DIAL THRU INTERNATIONAL CORP
Form 10-Q/A
February 12, 2002

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 2)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Period Ended April 30, 2001

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
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 South Flower, Suite 2950 Los Angeles, California	90017
(Address of principal executive offices)	(Zip Code)

(213) 627-7599
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of June 12, 2001, 11,416,590 shares of common stock, $.001 par value per share, were outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DIAL-THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	(Restated) April 30, 2001 (unaudited)	(Restated) October 31, 2000
CURRENT ASSETS		
Cash and cash equivalents	$ 565,103	$ 73,867
Trade accounts receivable, net of allowance for doubtful accounts of $930,766 at April 30, 2001 and October 31, 2000	467,768	455,819
Prepaid expenses and other	97,243	116,785
Investment in available for sale marketable securities	11,000	-
Total current assets	1,141,114	646,471
PROPERTY AND EQUIPMENT, net	1,319,633	1,539,544
PROPERTY AND EQUIPMENT HELD FOR SALE	320,307	320,307
ADVERTISING CREDITS, net	2,453,027	2,453,027
OTHER ASSETS	193,493	205,473
EXCESS OF COST OVER FAIR VALUE OF NET ASSETS OF COMPANY ACQUIRED, net of accumulated amortization of $165,859 at April 30, 2001 and $104,148 at October 31, 2000	1,906,816	937,327
TOTAL ASSETS	$ 7,334,390	$ 6,102,149

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Current portion of long-term debt, net of debt discount of none and $315,988 at April 30, 2001 and October 31, 2000, respectively	$ -	$ 684,012
Note payable to shareholder	755,958	346,000
Current portion of capital lease obligation	79,293	102,472
Trade accounts payable	2,980,687	3,930,315
Accrued liabilities	149,257	365,765
Deferred revenue	77,005	47,190
Total current liabilities	4,042,200	5,475,754
LONG-TERM DEBT, net of debt discount of $399,439 at April 30, 2001	600,561	-
CAPITAL LEASE OBLIGATION, net of current portion	118,616	118,615
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, 44,169,100 shares authorized; $.001 par value; 11,506,590 shares issued and 11,494,568 shares outstanding at April 30, 2001 and 9,895,090 shares issued and 9,883,068 outstanding at October 31, 2000	11,506	9,895
Additional paid-in capital	36,719,352	33,838,158
Accumulated deficit	(34,080,479)	(33,262,907)

Accumulated other comprehensive income (loss)	(5,416)	(5,416)
Treasury stock, 12,022 common shares at cost	(54,870)	(54,870)
Note receivable - common stock	(17,080)	(17,080)
Total shareholders' equity	2,573,013	507,780
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 7,334,390	$ 6,102,149

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

DIAL-THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED APRIL 30,		SIX MONTHS ENDED APRIL 30,	
	2001	2000	2001	2000
	(Restated)	(Restated)	(Restated)	(Restated)
REVENUES				
Revenues	$ 903,639	$ 2,823,704	$ 1,794,258	$ 6,630,471
Total revenues	903,639	2,823,704	1,794,258	6,630,471
COSTS AND EXPENSES				
Cost of revenue	609,367	3,109,052	1,276,373	7,472,725
Sales & marketing	223,001	278,569	425,575	786,783
Non-cash sales and marketing expense	-	1,937,184	258,616	1,937,184
General & administrative	598,259	1,741,938	1,211,609	2,682,034
Depreciation and amortization	155,612	159,342	302,502	274,447
Total costs and expenses	1,586,239	7,226,085	3,474,675	13,153,173
Operating income (loss)	(682,600)	(4,402,381)	(1,680,417)	(6,522,702)
OTHER INCOME (EXPENSES)				
Financing fees	(159,207)	(240,260)	(475,195)	(240,260)
Interest income (expense), net	(12,730)	(16,899)	(15,514)	20,052
Write off of investment in marketable securities	(435,820)	-	(435,820)	-
Other income related to settlement of disputes	97,186	-	1,789,373	-
Total other income (expense)	(510,571)	(257,159)	862,844	(220,208)
NET LOSS BEFORE INCOME TAXES	(1,193,171)	(4,659,540)	(817,573)	(6,742,910)
PROVISION FOR INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	$(1,193,171)	$(4,659,540)	$ (817,573)	$(6,742,910)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:				
Basic earnings (loss) per share	$ (0.11)	$ (0.55)	$ (0.08)	$ (0.83)

