal controls or other factors that could significantly affect our internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART III

### Item 10. Directors and Executive Officer of the Registrant

The following table sets forth certain information regarding our executive officers and directors.

Name	Age	Position with the Company
John Jenkins	42	Chairman, Chief Executive Officer, President and Director
Allen Sciarillo	39	Executive Vice President, Chief Financial Officer, Secretary and Director
Lawrence Vierra	58	Executive Vice President and
Eleizer Gurfel	45	Director
Robert M. Fidler	64	Executive Vice President
Nick DeMare	48	Director
David Hess	42	Director

JOHN JENKINS has served as our Chairman of the Board and Chief Executive Officer since October 2001, and has served as our President and a director since December 1999. Mr. Jenkins has also served as the President of Dial Thru.com, Inc., one of our subsidiaries, since November 1999. In May 1997, Mr. Jenkins founded Dial Thru International Corporation (subsequently dissolved in November 2000), and served as its President and Chief Executive Officer until joining us in November 1999. Prior to 1997, Mr. Jenkins served as the President and Chief Financial Officer for Golden Line Technology, a French telecommunications company. Prior to entering the telecommunications industry, Mr. Jenkins owned and operated several software, technology and real estate companies. Mr. Jenkins holds degrees in physics and business/economics.

ALLEN SCIARILLO has been our Chief Financial Officer, Executive Vice President and Secretary since July 2001 and was elected as a director in May 2002. From January to March 2001, Mr. Sciarillo was the Chief Financial Officer of Star Telecommunications, Inc., a global facilities-based

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telecommunications carrier. Prior to that time, Mr. Sciarillo served as Chief Financial Officer of InterPacket Networks, a provider of Internet connectivity to Internet service providers worldwide, from July 1999 until its acquisition by American Tower Corporation in December 2000. From October 1997 to June 1999, he served as Chief Financial Officer of RSL Com USA, a division of RSL Com Ltd., a global facilities-based telecommunications carrier. Prior to joining RSL, Mr. Sciarillo was Vice President and Controller of Hospitality Worldwide Services, Inc. from July 1996 to October 1997. Mr. Sciarillo began his career at Deloitte & Touche and is a Certified Public Accountant.

LAWRENCE VIERRA has served as our Executive Vice President and a director since January 2000. From 1995 through 1999, Mr. Vierra served as the Executive Vice President of RSL Com USA, Inc., an international telecommunications company, where he was primarily responsible for international sales. Mr. Vierra has also served on the board of directors and executive committees of various telecommunications companies and he has extensive knowledge and experience in the international sales and marketing of telecommunications products and services. Mr. Vierra holds degrees in marketing and business administration.

ELEIZER GURFEL has served as our Executive Vice President since May 2002. From January 2001 through May 2002, Mr. Gurfel was the President of Asiatel Inc, a privately owned global facilities-based telecommunications carrier. From November 1999 through December 2000, Mr. Gurfel was Vice President of InterPacket Networks, a provider of Internet connectivity to Internet Service providers worldwide. Prior to that time, Mr. Gurfel was Chief Operating Officer of LCR Telecommunications, from August 1997 through November 1999.

ROBERT M. FIDLER has served as one of our directors since November 1994. Mr. Fidler joined Atlantic Richfield Company (ARCO) in 1960, was a member of ARCO's executive management team from 1976 to 1994 and was ARCO's manager of New Marketing Programs from 1985 until his retirement in 1994.

NICK DEMARE has served as one of our directors since January 1991. Since May 1991, Mr. DeMare has been the President and Chief Executive Officer of Chase Management Ltd., a private company providing a broad range of administrative, management and financial services to private and public companies with varied interests in mineral exploration and development, precious and base metals production, oil and gas, venture capital and computer software. Mr. DeMare has served and continues to serve on the boards of a number of Canadian public companies, three of which are SEC reporting companies; Hilton Petroleum, Ltd., Trimark Energy Ltd. and California Exploration Ltd. Mr. DeMare is a Chartered Accountant (Canada).

DAVID HESS was elected to our Board of Directors in May 2002. From November 2001 until December 2002, Mr. Hess served as the Chief Executive Officer and President, North America of Telia International Carrier, Inc. Prior to joining Telia, Mr. Hess was part of a turnaround team hired by the board of directors of Rapid Link Incorporated. He served as the Chief Executive Officer and as a director of Rapid Link Incorporated from August 2000 until September 2001. On March 13, 2001, Rapid Link Incorporated filed for Chapter 11 bankruptcy protection. Before joining Rapid Link, Mr. Hess served as Chief Executive Officer of Long Distance International from January 1999 until its acquisition by World Access in February 2000. Mr. Hess also served as President and Chief Operating Officer of TotalTel USA from May 1995 until January 1999. Mr. Hess received a BA in Communications with a Minor in Marketing from Bowling Green State University.

Meetings of the Board of Directors

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Our Board of Directors held one meeting during the fiscal year ended October 31, 2003. The Board of Directors has two standing committees: an Audit Committee and a Compensation Committee. There is no standing nominating committee. Each of the directors attended the meeting of the Board of Directors and all meetings of any committee on which such director served.

### Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics for employees, executive officers and directors that is designed to ensure that all of our directors, executive officers and employees meet the highest standards of ethical conduct. The code requires that our directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in our best interest. Under the terms of the code, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the code.

As a mechanism to encourage compliance with the code, we have established procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters. These procedures ensure that individuals may submit concerns regarding questionable accounting or auditing matters in a confidential and anonymous manner. The code also prohibits us from retaliating against any director, executive officer or employee who reports actual or apparent violations of the code.

The code is included in this filing as Exhibit 14.1.

### Audit Committee Financial Expert

Our board of directors has determined that Nick DeMare is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended, and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of that act.

### Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities of our Company. Officers, directors and greater than 10% stockholders are required by regulations promulgated by the SEC to furnish us with copies of all Section 16(a) reports they file. Based solely on the review of such reports furnished to us and written representations that no other reports were required, we believe that during the fiscal year ended October 31, 2003, our executive officers, directors and all persons who own more than 10% of our common stock complied with all Section 16(a) requirements.

### Item 11. Executive Compensation

The following table summarizes the compensation we paid, for services rendered to our Company during the fiscal years ended October 31, 2003, 2002 and 2001 to our chief executive officer and all other executive officers whose total annual salary and bonus exceeded \$100,000 during fiscal 2003.



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Summary Compensation Table

Name and principal position	Year	Annual Compensation			Long Term Compensation Awards	All other Compensation
		Salary	Bonus	Other annual compensation	Underlying Securities Options/SARs	
		(\$)	(\$)	(\$)	(#)	(\$)
John Jenkins Chairman, CEO and President	2003	150,000	-0-	-0-	-0-	-0-
	2002	181,042	-0-	-0-	-0-	-0-
	2001	108,833	-0-	-0-	700,000	-0-
Allen Sciarillo Executive Vice President and Chief Financial Officer	2003	125,000	1,106	-0-	-0-	-0-
	2002	141,667	-0-	-0-	-0-	-0-
	2001	-0-	-0-	-0-	500,000	-0-
Eleizer Gurfel Executive Vice President	2003	105,000	-0-	44,210	-0-	-0-
	2002	53,692	-0-	1,268	75,000	-0-
	2001	-0-	-0-	-0-	-0-	-0-

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth information with respect to the number of options held at fiscal year end and the aggregate value of in-the-money options held at fiscal year end by each of the Named Executive Officers.

Name	Shares acquired on exercise (#)	Value realized (\$)(1)	Number of securities underlying unexercised options at fiscal year end (#)		Value of unexercised in-the-money options at fiscal year end (\$)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John Jenkins	-0-	-0-	466,667	233,333	-0-	-0-
Allen Sciarillo	-0-	-0-	333,333	166,667	-0-	-0-

(1) The value realized upon the exercise of stock options represents the difference between the exercise price of the stock option and the fair market value of the shares, multiplied by the number of options exercised on the date of exercise.

(2) The value of "in-the-money" options represents the positive spread between the exercise price of the option and the fair market value of the underlying shares based on the closing stock price of our common stock on October 31, 2003, which was \$0.17 per share. "In-the-money" options include only those options where the fair market value of the stock is higher than the exercise price of the option on the date specified. The actual value, if any, an executive realizes on the exercise of options will depend on the fair market value of our common stock at the time of exercise.

Compensation of Directors

Each of our directors who is not one of our officers receives a fee of \$1,500 for each Board meeting attended. Directors are not compensated for attending committee meetings. Our directors also participate in our Equity

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Incentive Plan and are annually awarded non-qualified stock options for an aggregate of 5,000 shares of our common stock for services rendered to our company as a director.

### Compensation Committee Interlocks and Insider Participation

None of our executive officers or directors serves as a member of the board of directors or compensation committee of any other entity which has one or more executive officers serving as a member of our board of directors. During our 2003 fiscal year, our Compensation Committee consisted of Nick DeMare and Robert Fidler.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of January 23, 2004, concerning those persons known to us, based on information obtained from such persons, our records and schedules required to be filed with the SEC and delivered to us, with respect to the beneficial ownership of our common stock by (i) each stockholder known by us to own beneficially five percent or more of such outstanding common stock, (ii) each of our current directors, (iii) each Named Executive Officer and (iv) all of our executive officers and directors as a group. Except as otherwise indicated below, each of the entities or persons named in the table has sole voting and investment power with respect to all shares of our common stock beneficially owned. Effect has been given to shares reserved for issuance under outstanding stock options and warrants where indicated.

