

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

GROUP LONG DISTANCE INC
Form 10KSB/A
March 26, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB/A

(Mark One)

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

For the fiscal year ended April 30, 2000

OR

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

For the transition period from _____ to _____

Commission file number 0-21913

GROUP LONG DISTANCE, INC.
(Name of Small Business Issuer in Its Charter)

Florida

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employ

6600 N. Andrews Avenue, Suite 140,
Fort Lauderdale, FL 33309
(Address of Principal Executive Offices)

(954) 771-9696
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(g) of the Exchange Act:

| Title of Each Class ----- | Name of Each Exchange on Which Registered ----- |
|------------------------------|---|
| Common Stock, no par value | Pink Sheets |

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

Check if there is no disclosure of delinquent filers in response to Item
405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB
or any amendment to this Form 10-KSB.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Revenues for the fiscal year ended April 30, 2000 were \$13,736,337.

The aggregate market value of voting stock held by non-affiliates as of April 30, 2000 was \$1,556,260.

The number of shares of Common Stock, no par value, outstanding as of April 30, 2000 was 3,500,402.

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

TABLE OF CONTENTS

| | |
|----------|--|
| Item 1. | Description of Business..... Sale of Customer Base..... Agreement and Plan of Merger..... The Company..... Marketing and Sales..... Services and Products..... Acquisitions..... Industry Background and Government Regulation..... Competition..... Employees..... |
| Item 2. | Description of Property..... |
| Item 3. | Legal Proceedings..... |
| Item 4. | Submission of Matters to a Vote of Securities Holders..... |
| Item 5. | Market for Common Equity and Related Stockholder Matters..... |
| Item 6. | Management's Discussion and Analysis..... Overview..... Acquisitions..... Results of Operations..... Liquidity and Capital Resources..... Effects of Inflation..... Recent Accounting Pronouncements..... Factors That Could Affect Operating Results..... |
| Item 7. | Financial Statements..... |
| Item 8. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... |
| Item 9. | Directors and Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act..... |
| Item 10. | Executive Compensation..... |
| Item 11. | Security Ownership of Certain Beneficial Owners and Management..... |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | |
|----------|---|
| Item 12. | Certain Relationships and Related Transactions..... |
| Item 13. | Exhibits, List and Reports on Form 8-K..... |
| | Signature Page..... |
| | Report of Independent Public Accountants..... |
| | Financial Statements..... |

This Annual Report on Form 10-KSB contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in Securities and Exchange Commission ("SEC") filings and otherwise. The Company cautions readers that results predicted by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements due to risks and factors identified from time to time in the Company's filings with the SEC including those discussed in this Report.

PART I

Item 1. Description of Business

Sale of Customer Base

The Company entered into an Asset Purchase Agreement with a wholly owned subsidiary of Coyote Network Systems, Inc ("Coyote") on April 30, 2000. Pursuant to the Asset Purchase Agreement, the Company sold to a wholly owned subsidiary of Coyote, a customer base which included certain of the Company's customers under a series of related sites. The purchase price for this transaction was \$1 million, payable \$50,000 in cash and a note of \$950,000 due at April 30, 2002 at an annual interest rate of 8%. Interest is payable monthly. The Note is secured by the assets sold. In addition, the Company entered into a Service Agreement with the wholly owned subsidiary of Coyote.

Agreement and Plan of Merger

On May 1, 2000, the Company executed an Agreement and Plan of Merger with Coyote. The Agreement and Plan of Merger contemplates a merger between a wholly-owned subsidiary of Coyote and the Company. On July 31, 2000, a First Amendment to the Agreement and Plan of Merger was executed. As a result of the transactions, among other things, Coyote would acquire all of the assets and business of the Company, and the Company's shareholders would receive a number of shares of Coyote Common Stock determined pursuant to a formula. Provided the merger closes, it is anticipated that the Company's shareholders will receive not less than 562,500 shares of Coyote Common Stock, nor more than 1,218,750 shares of Coyote Common Stock. The formula is based on the price of the Coyote Common Stock during each of the five trading days immediately prior to closing. If the price of the Coyote Common Stock closes at less than \$4 per share during each of the five trading days immediately prior to closing, then either party, in its discretion, may terminate the Agreement and Plan of Merger.

The closing of the merger is subject to a number of conditions, including

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

without limitation the completion of due diligence, the receipt of all requisite regulatory approvals, and the receipt of approval of the Company's shareholders. It is anticipated that the closing would occur before the end of the calendar year 2000.

On May 3, 2000 the Company filed a Form 8-K with the Securities Exchange Commission in connection with the Agreement and Plan of Merger between Coyote and the Company.

The Company

Group Long Distance, Inc. (the "Company") is a non-facilities-based reseller of long distance telecommunications services to small and medium-sized commercial customers and residential subscribers. The Company utilizes special network service contracts through major national long-distance telecommunications carriers to provide its customers with products and services which include basic "1 plus" and "800" long distance services. The Company was incorporated under the laws of Florida in September 1995 by ITC Integrated System, Inc. ("ITC"), an unaffiliated third party, under the name Second ITC Corporation ("Second ITC") as the successor to the business of Group Long Distance, Inc. ("GLD"), which was incorporated under the laws of Florida in July 1990. In November 1995, GLD was merged into Second ITC and Second ITC simultaneously changed its name to Group Long Distance, Inc. Unless otherwise indicated, all references to the Company include GLD, the Company's predecessor, and the Company's wholly owned subsidiaries. These subsidiaries include Eastern Telecommunications Incorporated, Gulf Communications Services and Adventures-in-Telecom.

1

For the fiscal years ended April 30, 2000, 1999 and 1998, the Company's annual revenues were \$13.7 million, \$22.8 million, \$54.3 million, respectively. The Company's revenues for the fiscal years ended April 30, 2000 and 1999 are solely derived from calls routed through TALK.com, Inc. ("TALK"), formerly Tel-Save, Inc., a nationwide provider of telecommunications services. Revenues derived from TALK represented 96% of total revenues for the fiscal year ended April 30, 1998.

As a non-facilities based reseller of long distance telecommunications services, the Company utilizes service contracts to provide its customers with switched, dedicated and private line services to long distance telecommunications networks. The Company does not own or operate any primary transmission facilities. All of the Company's products and services are currently provided for by long distance carriers and regional and local telephone companies. The Company has entered into agreements with TALK to purchase long distance telephone service at discounted bulk rates. The Company then resells these discounted services to customers, at rates lower than rates the Company's customers are able to obtain for themselves due to small call volume. The Company then provisions the customer onto the carriers' networks, which provide the actual transmission service. The Company does not own or lease any telephone equipment at the customer's premises, nor does it provide telephone cabling or installation services. The customer still maintains its own existing telephone numbers, and all changes in service are done by the local or interexchange carriers. The customers incur no expense in making the decision to switch to the service of the Company.

For the Year ended April 30, 1999, based on a settlement agreement ("TALK Agreement") with TALK dated December 8, 1999, the Company agreed to pay \$1.1 million to resolve the volume shortfall charge for all fiscal periods through August 1999. The \$1.1 million was payable, 50% immediately and the balance over

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

an 18 month period. As part of the TALK Agreement, TALK agreed to release approximately \$2.9 million dollars of cash, after payment of the initial \$550,000, to the Company that was held under a lockbox arrangement, and release all receivables that were secured pursuant to the Partition Agreement, and that all future minimum monthly volume commitments were waived by TALK. In addition, the TALK Agreement provides for an extension of the current carrier agreement until the later of August 31, 2002, and the date that all obligations to TALK have been satisfied in full, and the exchange of mutual releases. The Company's agreements with TALK had provided that the Company maintained certain monthly revenues (as defined in the agreements) to the carrier for services provided under the agreements during stated periods. For the fiscal year ended April 30, 2000 the Company had an exposure for a monthly commitment of \$3,000,000 for such revenues through August 1999 (aggregate commitment of \$12,000,000) and for fiscal year ended April 30, 1999, the Company had an exposure for a monthly commitment for such revenues of \$3,000,000 (aggregate commitment of \$36,000,000). For the fiscal year ended April 30, 1998, the Company had an exposure for a aggregated annual commitment for such revenues of \$18,600,000.

The Company's customers had historically have been located principally in the Southeastern United States. As a result of its marketing efforts and acquisitions, however, the Company was able to expand its geographical market to include all of the United States, except Alaska. The Company historically targeted customers whose telecommunications usage needs generally do not qualify for major carriers' volume discounts or for the level of support services made available to higher volume users.