Dilutive impact of stock options, warrants and convertible debentures	-	-	-	-
Diluted earnings (loss) per share	$ (0.11)	$ (0.55)	$ (0.08)	$ (0.83)
SHARES USED IN THE CALCULATION OF PER SHARE AMOUNTS:				
Basic common shares	10,571,756	8,353,496	10,230,024	8,120,228
Dilutive impact of stock options, warrants and convertible debentures	-	-	-	-
Dilutive common shares	10,571,756	8,353,496	10,230,024	8,120,228

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

DIAL-THRU INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED APRIL 30,	
	2001	2000
	(Restated)	(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (817,573)	$(6,742,910)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock and warrants issued for services	258,616	-
Financing fees and amortization of debt discount	333,355	240,260
Non cash interest expense	141,840	-
Write off of investment in marketable securities	435,820	-
Other income related to settlement of disputes	(1,789,373)	-
Compensation related to issuance of stock warrants	-	1,937,184
Depreciation and amortization	302,502	274,447
(Increase) decrease in:		
Trade accounts receivable	(11,949)	11,147
Accounts receivable - other	-	(19,393)
Inventory	-	82,539
Prepaid expenses and other	28,341	89,630
Other assets	10,000	(84,344)
Increase (decrease) in:		
Trade accounts payable	386,441	2,851,966
Accrued liabilities	(216,508)	29,764
Deferred revenue	29,815	(173,834)
Other payable	-	(80,000)
Net cash provided by (used in) operating		

activities	(908,673)	(1,583,544)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(21,215)	(198,630)
Payments on note receivable	-	300,000
Cash in DTI at acquisition date	-	69,137
Net cash provided by (used in) investing activities	(21,215)	170,507
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	-	(724,000)
Payments on shareholder note payable	(189,619)	(54,000)
Proceeds from notes payable	1,000,000	1,000,000
Proceeds from shareholder note payable	599,577	-
Payments on capital leases	(23,178)	(47,991)
Change in restricted cash	-	937,733
Issuance of common shares for cash	-	490,970
Proceeds from exercise of stock options	34,344	-
Net cash provided by (used in) financing activities	1,421,124	1,602,712
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	491,236	189,675
Cash and cash equivalents at beginning of period	73,867	846,141
Cash and cash equivalents at end of period	$ 565,103	$ 1,035,816
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES		
Cash paid for interest	$ -	$ 20,894
Conversion of debt to equity	1,000,000	-
Additional shares issued as purchase consideration	1,031,200	-
Convertible debt issued with below market conversion feature	329,931	-

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

DIAL-THRU INTERNATIONAL CORPORATION
AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The condensed consolidated financial statements of Dial-Thru International Corporation and its subsidiaries included in this Form 10-Q are unaudited. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and operating results for the three and six month periods ended April 30, 2001 and 2000 have been included. Operating results

for the six month period ended April 30, 2001 are not necessarily indicative of the results that may be expected for the year ending October 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended October 31, 2000.

On November 2, 1999, the Company acquired substantially all of the business and assets of Dial-Thru International Corporation, a California corporation, now known as DTI-LIQCO, Inc., 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").

During fiscal 1998 and 1999, the Company's operations included mainly sales and distribution of prepaid domestic and international calling cards to wholesale and retail customers. Starting January 2000 following the acquistion of Dial Thru, 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 now provides a variety of international and domestic communication services including international 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 significant 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 who want to expand into voice services, private corporate networks seeking to lower long-distance costs, and Web-enabled corporate call centers engaged in electronic commerce.

DTI is also introducing "VoIP" to a new segment of customers by delivering a high quality, reliable and scaleable solution that uniquely addresses the needs of the rapidly growing "VoIP" industry.

NOTE B - EARNINGS (LOSS) PER SHARE

The shares issuable upon the exercise of stock options and warrants, and convertible debentures are included in earnings (loss) per share to the extent that they are dilutive.