Name and address of Beneficial Owner -----	Number of Shares (1) -----	Percent of Class (2) -----
Dodge Jones Foundation 400 Pine Street, Suite 900 Abilene, Texas 79601	1,000,000 (3)	6.17%
John Jenkins 17383 Sunset Boulevard, Suite 350 Los Angeles, California 90272	4,315,057 (4)	22.99%
Lawrence Vierra 2353 Dolphin Court Henderson, NV 89014	405,000 (5)	2.44%
Nick DeMare Chase Management 1090 West Georgia Street, Suite 1305 Vancouver, BC V6E 3V7	20,280 (6)	*
Robert M. Fidler 987 Laguna Road Pasadena, California 91105	14,000 (7)	*
David Hess 545 Alder Avenue Westfield, New Jersey 07090	0	*
Allen Sciarillo 17383 Sunset Boulevard, Suite 350 Los Angeles, CA 90272	433,333 (8)	2.60%
Global Capital Funding Group L.P.	1,373,838 (9)	8.15%

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106 Colony Park Drive  
 Cumming, GA 30040

All Executive Officers and Directors                      5,187,670                      26.44%  
 as a group (6 persons)

\* Reflects less than one percent.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of our Common Stock subject to options or warrants held by that person that are exercisable within 60 days of January 23, 2004 are deemed outstanding. Such shares, however, are not deemed outstanding for purposes of computing the ownership of any other person.
- (2) Based upon 16,201,803 shares of Common Stock outstanding as of January 23, 2004.
- (3) Based upon information contained within Schedule 13D filed with the Securities and Exchange Commission on July 2, 1997.
- (4) Includes 2,565,057 shares of Common Stock which may be acquired through the exercise of options which are exercisable within 60 days of January 23, 2004.
- (5) Includes 400,000 shares of Common Stock which may be acquired through the exercise of options which are exercisable within 60 days of January 23, 2004.
- (6) Includes 10,000 shares of Common Stock which may be acquired through the exercise of options which are exercisable within 60 days of January 23, 2004.
- (7) Includes 10,000 shares of Common Stock which may be acquired through the exercise of option and warrants which are exercisable within 60 days of January 23, 2004.
- (8) Includes 433,333 shares of Common Stock which may be acquired through the exercise of warrants which are exercisable within 60 days of January 23, 2004.
- (9) Includes 650,000 shares of Common Stock which may be acquired through the exercise of warrants which are exercisable within 60 days of January 23, 2004.

### Equity Compensation Plan Information

The following table provides information about shares of our common stock that may be issued under our equity compensation plans, as of October 31, 2003:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (column (a))	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
----- Equity compensation plans approved by security holders	----- 5,579,891 (1)	----- \$0.83	----- 2,856,000
Equity	-0-	n/a	-0-

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compensation  
plans not  
approved by  
security holders

Total	5,579,891	\$0.83	2,856,000
-------	-----------	--------	-----------

- (1) Amount includes outstanding options granted pursuant to the 2002 Dial Thru International Corporation Equity Incentive Plan and the Amended and Restated 1990 Dial Thru International Corporation Stock Option Plan.

### Item 13. Certain Relationships and Related Transactions

In October 2001, we issued 10% convertible notes (the "Notes") to three of our executive officers, each of whom was also one of our directors, who provided financing to our Company in the aggregate principal amount of \$1,945,958. The Notes were issued as follows: (i) a note in the principal amount of \$1,745,958 to John Jenkins, our Chief Executive Officer; (ii) a note in the principal amount of \$100,000 to Allen Sciarillo, our Executive Vice President and Chief Financial Officer; and (iii) a note in the principal amount of \$100,000 to Larry Vierra, our Executive Vice President. With an original maturity date of October 24, 2003, these Notes were amended subsequent to fiscal year 2002 and now mature on February 24, 2004. Each note is secured by certain of our assets. Each Note was originally convertible at six-month intervals only, but was subsequently amended in November 2002 to provide for conversion into shares of our common stock at the option of the holder at any time prior to maturity. The conversion price is equal to the closing bid price of our common stock on the last trading day immediately preceding the conversion. We also issued to the holders of the Notes warrants to acquire an aggregate of 1,945,958 shares of common stock at an exercise price of \$0.75 per share, which warrants expire on October 24, 2006.

In January and July 2002, the Notes issued to Mr. Jenkins were amended to include additional advances in the aggregate principal amount of \$402,443. We also issued to Mr. Jenkins two warrants to acquire an additional 102,443 and 300,000 shares of common stock, respectively, at an exercise price of \$0.75, which warrants expire on January 28, 2007 and July 8, 2007, respectively.

### Item 14. Principal Accounting Fees and Services

We are not yet required to make any disclosure under this new Item because the fiscal year covered by this Annual Report ended prior to December 15, 2003.

## PART IV

### Item 15. Exhibits, Financial Statements Schedules, and Reports on Form 8-K

(a)

(1) and (2) list of financial statements

The response to this item is submitted as a separate section of this Report. See the index on Page F-1.

(3) exhibits

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The following is a list of all exhibits filed with this Report, including those incorporated by reference.

- 2.1 Agreement and Plan of Merger dated as of January 30, 1998, among Canmax Inc., CNMX MergerSub, Inc. and US Communications Services, Inc. (filed as Exhibit 2.1 to Form 8-K dated January 30, 1998 (the "USC 8-K"), and incorporated herein by reference)
- 2.2 Rescission Agreement dated June 15, 1998 among Canmax Inc., USC and former principals of USC (filed as Exhibit 10.1 to Form 8-K dated January 15, 1998 (the "USC Rescission 8-K"), and incorporated herein by reference)
- 2.3 Asset Purchase Agreement by and among Affiliated Computed Services, Inc., Canmax and Canmax Retail Systems, Inc. dated September 3, 1998 (filed as Exhibit 10.1 to the Company's Form 8-K dated December 7, 1998 and incorporated herein by reference)
- 2.4 Asset Purchase Agreement dated November 2, 1999 among ARDIS Telecom & Technologies, Inc., Dial Thru International Corporation, a Delaware corporation, Dial Thru International Corporation, a California corporation, and John Jenkins (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 2, 1999 and incorporated herein by reference)
- 2.5 Stock and Asset Purchase Agreement, dated as of September 18, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.1 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)
- 2.6 First Amendment to Stock and Asset Purchase Agreement, dated as of September 21, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.2 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)
- 2.7 Second Amendment to Stock and Asset Purchase Agreement, dated as of October 12, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.3 to the Company's Form 8-K dated October 29, 2001 and incorporated herein by reference)
- 2.8 Third Amendment to Stock and Asset Purchase Agreement, dated as of October 30, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.4 to the Company's Form 8-K dated December 28, 2001 and incorporated herein by reference)
- 2.9 Fourth Amendment to Stock and Asset Purchase Agreement, dated as of November 30, 2001, by and among Rapid Link USA, Inc., Rapid Link Inc., and Dial Thru International Corporation. (filed as Exhibit 2.5 to the Company's Form 8-K dated December 28, 2001 and incorporated herein by reference)
- 3.1 Certificate of Incorporation, as amended (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1999 (the "1999 Form 10-K") and incorporated herein by reference)
- 3.2 Amended and Restated Bylaws of Dial Thru International Corporation (filed as Exhibit 3.2 to the 1999 Form 10-K and incorporated herein by reference)

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- 4.1 Registration Rights Agreement between Canmax and the Dodge Jones Foundation (filed as Exhibit 4.02 to Canmax's Quarterly Report on Form 10-Q for the period ended April 30, 1997 and incorporated herein by reference)
- 4.2 Registration Rights Agreement between Canmax and Founders Equity Group, Inc. (filed as Exhibit 4.02 to Canmax's Quarterly Report on Form 10-Q for the period ended April 30, 1997 and incorporated herein by reference)
- 4.3 Amended and Restated Stock Option Plan of Dial Thru International Corporation (filed as Exhibit 4.3 to the 1999 Form 10-K and incorporated herein by reference)
- 4.4 Securities Purchase Agreement dated April 11, 2001 (filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended April 30, 2001 and incorporated herein by reference)
- 4.5 Registration Rights Agreement dated April 6, 2001 between Dial Thru International Corporation and Global Capital Funding Group, L.P. (filed as Exhibit 4.2 to the Company's Form S-3, File #333-71406, filed on October 11, 2001 and incorporated herein by reference)
- 4.6 6% Convertible Debenture of Dial Thru International Corporation and Global Capital Funding Group, L.P. (filed as Exhibit 4.3 to the Company's Form S-3, File 333-71406, filed on October 11, 2001 and incorporated herein by reference)
- 4.7 Form of Common Stock Purchase Warrant dated April 11, 2001 between Global Capital Funding Group, L.P. and Dial Thru International Corporation (filed as Exhibit 4.4 to the Company's Form S-3, File 333-71406, filed October 11, 2001 and incorporated herein by reference)
- 4.8 Form of Common Stock Purchase Warrant dated April 6, 2001 between D.P. Securities, Inc. and Dial Thru International Corporation (filed as Exhibit 4.5 to the Company's Form S-3, File 333-71406, filed on October 11, 2001 and incorporated herein by reference)
- 4.9 Securities Purchase Agreement issued January 28, 2002 between Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.1 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)
- 4.10 Registration Rights Agreement dated January 28, 2002 between Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.2 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)
- 4.11 6% Convertible Debenture of Dial Thru International Corporation and GCA Strategic Investment Fund Limited (filed as Exhibit 4.3 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)
- 4.12 Common Stock Purchase Warrant dated January 28, 2002 between GCA Strategic Investment Fund Limited and Dial Thru International Corporation (filed as Exhibit 4.4 to the Company's Form S-3, File 333-82622, filed on February 12, 2002 and incorporated herein by reference)
- 10.1 Employment Agreement, dated June 30, 1997 between Canmax Retail Systems, Inc. and Roger Bryant (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-3, File No. 333-33523 (the "Form S-

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3"), and incorporated herein by reference)

- 10.2 Commercial Lease Agreement between Jackson--Shaw/Jetstar Drive Tri-star Limited Partnership and the Company (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K dated October 31, 1998, and incorporated herein by reference)
- 10.3 Employment Agreement, dated November 2, 1999 between ARDIS Telecom & Technologies, Inc. and John Jenkins (filed as Exhibit 4.3 to the 2000 Form 10-K and incorporated herein by reference)
- 14.1\* Code of Business Conduct and Ethics for Employees, Executive Officers and Directors
- 21.1\* Subsidiaries of the Registrant
- 23.1\* Consent of KBA Group LLP
- 23.2\* Information regarding consent of Arthur Andersen LLP
- 31.1\* Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934
- 31.2\* Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934
- 32.1\* Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
- 32.2\* Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

\* Filed herewith.