Marketing and Sales

The Company formerly marketed its services and products through two distinct channels of distribution: independent telemarketing and independent agents. Historically, the Company has also utilized field service personnel, and distributors in its marketing efforts, and has sold certain of its telecommunications services on a wholesale basis to smaller resellers.

As a result of the economic efficiencies afforded by using independent telemarketers, the Company had significantly increased its use of telemarketers during the fiscal 1998 year. In June 1997, the Company began a telemarketing campaign to promote its long distance services to small and medium sized businesses throughout the United States. The telemarketing campaign was curtailed at the end of October 1997. During the first quarter of the fiscal year ending April 30, 1999, the Company entered into a new marketing campaign to sign up customers using independent agents, aligned with affinity based marketing programs. This campaign was discontinued during the second quarter of the fiscal year ending April 30, 1999. The Company is no longer conducting, nor does it have any plans to conduct any marketing campaigns to attract new customers, since the Company has determined that it is currently unable to both

procure new customers, and achieve positive earnings after amortization of acquisition costs for these new customers. This is due to the competitive advantage held by facilities based carriers and Internet marketing enterprises. Many of these services and products are marketed by companies, which are well established, have reputations for success in the development and sale of services and products and have significantly greater financial, marketing, distribution, personnel and other resources than the Company. These resources permit such companies to implement extensive advertising and promotional campaigns, both generally and in response to efforts by additional competitors to enter into new markets and introduce new services and products. Certain of these competitors, including AT&T, MCI/WorldCom and Sprint, dominate the

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

industry and have the financial resources to enable them to withstand substantial price competition which has continued to increase.

Services and Products

The Company's principal services which have historically accounted for all of the Company's revenues, are its basic "1 plus" and "800" long distance services that the Company currently provides in forty-nine states.

The Company had applied to various state regulatory authorities for permission to offer local or intrastate telecommunication services. To date, the Company has not entered into any interconnection agreements with any Local Exchange Carrier to resell local service in any state. The Company has no current intentions to provide local service in any state.

The Company had historically experienced delays in provisioning (activating new customers) by its carriers. In an effort to improve provisioning efficiencies, beginning in the fourth quarter of its 1997 fiscal year, new customers of domestic switched, basic "1 plus" and "800" services have been provisioned through TALK's own nationwide telecommunications network, One Better Net ("TALK's OBN"). This network enables the Company to provide the quality of AT&T (now Lucent Technologies, Inc.) switches and AT&T-provided transmission facilities and billing services.

In a further effort to improve efficiencies, the Company had commenced "LEC billing" arrangements with the Regional Bell Operating Companies and local exchange carriers ("LEC") during the second quarter of fiscal year 1998. These LEC billing arrangements have improved billing efficiencies, increased collections and assisted in lowering customer attrition, however, there can be no assurance that such billing efficiencies, improved collections or customer retention will continue in the future.

Acquisitions

The Company operates in a highly fragmented segment of the telecommunications industry and historically expanded its operations through the acquisition of customer bases. The Company has no plans, agreements, commitments, understandings or arrangements with respect to any acquisition. For the three-year fiscal periods ended April 30, 2000, the Company had made the following acquisitions:

In August 1997, the Company acquired Eastern Telecommunications Incorporated ("ETI") which consisted of a customer base with monthly revenues exceeding \$100,000 and two warrants to purchase 1,347,000 shares of TALK common stock, at \$4.08 per share (the "Warrants"). The \$8.313 million purchase price for ETI consisted of two \$3.5 million notes, and the assumption of approximately \$1.2 million of certain of ETI's liabilities and the payment of closing costs in the amount of \$113,000. On August 11, 1997, the Company exercised one of the Warrants and purchased 600,000 shares of common stock of TALK at the aggregate exercise price of \$2,448,000. In October 1997, the Company exercised the remaining Warrant for \$747,000 and sold the TALK common stock for approximately \$26.6 million with a gain on sale of approximately \$13.4 million.

Proceeds from the sale of the TALK shares were used to retire the aggregate principal amount of \$7,000,000 in notes (plus accrued interest) due in connection with the ETI acquisition, together with certain related closing costs. The balance of the proceeds from the sale of the TALK shares was used to pay down debt and accounts payable owed to TALK, including payment of the balance of the loan outstanding to TALK in connection with the July 1996 acquisition of all of the common stock of Adventures-in-Telecom ("AIT") and marketing expenses incurred in connection with the Company's telemarketing efforts during the first half of fiscal year 1998.

Industry Background and Government Regulation

The Company's telecommunications services are subject to government regulation. Federal law regulates domestic interstate and international telecommunications, and state law regulates telecommunications that originate and terminate within the same state.

The telecommunications industry's structure has until recently been formed by a 1982 court decree (the "Consent Decree") between AT&T and the United States Department of Justice which required the divestiture by AT&T of its Bell operating companies and divided the country into 201 Local Areas and Transport Areas ("LATAs"). The 22 Bell operating companies, which were combined into seven Regional Bell Operating Companies ("RBOCs"), were allowed to provide local telephone service, local access service to long distance carriers and service within LATAs ("intraLATA service"). However, the right to provide service between LATAs ("InterLATA service") was restricted to AT&T and other long distance carriers.

To encourage competition in the long distance market, the Consent Decree and certain FCC regulations require most RBOCs and other local exchange carriers ("LECs") to provide access to local exchange services that is "equal in type, quality and price" to that provided to AT&T and with the opportunity to be selected by customers as their preferred long distance carrier. These "equal access" provisions are intended to prevent preferential treatment of AT&T by LECs and, with other regulatory, judicial and technological factors, have helped smaller companies to become competitive alternatives to AT&T, MCI/WorldCom ("MCI") and Sprint Corporation ("Sprint") for long distance services. Recently, Bell Atlantic, a RBOC, has received permission from the FCC to begin offering long distance service in the New York area.

The long distance industry has been significantly altered by two regulatory enactments. First, in October 1995, the FCC terminated AT&T's previous price cap regulations regarding service to residences and small businesses and now allows AT&T to file effective rate schedules on one day's notice, thereby limiting competitors' previous ability to protest such tariffs. These changes give AT&T increased flexibility that may permit it to compete more effectively with smaller long distance service providers, such as the Company, particularly in regard to the small business customers which compose the vast majority of the Company's customer base. Second, on February 8, 1996, the President signed the Telecommunications Act of 1996, designed to introduce more competition into U.S. telecommunications markets. This Act increases the potential for competition in both the long distance services market, by removing the prohibitions against RBOCs providing long distance services, and in the local services market by requiring LECs to permit interconnection to their networks, thus allowing long distance and regional carriers to compete in local markets. Due to these changes, the Company may be forced to compete with both RBOCs and long distance carriers to a greater degree than in the past.

In the wake of widespread adverse publicity, federal and state regulatory authorities have introduced more stringent rules governing changes in long distance telecommunication service providers. These new rules are a result of increased consumer complaints throughout the industry regarding "slamming" (the unauthorized switching of a customer's preselected telecommunication provider) and "cramming" (the unauthorized billing of additional telecommunication services not requested by the customer). In addition, both the Senate and Congress have passed legislation that would significantly increase the penalties and fines that are levied against telephone service providers for "slamming" and "cramming." Such rules may inhibit the ability of the Company to grow its

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

business. The Company may be required to submit to more vigorous screening of customers before switching their long distance service, which may make customers less likely to change carriers.

The telephone service providers themselves are taking action against those resellers of their services whom knowingly and intentionally perpetrate these illegal actions. Several states are requiring that each carrier assign to an individual reseller its own Carrier Identification Code ("CIC") thereby making the reseller rather than the long distance carrier responsible for any illegal changes in service provider. Most local exchange carriers, through which any changes in service must be initiated, have actively pushed a preferred presubscribed interexchange carrier ("PIC") freeze on all changes of a long distance carrier. This PIC freeze would now require the consumer to directly contact and authorize the local exchange carrier to change its distance carrier before any switch in carrier is made.

4

Any changes in the regulations may have detrimental effect on the Company's ability to attract new customers, since these new PIC freeze regulations have the effect of locking customers into their existing long distance service provider.

Federal Regulation. International non-dominant carriers must maintain tariffs on file with the FCC. The tariffs of non-dominant carriers, such as the Company, are presumed lawful and are seldom contested, although those tariffs and the rates and charges they specify are subject to FCC review.