NOTE C - REVENUE RECOGNITION AND COSTS OF REVENUES

Revenues from prepaid services sold where the Company operates its own switch are recognized from customer usage. The Company sells products to retailers and distributors at a fixed price. When the retailer or distributor is invoiced, referred revenue is recognized. The Company recognizes revenue, and reduces the deferred revenue account as the customer utilizes calling time or upon expiration of cards containing unused calling time.

Revenues generated by international re-origination and dial-thru services are based on minutes of customer usage. The Company records payments received in advance as deferred revenue until such services are provided.

NOTE D - CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

The Company has an outstanding receivable from a customer of approximately

$435,000, all of which has been reserved.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000. At April 30, 2001 the Company had approximately $350,000 in excess of FDIC insured limits.

NOTE E - ACQUISITION

On November 2, 1999, the Company consummated the acquisition of substantially all of the assets and business of Dial-Thru International Corporation (the "Seller"), a California corporation. The acquisition was effected pursuant to the terms of an Asset Purchase Agreement between the Company, a wholly owned subsidiary of the Company, the Seller and John Jenkins, the sole shareholder of the Seller. The Company issued to the Seller an aggregate of 1,000,000 shares of common stock, recorded a total purchase price of $937,500 using the Company's common stock price at the time the acquisition was announced, and agreed to issue an additional 1,000,000 shares of its common stock upon the acquired business achieving specified goals. In March 2001, the additional 1,000,000 shares of common stock were issued to the Seller in accordance with the terms of the Asset Purchase Agreement, and recorded an addition to the purchase price of $1,031,200 using the Company's common stock price at the time of approval of the issuance. The acquisition was accounted for as a purchase. Goodwill initially recorded in the acquisition will be amortized over a period of 10 years beginning November 1999. Incremental goodwill is being amortized over its remaining life, approximately 8.5 years. The results of operations of the acquired entity are included in the consolidated operations of the Company from November 1, 1999.

NOTE F - CONVERTIBLE DEBENTURES

In February 2000, the Company executed non-interest bearing convertible note agreements (the "Agreements") with nine accredited investors, which provided financing of $1,000,000. The notes were payable on the earlier of one year from the date of issuance or the Company's consummation of a debt or equity financing in excess of $5,000,000. If the notes were not repaid within 90 days of issuance, they were convertible into shares of common stock at $4.00 per share while remaining outstanding. The Company recorded financing fees of approximately $117,000 in February 2000 related to these notes for the difference in the conversion price of $4.00 and the market price of $4.47 on the date the notes were approved by the Board of Directors. The Company also issued to the holders of the notes warrants to acquire an aggregate of 125,000 shares of common stock at an exercise price of $3.00 per share, which expire five years from the date of issuance. In February 2000, the Company recorded deferred financing fees of approximately $492,000. This amount represents the Company's estimate of the fair value of these warrants at the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate at the grant date of 6%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 1.62; and an expected life of the warrants of three years. The Company is amortizing these fees over the initial maturity of these notes of one year. The amount is fully amortized as of April 30, 2001. Under the terms of the agreement, additional warrants to acquire up to an aggregate of 125,000 shares of common stock at an exercise price of $2.75 per share were issued to the holders of the notes upon conversion of the debt to equity as discussed below. During March 2001, terms of the convertible notes were modified and the debt was converted into 400,000 common shares. Additionally, in connection with the conversion,

the warrants to purchase 250,000 shares of common stock were modified to allow for an exercise price of $0.01 per share and 150,000 additional warrants with as exercise price of $3.00 per share were issued to the note holders. In connection with the grant of the additional 150,000 warrants to the note holders, the Company recorded additional debt discount of approximately $142,000 which was immediately expensed as financing fees as the warrants were exercisable at the date of grant. This amount was calculated using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate at the grant date of 5%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 1.47; and an expected life of the warrants of three years.