(b) reports on form 8-K

During the quarter ended October 31, 2003, our Company filed two Current Reports on Form 8-K.

- 1. A report filed on August 1, 2003 described the approval of the insolvency filing by the registrant's German subsidiary, Rapid Link, GmbH.
- 2. A report filed on September 17, 2003 described the registrant's:
  - a. Securities Purchase Agreement dated November 8, 2002 with Global Capital Funding Group, L.P.
  - b. Securities Purchase Agreement dated July 24, 2003 with GCA Strategic Investment Fund Limited.
  - c. issuance of a press release setting forth its financial results for its third quarter ended July 31, 2003.

### 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 in its behalf by the undersigned thereunto duly authorized.

DIAL THRU INTERNATIONAL CORPORATION

Date: January 29, 2004

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

NAME ----	TITLE -----	DATE ----
/s/ JOHN JENKINS John Jenkins	Chairman, Chief Executive Officer and President and Director	January 29, 2004
/s/ ALLEN SCIARILLO Allen Sciarillo	Chief Financial Officer and secretary (principal financial and principal accounting officer)	January 29, 2004
/s/ LAWRENCE VIERRA Lawrence Vierra	Executive Vice President and Director	January 29, 2004
/s/ ROBERT M. FIDLER Robert M. Fidler	Director	January 29, 2004
/s/ NICK DeMARE Nick DeMare	Director	January 29, 2004
/s/ DAVID HESS David Hess	Director	January 29, 2004

### DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES

#### INDEX TO FINANCIAL STATEMENTS

#### 1. Consolidated Financial Statements

Reports of Independent Public Accountants	F-2
Consolidated Balance Sheets at October 31, 2003 and 2002	F-4
Consolidated Statements of Operations for the fiscal years ended October 31, 2003, 2002 and 2001	F-5
Consolidated Statement of Shareholders' (Deficit) Equity for the fiscal years ended October 31, 2003, 2002 and 2001	F-6
Consolidated Statements of Cash Flows for the fiscal years ended October 31, 2003, 2002 and 2001	F-7
Notes to Consolidated Financial Statements	F-8

#### 2. Financial Statement Schedule

Reports of Independent Public Accountants as to Schedule	S-1
Schedule II - Valuation and Qualifying Accounts	S-2

All other schedules are omitted because they are not applicable or



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because the required information is shown in the consolidated financial statements or notes thereto.

### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

-----

To the Board of Directors and Shareholders of  
Dial Thru International Corporation

We have audited the accompanying consolidated balance sheets of Dial Thru International Corporation and subsidiaries as of October 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dial Thru International Corporation and subsidiaries as of October 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the October 31, 2003 and 2002 financial statements, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered recurring losses and has used significant cash flows in operations during each of the last three fiscal years. Additionally, at October 31, 2003, the Company's current liabilities exceeded its current assets by \$9.9 million and the Company has a shareholders' deficit totaling \$8.1 million. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as they relate to these issues are also explained in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the Consolidated Financial Statements, during fiscal year 2002, the Company changed its method of accounting for goodwill and other intangibles to comply with the accounting provisions of Statement of Accounting Standard No. 142 "Goodwill and Other Intangibles".

/s/ KBA GROUP LLP

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KBA GROUP LLP  
Dallas, Texas  
December 12, 2003, except for Note 19,  
as to which the date is January 2, 2004

REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS  
-----

The following report is a copy of a report previously issued by Arthur Andersen LLP ("Andersen"), which report has not been reissued by Andersen. Other than with respect to Andersen's review of our Quarterly Report on Form 10-Q for the period ended January 31, 2002, none of the financial information for our fiscal year ended October 31, 2002 has been reviewed by Andersen. Reclassifications were made to the financial information for the time period indicated in Andersen's previously issued report to conform that report to the financial statement presentations made with respect to our fiscal year ended October 31, 2002.

To Dial Thru International, Inc.:

We have audited the accompanying balance sheet of Dial Thru International, Inc. (a Delaware corporation) and subsidiaries as of October 31, 2001 and the related statement of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dial Thru International, Inc. and subsidiaries as of October 31, 2001 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and is in a working capital deficit position that raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ ARTHUR ANDERSEN LLP

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ARTHUR ANDERSEN LLP  
Atlanta, Georgia  
January 9, 2002

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## DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

ASSETS -----	October 31, 2003	October 31, 2002
-----	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 505,256	\$ 269,313
Trade accounts receivable, net of allowance for doubtful accounts of \$295,094 at October 31, 2003 and \$506,391 at October 31, 2002	872,610	965,617
Prepaid expenses and other current assets	230,997	124,845
Total current assets	1,608,863	1,359,775
PROPERTY AND EQUIPMENT, net	1,340,986	2,729,122
ADVERTISING CREDITS, net	-	2,376,678
GOODWILL, net	1,796,917	1,796,917
OTHER ASSETS	91,434	75,739
NET LONG-TERM ASSETS OF DISCONTINUED OPERATIONS	242,334	742,124
TOTAL ASSETS	\$ 5,080,534	\$ 9,080,355
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT -----		
CURRENT LIABILITIES		
Current portion of capital lease obligations	146,140	257,780
Trade accounts payable	2,814,472	3,647,856
Accrued liabilities	2,448,939	1,526,691
Deferred revenue	356,999	331,786
Deposits and other payables	430,678	444,204
Note payable, net of debt discount of \$2,847 at October 31, 2003	547,153	-
Notes payable to related parties, net of debt discount of \$423,291 at October 31, 2002	2,348,401	1,925,110
Net current liabilities of discontinued operations	2,493,481	2,030,095
Total current liabilities	11,586,263	10,163,522
CAPITAL LEASE OBLIGATIONS, net of current portion	-	11,549
NOTE PAYABLE, net of debt discount of \$22,838 at October 31, 2003	1,227,162	-
CONVERTIBLE DEBENTURES, net of debt discount of \$10,756 at October 31, 2003 and \$163,510 at October 31, 2002	489,244	880,365
COMMITMENTS AND CONTINGENCIES (See Notes 1 and 14)		
SHAREHOLDERS' DEFICIT		
Preferred stock, \$.001 par value, 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$.001 par value; 44,169,100 shares authorized; 16,201,803 shares issued at October 31, 2003 and 15,074,916 shares issued at October 31, 2002	16,202	15,075
Additional paid-in capital	39,070,237	38,894,065

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Accumulated deficit	(47,253,704)	(40,631,393)
Accumulated other comprehensive loss	-	(196,057)
Treasury stock, 12,022 common shares at cost	(54,870)	(54,870)
Subscription receivable - common stock	-	(1,901)
	-----	-----
Total shareholders' deficit	(8,222,135)	(1,975,081)
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 5,080,534	\$ 9,080,355
	=====	=====

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

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DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended October 31,		
	2003	2002	2001
	-----	-----	-----
REVENUES	\$ 17,654,794	\$ 18,408,649	\$ 6,641,818
COSTS AND EXPENSES			
Costs of revenues	13,128,924	11,539,562	4,668,418
Sales and marketing	700,404	885,661	808,792
Non-cash sales and marketing expense	-	-	258,616
General and administrative	3,812,639	5,760,179	3,297,954
Impairment charge related to write down of advertising credits	2,376,678	-	-
Impairment charge related to write down of assets held for resale	-	320,307	-
Depreciation and amortization	1,338,351	2,158,135	781,331
Sales tax settlement	350,000	-	-
	-----	-----	-----
Total costs and expenses	21,706,996	20,663,844	9,815,111
	-----	-----	-----
Operating loss	(4,052,202)	(2,255,195)	(3,173,293)
OTHER INCOME (EXPENSE)			
Interest expense and financing costs	(1,131,806)	(1,247,488)	(710,464)
Other income related to settlement of disputes	-	-	1,789,373
Foreign currency exchange gains (losses)	7,097	(31,976)	-
Write off of investment in marketable securities	-	-	(446,820)
Gain (loss) on disposal of equipment	(241,935)	9,053	13,693
	-----	-----	-----
Total other income (expense), net	(1,366,644)	(1,270,411)	645,782
	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS	(5,418,846)	(3,525,606)	(2,527,511)
LOSS FROM DISCONTINUED OPERATIONS, net of income taxes of \$0 for all periods	(1,203,465)	(1,158,574)	(156,795)
	-----	-----	-----
NET LOSS	\$ (6,622,311)	\$ (4,684,180)	\$ (2,684,306)
	=====	=====	=====
LOSS PER SHARE:			
Basic and diluted loss per share			

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Continuing operations	\$ (0.34)	\$ (0.25)	(0.23)
Discontinued operations	(0.07)	(0.09)	(0.02)
	-----	-----	-----
	\$ (0.41)	\$ (0.34)	\$ (0.25)
	=====	=====	=====
SHARES USED IN THE CALCULATION			
OF PER SHARE AMOUNTS:			
Basic and diluted common shares	15,999,179	13,935,782	10,900,115
	=====	=====	=====

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

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DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' (DEFICIT) EQUITY

	Common Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit
	-----	-----	-----	-----	-----
Balance at October 31, 2000	9,895,090	\$ 9,895	\$ (54,870)	\$ 33,838,158	\$ (33,262,907)
Shares issued upon exercise of options and warrants	134,000	134	-	34,223	-
Issuance of common stock in connection with consulting agreement	90,000	90	-	101,160	-
Conversion of convertible notes	400,000	400	-	999,600	-
Shares issued to a shareholder	1,000,000	1,000	-	1,030,200	-
Issuance of warrants in connection with convertible debentures	-	-	-	79,931	-
Embedded beneficial conversion feature related to change in conversion factor	-	-	-	828,111	-
Issuance of warrants in connection with convertible notes-related party	-	-	-	496,598	-
Issuance of common stock in connection with acquisition of rapid link	600,000	600	-	467,400	-
Issuance of warrants in connection with convertible notes	-	-	-	141,841	-
Issuance of warrants in connection with consulting agreement	-	-	-	157,366	-
COMPREHENSIVE INCOME (LOSS)					
Net loss	-	-	-	-	(2,684,306)
Foreign currency translation adjustment	-	-	-	-	-
Total Comprehensive Income (Loss)	-	-	-	-	(2,684,306)
Balance at October 31, 2001	12,119,090	\$ 12,119	\$ (54,870)	\$ 38,174,588	\$ (35,947,213)
	=====	=====	=====	=====	=====