In October 1996, the FCC adopted an order that required nondominant, interstate, interexchange carriers, such as the Company, to withdraw their tariffs, insofar as such tariffs apply to interstate services (the "Detariffing Order"). Recently, the United States Court of Appeals for the District of Columbia Circuit granted motions for stay of the Detariffing Order, pending judicial review. According to an FCC Public Notice, the result of this stay is that the tariffing rules in place prior to the effectiveness of the Detariffing Order are in effect, and nondominant carriers providing interstate, domestic interexchange services continue to be required to file tariffs pursuant to the FCC's Rules.

Among domestic local carriers, only the current LECs are presently classified by the FCC as dominant carriers for the provision of interstate access services. This means that the FCC regulates many of the LECs' rates, charges and services to a larger degree than the Company's. The FCC's regulation of LECs is expected to decrease over time, especially given the 1996 Telecommunications Act. The FCC has proposed that RBOCs that provide out-of-region long distance services be regulated as non-dominant carriers.

RBOC entry into the long distance market may mean that the Company will be faced with new competition from well-entrenched, well-capitalized and marketable companies, that consumers have had prior dealings with for local access service. This may allow these RBOCs due to their name recognition and established service practices to have a significant advantage in their ability to attract long distance customers and to offer long distance service as an adjunct to local service access.

However, the entry of a RBOC into the long distance telecommunication market is dependent on the RBOC fully opening its local exchange market to outside competitors and primarily the long distance carriers. To date no RBOC has been successful in its bid to offer long distance service as long as they fail to satisfactorily open their local exchange market. This situation may change in the near future and the Company will be faced with further competition

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

for customers.

State Regulation. The intrastate long distance operations of the Company are also subject to various state law and regulations, including prior certification, notification and registration requirements. The vast majority of states require the Company to apply for certification to provide intrastate telecommunications services, or at least to register or be found exempt from regulation, before commencing intrastate services. Most states also require the Company to file and maintain detailed tariffs listing their rates for intrastate service. Many states also impose various reporting requirements and/or require prior approval for transfers of control of certified carriers, assignment of carrier assets, including customer bases, carrier stock offerings and incurrence by carriers of significant debt obligations. Certificates of authority can generally be conditioned, modified, canceled, terminated or revoked by state regulatory authorities for failure to comply with state law and/or the rules, regulations and policies of the state regulatory authorities. Fines and other penalties may also be imposed for such violations.

The Company provides interstate and international long distance service in all or some portions of 49 states for which the Company has filed a tariff with the FCC. The Company is authorized, pursuant to state regulations, certifications, tariffs or notifications or on an unregulated basis, to provide intrastate service to all of the United States, except Alaska.

Competition

The Company faces intense competition in the marketing and sale of its services and products. Many of these services and products are marketed by companies, which are well established, have reputations for success in the development and sale of services and products and have significantly greater financial, marketing, distribution, personnel and other resources than the Company. This competition is increased as a result of the fact that the Company

has not engaged in any marketing activities since the second quarter of fiscal year 1999, and has no plans or arrangements to engage in any marketing activities. These resources permit such companies to implement extensive advertising and promotional campaigns, both generally and in response to efforts by additional competitors to enter into new markets and introduce new services and products. This is due to the competitive advantage held by facilities based carriers and Internet marketing enterprises. Certain of these competitors, including AT&T, MCI/WorldCom and Sprint, dominate the industry and have the financial resources to enable them to withstand substantial price competition which has continued to increase. These and other large telephone companies have also entered or have announced their intention to enter into the prepaid phone card and Internet segments of the telecommunications industry. The markets for telecommunications services and products are also characterized by rapidly changing technology and evolving industry standards, often resulting in product obsolescence or short product life cycles. The proliferation of new telecommunications technologies, including personal communication services, cellular telephone services and products and prepaid phone cards employing alternative "smart" card technologies, may reduce demand for traditional land-line long distance telephone services generally and the Company's services in particular. The Company's success will depend on the Company's ability to anticipate and respond to these and other factors affecting the industry, including changes in customer preferences, business and demographic trends, unfavorable general economic conditions and discount pricing strategies by competitors.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Regulatory changes may also result in significantly increased competition. In October 1995, the FCC terminated AT&T's designation as a dominant carrier, which made it easier for AT&T to compete directly with the Company for low volume commercial long distance customers. Also, the 1996 Telecommunications Act is designed to introduce increased competition in domestic telecommunications markets by facilitating the entry of any entity (including cable television companies and utilities) into both the long distance and local telecommunications markets. Consequently, this act increases the potential for increased competition by permitting long distance and regional carriers in local markets and the well-capitalized RBOCs and local exchange carriers in long distance markets.

Bell Atlantic, a RBOC, has received permission from the FCC and is offering long distance service in the New York area.

Employees

In October 1997, the Company outsourced its back office operations, which included collections, customer service and provisioning, reducing its workforce. As of April 30, 2000, the Company employed three full-time employees.

Item 2. Description of Property

The Company's offices were relocated on November 22, 1999 to 6600 N. Andrews Avenue, Suite 140, Fort Lauderdale, Florida, which comprises 910 square feet and are leased by the Company under an extension to six-month sub-lease that expires in September 2000. The Company pays rent of approximately \$2,000 per month. Previously, the Company was located at 1451 W. Cypress Creek Road, Suite 200, Fort Lauderdale, Florida comprising of 7,950 square feet and paid rent of approximately \$8,000 per month.

The Company believes its existing facility is adequate to meet current needs and it does not anticipate any difficulty in negotiating renewals as leases expire or in finding other satisfactory space if existing facilities become unavailable.

Item 3. Legal Proceedings

The Company is from time to time the subject of complaints or litigation in the ordinary course of its business. Except as disclosed, the Company believes that such lawsuits, claims and other legal matters to which it has become subject are not material to the Company's financial condition or results of operations, but an existing or future lawsuit or claim resulting in an unfavorable outcome to the Company could have a material adverse effect on the Company's financial condition and results of operations.

6

Item 4. Submission of Matters to a Vote of Securities Holders

On March 14, 2000 an Annual Meeting of the Shareholders of the Company was held to vote on two proposals; Proposal One was to elect two (2) class 3 directors of the Company to serve until the annual meeting of shareholders in 2002 and until their respective successors are duly elected and qualified and Proposal Two was to elect Grant Thornton LLP as the independent public accountants of the Company for the Fiscal Year ending April 30, 2000.

The Meeting approved Proposal One for Stanley Gottlieb as director of the Company; 2,199,876 Votes for, 531,845 Votes Withheld and Jack Kanfer as director of the Company; 2,201,076 Votes for, 530,645 Votes Withheld.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

The Class 1 directors, Messrs. Glenn Koach and John Tomlinson, will continue in office until the 2001 Annual Meeting of Shareholders; the Class 2 director, Mr. Edward Harwood, will continue in office until the 2002 Annual Meeting of Shareholders; and the Class 3 directors, Messrs. Stanley Gottlieb and Jack Kanfer will continue in office until the 2003 Annual Meeting of Shareholders.

The Meeting approved Proposal Two to elect Grant Thornton LLP as the independent public accountants of the Company; 2,282,776 Votes for, 43,000 Votes Against, 0 Abstain.

No further matters came before the Annual Meeting.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Price Range of Common Stock. Since December 2, 1999, the Common Stock has traded on a limited basis on the pink sheets and previously on the OTC Bulletin Board from December 2, 1998 until December 1, 1999, under the symbol "GLDI." The Company was taken off the OTC Bulletin Board for failing to fulfill all of its reporting requirements pursuant to the Exchange Act of 1934, as amended. The Company subsequently filed all its outstanding Quarterly Reports for the first and second quarters of fiscal year 2000 and held an Annual Shareholders Meeting on March 14, 2000. The Company was delisted from the Nasdaq SmallCap Market and the Boston Stock Exchange ("BSE") on December 2, 1998. Since March 31, 1997, the date the following shares first traded on the Nasdaq SmallCap Market, the Common Stock were quoted on the Nasdaq SmallCap Market under the symbols "GLDI" and "GLDIW," respectively, and on the BSE under the symbols "GPL" and "GPLW," respectively. Prior to March 31, 1997, the Common Stock traded on a limited basis on the OTC Bulletin Board, under the symbol "GLDT" and prior to that date, the redeemable warrants did not trade. The redeemable warrants expired on March 24, 2000.