On April 11, 2001, the Company executed a 6% Convertible Debenture (the "Convertible Debenture") with Global Capital Funding Group L.P, which provided financing of $1,000,000. Note maturity date is April 11, 2003. The conversion price equals 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) 80% of the average of the five(5) lowest volume weighted average sales price as reported by Bloomberg L.P. during the twenty (20) Trading Days immediately preceding but not including the date of the related Notice on Conversion ("the "Formula Conversion Price"). In an event of default the amount declared due and payable on the Convertible Debenture shall be at the Formula Conversion Price. The Company has calculated the beneficial conversion feature embedded in the Convertible Debenture in accordance with Emerging Issues Task Force (EITF) #00-27 and recorded $329,931 as a deferred financing fee. This fee is being amortized over the two-year life of the Convertible Debenture. During the six months ended April 30, 2001, the Company recorded approximately $14,000 as interest expense. The Company also issued to the holder of the Convertible 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. The Company recorded deferred financing fees of approximately $80,000 related to the issuance of the warrants. This amount represents the relative fair value of the warrants in accordance with EITF #00-27, using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate at the grant date of 6%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 1.53; and an expected life of the warrants of five years. The warrant is being amortized over the two-year life of the Convertible Debenture. For the year six months ended April 30, 2001, the Company has recorded financing fees of $3,600 relating to the warrants.
 10-Q, you should not
consider the inclusion of such information as a representation by the Company or anyone else that we will achieve our objectives and plans. The Company does not undertake to update any forward-looking statements contained herein. Readers are cautioned not to place undue reliance on the forward-looking statements made in, or incorporated by reference into, this Quarterly Report on Form 10-Q or in any document or statement referring to this Quarterly Report on Form 10-Q.

GENERAL

Dial-Thru International Corporation is a facilities-based, global Internet Protocol (IP) communications company providing connectivity to international markets experiencing significant demand for IP enabled services. The Company 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 products and services. The Company utilizes Voice over

Internet Protocol (VoIP) packetized voice technology (and other compression techniques) to improve both cost and efficiencies of telecommunication transmission mechanisms, and is developing a private IP Telephony network.

IP Telephony, or Voice over Internet Protocol (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 same technology that makes the Internet possible. These technologies allow the Company to transport 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 enhanced Web-based products and services.

The Company's primary focus is in niche markets where competition is not as keen, thereby giving it opportunities for greater profit margin and market share. These markets include regions of the world where deregulation of telecommunications services has begun, or is in early development. The Company also targets smaller markets that have not attracted large multi-national providers. Africa, Asia, and parts of South America offer the greatest abundance of these target markets.

Cooperating with overseas carriers and the incumbent operator, usually government owned telephone companies, gives the Company a high degree of leverage to engage in co-branding of jointly marketed products, including IP based enhancements that it has developed, rather than simply basing a strategy on pricing arbitrage. As a result, the Company is proactively invited to participate rather than reactively prevented from entering these new markets.

Unlike many other wholesale VoIP carriers in the market, the Company is focused on retail telecommunications sales to business customers which allows the Company to provide a complete package of communication services, not just wholesale voice traffic. A portfolio of enhanced offerings provides the Company with the opportunity for higher profit margins and better customer loyalty, thus making the Company less susceptible to competitive forces and market churn.

In tandem with overseas partners, the Company is deploying a "book-end" strategy targeting markets at both ends of international circuits. As an example, while cooperating with partners to target the SME market in a selected foreign region, the Company also targets corresponding expatriates and foreign owned businesses back in the U.S. By providing these services in cooperation with the carrier that will ultimately terminate the calls in the caller's "home" country, the Company enjoys reduced facilities costs, increased economies of scale, lower customer acquisition costs, and higher customer retention.

Focusing on cooperation in emerging markets also gives the Company added benefit of being able to develop and exploit labor cost advantages not found in industrial markets. For example, the Company plans to develop new and extremely low-cost call center applications that will tie into and enhance its new Web and VoIP applications. By relying on VoIP and IP, rather than traditional voice technology, the Company ensures that its network infrastructure is extremely cost-effective and state-of-the-art. These are assets that not only help to build the Company's business, but also make the Company more attractive as a potential partner to overseas carriers and incumbent telephone companies.

The following discussion should be read in conjunction with the Company's Form 10-K and the consolidated financial statements for the years ended October 31, 2000, 1999, and 1998; the Company's Form 10-Q for the quarter ending April 30, 2000; and the consolidated financial statements and related

notes for the quarter ended April 30, 2001 found elsewhere in this report.

RESULTS OF OPERATIONS

THREE MONTH COMPARISON

REVENUES

Revenues were $904,000 for the quarter ended April 30, 2001, compared to $2,824,000 for the quarter ended April 30, 2000, representing a decrease of 68% from the prior period. The decrease in revenues for this quarter compared to the prior year resulted primarily from the Company's change in business focus away from the prepaid long distance market and toward providing international communication services for small to medium-size businesses. Costs associated with the discontinuation of certain distribution channels have prevented the Company from fully marketing according to its plans for the redirected business. Now that these costs have been eliminated and new markets have been opened, the Company anticipates experiencing substantial revenue growth in future periods.