Shares issued upon exercise

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of options and warrants	175,000	175	-	69,825	-
Retirement of shares as payment for options	(100,000)	(100)	-	(69,900)	-
Issuance of common stock in connection with consulting agreement	25,000	25	-	13,725	-
Conversion of convertible notes including accrued interest	2,855,826	2,856	-	528,969	-
Issuance of warrants in connection with convertible debentures	-	-	-	17,096	-
Embedded beneficial conversion feature related to issuance of note payable	-	-	-	114,154	-
Issuance of warrants in connection with convertible notes-related party	-	-	-	45,608	-
Cash received for subscription receivable-common stock	-	-	-	-	-
COMPREHENSIVE INCOME (LOSS)					
Net loss	-	-	-	-	(4,684,180)
Foreign currency translation adjustment	-	-	-	-	-
Total Comprehensive Income (Loss)	-	-	-	-	(4,684,180)
Balance at October 31, 2002	15,074,916 \$	15,075	\$(54,870)	\$ 38,894,065	\$(40,631,393)
=====					
Conversion of convertible notes including accrued interest	1,098,052	1,098	-	108,099	-
Issuance of warrants in connection with convertible debentures	-	-	-	17,208	-
Issuance of warrants in connection with notes payable	-	-	-	52,795	-
Adjustment of outstanding shares	28,835	29	-	(29)	-
Write off of subscription receivable	-	-	-	(1,901)	-
COMPREHENSIVE INCOME (LOSS)					
Net loss	-	-	-	-	(6,622,311)
Foreign currency translation adjustment	-	-	-	-	-
Total Comprehensive Income (Loss)	-	-	-	-	(6,622,311)
Balance at October 31, 2003	16,201,803 \$	16,202	\$(54,870)	\$ 39,070,237	\$(47,253,704)
=====					

The accompanying notes are an integral part of this consolidated financial statement.

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DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended October 31,		
	2003	2002	2001
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			

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Net loss from continuing operations	\$ (5,418,846)	\$ (3,525,606)	\$ (2,527,511)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:			
(Gain) loss from disposal of fixed assets	241,935	(9,053)	(13,690)
Impairment charge related to write down of assets held for resale	-	320,307	
Impairment charge related to write down of advertising credits	2,376,678	-	
Stock and warrants issued for services	-	13,750	258,611
Bad debt expense	28,268	685,059	140,166
Non-cash interest expense	688,732	924,340	597,733
Non-cash vendor credit	-	-	(780,000)
Depreciation and amortization	1,338,351	2,158,135	781,333
Effects of changes in foreign exchange rates	13,066	(39,792)	(83,133)
(Increase) decrease in:			
Trade accounts receivable	64,739	(372,978)	(962,040)
Prepaid expenses and other current assets	(106,152)	(108,468)	100,400
Advertising credits	-	-	76,340
Other assets	(1,623)	12,421	136,311
Increase (decrease) in:			
Trade accounts payable	(851,186)	(730,283)	1,217,188
Accrued liabilities	930,570	578,783	154,870
Deferred revenue	25,213	(406,790)	78,620
Deposits and other payables	(13,526)	444,204	
	-----	-----	-----
Net cash used in operating activities of continuing operations	(683,781)	(55,971)	(824,770)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(192,150)	(303,460)	(68,650)
Cash paid for Rapid Link acquisition, net of cash acquired	-	-	(1,648,650)
	-----	-----	-----
Net cash used in investing activities of continuing operations	(192,150)	(303,460)	(1,717,300)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from related party note payable	-	300,000	1,599,480
Proceeds from notes payable	1,800,000	-	
Proceeds from convertible debentures	-	550,000	1,000,000
Payments on capital leases	(105,387)	(105,784)	(91,511)
Deferred financing fees	(82,441)	(92,625)	
Proceeds from exercise of stock options	-	-	34,350
Payments on convertible debentures	(443,000)	-	
Subscription receivable-common stock	-	15,179	
	-----	-----	-----
Net cash provided by financing activities of continuing operations	1,169,172	666,770	2,542,320
	-----	-----	-----
NET CASH USED IN DISCONTINUED OPERATIONS	(57,298)	(112,143)	
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	235,943	195,196	240,000
Cash and cash equivalents at beginning of year	269,313	74,117	73,860
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 505,256	\$ 269,313	\$ 74,117
	=====	=====	=====
SUPPLEMENTAL INFORMATION AND SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES			
Conversion of convertible debenture and accrued interest to common stock	\$ 109,197	\$ 531,825	\$
Fair value of warrants issued with debt	70,003	62,704	736,450

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Debt issued with embedded beneficial conversion feature	-	114,154	667,59
Exercise of stock options in exchange for retirement of 100,000 common shares	-	70,000	
Conversion of note payable shareholder to note payable related party	-	-	346,00
Conversion of convertible note to common stock	-	-	(1,000,00
Common stock issued for acquisition of Dial Thru International	-	-	1,031,20
Common stock issued for acquisition of Rapid Link	-	-	468,00
Cash paid for interest	35,000	-	11,17

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

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### DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED STATEMENTS

##### NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

###### Organization

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Dial Thru International Corporation and subsidiaries ("DTI" or the "Company"), (formerly ARDIS Telecom & Technologies, Inc., "Ardis" and formerly Canmax, Inc., "Canmax"), was incorporated on July 10, 1986 under the Company Act of the Province of British Columbia, Canada. On August 7, 1992, the Company renounced its original province of incorporation and elected to continue its domicile under the laws of the State of Wyoming, and on November 30, 1994, its name was changed to Canmax Inc. On February 1, 1999, this predecessor company reincorporated under the laws of the State of Delaware and changed its name to ARDIS Telecom & Technologies, Inc.

On November 2, 1999, the Company acquired substantially all of the business and assets of Dial Thru International Corporation, a California corporation, along with the rights to the name "Dial Thru International Corporation." On January 19, 2000, the Company changed its name from ARDIS Telecom & Technologies, Inc. to Dial Thru International Corporation. DTI is a facilities-based, global Internet Protocol ("IP") communications company providing connectivity to international markets experiencing significant demand for IP enabled services. DTI provides a variety of international telecommunications services targeted to small and medium sized enterprises ("SME's") that include the transmission of voice and data traffic and the provision of Web-based and other communications services. The Company also sells telecommunications services for both the foreign and domestic termination of international long distance traffic into the wholesale market. DTI utilizes Voice over Internet Protocol ("VoIP") packetized voice technology (and other compression techniques) to improve both cost and efficiencies of telecommunication transmissions, and are developing a private VoIP network. DTI utilizes state-of-the-art digital fiber optic cable, oceanic cable transmission facilities, international satellites and the Internet to transport our communications.

###### Nature of Business

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During 1998 and 1999, the Company's operations included mainly sales and distribution of prepaid domestic and international calling cards to



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wholesale and retail customers. In November 1999 with the acquisition of Dial Thru International Corporation, the Company changed its focus from prepaid calling cards to becoming a full service, facility-based provider of communication products to small and medium size businesses, both domestically and internationally. The Company currently provides a variety of international and domestic communication services including international re-origination and dial thru, Internet voice and fax services, e-Commerce solutions and other value-added communication services, using its VoIP Network to effectively deliver the products to the end user.

In addition to helping companies achieve savings on long-distance voice and fax calls by routing calls over the Internet or the Company's private network, the Company also offers new opportunities for existing Internet Service Providers ("ISPs") who want to expand into voice services and private corporate networks seeking to lower long-distance costs.

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To further enhance its product offerings and accelerate its growth plans, in October 2001, the Company acquired certain assets and liabilities of Rapid Link, USA, Inc. ("Rapid Link USA") and 100% of the common stock of Rapid Link Telecommunications, GmbH, ("Rapid Link Germany") a German Company, from Rapid Link, Incorporated ("Rapid Link"). Rapid Link is a leading provider of high quality integrated data and voice communications services to both wholesale and retail customers around the world. Rapid Link's global VoIP network reaches thousands of retail customers, primarily in Europe and Asia. The acquisition enhanced the Company's product offerings and rapidly expanded the Company's VoIP strategy due to the engineering and operational expertise acquired in the transaction. During 2003, management decided to discontinue its continued financial support of Rapid Link Germany and on August 1, 2003, Rapid Link Germany received approval for its insolvency filing. Accordingly, the operations of Rapid Link Germany have been reflected as discontinued operations in the accompanying financial statements for all periods presented.

### Financial Condition

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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 its ability to raise additional capital. The Company has an accumulated deficit of approximately \$47.3 million as of October 31, 2003, as well as a working capital deficit from continuing operations of approximately \$7.5 million. Funding of the Company's working capital deficit, current and future operating losses, and expansion of the Company will require continuing capital investment. Historically, some of the funding of the Company has been provided by a major shareholder. The Company's strategy is to fund these cash requirements through debt facilities and additional equity financing. As of the date of this report:

- 1) the Company obtained additional financing of \$1,250,000 in November 2002, a portion of which was used to fully pay the April 11, 2001 convertible debenture with Global Capital Funding Group L.P.
- 2) the Company and GCA Strategic Investment Fund Limited agreed to extend the maturity date of the January 2002 debenture from January 28, 2003 to November 8, 2004.

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- 3) the Company obtained additional financing of \$550,000 in July 2003. Since the beginning of April 2001, the Company has raised \$5.7 million in debt 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 and expansion strategies. 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 the 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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, RDST, Inc., a Texas corporation, Dial Thru.com, Inc., a Delaware corporation, and DTI Com Inc., a California corporation, Dial Thru International Argentina S.A., Dial Thru International Venezuela, C.A., Dial Thru International Corporation, South Africa, and Rapid Link GmbH, a Germany company, which is currently in liquidation. All significant intercompany accounts and transactions have been eliminated.