The following sets forth, for the periods indicated, high and low per share bid information for the Common Stock reported on the Nasdaq SmallCap Market and the OTC Bulletin Board. Such high and low bid information reflect inter-dealer quotas without retail, mark-up, mark down or commissions and may not represent actual transactions:

| | For the pe beginni May 1, 199 Ending Apri 2000 ---- |
|---------------------|--|
| | High ---- |
| First Quarter..... | \$0.75 |
| Second Quarter..... | 0.250 |
| Third Quarter..... | 0.850 |
| Fourth Quarter..... | 0.900 |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | For the pe beginni May 1, 199 Ending Apri 1999 ---- |
|---------------------|--|
| | High ---- |
| First Quarter..... | \$3.000 |
| Second Quarter..... | 2.250 |
| Third Quarter..... | 1.250 |
| Fourth Quarter..... | 1.125 |

Dividend Information. The Company has not paid any cash dividends to date and does not anticipate or contemplate paying dividends in the foreseeable future. It is the present intention of management to utilize all available funds for the development of the Company's business.

Approximate Number of Security Holders. As of April 30, 2000, the Company had approximately 120 registered holders of record of the Common Stock.

Item 6. Management's Discussion and Analysis

Overview

Group Long Distance, Inc. (the "Company") is a long distance telecommunications provider. See Item 1. Description of Business for more detailed discussion. .

On December 8, 1999, the Company entered into the TALK Agreement. See Item 1. "Description of Business - The Company", above.

The Company is no longer conducting and has no plans to conduct any marketing campaigns to attract new customers, since the Company has determined that it is currently unable to both procure new customers, and achieve positive earnings after amortization of acquisition costs for these new customers. See Item 1. Description of Business - Competition for more detailed discussion.

The Company's operating results are significantly affected by customer attrition rates, particularly since the Company is no longer marketing its services. The Company believes that a high level of customer attrition in the industry is primarily a result of national advertising campaigns, telemarketing programs and customer incentives provided by major competitors, as well as the termination of service for non-payment.

Acquisitions

The Company had historically grown its business, in part, by increasing its business through acquisition. The Company has no plans, intentions or arrangements to enter into any acquisitions of a customer base. See Item 1- Description of Business - Agreement and Plan of Merger above.

Sale of Customer Base and Agreement and Plan of Merger

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

On or about April 30, 2000, the Company executed various agreements with Coyote and a wholly owned subsidiary of Coyote. See Item 1. "Description of Business", above.

As a result of the sale of a customer base pursuant to the Asset Purchase Agreement, the Company's revenues will be lower in the fiscal year ended April 30, 2001 and thereafter.

8

Results of Operations

The following table sets forth for the periods indicated the percentages of total sales represented by certain items reflected in the Company's consolidated statements of operations:

| | Year Ended April |
|--|------------------|
| | 2000 |
| | ---- |
| Sales..... | 100% |
| Cost of sales..... | 38 |
| Gross profit..... | 62 |
| Selling, general and administrative expense..... | 14 |
| Depreciation and amortization expense..... | * |
| Volume Shortfall Charge..... | -- |
| Income from operations..... | 48 |
| Gain on sale of customer base..... | 7 |
| Interest expense, net..... | * |
| Income before income taxes..... | 55 |
| Income taxes..... | 6 |
| Net Income | 49 |

* Less than 1 percent.

9

Comparison of Fiscal Year Ended April 30, 2000 to Fiscal Year Ended April 30, 1999

Sales. The Company's sales were \$13,736,337 for the fiscal year ended April 30, 2000, compared to \$22,837,340 for the fiscal year ended April 30, 1999, a decrease of \$9,101,003 or approximately 40%. Sales for the fiscal year ended April 30, 2000 includes deferred revenue being recognized as income in the current fiscal year ended April 30, 2000 of \$3,012,244 as a result of the TALK Agreement. The remaining \$12.1 million decrease in sales was the attrition of the customer base as the Company ceased all marketing activities in the third quarter of fiscal year 1998 and is currently not marketing its products and services. Management believes that the attrition of the customer base is normal for the industry. The Company has determined that it is currently difficult to both procure new customers and achieve positive earnings after amortization of acquisition costs for these new customers. This is due to the competitive advantage held by facilities based carriers and Internet marketing enterprises. Because the Company is not currently marketing its products and services, and after taking into account the sale of a customer base, the Company's revenues are likely to continue to decline. The Company anticipates this trend to

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

continue through the rest of the fiscal year ending April 30, 2001, and thereafter. During the fiscal year ended April 30, 2000 the Company had revenues from this customer base of approximately \$1.7 million and approximately \$3.8 million for the fiscal year ended April 30, 1999.

Cost of Sales. Cost of sales were \$5,230,837 for the fiscal year ended April 30, 2000, compared to \$11,834,036 for the fiscal year ended April 30, 1999, a decrease of \$6,603,199 or approximately 56%. As a percentage of sales, cost of sales was approximately 38% and 52% for the fiscal year ended April 30, 2000 and April 30, 1999, respectively. The decrease in cost of sales between comparative periods was due to the decrease in revenues as a result of customer attrition. The 14% decrease in cost of sales as a percentage of sales in the current fiscal year is primarily as a result of the effect of the recognition of the deferred revenue in the current quarter without a corresponding charge (approximately 10%), the Company being able to better negotiate its buy rate from its carrier as a result of the TALK Agreement (approximately 2%) and a change in the mix of customer base from the fiscal year ended April 30, 1999 (approximately 2%). As a percentage of sales after adjusting for deferred revenues, cost of sales was approximately 49% and 52% for the fiscal year ended April 30, 2000 and April 30, 1999, respectively. Cost of sales are expected to further decline for the fiscal year ended April 30, 2001, and thereafter, as a result of the sale of a customer base. During the fiscal year ended April 30, 2000 the Company had cost of sales from this customer base of approximately \$1.2 million and approximately \$2.7 million for the fiscal year ended April 30, 1999.

Gross Profit. Gross profit was \$8,505,500 for the fiscal year ended April 30, 2000 compared to \$11,003,304 for the fiscal year ended April 30, 1999, a decrease of \$2,497,804 or approximately 22%. As a percentage of sales, gross profit was 62% and 48% for the fiscal year ended April 30, 2000 and April 30, 1999, respectively. The 14% increase in gross profit percentages in the fiscal year ended April 30, 2000 was primarily as a result of the effect of the recognition of the deferred revenue in the current quarter without a corresponding charge (approximately 10%), a lower buy rate from the carrier (approximately 2%) and improved margins on, and a change in the mix of customer base (approximately 2%) from the fiscal ended April 30, 1999. Gross Profit, after adjusting for the effect of the recognition of the deferred revenues of \$3,012,244 was \$ 5,493,256 for the fiscal year April 30, 2000, a decrease compared to the previous fiscal year of \$ 5,510,048 or 50%. As a percentage of sales after adjusting for deferred revenues, gross margin was approximately 51% and 48% for the fiscal year ended April 30, 2000 and April 30, 1999, respectively.

Selling, General and Administrative Expense. Selling, general and administrative expenses ("SG&A") were \$1,961,578 for the fiscal year ended April 30, 2000 compared to \$3,463,625 for the fiscal year ended April 30, 1999, a decrease of \$1,502,047 or approximately 43%. This decrease in SG&A was due to the reduced sales volumes- accounting for approximately \$ 405,000 of the decrease, lower bad debt expense - accounting for approximately \$ 657,000 of the decrease, and a significant reduction in operating expenses - accounting for approximately \$440,000 of the decrease as compared to the year ended April 30, 1999. As a percentage of sales, SG&A for the fiscal year ended April 30, 2000 and 1999 was approximately 14% and 15%, respectively. This decrease was due to a reduction in costs as a result of lower sales and significantly reduced operating expenses.

10

SG&A expenses for the fiscal year ended April 30, 2000 included two Severance Packages totaling \$310,000 for Messrs. Dunne, former President and Chief Executive Officer of the Company, and Russo, former Chief Financial Officer of the Company.

Depreciation and Amortization Expense. Depreciation and amortization

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

expense was \$15,368 for the fiscal year ended April 30, 2000 compared to \$1,019,087 for the fiscal year ended April 30, 1999, a decrease of \$1,003,719 or approximately 98%. The significant reduction in depreciation and amortization for the fiscal year ended April 30, 2000 was attributable to the customer acquisition costs having been fully amortized as of April 30, 1999. This amortization was primarily a result of the acquisition of the AIT customer base. As a percentage of sales, depreciation and amortization expense was less than 1% and approximately 5% for the fiscal year ended April 30, 2000 and April 30, 1999, respectively.