EXPENSES

Costs of revenues were $609,000, or 67% of revenues, for the quarter ended April 30, 2001, compared to $3,109,000, or 110% of revenues, for the quarter ended April 30, 2000. By focusing its business on providing international communication services the Company has been able to demonstrate the ability to produce positive margins on sales across its product line.

Settlement of a dispute with a carrier over charges in prior periods resulted in income of $97,000 to the Company. This is reflected as a credit to Other Income on the Consolidated Statements of Operations for the period.

Sales and marketing costs were $223,000, or 25% of revenues for the quarter ended April 30, 2001, compared to $279,000, or 10% of revenues, for the quarter ended April 30, 2000. Sales and marketing costs incurred during the prior period were primarily associated with the operation of the distribution channel for the prepaid products. Sales and marketing costs for the three months ended April 30, 2000 exclude a non-cash charge of $1,937,184 for stock warrants issued to distributors (previous employees) of the Company's prepaid products. Excluding these charges, the change in the focus of the Company's operations has reduced its sales and marketing costs in absolute terms, as the prepaid calling card business required a large sales and marketing staff. In the short term, while the Company is opening a number of new international markets just beginning to produce revenues, sales and marketing costs as a percentage of revenues have increased. In the long term, however, when these markets are fully developed, the Company expects that sales and marketing costs will decline as a percentage of revenue.

General and administrative costs were $598,000, or 66% of revenue, for the quarter ended April 30, 2001, compared to $1,742,000, or 62% of revenue, for the quarter ended April 30, 2000. This represents in dollar terms a 65% decrease from the prior period. The change in the focus of the Company's business has resulted in an overall drop of its general and administrative expenses, and the Company anticipates a reduction of these costs as a percentage of revenue in future periods.

During the quarter ended April 30, 2001, the Company incurred net interest expense of $13,000 and financing fees of $159,000 compared with net interest expense of $17,000 and financing fees of $240,000 for the quarter ended April 30, 2000. The fees for 2001 include $142,000 for the fair value of warrants issued to the holders of the Company's Convertible Notes which were fully vested at the time of issuance. Additionally during the quarter ended April 30, 2001, the Company recorded a charge of $435,820 in connection with the decline in fair value of marketable securities previously received in a settlement transaction with Star Telecommunications.

During the quarter ended April 30, 2001, the Company settled other disputes in connection with carrier services resulting in other income of $97,000.

As a result of the foregoing, the Company incurred a net loss of $1,193,000, or $0.11 per share, for the quarter ended April 30, 2001, as compared to a net loss of $4,660,000, or $0.55 per share, for the quarter ended April 30, 2000.

SIX MONTH COMPARISON

REVENUES

Revenues were $1,794,000 for the six months ended April 30,2001, compared to $6,630,000 for the six months ended April 30, 2000, representing a decrease of 73% from the prior period. The decrease in revenues for this period compared to the prior year resulted primarily from the Company's change in business focus away from the prepaid long distance market and toward providing international communication services for small- to medium-size businesses. Costs associated with the discontinuation of certain distribution channels have prevented the Company from fully marketing according to its plans for the redirected business. Now that these costs have been eliminated and new markets have been opened, the Company anticipates experiencing substantial revenue growth in future periods.

EXPENSES

Costs of revenues were $1,276,000, or 71% of revenues, for the six months ended April 30, 2001, compared to $7,473,000, or 113% of revenues, for the six months ended April 30, 2000. By focusing its business on providing international communication services the Company has been able to demonstrate the ability to produce positive margins on sales across its product line.