#### Revenue Recognition

The following describes the Company's revenue recognition policies:

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

Revenues generated by prepaid phone cards are recognized based on minutes of customer usage or upon the expiration of cards containing unused calling time. The Company records payments received in advance for prepaid services as deferred revenue until such related services are provided.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalent deposits are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts. To minimize this risk, the Company places its cash and cash equivalents with high credit quality financial institutions.

#### Accounts Receivable

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when

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determining the collectibility of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

### Property and Equipment

-----

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Equipment held under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the related asset ranging from three to five years. Expenditures for repairs and maintenance are charged to expense as incurred. Major renewals and betterments are capitalized.

### Goodwill and Other Intangible Assets

-----

Effective November 1, 2001, the Company adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and also specifies the criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142, goodwill is no longer amortized but is subject to an impairment test at least annually or more frequently if impairment indicators arise. In accordance with SFAS No. 142, the Company performed annual impairment tests of goodwill in the fourth quarters of fiscal 2003 and 2002. The results of both impairment tests indicated goodwill was not impaired. Goodwill, net of accumulated amortization, was \$1,796,917 at October 31, 2003 and 2002. Had the Company not amortized goodwill for the year ended October 31, 2001, net loss would have been \$2,512,789, and loss per share would have been \$0.23.

### Valuation of Long-Lived Assets

-----

Effective November 1, 2002, the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121") and accounting and reporting provisions of Accounting Principles Bulletin Opinion 30, "Reporting the Results of Operations" for a disposal of a segment. The primary objective of SFAS 144 is to develop one accounting model based on the framework established in SFAS 121 for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held for sale. SFAS 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would

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indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if an impairment is indicated by its carrying value not being recoverable through undiscounted cash flows. The impairment loss is the difference between the carrying amount and the fair value of the asset estimated using discounted cash flows. Long-lived assets held for sale are reported at the lower of cost or fair value less costs to sell. During fiscal 2002, the Company wrote down certain property and equipment held for resale. The property and equipment was written down by \$320,307 to \$0, its estimated fair value.

### Loss Per Share

Loss per share is computed using the weighted average number of shares of common stock outstanding during each year. Diluted loss per share is computed using the weighted average number of shares of common stock outstanding during each year and common equivalent shares consisting of stock options, warrants, and convertible debentures (using the treasury stock method) to the extent they are dilutive.

The shares issuable upon the exercise of stock options, warrants and convertible debentures are excluded from the calculation of net loss per share for each year as their effect on net loss for each year presented would be antidilutive. At October 31, 2003, there are 9,410,197 shares potentially issuable from outstanding stock options, warrants and convertible debentures.

### Income Taxes

The Company utilizes the asset and liability approach to financial accounting and reporting for income taxes. Deferred income taxes and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are recorded when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

### Estimates and Assumptions

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

### Fair Market Value of Financial Instruments

The carrying amount for current assets and liabilities, and long-term debt is not materially different than fair market value because of the short maturity of the instruments and/or their respective interest rate amounts.

### Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with 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,

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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, no compensation cost has been recognized for its employee stock options in the financial statements during the years ended October 31, 2003, 2002 and 2001 as the fair market value on the grant date approximates the exercise price. 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 the years ended October 31, 2003, 2002 and 2001 would have been as follows:

	2003	2002	2001
	-----	-----	-----
Net loss, as reported	\$ (6,622,311)	\$ (4,684,180)	\$ (2,684,306)
Add: Stock-based employee compensation expense included in reported net loss	-	-	-
Deduct: Stock-based employee compensation expense determined under the fair value based method	(252,040)	(343,700)	(266,067)
	-----	-----	-----
Pro forma net loss	\$ (6,874,351)	\$ (5,027,880)	\$ (2,950,373)
	=====	=====	=====
Net loss per share - basic and dilutive, as reported	\$ (0.41)	\$ (0.34)	\$ (0.25)
	=====	=====	=====
Net loss per share - basic and dilutive, pro forma	\$ (0.43)	\$ (0.36)	\$ (0.27)
	=====	=====	=====

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. Because options vest over a period of several years and additional awards are generally made each year, the pro forma information presented above is not necessarily indicative of the effects on reported or pro forma net earnings or losses for future years.

The value of all options and warrants for shares of the Company's common stock to employees of the Company has been determined under the market value method using Black-Scholes valuation principles and the following assumptions:

	2003	2002	2001
	-----	-----	-----
Risk-free interest rate	3%	4%	5%
Expected dividend yield	0%	0%	0%
Expected lives	3 years	5 years	4 years
Expected volatility	126-221%	99% - 157%	133% - 159%

### Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"), sets forth rules for the reporting and display of comprehensive income (loss) (net income (loss) plus all other changes in net assets from non owner sources) and its components in the financial statements. At October 31, 2002 and 2001 the major component of other comprehensive income (loss) consisted of an unrealized loss from currency translation, which is stated as a component

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of shareholders' (deficit) equity.

### Foreign Currency Translation and Foreign Currency Transactions

The Company's foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. Monetary assets and liabilities of subsidiaries domiciled outside the United States are translated at rates of exchange existing at the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Revenues and expenses are translated at average rates of exchange prevailing during the year. The resulting translation adjustments are recorded as a separate component of shareholders' deficit. Foreign currency transactions resulting in gains and losses are recorded in the Statement of Operations.

### Reclassifications

Certain reclassifications were made to the 2002 and 2001 consolidated financial statements to conform to the current year presentation.

### NOTE 3 - RAPID LINK ACQUISITION

On October 12, 2001, DTI completed the acquisition of certain assets and liabilities of Rapid Link USA and 100% of the common stock of Rapid Link Germany, from Rapid Link. The acquisition was accounted for under the purchase method of accounting and accordingly, the results of the businesses acquired from Rapid Link have been included in operations of the Company in the consolidated financial statements from the date of acquisition. Rapid Link is a provider of high quality integrated data and voice communications services to both wholesale and retail customers around the world. The aggregate purchase price was \$2,116,481, including \$1,450,000 in cash, common stock valued at \$468,000, and an additional \$198,481 in acquisition related costs. The value of the 600,000 common shares was determined based on the closing market price of DTI's common shares on October 12, 2001. The value of the common stock is guaranteed by DTI to be no less than \$300,000 at the time of the effectiveness of the Registration of the shares. As of the effectiveness of the Registration Statement relating to the shares, completed on March 28, 2002, the value of the common stock was \$210,000. The incremental amount will be paid in stock and will not change the total purchase price paid for the Rapid Link acquisition.

The fair value of assets and liabilities acquired consisted of:

Cash	\$	152,000
Accounts Receivable		485,645
Fixed Assets		4,187,647
Intangible and others		1,030,453
Accrued liabilities		(833,236)
Accounts Payable and other		(1,603,485)
Deferred revenue		(612,758)
Capital leases and other debt		(690,266)
		-----
	\$	2,116,000
		=====

The following unaudited pro-forma consolidated results of operations for the year ended October 31, 2001 assumes that the acquisition had occurred on November 1, 2000:

Unaudited  
Year ended

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	October 31, 2001
	-----
Revenues	\$ 32,933,450
	=====
Net loss	\$ (8,734,575)
	=====
Net loss per common share (basic and diluted)	\$ (0.76)
	=====
Weighted average common shares outstanding (basic and diluted)	11,500,115
	=====

NOTE 4 - DISCONTINUED OPERATIONS

On August 1, 2003, the Company's German Subsidiary, Rapid Link Germany, received approval for its insolvency filing. Rapid Link Germany has been turned over to a trustee who is responsible for liquidating the entity. At October 31, 2003, certain long-lived assets of Rapid Link Germany have been written down to their fair value. Assets and liabilities of Rapid Link Germany are categorized on the Consolidated Balance Sheets as Discontinued Operations. Operations of Rapid Link Germany for fiscal years 2003, 2002 and 2001 are categorized on the Consolidated Statements of Operations as Discontinued Operations.

The following table presents selected balance sheet information for Rapid Link Germany at October 31:

	2003	2002
	-----	-----
Current Assets		
Cash	\$ 164,878	\$ 219,555
Trade accounts receivable, net	416,013	404,338
Other current assets	192,917	20,150
	-----	-----
Total current assets	773,808	644,043
	-----	-----
Current liabilities		
Current portion of capital lease obligations	144,643	131,670
Trade accounts payable	2,612,864	1,739,061
Accrued liabilities	86,877	16,225
Deferred revenue	422,905	787,182
	-----	-----
Total current liabilities	3,267,289	2,674,138
	-----	-----
Net current liabilities of discontinued operations	\$ 2,493,481	\$ 2,030,095
	=====	=====
Property and equipment		
Telecom Equipment	\$ -	\$ 399,355
Furniture, Fixtures, Equipment	-	29,367
Computers	-	52,060
Software	-	302,833
Leasehold Improvements	-	15,403
Accumulated depreciation and amortization	-	(324,477)
	-----	-----
Total property and equipment, net	-	474,541
	-----	-----
Other assets and long-term liabilities		

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Capital lease obligations	(9,644)	(60,816)
Other	251,978	328,399
	-----	-----
Total other assets, net	242,334	267,583
	-----	-----
Net long-term assets of discontinued operations	\$ 242,334	\$ 742,124
	=====	=====

The following table presents summary operating results for Rapid Link Germany for the years ended October 31:

	2003	2002	2001
	-----	-----	-----
Revenues	\$ 3,598,007	\$ 4,559,411	\$ 360,044
Costs and expenses	4,801,472	5,717,985	516,839
	-----	-----	-----
Loss from discontinued operations	\$ (1,203,465)	\$ (1,158,574)	\$ (156,795)
	=====	=====	=====

### NOTE 5 - ADVERTISING CREDITS

On September 8, 2000, the Company issued 914,285 shares (which are fully vested and nonforfeitable) of the Company's common stock in exchange for \$3.2 million face value of advertising credits. These credits were issued by Millenium Media Ltd. and Affluent Media Network, national advertising agencies and media placement brokers. The Company recorded the advertising credits on the date the shares were issued, September 8, 2000, using the Company's quoted common stock price of \$3.3125, totaling \$3,028,569. During the fiscal year ended October 31, 2000, the Company recorded an impairment charge of \$575,542 to reduce the credits to their estimated fair value, and sold a portion of the credits for cash, reducing the balance by an additional \$76,349. The estimated fair value was established at the end of fiscal 2000 using a discount of 25% off the face value, which was based on management's estimate of the dollar value of the credits to be used in settling various outstanding trade obligations. Such credits can be used by the Company to place electronic media and periodical advertisements. The primary use for the media credits was to advertise products and services domestically. Although the Company has explored product offerings that it believed would benefit from the form of advertising described herein, the Company's limited financial resources have delayed the development of those products and it is unclear whether the Company will have the resources necessary to develop products that could effectively use these advertising credits. Furthermore, management has received limited cooperation from its media placement brokers regarding the use of the credits in recent months, and therefore has begun contacting the actual underlying provider of the advertising. This contact has not provided any certainty as to the Company's ability to use the credits. Therefore, the Company has written off the remaining \$2,376,678 of the advertising credits during the year ended October 31, 2003.