Volume Shortfall Charge. There was no volume shortfall charge for the year ended April 30, 2000. The volume shortfall charge for the fiscal year ended April 30, 1999 of \$1.1 million resulted from the Settlement set forth in the TALK Agreement.

Gain on Sale of Customer Base. There was a gain on sale of a customer base of \$1 million for the fiscal year ended April 30, 2000. The gain on sale of the customer base for the fiscal year ended April 30, 2000 resulted from the Company entering into an Asset Purchase Agreement with a wholly owned subsidiary of Coyote. See Item 1. "Description of Business - Sale of Customer Base," above. Under the Agreement the Company sold a customer base, which includes certain of the Company's customers under a series of related sites. The acquisition costs for this customer base had already been written off in full and therefore the entire sale price was recorded as a gain in the fiscal year ended April 30, 2000. Outside direct costs on this transaction were deemed to be immaterial.

Interest Income (expense), Net. Interest income (net) for the fiscal year ended April 30, 2000 was \$3,825 compared to an interest expense of \$83,094 for the fiscal year ended April 30, 1999. The interest income for the fiscal year ended April 30, 2000 was interest earned as a result of a positive cash balance, offset by interest paid on income taxes due for the year ended April 30, 1999. The interest expense for the fiscal year ended April 30, 1999 was primarily due to interest paid on a Note payable to WorldCom under a settlement agreement. This Note was subsequently settled during the fiscal 1999 year.

Income Taxes. Income tax expense of \$867,511 was provided for the fiscal year ended April 30, 2000 compared to \$1,769,900 for the year ended April 30, 1999. The decrease in the income tax expense for the year ended April 30, 2000 was a result of realization of tax effects caused by a reduction in the valuation allowance due to the sale of a customer base.

Net Income. The Company had a net income of \$6,664,868, or net income of \$1.90 per share, for the fiscal year ended April 30, 2000, as compared to net income of \$3,567,598, or \$1.02 per share, for the year ended April 30, 1999. The net income for the fiscal year ended April 30, 2000 was after taking into account the gain on sale of customer base of \$1,000,000 and deferred revenue being recognized as income in the current fiscal year ended April 30, 2000 of \$3,012,244 as a result of the TALK Agreement. The net income for the fiscal year ended April 30, 1999 was affected by the volume shortfall charge of \$1,100,000.

Liquidity and Capital Resources

The Company's primary cash requirements have historically been to fund the acquisition of customer bases and increased levels of accounts receivable, which have required substantial working capital. The Company had historically satisfied its working capital requirements principally through cash flow from operations (including advances from TALK) and borrowings from institutions and carriers. Currently the Company has positive cash flow and cash resources to meet current levels of expenditure.

At April 30, 2000, the Company had a working capital surplus of \$1,131,488, as compared to working capital deficit of \$4,377,357 at April 30, 1999. The

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

working capital surplus for the fiscal year was largely due to cash on hand as a result of the release of all funds related to the TALK Agreement. The working capital deficit during the fiscal year ended April 30, 1999 was largely due to the deferred revenue of approximately \$3 million, which included funds, held by

11

TALK under a lockbox arrangement for which repayment was uncertain. The uncertainty related to a volume shortfall charge based on monthly minimum volume commitments as at April 30, 1999, which was resolved by the TALK Agreement. The deferred revenue was recognized in the third quarter of the fiscal year ending April 30, 2000.

Net cash provided by operating activities was \$1,695,401 for the fiscal year ended April 30, 2000 as compared to cash provided by operating activities of \$1,280,607 for the fiscal year ended April 30, 1999. The cash provided by operating activities for the fiscal year ended April 30, 2000 is primarily attributable to net income from operating activities, a reversal of deferred revenue and offset by a decrease in volume shortfall charge payable and income taxes payable. For the fiscal year ended April 30, 1999, the cash provided by operating activities is primarily attributable to net income from operating activities, a decrease in accounts receivables and offset by a decrease in accounts payable as a result of repayment of debt.

Net cash provided by investing activities was \$41,920 for the fiscal year ended April 30, 2000, as compared to no cash provided by investing activities for the fiscal year ended April 30, 1999. The cash provided by investing activities was the result of the sale of a customer base and the receipt of a payment in terms of the sale agreement.

No cash was used in financing activities for the fiscal year ended April 30, 2000 as compared to \$1,081,623 for the fiscal year ended April 30, 1999. For the fiscal year ended April 30, 1999 the cash used in financing activities was primarily attributable to paying down debt and accounts payable owed to TALK, including payment of the balance of the loan outstanding to TALK in connection with the July 1996 acquisition of all of the common stock of AIT and marketing expenses incurred in connection with the Company's telemarketing efforts during the 1998 fiscal year. At April 30, 2000, the Company had cash of \$2,240,267.

The Company's gross accounts receivable decreased by \$1,027,678 during the fiscal year ended April 30, 2000 to \$651,783 from \$1,679,461 during the prior period. Accounts receivable were 10% of total assets at April 30, 2000, compared to 71% of total assets at April 30, 1999. The Company's allowance for doubtful accounts decreased by approximately \$129,000, to \$259,000 compared to \$388,000 in the prior period.

Total current liabilities decreased during the fiscal year ended April 30, 2000 by \$4,542,909 to \$1,635,010 from \$6,177,919 as compared to the fiscal year ended April 30, 1999. The decrease was a result of the recognition of deferred revenues in the current fiscal year ended April 30, 2000, and lower income taxes payable.

At April 30, 2000, the Company's allowance for doubtful accounts was approximately \$259,000 as compared to approximately \$388,000 at April 30, 1999, which the Company believes is currently adequate for the size and nature of its receivables. Nevertheless, delays in collection or uncollectibility of accounts receivable could have a adverse effect on the Company's liquidity and working capital position and could require the Company to continually increase its allowance for doubtful accounts. Bad debt expense accounted for 5% of the Company's adjusted revenues before deferred revenues for the fiscal year ended

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

April 30, 2000 and 6% of the Company's revenues for the fiscal year ended April 30, 1999.

Effects of Inflation

The Company does not believe that inflation has had a significant impact on its operations for the fiscal year ended April 30, 2000.

Recent Accounting Pronouncements

In June 1998 the FASB issued statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." FAS No. 133 establishes standards for accounting and reporting for derivative instruments, and conforms the requirements for treatment of different types of hedging activities, and was amended by FAS No. 138. This statement is effective for all fiscal years beginning after June 15, 2000. Management does not expect this standard to have a significant impact on the Company's operations.

12

Factors That Could Affect Operating Results

This Annual Report on Form 10-KSB contains forward-looking statements. Additional written and oral forward-looking statements may be made by the Company from time to time in Securities and Exchange Commission ("SEC") filings and otherwise. The Company cautions readers that results predicted by forward-looking statements, including, without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to the following factors, among other risks and factors identified from time to time in the Company's filings with the SEC:

- o The Company has entered into an Agreement and Plan of Merger with Coyote. See Item 1. "Description of Business - Agreement and Plan of Merger," above. No assurances can be given that the merger will, in fact, be closed or the timing of such closing.
- o The Company has sold a customer base. See Item 1. "Description of Business - Sale of Customer Base," above. As a result, the Company's revenues and gross profit will be lower in the year ended April 30, 2001 and thereafter. During the fiscal year ended April 30, 2000 the Company had revenues from this customer base of approximately \$1.7 million and million and approximately \$3.8 million for the fiscal year ended April 30, 1999.
- o The Company's operations are based upon an agreement with a TALK a long-distance carrier who provides access to phone lines and transmission facilities. The Company is dependent upon such carrier for such services, and there is a reasonable possibility that there could be equipment failures or other service interruptions that could materially affect the Company. Such delays could result in postponed or possibly lost sales, which could adversely affect the Company's results from operations.
- o All of the Company's revenues are derived from calls routed through TALK, a nationwide telecommunications provider for fiscal years April 30 2000 and 1999. Such revenues represented 96% of total revenues for the year ended April 30, 1998. Poor performance by TALK could have

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

material adverse affect on the Company's operating results.