Sales and marketing costs were $426,000, or 24% of revenues for the six months ended April 30, 2001, compared to $787,000, or 12% of revenues, for the six months ended April 30, 2000. Sales and marketing costs incurred during the prior period were primarily associated with the operation of the distribution channel for the prepaid products. Sales and marketing costs for the six months ended April 30, 2000 exclude a non-cash charge of $258,616 for common stock and stock warrants issued for services, and for the six months ended April 30, 2000 exclude $1,937,184 for stock warrants issued to distributors (previous employees) of the Company's prepaid products. Sales and marketing expense for the six months ended April 30, 2000 includes a non-cash charge of $1,937,184 for stock warrants issued to distributors (previous employees) of the Company's prepaid products. Excluding this charge, the change in the focus of the Company's operations has reduced its sales and marketing costs in absolute terms, as the prepaid calling card business required a large sales and marketing staff. In the short term, while the Company is opening a number of new international markets just beginning to produce revenues, sales and marketing costs as

a percentage of revenues have increased. In the long term, however, when these markets are fully developed, the Company expects that sales and marketing costs will decline as a percentage of revenue.

General and administrative costs were $1,212,000, or 68% of revenue, for the six months ended April 30, 2001, compared to $2,682,000, or 40% of revenue, for the six months ended April 30, 2000. However this represents in dollar terms a 55% decrease from the prior period. The change in the focus of the Company's business has resulted in an overall drop of its general and administrative expenses, and the Company anticipates a reduction of these costs as a percentage of revenue in future periods.

During the six months ended April 30, 2001, the Company issued 390,000 shares of its common stock in exchange for marketing services of $259,000.

During the six months ended April 30, 2001, the Company incurred net interest expense of $16,000 and financing fees of $475,000 compared with net interest income of $20,000 and financing fees of $240,000 for the six months ended April 30, 2000. Additionally during the six months ended April 30, 2001, the Company recorded a charge of $435,820 in connection with the decline in fair value of marketable securities previously received in a settlement transaction with Star Telecommunications.

Settlements with two major carriers over charges in prior periods amounted to a total credit to the statements of operations of $1,800,000 for the six months ended April 30, 2001. Of this amount, $780,000 is the result of our settlement with Star Telecommunications ("Star"). Also included is $446,820 representing common stock received from Star in connection with our dispute settlement.

As a result of the foregoing, the Company generated a net loss of $818,000 or $0.08 per share, for the six months ended April 30, 2001, as compared to a net loss of $6,743,000, or $0.83 per share, for the six months ended April 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2001, the Company had cash and cash equivalents of $565,000, an increase of $491,000 from the balance at October 31, 2000. As of April 30, 2001, the Company had a working capital deficit of $2,901,000, compared to a working capital deficit of $2,869,000 at April 30, 2000. As of April 30, 2001, the Company's current assets of $1,141,000 included cash and cash equivalents of $565,000 and net accounts receivable of $468,000.

During the six months ended April 30, 2001, net cash used in operating activities was $909,000, compared to net cash used in operating activities of $1,584,000 for the six months ended April 30, 2000. The decrease in net cash used in operating activities for the six months ended April 30, 2001 was primarily due to a net loss of $818,000 versus a net loss of $6,743,000 from the comparable period in the prior year offset partially by other changes in current assets and liabilities and other non-cash charges and income. Deferred revenue increased to $77,000 for the period ending April 30, 2001 from $47,000 in the prior period due to an increase in prepaid customer amounts.

Cash used in investing activities was $21,000 for the six months ended April 30, 2001, compared to cash provided by investing activities of $171,000 for the six months ended April 30, 2000. The net change was primarily attributable to capital equipment purchases of $199,000 offset by receipts

of $300,000 in notes receivable, during the six months ended April 30, 2000.

Cash provided by financing activities for the six months ended April 30, 2001 totaled $1,421,000, compared to cash provided by financing activities of $1,603,000 for the six months ended April 30, 2000. During the six months ended April 30, 2001, significant components of cash provided by financing activities includes $1,000,000 in proceeds from notes payable and net proceeds from shareholder of $410,000. During the six months ended April 30, 2000, significant components of cash provided by financing activities includes net proceeds from notes payable of $276,000, cash released from restricted cash of $938,000 and proceeds from the exercise of stock options of $491,000.

Because the Company is in a growth mode and at the same time refocused its operations during fiscal 2000, cash flow was constrained and resulted in slow payment to vendors and growth in payables. The Company's cash flow commitments entering fiscal 2001 included operating overhead, outstanding debt of $1 million, and settling a significant portion of its trade payables of $3.9 million (as of Oct. 31, 2000). The Company has made a significant reduction in monthly overhead expenses, the debt has been converted to equity, and the Company has made significant reductions of payables through settlements with carriers and expects to make additional reductions through use of trade credits. There are no other commitments or uncertainties that management is currently aware of.