### NOTE 6 - SETTLEMENT OF LEGAL/CARRIER DISPUTES

During the quarter ended January 31, 2001, the Company settled a pending lawsuit with Star Telecommunications, Inc. In conjunction with the settlement the Company received a carrier usage credit in the amount of \$780,000 for previous services and future services comprised of one year of no charge domestic carrier services for transporting traffic between Los



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Angeles, New York and Miami. The \$780,000 credit for past services is recorded as Other Income Related To Settlement Of Disputes in the accompanying statement of operations for the year ended October 31, 2001. The Company also received 1,100,000 shares of common stock of Star Telecommunications that were recorded at fair value totaling \$446,820 recorded as Other Income Related To Settlement Of Disputes, which were subsequently written off as Write Off Of Investment In Marketable Securities during the year ended October 31, 2001. On March 13, 2001, Star Telecommunications filed for Chapter 11 reorganization. The Company will not be able to utilize its carrier services agreement with Star Telecommunications and placed no value on the future services.

### NOTE 7 - NOTES PAYABLE

#### Note Payable with Global Capital Funding Group, L.P.

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In November 2002, the Company executed a 12% note payable (the "GC-Note") with Global Capital Funding Group, L.P., which provided financing of \$1,250,000. The GC-Note's maturity date is November 8, 2004. The GC-Note is secured by \$1,518,267 of certain property and equipment. In connection with the GC-Note, the Company paid \$47,441 as financing fees, which were capitalized and are being amortized over the life of the GC-Note. For the year ended October 31, 2003, the Company recorded approximately \$24,000 as interest expense relating to these deferred financing fees. The Company also issued to the holder of the GC-Note warrants to acquire an aggregate of 500,000 shares of common stock at an exercise price of \$0.14 per share, which expire on November 8, 2007. The Company recorded debt discount of approximately \$46,000, the fair value of the warrants, relating to the issuance of the warrants. The Company is amortizing the debt discount over the two year life of the GC-Note. For the year ended October 31, 2003, the Company recorded approximately \$23,000 as interest expense relating to the warrants.

#### Note Payable with GCA Strategic Investment Fund Limited

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In July 2003, the Company executed a 10% note payable (the "GCA-Note") with GCA Strategic Investment Fund Limited, which provided financing of \$550,000. The GCA-Note's maturity date was December 23, 2003 and is unsecured. In the event the GCA-Note is not repaid in full within 10 days of the maturity date, the terms of the GCA-Note shall become the same as those of the Second Debenture (see Note 8). In the event the terms of the GCA-Note become the same as the Second Debenture, the GCA-Note would have a beneficial conversion feature. In accordance with EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF-98-5"), the intrinsic value of the beneficial conversion feature has been calculated as approximately \$104,000 at the commitment date using the stock price as of that date. The value of the beneficial conversion feature will only be recorded at the date in which the future event occurs, which, in this case, is 10 days after the maturity date of the note. The note matured during December 2003 and, accordingly, since the GCA-Note remained unpaid as of January 2004, the Company replaced the note with a convertible debenture. Upon the replacement of the GCA-Note with a convertible debenture, the Company recorded the debt discount of \$104,000 and will amortize it over the life of the new convertible debenture (see Note 19). In connection with the GCA-Note, the Company paid \$35,000 as financing fees, which were capitalized and are being amortized over the life of the GCA-Note. For the year ended October 31, 2003, the Company recorded approximately \$22,000 as interest expense relating to these deferred financing fees. The Company also issued to the holder of the GCA-Note warrants to acquire an aggregate of 100,000 shares of common stock at an exercise price of \$0.14 per share, which expire on July 24, 2008. The

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Company recorded a debt discount of approximately \$7,000, the fair value of the warrants, relating to the issuance of the warrants. For the year ended October 31, 2003, the Company recorded approximately \$4,000 as interest expense relating to the warrants.

### NOTE 8 - CONVERTIBLE DEBT

#### Convertible Debenture with Global Capital Funding Group L.P.

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In April 2001, the Company executed a 6% convertible debenture (the "Debenture") with Global Capital Funding Group L.P. ("Global"), which provided financing of \$1,000,000. In November 2002, Global converted \$50,875 of debt and \$4,859 of accrued interest into approximately 724,000 shares of the Company's common stock. In November 2002, the Debenture's outstanding balance of \$443,000 was paid in full following the issuance of the GC-Note (see Note 7) and the remaining unamortized deferred financing fees of approximately \$131,000 on the Debenture were recorded as interest expense.

#### Convertible Debenture with GCA Strategic Investment Fund Limited

-----

In January 2002, the Company executed a 6% convertible debenture (the "Second Debenture") with GCA Strategic Investment Fund Limited ("GCA"), which provided financing of \$550,000. The Second Debenture's original maturity date was January 28, 2003. The Second Debenture is secured by certain property and equipment held for sale. The conversion price is equal to the lesser of (i) 100% of the volume weighted average of sales price as reported by the Bloomberg L.P. of the common stock on the last trading day immediately preceding the Closing Date and (ii) 85% of the average of the three lowest volume weighted average sales prices as reported by Bloomberg L.P. during the twenty Trading Days immediately preceding but not including the date of the related Notice of Conversion (the "Formula Conversion Price"). In an event of default the amount declared due and payable on the Debenture shall be at the Formula Conversion Price. In connection with the Second Debenture, the Company paid \$92,625 in financing fees, which were capitalized and amortized over the original life of the Second Debenture. During the year ended October 31, 2003, the Company recorded approximately \$23,000 as interest expense relating to these financing fees. The Company calculated the beneficial conversion feature embedded in the Second Debenture in accordance with EITF 98-5 and recorded approximately \$114,000 as debt discount. This debt discount was amortized over the original life of the Second Debenture. During the year ended October 31, 2003, the Company recorded approximately \$28,000 as interest expense relating to the amortization of the debt discount. The Company also issued to the holder of the debenture warrants to acquire an aggregate of 50,000 shares of common stock at an exercise price of \$0.41 per share, which expire on January 28, 2007. The Company recorded debt discount of approximately \$17,000 related to the issuance of the warrants. The Company determined the debt discount by allocating the relative fair value to the Second Debenture and the warrants, and the Company amortized the debt discount over the original life of the Second Debenture. For the year ended October 31, 2003, the Company recorded approximately \$4,000 as interest expense relating to the warrants.

In January 2003, the Company and GCA agreed to extend the maturity date of the Second Debenture to November 8, 2004. In consideration for this extension, in February 2003, the Company adjusted the exercise price of the previously issued warrants to \$0.21 per share. The Company also issued to the holder of the Second Debenture warrants to purchase an additional 100,000 shares of common stock also at an exercise price of \$0.21 per share, which expire on February 8, 2008. The Company recorded additional debt discount of approximately \$17,000 related to the warrant exercise price

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adjustment and the issuance of the new warrants. The Company is amortizing the additional debt discount over the Second Debenture's extension period. For the year ended October 31, 2003, the Company recorded approximately \$6,000 as interest expense relating to the warrants.

During the year ended October 31, 2003, GCA converted \$50,000 of debt and \$3,463 of accrued interest into approximately 374,000 shares of the Company's common stock, in accordance with the debt conversion terms.

### NOTE 9 - NOTES PAYABLE - RELATED PARTY

In October 2001, the Company executed 10% convertible notes (the "Notes") with three executives of the Company, which provided financing in the aggregate principal amount of \$1,945,958. The original maturity date of each note was October 24, 2003. In January 2003, the Company extended the maturity date of each note to February 24, 2004. The Notes are secured by certain Company assets. Each Note is convertible into the Company's common stock at the option of the holder at any time. The conversion price is equal to the closing bid price of the Company's common stock on the last trading day immediately preceding the conversion. The Company has calculated the beneficial conversion feature embedded in the Notes in accordance with EITF 98-5 and recorded debt discount of approximately \$171,000 which is being amortized over two years. The Company also issued to the holders of the Notes warrants to acquire an aggregate of 1,945,958 shares of common stock at an exercise price of \$0.78 per share, which expire on October 24, 2006. Additional debt discount of approximately \$657,000 was recorded during the fourth quarter of fiscal 2001 relating to these warrants. The Company determined the additional debt discount by allocating the relative fair value to the Notes and the warrants. The Company is amortizing the additional debt discount over the life of the Notes. For the year ended October 31, 2003, the Company recorded approximately \$410,000 of interest expense relating to the amortization of the debt discount. In January 2002, an additional \$102,433 was added to the Notes in exchange for an existing note payable. The Company also issued to the holder of the Notes warrants to acquire an additional 102,433 shares of common stock at an exercise price of \$0.75, which expire on January 28, 2007. Additional debt discount, related to these warrants, of approximately \$24,000 was recorded during the first quarter of fiscal 2002. The Company determined the additional debt discount by allocating the relative fair value to the Notes and the warrants. The Company is amortizing the additional debt discount over the remaining life of the Notes. For the year ended October 31, 2003, the Company recorded approximately \$14,000 of interest expense relating to the warrants. In July 2002, an additional \$300,000 was added to the Notes, representing incremental monies loaned by a shareholder. The Company also issued to the holder of the Notes warrants to acquire an additional 300,000 shares of common stock at an exercise price of \$0.75, which expire on July 8, 2007. Additional debt discount of approximately \$22,000 was recorded as interest expense during the third quarter of fiscal 2002 relating to these warrants. The Company determined the additional debt discount by allocating the relative fair value to the Notes and the warrants.