- o The Company's operating results are significantly affected by customer attrition rates. Customers are not obligated to purchase any minimum usage and may discontinue service without penalty at any time. The Company is not currently marketing its products or services.
- o The Company is not currently marketing its products and services and therefore, the Company's revenues are likely to continue to decline. This is due to the competitive advantage held by facilities based carriers and Internet marketing enterprises. Also, the Company has determined that it is currently difficult to both procure new customers and achieve positive earnings after amortization of acquisition costs for these new customers.
- o The Company faces intense competition in the sale of its services and products. Many of these services and products are marketed by companies that are well established and have significantly greater financial resources than the Company. The Company is not engaging in any marketing activities due to the Company having determined that it is currently difficult to both procure new customers and achieve positive earnings after amortization of acquisition costs for these new customers. Because the reseller segment of the telecommunications industry has no substantial barriers to entry, competition from smaller resellers in the Company's target markets is also expected to continue to increase significantly. Recent regulatory changes may also result in significantly increased competition.
- o The Company is subject to federal and state regulation. Failure to comply with applicable laws, regulations and licensing requirements could result in civil penalties, including substantial fines, and certificates of authority may be conditioned, modified, canceled, terminated or revoked, any of which could have a material adverse effect on the Company.
- o As a result of increased federal and state regulations governing the telemarketing of telecommunication services. These regulations addressed the issues of "slamming" (the unauthorized switching of a customer's preselected telecommunications provider) and "cramming" (the unauthorized billing of additional telecommunication services not requested by the customer) as they affect consumers and require far more stringent rules before switching a customers service to the Company's network. See "Industry Background and Government Regulation."

13

- o RBOC entry into the long distance market may mean that the Company will be faced with new competition from well-entrenched, well-capitalized and marketable companies, that consumers have had prior dealings with for local access service. This may allow these RBOCs due to their name recognition and established service practices to have a significant advantage in their ability to attract long distance customers and to offer long distance service as an adjunct to local service access.

Item 7. Financial Statements

The consolidated financial statements of the Company are filed as part of this Form 10-KSB are set forth on pages F-2 to F-18. The report of Grant Thornton LLP, independent certified public accountants, dated July 14, 2000

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

(except for Note K, as to which date is July 31, 2000).

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

14

PART III

Item 9. Directors and Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Glenn S. Koach, 44, a former Director was appointed President on October 13, 1999. Mr. Koach was appointed as the Company's Executive Vice President on August 1, 1999 and a Director on September 11, 1999. Mr. Koach succeeded Mr. Russo as a Class 1 Director upon Mr. Russo's resignation. Mr. Koach is a Certified Public Accountant and had been a Principal and Investment Manager of Riverside Capital Advisors, an investment company based in South Florida. Mr. Koach has served as Chairman of the Board of Metro Airlines from 1994 to 1997, and is also President of Harvard Corporation, a private real estate investment company.

Sam D. Hitner, 42, On November 18, 1999, Mr. Hitner was appointed Chief Financial Officer by the Board of Directors of the Company. Mr. Hitner had been the Acting Chief Financial Officer since September 11, 1999 having assumed the responsibilities of Mr. Russo in such capacity and previously was the Controller of the Company since August 1995. He has been the Company Secretary since October 1997. From November 1994 to August 1995, Mr. Hitner was employed with John L. Tomlinson C.P.A., P.A., as a tax consultant.

Stanley A. Gottlieb, 69, has been a Class 3 Director of the Company since December 1997. Since 1966, Mr. Gottlieb is an Attorney, and prior to his retirement in December 1997, held various positions at The Hearst Corporation, most recently as Vice President-Taxes, and continues to act as Senior Tax consultant to The Hearst Corporation.

Edward Harwood, 73, has been a Class 2 Director of the Company since September 1995. Mr. Harwood retired in 1989. For the 19 years prior to his retirement, Mr. Harwood held various executive positions with Gould Electronics Corporation, a computer manufacturing company.

Jack Kanfer, 63, has been a Class 3 Director of the Company since December 21, 1999. Mr. Kanfer succeeded Mr. Dunne as a Director, upon his resignation.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Since 1987, Mr. Kanfer has been CEO and Director of Telecom Consulting Group and B&D Telecom Corp., both privately held telecommunication companies located in Pompano Beach, Florida. From 1976 to 1987 Mr. Kanfer was a consultant specializing in turnarounds, mergers and acquisitions. Prior to 1976, Mr. Kanfer was a Senior Vice President of SCA Services a New York Stock Exchange listed company that was acquired by Waste Management.

John L. Tomlinson, 51, was appointed Chairman of the Board on October 13, 1999 upon Mr. Dunne's resignation and has been a Class 1 Director of the Company since November 1995. In May 1999, Mr. Tomlinson was appointed as a Vice President of the Company. Mr. Tomlinson is a Certified Public Accountant and has been in private practice since 1990. Mr. Tomlinson also serves as a director of Gateway American Bank of Florida.

There are no family relationships between any of the Officers and Directors of the Company.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10 percent of any registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the "SEC") reports of ownership of the Common Stock of the Company. Reporting persons are required by SEC regulation to furnish the Company with copies of all such reports that they file. The Company believes that all of its directors and executive officers are delinquent in filing certain reports. In August, 2000, Messrs. Koach, Hitner, Gottlieb, Harwood, Kanfer and Tomlinson, filed various Forms 3 and 4. At this time the Company believes that all of its director and executive officers have filed all required reports.

15

Item 10. Executive Compensation

The following table sets forth the compensation awarded or paid to, or earned by, the Company's President and Chief Executive Officer during the fiscal years ended April 30, 2000, 1999 and 1998. No other executive officer of the Company currently or formerly serving as an executive officer received a total salary and bonus of \$100,000 for the fiscal year ended April 30, 2000. Accordingly, no information is reported for such persons.

Summary Compensation Table

| Name and Principal Position | Fiscal Year | Annual Compensation | | | Long Term Incentive Plan Award |
|-----------------------------|-------------|---------------------|------------|--------------------------------|----------------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | |
| | | | | | Underlying Securities Option (#) |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | | | | | |
|--|------|-----------|-----------|---------------|---------|
| Glenn S. Koach | 2000 | \$103,952 | \$15,000 | \$4,112 (1) | 500,000 |
| President and Chief Executive Officer | 1999 | -- | -- | -- | -- |
| | 1998 | -- | -- | -- | -- |
| Sam D. Hitner | 2000 | \$81,315 | \$7,500 | \$3,320 (4) | 25,000 |
| Chief Financial Officer | | | | | |
| Gerald M. Dunne, Jr. (6) | 2000 | \$269,686 | \$27,000 | \$31,285 (7) | -- |
| Former Chairman, Chief Executive Officer and President | 1999 | \$165,000 | \$36,000 | \$17,801 (7) | -- |
| | 1998 | \$150,000 | \$255,000 | \$21,296 (7) | -- |
| Peter J. Russo (10) | 2000 | \$165,847 | \$6,000 | \$4,287 (11) | -- |
| Former Chief Financial Officer | 1999 | \$100,000 | \$18,000 | \$10,043 (11) | -- |
| | 1998 | \$85,000 | \$70,000 | \$9,132 (11) | -- |

- (1) In October 1999 Mr. Koach was appointed President and Chief Executive Officer of the Company and its subsidiaries. For Mr. Koach. - Fiscal 2000 amount includes auto expenses of \$3,500 and medical expense coverage of \$612.
- (2) On November 18, 1999 the Company's Board of Directors granted to Mr. Koach 500,000 options to purchase shares of the Company's Common Stock. 100,000 options may be exercised at a price of \$.20 per share, 100,000 options may be exercised at a price of \$.40 per share, 100,000 options may be exercised at a price of \$.60 per share, 100,000 options may be exercised at a price of \$.80 per share and 100,000 options may be exercised at a price of \$1.00 per share. All options expire on November 18, 2004.
- (3) In January 2000, the Company commenced its SIMPLE IRA plan. The amount reported represents the Company's matching contribution for the fiscal year ended April 30, 2000.
- (4) On September 11, 1999 Mr. Hitner was appointed Chief Financial Officer of the Company. For Mr. Hitner. - Fiscal 2000 amount includes medical expense coverage of \$3,320.
- (5) Mr. Hitner has been granted 25,000 stock options under the Company's 1996 Stock Option Plan to purchase shares of the Company's Common Stock. 10,000 options may be exercised at a price of \$.20 per share (that were repriced on December 22, 1999, from 1.375 per share), 8,750 options may be exercised at a price of \$.40 per share (that were repriced on December 22, 1999, from 1.375 per share) and 6,250 options may be exercised at a price of \$0.50 per share. All options expire on December 22, 2004.

