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 January 31, 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 March 15, 2001, 10,369,958 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

	(Restated) JANUARY 31, 2001 (unaudited)	(Restated) OCTOBER 31, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 92,138	$ 73,867
Trade accounts receivable, net of allowance for doubtful accounts of $930,766 at January 31, 2001 and October 31, 2000, respectively	440,629	455,819
Prepaid expenses and other	97,743	116,785
Investment in Marketable Securities	446,820	-
Total current assets	1,077,330	646,471
PROPERTY AND EQUIPMENT, net	1,438,581	1,539,544
PROPERTY AND EQUIPMENT HELD FOR SALE	320,307	320,307
ADVERTISING CREDITS, net	2,453,027	2,453,027
OTHER ASSETS	204,483	205,473
EXCESS OF COST OVER FAIR VALUE OF NET ASSETS OF COMPANY ACQUIRED, net of amortization of $145,185 and $104,148 at January 31, 2001 and October 31, 2000, respectively	911,290	937,327
TOTAL ASSETS	$ 6,405,018	$ 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 January 31, 2001 and October 31, 2000, respectively	$ 1,000,000	$ 684,012
Note payable to shareholder	646,000	346,000
Current portion of capital lease obligation	79,293	102,472
Trade accounts payable	3,136,028	3,930,315
Accrued liabilities	186,598	365,765
Deferred revenue	71,677	47,190
Total current liabilities	5,119,596	5,475,754
CAPITAL LEASE OBLIGATION, net of current portion	118,615	118,615
SHAREHOLDERS' EQUITY		
Preferred stock, $.001 par value, 10,000,000 shares authorized, none issued or outstanding	-	-
Common stock, 44,169,100 shares authorized; $.001 par value; 10,039,090 shares issued and 10,027,068 outstanding at January 31, 2001 and 9,895,090 shares issued and 9,883,068 outstanding at October 31, 2000, respectively	10,039	9,895
Additional paid-in capital	34,114,849	33,838,158
Accumulated deficit	(32,880,715)	(33,262,907)

Accumulated other comprehensive income	(5,416)	(5,416)
Treasury stock, 12,022 common shares in 2000 at cost	(54,870)	(54,870)
Subscription receivable - common stock	(17,080)	(17,080)
Total shareholders' equity	1,166,807	507,780
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,405,018	$ 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 JANUARY 31,	
	2001	2000
	(Restated)	
REVENUES		
Revenues	$ 890,620	$ 3,806,767
Total revenues	890,620	3,806,767
COSTS AND EXPENSES		
Cost of revenue	667,006	4,363,673
Sales & marketing	202,573	508,214
Non-cash sales and marketing expense	258,616	-
General & administrative	606,758	940,096
Depreciation and amortization	146,890	115,105
Total cost and expenses	1,881,843	5,927,088
Operating Loss	(991,223)	(2,120,321)
OTHER INCOME (EXPENSES)		
Interest and financing costs	(323,731)	-
Interest income	4,958	36,951
Other related to settlement of disputes (Note J)	1,692,187	-
Total other income	1,373,414	36,951
NET INCOME (LOSS)	$ 382,191	$(2,083,370)
EARNINGS (LOSS) PER SHARE:		
Basic and diluted earnings (loss) per share	$ 0.03	$ (0.26)
SHARES USED IN THE CALCULATION OF PER SHARE AMOUNTS:		

Basic common shares	9,951,215	7,892,030
Dilutive impact of stock options, warrants and convertible debentures	643,824	-
Dilutive common shares	10,595,039	7,892,030

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

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

	THREE MONTHS ENDED JANUARY 31,	
	2001	2000
	(Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 382,191	$(2,083,370)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Marketable securities received in settlement of dispute	(446,820)	-
Stock and warrants issued for services	258,616	-
Financing fees and amortization of debt discount financing fees	315,988	-
Depreciation and amortization	149,205	114,355
(Increase) decrease in:		
Trade accounts receivable	15,190	(1,027,320)
Accounts receivable - other	-	1,999
Inventory	-	(105,246)
Prepaid expenses and other	19,042	39,663
Other assets	-	(29,705)
Increase (decrease) in:		
Trade accounts payable	(794,287)	1,774,161
Accrued liabilities	(179,167)	(109,354)
Deferred revenue	24,487	689,150
Net cash used in operating activities	(255,555)	(735,667)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(21,215)	(111,048)
Payments on note receivable	-	300,000
Cash in DTI at acquisition date	-	69,137
Net cash provided by (used in) investing activities	(21,215)	258,089
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	-	(40,500)
Payments on shareholder note payable	-	(54,000)
Proceeds from shareholder	300,000	-
Payments on capital leases	(23,178)	(23,882)
Change in restricted cash	-	(836)