The future maturities of the Company's notes payable and convertible debt by fiscal year as follows (see Notes 7,8):

Year ending October 31,		
	2004	\$ 2,898,401
	2005	1,750,000
		-----
Total future maturities		4,648,401
Less: unamortized debt discount		(36,441)
		-----

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Total future maturities, net of amortized debt discount	\$ 4,611,960 =====
------------------------------------------------------------	-----------------------

### NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at October 31, 2003 and 2002:

	2003	2002
	-----	-----
Telephone switch equipment	\$ 4,411,325	\$ 4,282,349
Leasehold improvements	223,577	301,258
Furniture and fixtures	232,916	227,551
Computer equipment	797,005	752,899
Computer software	536,428	690,939
	-----	-----
	6,201,251	6,254,996
Less: accumulated depreciation and amortization	(4,860,265)	(3,525,874)
	-----	-----
	\$ 1,340,986	\$ 2,729,122
	=====	=====

At October 31, 2003 and 2002, the gross amount of capital lease assets and related accumulated amortization recorded under capital leases were as follows:

	2003	2002
	-----	-----
Telephone switch equipment	\$ 455,728	\$ 455,728
Less: accumulated amortization	(297,330)	(228,540)
	-----	-----
	\$ 158,398	\$ 227,188
	=====	=====

Amortization of assets held under capital leases is included with depreciation expense. Depreciation and amortization expense totaled \$1,338,351, \$2,158,135 and \$781,331 in 2003, 2002 and 2001, respectively.

### NOTE 11 - PROPERTY AND EQUIPMENT HELD FOR SALE

Property and equipment held for sale represents internally constructed equipment for the prepaid telecommunications industry. On October 31, 2000, the Company entered into an Asset Purchase Agreement to sell this technology for \$1 million, however the sale was not consummated. The Company will continue to search for a buyer for the asset, and is currently utilizing the assets as collateral against its \$550,000 convertible debenture. As the potential ability to sell this equipment is uncertain, this equipment was written-off during the year ended October 31, 2002.

### NOTE 12 - STOCK OPTIONS AND WARRANTS

#### Warrant Issuances to Employees

Employee warrant activity for the three years ended October 31, 2003 was as follows:

	Number	Warrant	Weighted Average
--	--------	---------	---------------------

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	of Shares	Price Per Share	Exercise Price
	-----	-----	-----
Warrants outstanding at October 31, 2000	910,000	\$0.53 - 1.44	\$ 1.09
Warrants granted	1,945,958	0.78	0.78
Warrants exercised	-	-	-
Warrants canceled	(100,000)	0.53	0.53
	-----	-----	-----
Warrants outstanding at October 31, 2001	2,755,958	0.53 - 1.44	0.89
Warrants granted	402,433	0.75	0.75
Warrants exercised	-	-	-
Warrants canceled	(145,000)	1.44	1.44
	-----	-----	-----
Warrants outstanding at October 31, 2002	3,013,391	0.75 - 1.44	0.83
Warrants granted	-	-	-
Warrants exercised	-	-	-
Warrants canceled	(365,000)	0.53 - 0.81	0.62
	-----	-----	-----
Warrants outstanding at October 31, 2003	2,648,391	\$0.75 - 1.44	\$ 0.83
	=====	=====	=====

The warrants issued to employees that were exercisable at the years ended October 31, 2003, 2002 and 2001 were 2,648,000, 1,701,000 and 287,000, respectively.

Warrant Issuances to Non-Employees

-----  
Non-Employee warrant activity for the three years ended October 31, 2003 was as follows:

	Number of Shares	Warrant Price Per Share	Weighted Average Exercise Price
	-----	-----	-----
Warrants outstanding at October 31, 2000	748,800	\$0.29 - 3.50	\$ 1.49
Warrants granted	575,000	0.89 - 3.00	2.80
Warrants exercised	(100,500)	0.01 - 0.53	0.21
Warrants canceled	(20,000)	0.45 - 3.00	0.45
	-----	-----	-----
Warrants outstanding at October 31, 2001	1,203,300	0.01 - 3.50	1.65
Warrants granted	50,000	0.40	0.40
Warrants exercised	-	-	-
Warrants canceled	(365,800)	0.53 - 0.88	0.74
	-----	-----	-----
Warrants outstanding at October 31, 2002	887,500	0.01 - 3.50	1.95
Warrants granted	700,000	0.14 - 0.21	0.15
Warrants exercised	-	-	-
Warrants canceled	-	-	-
	-----	-----	-----

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Warrants outstanding at			
October 31, 2003	1,587,500	\$0.01 - 3.50	\$ 1.16
	=====	=====	=====

The majority of the warrants issued to non-employees during fiscal year 2003, 2002 and 2001 were issued in connection to debt financing (see Notes 7,8). The warrants issued to non-employees that were exercisable at October 31, 2003, 2002 and 2001 totaled 1,587,500, 887,500 and 1,203,000, respectively.

### Stock Options

#### 2002 Equity Incentive Plan

The Company adopted the 2002 Equity Incentive Plan ("Incentive Plan"), at the Company's annual shareholder meeting in May 2002. The Incentive Plan authorized the Board of Directors to grant up to 2,000,000 options to purchase common shares of the Company. The maximum number of shares of common stock which may be issuable under the Incentive Plan to any individual plan participant is 500,000 shares. All options granted under the Incentive Plan have vesting periods up to a maximum of five years. The exercise price of an option granted under the Incentive Plan shall not be less than 85% of the fair value of the common stock on the date such option is granted.

#### Amended and restated 1990 Stock Option Plan

The 1990 Stock Option Plan ("1990 Stock Option Plan"), as amended, authorizes the Board of Directors to grant up to 2,300,000 options to purchase common shares of the Company. No options will be granted to any individual director or employee which will, when exercised, exceed 5% of the issued and outstanding shares of the Company. The term of any option granted under the 1990 Stock Option Plan is fixed by the Board of Directors at the time the options are granted, provided that the exercise period may not be longer than 10 years from the date of grant. All options granted under the 1990 Stock Option Plan have up to 10 year terms and have vesting periods that range from 0 to 3 years from the grant date. The exercise price of any options granted under the 1990 Stock Option Plan is the fair market value at the date of grant.

The Company's stock option activity for the three years ended October 31, 2003 was as follows:

	Number of Shares	Option Price Per Share	Weighted Average Exercise Price
	-----	-----	-----
Options outstanding at October 31, 2000	464,100	\$0.30 - 2.50	\$ 0.67
Options granted	1,930,000	0.42 - 1.50	0.55
Options exercised	(33,500)	0.30 - 1.41	0.40
Options canceled	(178,100)	0.40 - 2.50	1.10
	-----	-----	-----
Options outstanding at October 31, 2001	2,182,500	0.30 - 1.50	0.53
Options granted	195,000	0.21 - 0.70	0.27
Options exercised	(175,000)	0.40	0.40
Options canceled	(593,000)	0.30 - 0.78	0.73
	-----	-----	-----

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Options outstanding at October 31, 2002	1,609,500	0.09 - 1.50	0.44
Options granted	187,500	0.11 - 0.18	0.18
Options exercised	-	-	-
Options canceled	(353,000)	0.11 - 1.50	0.43
	-----	-----	-----
Options outstanding at October 31, 2003	1,444,000	\$0.09 - 1.50	\$ 0.41
	=====	=====	=====

The following table summarizes information about employee warrants and stock options outstanding at October 31, 2003:

Range of Exercise Prices	Options/ Warrants Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price of Options/Warrants Outstanding	Options/ Warrants Exercisable	Prices of Options/Warrants Exercisable
-----	-----	----	----	-----	----
\$0.09 - \$0.70	1,407,000	2.82	0.40	890,333	0.41
\$0.75 - \$0.78	2,383,391	3.97	0.75	2,371,724	0.75
\$1.44 - \$1.50	302,000	1.15	1.44	302,000	1.44
	-----	----	----	-----	----
	4,092,391	3.37	0.68	3,564,057	0.72
	=====	====	====	=====	=====

The weighted average grant date fair value of all options and warrants granted to employees during the fiscal year ended October 31, 2003 was \$0.18 a share.

### NOTE 13 - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. There are no deferred tax liabilities as of October 31, 2003 and 2002. Significant components of the Company's deferred tax assets at October 31, 2003 and 2002 are as follows:

	2003	2002
	-----	-----
Deferred tax assets		
Net operating loss carryovers	\$14,527,382	\$13,529,415
Accounts receivable	100,332	172,173
Advertising credits	977,185	190,134
Property and equipment	69,154	132,799
Accrued liabilities	34,918	36,627
	-----	-----
Total gross deferred tax assets	15,708,971	14,061,148
Valuation allowance	(15,708,971)	(14,061,148)
	-----	-----
Net deferred tax assets	\$ -	\$ -
	=====	=====

The increase in the valuation allowance for the years ended October 31, 2003 and 2002 of \$1.6 million and \$2.8 million, respectively, was related

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primarily to a change in U.S. operating loss carryforwards.

At October 31, 2003, the Company has U.S. net operating loss carryforwards for federal income tax purposes of approximately \$43 million, which expire in 2006 through 2023. Utilization of U.S. net operating losses is subject to annual limitations provided for by the Internal Revenue Code. The annual limitation may also result in the expiration of net operating losses before utilization.

Realization of tax benefits depends on having sufficient taxable income within the carryback and carryforward periods. The Company continually reviews the adequacy of the valuation allowance and recognizes these benefits as reassessment indicates that it is more likely than not that the benefits will be realized. Based on pretax losses incurred in recent years, management has established a valuation allowance against the entire U.S. net deferred asset balance.