- (6) On October 13, 1999, Mr. Gerald M. Dunne, Jr. ("Dunne") resigned as President, Chief Executive Officer and a Director of the Company and each of its subsidiaries. In connection with Dunne's resignation, on October 13, 1999, the Company and Dunne entered into a Separation Agreement pursuant to which the Company agreed to pay Dunne severance pay of \$190,000, less all applicable employment withholding taxes. The remaining \$133,000 was paid by the Company during the current fiscal year ended April 30, 2000 in such amounts, to such parties, at such dates and upon the satisfaction of certain conditions as set forth in the Separation

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Agreement. The \$190,000 severance pay has been included in the above table under salary for the year ended April 30, 2000.

- (7) For Mr. Dunne, Jr. - Fiscal 2000 amount includes auto expenses of \$24,846 and medical expense coverage of \$6439; Fiscal 1999 amount includes auto expenses of \$11,982 and medical expense coverage of \$5,819; Fiscal 1998 amount includes auto expenses of \$17,123 and medical expense coverage of \$4,173.
- (8) On July 2, 1998 the Company's Board of Directors granted 75,000 options and 30,000 options to purchase shares of Common Stock at \$1.375 a share to Mr. Dunne and Mr. Russo, respectively. These options have both subsequently terminated.

On October 9, 1998 the Company's Board of Directors granted 125,000 options and 50,000 options to purchase shares of Common Stock at \$0.50 a share to Mr. Dunne and Mr. Russo, respectively. These options have both subsequently terminated.
- (9) In April 1997, the Company commenced its 401(k) plan. The amount reported represents the Company's matching contribution for the fiscal year ended April 30, 1999. The plan was terminated in March 1999.
- (10) On September 11, 1999, Mr. Peter J. Russo ("Russo") resigned as Chief Financial Officer and a Director of the Company and its subsidiaries. In connection with Russo's resignation, on September 11, 1999 the Company and Russo entered into a Separation Agreement pursuant to which the Company agreed to pay to Russo severance pay of \$120,000, \$60,000 of which was paid on September 11, 1999 and \$60,000 payable in \$10,000 monthly payments in connection with the Separation Agreement. As at April 30, 2000, the Company had paid all monies pursuant to the Separation Agreement. The \$120,000 severance pay has been included in the above table under salary for the year ended April 30, 2000.
- (11) For Mr. Russo - Fiscal 2000 amount includes auto expenses of \$2,383 and medical expense coverage of \$1,904; Fiscal 1999 amount includes auto expenses of \$4,800 and medical expense coverage of \$5,243; Fiscal 1998 amount includes auto expenses of \$4,800 and medical expense coverage of \$4,032;

Employment Agreements

In November 1999, the Company and Mr. Koach entered into a one-year employment agreement providing for his employment as the Company's President and Chief Executive Officer with an annual base salary of \$150,000 per year. The agreement shall be automatically renewed for one-year periods, unless either party to the agreement gives written notice to the other party not less than ninety (90) days prior to the expiration of such period. The agreement provides for a bonus based on the Company's performance, profitability, positive cash flow and other factors as may be determined by the Option and Compensation Committee of the Board of Directors. The agreement provides that in the event of termination for cause, Mr. Koach shall not be entitled to receive any further installments of base salary or other compensation, including severance payments. In the event of termination without cause, Mr. Koach will receive a severance payment equal to three months of his then annual base salary. The agreement also includes a three-month agreement not to compete commencing on the date of termination.

In February 2000, the Company and Mr. Hitner entered into a one-year employment agreement providing for his employment as the Company's Chief Financial Officer with an annual base salary of \$85,000 per year. The agreement shall be automatically renewed for one-year periods, unless either party to the

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

agreement gives written notice to the other party not less than ninety days (90)

17

prior to the expiration of such period. The agreement provides for a bonus based on the Company's performance, profitability, positive cash flow and other factors as may be determined by the President of the Company. Mr. Hitner shall also be entitled to stock options in accordance with the Company's 1996 Stock Option. The agreement provides that in the event of termination for cause, Mr. Hitner shall not be entitled to receive any further installments of base salary or other compensation, including severance payments. In the event of termination without cause, Mr. Hitner will receive a severance payment equal to six months of his then annual base salary and all benefits. The agreement also includes a six-month agreement not to compete commencing on the date of termination.

The following table provides certain information regarding the stock options granted during the year ended April 30, 2000 to certain of the Company's executive officers and former executive officers named in the Summary Compensation Table.

Option Grants For the Fiscal Year Ended April 30, 2000

| Name | Number of Securities Underlying Options Granted (#) (1) | % of Total Options Granted to Employees in Fiscal Year | Exercise of Base Price \$/Share |
|--|---|--|---------------------------------|
| Glenn S. Koach President and Chief Executive Officer | 500,000 (1) | 100% | -- |
| Sam D. Hitner Chief Financial Officer | -- | -- | -- |
| Gerald M. Dunne, Jr. Former Chairman, Chief Executive Officer and President | -- (2) | -- | -- |
| Peter J. Russo Former Chief Financial Officer | -- (2) | -- | -- |

(1) On November 18, 1999 the Company's Board of Directors granted to Mr. Koach 500,000 options to purchase shares of the Company's Common Stock. 100,000 options may be exercised at a price of \$.20 per share, 100,000 options may be exercised at a price of \$.40 per share, 100,000 shares of Common Stock at an exercise price of \$.60 per share, 100,000 options may be exercised at a price of \$.80 per share and 100,000 options may be exercised at a price of \$1.00 per share. All options expire on November 18, 2004.

(2) These two executive officers named in the above table, have terminated their employment with the Company, and all options have expired.

The following table sets forth certain information for the executive officers and former executive officers named in the Summary Compensation Table with respect to the exercise of options to purchase Common Stock during the fiscal year ended April 30, 2000 and the number and value of securities underlying unexercised options held by these former executive officers as of April 30, 2000.

Aggregated Option Exercises In the Year Ended
April 30, 2000 and Fiscal Year-End Option Values

| Name | Shares Acquired on Exercise (#) | Value Realized | Number of Securities Underlying Unexercised Options Held at April 30, 2000 Exercisable/Unexercisable | Val In- at Exerc |
|--|---------------------------------------|----------------|--|---------------------------|
| Glenn S. Koach President and Chief Executive Officer | -- | -- | 500,000/0 (1) | |
| Sam D. Hitner Chief Financial Officer | -- | -- | 25,000/0 (2) | |
| Gerald M. Dunne, Jr. Former Chairman, Chief Executive Officer and President | -- | -- | 0/0 (3) | |
| Peter J. Russo Former Chief Financial Officer | -- | -- | 0/0 (3) | |

- (1) On November 18, 1999 the Company's Board of Directors granted to Mr. Koach 500,000 options to purchase shares of the Company's Common Stock. 100,000 options may be exercised at a price of \$.20 per share, 100,000 options may be exercised at a price of \$.40 per share, 100,000 options may be exercised at a price of \$.60 per share, 100,000 options may be exercised at a price of \$.80 per share and 100,000 options may be exercised at a price of \$1.00 per share. All options expire on November 18, 2004.
- (2) Mr. Hitner has been granted 25,000 stock options under the Company's 1996 Stock Option Plan to purchase shares of the Company's Common Stock. 10,000 options may be exercised at a price of \$.20 per share (that were repriced on December 22, 1999, from 1.375 per share), 8,750 options may be exercised at a price of \$.40 per share (that were repriced on December 22, 1999, from 1.375 per share) and 6,250 options may be exercised at a price of \$.50 per share. All options expire on December 22, 2004.
- (3) These two executive officers named in the above table, have terminated their employment with the Company, and all options have expired.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

19

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, known to the Company with respect to the beneficial ownership of its Common Stock as of April 30, 2000 for (i) each person who is known to the Company to own beneficially more than 5% of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the Company's executive officers and (iv) all directors and executive officers as a group.

| Name | Number of Shares Beneficially Owned |
|--|---|
| Mr. Glenn S. Koach, President and Chief Executive Officer and Director (2) | 540,966(3) |
| Mr. Sam D. Hitner, Chief Financial Officer and Secretary (4) | 29,000(5) |
| Mr. John L. Tomlinson, Chairman of the Board, Vice President and Director | 39,066(7) |
| Mr. Edward Harwood, Director | 99,668(7) |
| Mr. Stanley A. Gottlieb, Director | 32,000(7) |
| Mr. Jack Kanfer, Director | 39,000(7) |
| Mr. Gerald M. Dunne, Jr., Former Chairman, President and Chief Executive | 229,182(8) |
| Mr. Peter J. Russo, Former Chief Financial Officer) | 4,000(9) |
| All directors and executive officers as a group (8 persons) | 1,012,882(10) |