Issuance of common shares for cash	-	29,953
Proceeds from exercise of stock options	18,219	-
Net cash provided by (used in) financing activities	295,041	(89,265)
NET INCREASE (DECREASE) IN CASH	18,271	(566,843)
Cash and cash equivalents at beginning of year	73,867	846,141
Cash and cash equivalents at end of year	$ 92,138	$ 279,298
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES		
Cash paid for interest	$ -	$ 15,517

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 month periods ended January 31, 2001 and 2000 have been included. Operating results for the three-month period ended January 31, 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.

Prior to December 7, 1998, the Company operated in the software and telecommunications industries. On December 7, 1998, the Company sold its retail automation software business (the "Software Business") to Affiliated Computer Services, Inc. ("ACS"). Therefore, the Company no longer engages in the Software Business, and is now operating only in the telecommunications industry (the "Telecommunications Business").

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 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, 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 Voice over Internet Protocol, "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 excluded from the calculation of net earnings (loss) per share as their effect on continuing operations net loss would be antidilutive.

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, which is overdue by approximately one year, of which $435,000 has been reserved as of January 31, 2001.

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 revenue and earnings goals. As of January 31, 2001, no additional shares were as yet earned by the Seller based on revenue and earnings goals. The acquisition was accounted for as a purchase. Goodwill recorded in the acquisition will be amortized over a period of 10 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 January 31, 2001.

Under the terms of the agreement, after six months without repayment of the notes 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.

During March 2001, the terms of the convertible notes were modified and the debt was converted to equity through the issuance of 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.

NOTE G - RELATED PARTY PAYABLE

In connection with the acquisition of Dial-Thru International Corporation on November 2, 1999, the Company assumed a related party note payable to the sole owner of the acquired entity of approximately $400,000. The note bears interest at 6% per annum, is payable in quarterly installments of $50,000 plus interest beginning November 1, 1999, and matures on August 1, 2001. The Company is currently in arrears of quarterly payments to the noteholder and during the three month period ended January 31, 2001 an additional loan in the amount of $300,000 was provided by the note holder. The outstanding balance at January 31, 2001 was $646,000, and is classified as a current liability.

NOTE H - SHAREHOLDERS' EQUITY

COMMON STOCK ISSUANCES

For the three month period ended January 31, 2001, the Company issued 54,000 shares in connection with the exercise of options for $18,219.

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.

Note I - MARKETABLE SECURITIES

Marketable securities include investment in the common stock of Star Telecommunications, Inc., and are classified as available-for-sale and carried at market value. Unrealized holding gains and losses are reported as a separate component of Stockholder's equity until realized. Realized gains and losses on the sale of investments are based upon specific identification method and are included in the statement of operations.

Note J - SETTLEMENT OF LEGAL/CARRIER DISPUTES

During the quarter 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 Angeles, New York and Miami. The Company also received 1,100,000 shares of common stock of Star Telecommunications which were recorded at fair value totaling $446,820. The Company has recorded the carrier usage credit and the fair value of the shares received as other income and expense in its 1st Quarter financial statements.

The Company also recorded income of $465,000 in connection with the settlement of disputes with RSL Communications, Inc. ("RSL"). This amount was originally credited to the Company by RSL during the year ended October 31, 2000. Subsequently, the credit was rescinded and as the outcome was unclear no benefit was recorded during fiscal 2000. During the first quarter 2001 the credit was acknowledged by RSL management. The vendor is in the process of liquidating its United States operations. Accordingly, the Company has applied the credit to amounts owed to the vendor and recorded the effect as income in other income and expense in its 1st Quarter financial statements.