The Company believes that it will be able to significantly improve its cash flows in the coming year for the following reasons:

1. The Company has lowered operating expenses by reorganization of operating staff and changing channels of distribution. This has resulted in reduced expenses in excess of $250,000 per month.
2. The Company reached a favorable settlement with Star Telecommunications that reduced payables and future cash requirements. The Company eliminated a payable of $780,000, received approximately one million shares of common stock in Star, and received carrier usage credits for one year for domestic services which value will be determined as use occurs.
3. The Company converted $1 million of debt into equity. (See additional discussion further).
4. The Company expects to be able to bring in additional financing of 1 to 3 million dollars during fiscal year 2001, with $1 million of debt financing having already been completed in the second quarter. (See additional discussion further).
5. The Company expects to be able to convert at least $1.5 million of its prepaid media credits into cash or services.
6. The Company expects an increase in recurring revenues and improvements in profit margin due to changes in product focus sufficient to produce positive monthly operating cash flow by fiscal year end.
7. Additionally, during the next twelve month period the Company believes it will need approximately $1 million through improved operating cash flow or additional financing transactions.

In February 2000 the Company consummated a private placement of $1,000,000 in principal amount of convertible notes. During the second quarter, the notes were converted into 400,000 shares of the Company's common stock at a conversion price of $2.50 per share. The holders of the notes were also issued warrants to acquire an aggregate of 250,000 shares of the Company's common stock at an exercise price of one half at $3.00 per share and one half at $2.75 per share. As a condition of the conversion of the notes into common stock, the exercise price of these warrants were repriced to $0.01, and an additional 125,000 warrants were issued with an exercise price of $3.00.

On April 11, 2001, the Company executed a 6% convertible note agreement (the "Agreement") with Global Capital Funding Group L.P, which provided financing of $1,000,000. Note maturity date is April 11, 2003. Conversion price equals 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) 80% of the average of the five (5) lowest volume weighted average sales price as reported by Bloomberg L.P. during the twenty (20) Trading Days immediately preceding but not including the date of the related Notice on Conversion ("the "Formula Conversion Price"). In an event of default the amount declared due and payable on the Conversion Debentures shall be at the Formula Price.

The Company also issued to the holders of the notes warrants to acquire aggregate of 100,000 shares of common stock at an exercise price of $0.89 per share, which expire on April 11, 2006. In April 2001, the Company recorded deferred financing fees of approximately $86,875. This amount represents the Company's estimate of the fair value of these warrants at the date of grant using the Black-Scholes pricing model with the following assumptions: applicable risk-free interest rate based on the current treasury-bill interest rate at the grant date of 6%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 1.53; and an expected life of the warrants of five years. The Company is amortizing these fees over the initial maturity of these notes of two years. The amount charged to expense and accumulated amortization for the three months ended April 30, 2001 totaled approximately $3,600.

The Company's growth models for its business are scaleable, but the rate of growth is dependent on the availability of future financing for capital resources. The Company plans to commit at least $1.0 million for capital investment in the next twelve month period, and plans to finance additional infrastructure development externally through debt and/or equity offerings and internally through the operations of its Telecommunications Business. The Company plans to obtain vendor financing for a major portion of its equipment needs associated with expansion. The Company also plans to exchange a portion of its prepaid media credits to reduce accounts payable, and to liquidate an additional portion of its prepaid media credits for cash. The Company believes that, with sufficient capital, it can significantly accelerate its growth plan. The Company's failure to obtain additional financing or to exchange or liquidate media credits, could significantly delay the Company's implementation of its business plan and have a material adverse effect on its business, financial condition and operating results.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following Exhibits are required to be filed with this quarterly report on Form 10-Q:

4.1 Securities Purchase Agreement (incorporated herein by reference to Exhibit 4.1 to Company's quarterly report on Form 10-Q for the quarter ended April 30, 2001).

(b) Reports on Form 8-Ks
None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dial-Thru International Corporation
(Registrant)

DATE: February 5, 2002

/s/ John Jenkins

John Jenkins
President, Chief Financial Officer
(Principal Financial Officer)