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Company is obligated under various capital leases for equipment used in operating the business with terms expiring at various dates through 2005. The Company leases its branch office facilities and its corporate office under various noncancelable operating leases with terms expiring at various dates through 2007, and has also entered into various operating leases for equipment used in the Company's business. Rental expense from continuing operations for operating leases was \$474,567, \$400,425 and \$188,553 for the years ended October 31, 2003, 2002 and 2001, respectively.

Future minimum lease payments under noncancelable operating leases and capital leases as of October 31, 2003 are as follows:

	Capital Leases	Operating Leases
	-----	-----
Year ending October 31,		
2004	\$ 146,624	\$ 433,078
2005	-	201,641
2006	-	168,854
2007	-	54,595
	-----	-----
Total minimum lease pmts	146,624	\$ 858,168
		=====
less: Amt representing interest	(484)	
	-----	
Present value of net minimum capital lease payment	146,140	
Less: current installments of obligations under capital lease	(146,140)	
	-----	
Obligations under capital leases, excluding current installments	\$ -	
	=====	

### Legal Proceedings

-----  
The Company is not currently a party to any material 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



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expenditure of significant financial and managerial resources.

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

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

The State of Texas ("State") performed a sales tax audit of the Company's former parent, Canmax Retail Systems ("Canmax"), for the years 1995 to 1999. The State determined that the Company did not properly remit sales tax on certain transactions, including asset purchases and software development projects that Canmax performed for specific customers. The Company's current and former managements filed exceptions, through its outside sales tax consultant, to the State's audit findings, including the non-taxable nature of certain transactions and the failure of the State to credit the Company's account for sales tax remittances. In correspondence from the State in June 2003, the State agreed to consider offsetting remittances received by Canmax during the audit period. The State has refused to consider other potential offsets. Based on the correspondence with the State, during the fiscal year ended October 31, 2003, Management's estimate of the potential liability has been recorded at \$350,000 and is included in the accompanying consolidated balance sheet in "Deposits and other payables"; however, management cannot provide assurance that the ultimate liability will not be greater. The Company is continuing to pursue its options to appeal the decision by the State. Furthermore, the Company is aggressively pursuing the collection of unpaid sales taxes from former customers of Canmax.

### NOTE 15 - BENEFIT PLAN

Effective January 1, 1994, the Company implemented a 401(k) Profit Sharing Plan for all employees of the Company. The Plan provides for voluntary contributions by employees into the Plan subject to the limitations imposed by the Internal Revenue Code Section 401(k). The Company may match employee contributions to a discretionary percentage of the employee's contribution. The Company's matching funds are determined at the discretion of the Board of Directors and are subject to a seven-year vesting schedule from the date of original employment. The Company made no matching contributions during the years ended October 31, 2003, 2002 and 2001.

### NOTE 16 - BUSINESS AND CREDIT CONCENTRATIONS

During the year ended October 31, 2003, the Company provided wholesale services to a customer who accounted for approximately 11% of revenues. During the year ended October 31, 2002, the Company provided wholesale services to a customer who accounted for approximately 14% of revenues.

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During the year ended October 31, 2001, the Company provided wholesale services to a customer who accounted for approximately 11% of revenues.

Information regarding the Company's domestic and foreign revenues is as follows:

	Africa -----	All other foreign countries -----	Domestic -----	Total -----
Fiscal 2001	\$ 2,953,817	\$ 2,116,320	\$ 1,571,681	\$ 6,641,818
Fiscal 2002	1,392,384	1,184,239	15,832,026	18,408,649
Fiscal 2003	1,315,793	1,349,067	14,989,934	17,654,794

No individual foreign country represented more than 10 percent of revenue or more than 10 percent of long lived assets for any period presented.

### NOTE 17 - QUARTER-BY-QUARTER COMPARISON

Summarized unaudited quarterly financial data for the years ended October 31, 2003, 2002 and 2001 are as follows:

	First -----	Second -----	Third -----	Fourth -----
2003 Quarters:				
Revenues, net	\$ 4,318,055	\$ 4,609,051	\$ 4,569,165	\$ 4,158,523
Operating loss	(436,798)	(734,977)	(166,632)	(2,713,795)
Loss from continuing operations	(828,386)	(975,444)	(397,855)	(3,217,161)
Income (loss) from discontinued operations	(253,727)	(316,349)	(949,482)	316,093
Net loss	(1,082,113)	(1,291,793)	(1,347,337)	(2,901,068)
Loss per share-continuing operations	(0.05)	(0.06)	(0.03)	(0.20)
Income (loss) per share-discontinued operations	(0.02)	(0.02)	(0.06)	0.03
2002 Quarters:				
Revenues, net	5,241,466	4,787,785	4,248,348	4,131,050
Operating loss	(792,634)	(695,527)	(608,975)	(158,059)
Loss from continuing operations	(1,072,322)	(1,018,054)	(960,137)	(475,093)
Loss from discontinued operations	(213,571)	(221,760)	(122,478)	(600,765)
Net loss	(1,285,893)	(1,239,814)	(1,082,615)	(1,075,858)
Loss per share-continuing operations	(0.08)	(0.07)	(0.07)	(0.03)
Income (loss) per share-discontinued operations	(0.02)	(0.02)	(0.01)	(0.03)
2001 Quarters:				
Revenues, net	890,620	903,639	1,654,079	3,193,480
Operating loss	(991,223)	(682,600)	(497,762)	(1,001,708)
Income (loss) from continuing operations	382,191	(1,193,171)	(594,871)	(1,121,660)
Loss from discontinued operations	-	-	-	(156,795)
Net (loss) income	382,191	(1,193,171)	(594,871)	(1,278,455)
Loss per share-continuing operations	0.03	(0.11)	(0.05)	(0.10)
Income (loss) per share-				

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discontinued operations

-

-

-

(0.02)

### NOTE 18 - CAPITAL STOCK

During the year ended October 31, 2003, a holder of one of the Company's Debentures converted \$53,463 of debt and accrued interest into approximately 374,000 shares of the Company's stock (see Note 8).

During the year ended October 31, 2003, a holder of one of the Company's Debentures converted \$55,734 of debt and accrued interest into approximately 724,000 shares of the Company's stock (see Note 8).

During the year ended October 31, 2002, a holder of one of the Company's Debentures converted \$531,487 of debt and accrued interest into approximately 2,856,000 shares of the Company's stock (see Note 8).

In November 2001, the Company issued 175,000 shares in connection with the exercise of options. The exercise price was paid with 100,000 shares of common stock, which were subsequently retired.

In November 2001, the Company issued 25,000 shares of common stock for investor relations services and were recorded at the stock's fair market value.

In October 2001, the Company issued 600,000 shares in connection with the Company's purchase of certain assets and executory contracts of Rapid Link, Inc, valued at \$468,000 at the date of issuance (see Note 3).

In March 2001, the Company issued 1,000,000 shares of common stock as additional consideration for the purchase of Dial Thru International in accordance with terms of the Asset Purchase Agreement with the seller.

In March 2001, the Company's \$1 million convertible note with accredited investors was converted into 400,000 shares of common stock. In connection with the conversion, the Company issued additional 150,000 warrants to the investors and recorded deferred financing fees of \$96,230.

In December 2000, the Company issued 90,000 shares to Scotty Cook, former Director of the Company, as compensation for consulting services performed for the Company. The Company recorded \$101,250 as consulting fees for the year ending October 31, 2001.

During the years ended October 31, 2003, 2002 and 2001, options and warrants to purchase 0, 175,000 and 134,000, respectively, shares of common stock were exercised.

The following table describes stock reserved for future issuances at October 31, 2003:

	# Shares
Options	1,444,000
Warrants	4,235,891
Convertible debt (1)	20,815,751
Shares to be issued in connection with acquisition (see Note 3)	529,412
	27,025,054

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- (1) Assumes conversion on October 31, 2003 under the terms of the related agreements

### NOTE 19 - SUBSEQUENT EVENTS

During January 2004, the Company's GCA-Note was replaced by a convertible debenture as per the terms of the related note agreement (see Note 7).

### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AS TO SCHEDULE

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Board of Directors and Stockholders  
Dial Thru International Corporation

In connection with our audit of the consolidated financial statements of Dial Thru International Corporation and Subsidiaries referred to in our report dated December 12, 2003, we have also audited Schedule II for the years ended October 31, 2003 and 2002. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/ KBA GROUP LLP

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KBA GROUP LLP  
Dallas, Texas  
December 12, 2003

### REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

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The following report is a copy of a report previously issued by Arthur Andersen LLP ("Andersen"), which report has not been reissued by Andersen.

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of DIAL THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES included in this Form 10-K and have issued our report thereon dated January 9, 2002. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

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ARTHUR ANDERSEN LLP  
Atlanta, Georgia  
January 9, 2002

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DIAL THRU INTERNATIONAL CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the years ended October 31, 2003, 2002 and 2001

	Balance at the beg of period -----	Additions	Deductions	Balance at the end of period -----
2003				
----				
Allowance for doubtful accounts	\$ 506,391 =====	\$ 158,469 =====	\$369,766 (1) =====	\$ 295,094 =====
Impairment provision for advertising credits	\$ 563,932 =====	\$2,376,678 =====	\$ - =====	\$ 2,940,610 =====
2002				
----				
Allowance for doubtful accounts	\$ 228,729 =====	\$ 711,246 =====	\$433,584 (1) =====	\$ 506,391 =====
Impairment provision for advertising credits	\$ 563,932 =====	\$ - =====	\$ - =====	\$ 563,932 =====
2001				
----				
Allowance for doubtful accounts	\$1,025,766 =====	\$ 140,167 =====	\$937,204 (1) =====	\$ 228,729 =====
Impairment provision for advertising credits	\$ 575,542 =====	\$ - =====	\$ 11,610 =====	\$ 563,932 =====

(1) Write offs.

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EXHIBIT INDEX

NO. DESCRIPTION OF EXHIBIT

- 14.1 Code of Business Conduct and Ethics for Employees, Executive Officers and Directors
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of KBA Group LLP
- 23.2 Information Regarding Consent of Arthur Andersen
- 31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934
- 31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) and

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Rule 15d-14(a) of the Securities Exchange Act of 1934

- 32.1 Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
- 32.2 Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350