NOTE K - SEGMENT INFORMATION

The Company is organized by line of business. Historically, the two major lines of business operating segments are prepaid phone cards and dial thru services. The accounting policies of the line of business operating segments are the same as those described in the summary of significant accounting policies. Revenue represents revenue from external customers.

During the quarter ended January 31, 2001 substantially all revenue and expenses related to dial thru services. At January 31, 2001, substantially

all assets other than property and equipment held for sale totaling $320,307 are now used in the dial thru business operations.

A summary of the segment financial information reported to the chief operating decision maker, for the period ending January 31, 2000 is as follows:

January 31, 2000	Prepaid phone Cards $	Dial thru services $	Total $
Revenue	2,044,867	1,761,900	3,806,767
Net Loss	(1,889,973)	(165,468)	(2,065,441)
Total assets	4,475,325	2,656,236	7,131,561

Net loss for the segments excludes certain income and expenses relating to corporate general and administrative activity.

NOTE L - SUBSEQUENT EVENTS

Conversion of notes to stock

Notes in the amount of $1,000,000 shown as a short term liability was converted to common stock after January 31, 2001. The terms of the notes were modified to allow for the conversion to common stock at a price of $2.50 per share. As a condition of this conversion, warrants to acquire 250,000 common shares were repriced to $0.01 per share and additional warrants to purchase 150,000 common shares at an exercise price of $3.00 were issued.

NOTE M - RESTATEMENTS

The Company is restating its Form 10-Q/A Amendment No. 1 for the three months ended January 31, 2001 to include the issuance of 90,000 shares of its common stock to Scotty Cook, former Director of the Company, as compensation for consulting services performed for the Company, and the issuance to Founders Equity Group of 300,000 warrants to purchase the Company's common stock in connection with investment banking services. The Company recorded $101,000 as non-cash sales and marketing expense for the shares issued to Scotty Cook, representing the fair market value of the shares at the time of issuance. The Company also recorded $157,000 of non-cash sales and marketing expense representing the fair market value of the warrants issued to Founders Equity Group, Inc. using the Black-Scholes pricing model, with the following assumptions: applicable risk free interest rates based on the current treasury bill interest rate at the grant date of 5.0%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 79%; and an expected life of the warrants of four years. The warrants were fully vested at the time of issuance.

This restatement has the effect of increasing additional paid-in capital and accumulated deficit, and reducing net income by $258,000.

August 3, 2001 Restatements

On August 3, 2001, the Company restated its original Form 10-Q filed March 16, 2001. The consolidated balance sheets of January 31, 2001 were restated to include the effect of previous restatements applied to the October 31, 2000 Form 10-K. The restatements had the effect of increasing additional paid-in capital and accumulated deficit by $2,512,726 with no change to net

equity.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANAYLYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

With the exception of historical information, the matters discussed in this quarterly Report on Form 10-Q include "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", "should", "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-Q should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved or that operating expectations will be realized. Revenues and results of operations are difficult to forecast and could differ materially from those projects in forward-looking statements contained herein, including without limitation statements regarding the Company's belief of the sufficiency of capital resources and its 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, (b) the relatively low barriers to entry for start-up companies using VoIP to provide telecommunications services, (c) the price-sensitive nature of consumer demand, (d) the Company's dependence upon favorable pricing from its suppliers to compete in the telecommunications industry, (e) increased consolidation in the telecommunication industry, which may result in larger competitors being able to compete more effectively, (f) the failure to attract or retain key employees, (g) continuing changes in governmental regulations affecting the telecommunications industry and the Internet, (h) changing consumer demand, technological development and industry standards that characterize the industry, and (i) the "Certain Business Factors" identified in the Company's Annual Report on Form 10-K for the year ended October 31, 2000. In light of the significant uncertainties inherent in the forward-looking statements included in this Form 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 January 31, 2000; and the consolidated financial statements and related notes for the quarter ended January 31, 2001 found elsewhere in this report.

RESULTS OF OPERATIONS

REVENUES

Revenues were $891,000 for the quarter ended January 31,2001, compared to $3,807,000 for the quarter ended January 31, 2000, representing a decrease of 77% 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 enjoying substantial revenue growth in future periods.

EXPENSES

Costs of revenues were $667,000, or 75% of revenues, for the quarter ended January 31, 2001, compared to $4,364,000, or 115% of revenues, for the quarter ended July 31, 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.

Settlements with two major carriers over charges in prior periods amounted to a total credit to the income statement of $1,700,000.

Sales and marketing costs were $203,000, or 23% of revenues for the quarter ended January 31, 2001, compared to $508,000, or 13% of revenues, for the quarter ended January 31, 2000. This represents a 60% decrease in such costs from the prior period. Sales and marketing costs incurred during the prior period were primarily associated with the operation of the distribution channel for the prepaid products. 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 $607,000, or 68% of revenue, for the quarter ended January 31, 2001, compared to $940,000, or 25% of revenue, for the quarter ended January 31, 2000. However this represents in dollar terms a 35% 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, the Company issued 90,000 shares of its common stock in exchange for consulting services, and issued 300,000 warrants to purchase the Company's common stock in connection with investment banking services. The total expense of $259,000 is included as non-cash sales and marketing expense.

During the quarter ended January 31, 2001, the Company reported net interest expense of $324,000, compared with a net interest income of $37,000 for the quarter ended January 31, 2000.

Settlements with two major carriers over charges in prior periods amounted to a total credit to the statements of operations of $1,700,000 for the three months ended January 31, 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 net income of $382,000, or $0.03 per share, for the quarter ended January 31, 2001, as compared to a net loss from continuing operations of $2,083,000, or $0.26 per share, for the quarter ended January 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2001, the Company had cash and cash equivalents of $92,000, an increase of $18,000 from the balance at October 31, 2000.

During the three months ended January 31, 2001, net cash used in operating activities was $256,000, compared to net cash used in operating activities of $736,000 for the three months ended January 31, 2000. The decrease in net cash used in operating activities for the three months ended January 31, 2001 was primarily due to net income of $382,000 versus a net loss of $2,083,000 from the comparable period in the prior year. Deferred revenue was reduced to $24,000 for the period ending January 31, 2001 from $689,000 in the prior period due to the change in the business focus away from the prepaid phone card products.

Cash used in investing activities was $21,000 for the three months ended January 31, 2001, compared to cash provided by investing activities of $258,000 for the three months ended January 31, 2000 primarily attributable to $300,000 from payment on a note receivable.

Cash provided by financing activities for the three months ended January 31, 2001 totaled $295,000, compared to cash used in financing activities of $89,000 for the three months ended January 31, 2000. The change in cash provided by financing activities was due primarily to the proceeds of $300,000 received from a shareholder in the period ending January 31, 2001 versus payment of $54,000 to a shareholder in the same period in the prior year.

The Company has recently suffered from liquidity and cash flow constraints. As of January 31, 2001, the Company had a working capital deficit of $4,042,000, compared to a working capital deficit of $1,528,000 at January 31, 2000. As of January 31, 2001, the Company's current assets of $1,077,000 include $440,000 of gross trade accounts receivable and an investment in securities of $446,000.

In February 2000 the Company consummated a private placement of $1,000,000 in principal amount of non-interest bearing convertible notes. Following the completion of the first quarter, the notes have become converted into 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.

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 approximately $1.0 million for capital investments for fiscal 2001, and plans to finance additional infrastructure development externally through debt and/or equity offerings and internally through operations. The Company believes that, with sufficient capital, it can significantly accelerate its growth plan. At its current and anticipated level of operations through the next twelve-month period, management believes that it will have to raise significant additional funds through outside financing activities. The Company's failure to obtain such financing could significantly delay the Company's implementations of its business plan and have a material adverse effect on its business, financial condition and operating results.

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

1. The Company has lowered operating expenses by reorganizing operating staff and changing channels of distribution. This has resulted in savings 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.
4. The Company expects to be able to bring in additional equity investments of 1 to 3 million dollars during the next twelve months with $1 million being received in the second quarter.
5. The Company expects to be able to convert at least $1.5 million of its prepaid media credits into cash or services during fiscal 2001.
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. During the next twelve month period the Company believes it will need approximately $1 million thru improved operating cash flow or additional financing transactions.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

By: /s/ John Jenkins

John Jenkins
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dated February 5, 2002