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated by footnote, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The number of shares of Common Stock outstanding used in calculating the percentage for each listed person includes the shares of Common Stock underlying the options held by such person that are exercisable within 60 days of the date hereof, but excludes shares of Common Stock underlying options held by any other person.
- (2) Became President and Chief Executive Officer on October 13, 1999.
- (3) On November 18, 1999 the Company's Board of Directors granted to Mr. Koach 500,000 options to purchase shares of the Company's Common Stock. 100,000 options may be exercised at a price of \$.20 per share, 100,000 options may be exercised at a price of \$.40 per share, 100,000 options may be exercised at a price of \$.60 per share, 100,000 options may be exercised at a price of \$.80 per share and 100,000 options may be exercised at a price of \$1.00 per share. All options expire on November 18, 2004.
- (4) Became Chief Financial Officer on September 11, 1999.
- (5) Includes 25,000 currently exercisable options to purchase shares of the Company's Common Stock. 10,000 options may be exercised at a price of \$.20 per share (that were repriced on December 22, 1999, from 1.375 per share), 8,750 options may be exercised at a price of \$.40 per share (that were

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

repriced on December 22, 1999, from 1.375 per share) and 6,250 options may be exercised at a price of \$0.50 per share. All options expire on December 22, 2004.

- (6) On October 13, 1999, Mr. Tomlinson, Vice-President and a Director of the Company, was appointed as Chairman of the Board upon the resignation of Mr. Dunne.
- (7) Includes options exercisable one year after grant date of November 18, 1999 to purchase 20,000 shares of Common Stock at an exercise price of \$.20 per share and 5,000 shares of Common Stock at an exercise price of \$.40 per share, all expiring on November 18, 2004.
- (8) Served as President and Chief Executive Officer, Director and Chairman of the Board until October 13, 1999.
- (9) Served as Chief Financial Officer and Director of the Company, until September 11, 1999.
- (10) Includes an aggregate of currently exercisable options to purchase 525,000 shares of common stock. Also included was options to purchase 100,000 shares of Common Stock with an exercise date of November 18, 2000.

Item 12. Certain Relationships and Related Transactions

In September 1995, the Company issued a promissory note to John L. Tomlinson, Chairman of the Board of directors and a Vice President of the Company, and Philip C. Cezeaux, an unaffiliated third party, in the aggregate principal amount of \$100,000. The interest rate on the promissory note adjusted semi-annually based on the prime rate plus 2% and principal and interest was payable in equal monthly installments of \$2,600 until September 1999. The promissory note was repaid in full in February 1999. As an inducement for the loan, the Company issued options in September 1995 to Messrs. Tomlinson and

20

Cezeaux to purchase 47,635 shares of Common Stock at a price of \$3.15 per share. These options expired on September 30, 1997, and 16,700 shares were exercised in September 1997.

For the year ended April 30, 2000 and 1999, Mr. Tomlinson also performed taxation services for the Company. John L. Tomlinson CPA, PA was paid for these services approximately \$17,000 and \$19,000 for the year ending April 30, 2000 and 1999, respectively.

On September 11, 1999, Mr. Peter J. Russo ("Russo") resigned as Chief Financial Officer and a Director of the Company and its subsidiaries. On September 11, 1999 the Company entered into a Consulting Agreement with Torbay Management Services, Inc., ("Torbay") a corporation controlled by Russo, pursuant to which Torbay would provide consulting services to the Company. Torbay would receive a monthly consulting fee of \$6,000 for the four-month term of the agreement. The Company could extend the term for an additional two months, resulting in an additional \$6,000 in monthly consulting fees. The Company could offset payments due to Torbay by any amount received by Russo by an acquirer of the Company that are in excess of the amount due to Russo under the Separation Agreement. As at April 30, 2000, the Company had paid Torbay \$24,000 in consulting fees. The Consulting Agreement was not extended after the expiration of the initial four-month term.

Item 13. Exhibits, List and Reports on Form 8-K

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

(a) Exhibits

| Exhibit Number ----- | Description Of Exhibits ----- |
|----------------------------|--|
| 3.1 -- | Amended and Restated Articles of Incorporation of Registrant. (Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed March 3, 1996 and incorporated herein by reference.) |
| 3.2 -- | Amended and Restated By-laws of Registrant. (Filed as an Exhibit to Amendment No. 1 to the ComRegistration Statement on Form SB-2 (No. 333-17681) filed March 3, 1996 and incorporated herein by reference.) |
| 4.1 -- | Form of Representative's Warrant Agreement including Form of Representative's Warrant Certificates. (Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed March 3, 1996 and incorporated herein by reference.) |
| 4.2 -- | Form of Redeemable Warrant Agreement including Form of Warrant Certificate. (Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed March 3, 1996 and incorporated herein by reference.) |
| 4.3 -- | Form of Common Stock Certificate. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1998 and incorporated herein by reference.) |
| 10.11 -- | Second Amendment and Renewal of Lease between Registrant and Gateway Investments Corporation regarding 1451 West Cypress Creek Road, Fort Lauderdale, Florida dated February 5, 1996. (Filed as an Exhibit to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed December 12, 1996 and incorporated herein by reference.) |
| 10.16 -- | Purchase Agreement and Plan of Exchange between Registrant and Adventures-in-Telecom. Inc. dated July 3, 1996. (Filed as an Exhibit to the Company's report on Form 10-KSB dated August 12, 1996 and incorporated herein by reference.) |
| 10.17 -- | Loan Agreement between Registrant and TALK dated July 11, 1996. (Filed as an Exhibit to the Comreport on Form 10-KSB dated August 12, 1996 and incorporated herein by reference.) |
| 10.18 -- | Consent and Amendment between TALK, and Registrant dated December 2, 1996. (Filed as an Exhibit to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed December 12, 1996 and incorporated herein by reference.) |

21

| Exhibit Number ----- | Description Of Exhibits ----- |
|----------------------------|--|
| 10.19 -- | Consent and Amendment between TALK and the Registrant dated January 31, 1997. (Filed as an Exhibit to the Company's Annual |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Report on Form 10-KSB for the year ended April 30, 1998 and incorporated herein by reference.)

- 10.20 -- Agreement between TALK and the Registrant, dated February 28, 1997. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1998 and incorporated herein by reference.)
- 10.23 -- Employment Agreement of Gerald M. Dunne, Jr. with Registrant. (Filed as an Exhibit to Amendment No. 2 to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed March 21, 1997 and incorporated herein by reference.)
- 10.24 -- 1996 Stock Option Plan. (Filed as an Exhibit to Amendment No. 1 to the Company's Registration Statement on Form SB-2 (No. 333-17681) filed March 3, 1996 and incorporated herein by reference.)
- 10.25 -- Stock Purchase Agreement dated as of August 11, 1997 between the Registrant and the selling shareholders of Eastern Telecommunication Incorporated, together with all exhibits thereto. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1998 and incorporated herein by reference.)
- 10.26 -- Separation Agreement between Peter J. Russo with Registrant. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1999 and incorporated herein by reference.)
- 10.27 -- Consulting Agreement between Torbay Management Services, Inc., with Registrant. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1999 and incorporated herein by reference.)
- 10.28 -- Separation Agreement between Gerald M. Dunne, Jr. with Registrant. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1999 and incorporated herein by reference.)
- 10.29 -- Employment Agreement of Glenn S. Koach with Registrant. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1999 and incorporated herein by reference.)

22

| Exhibit Number | Description Of Exhibits |
|-------------------|-------------------------|
| ----- | ----- |

- 10.30 -- Sublease Agreement between ADMINASSISTANCE with the Registrant dated November 4, 1999. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 1999 and incorporated herein by reference.)
- 10.31 -- Letter of Intent between COYOTE and the Company dated March 28, 2000. (Filed as an Exhibit to Form 8-K on March 31, 2000 and incorporated herein by reference.)

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

- 10.32 -- Agreement and Plan of Merger between Coyote and the Company dated May 1, 2000. (Filed as an Exhibit to Form 8-K on April 30, 2000 and incorporated herein by reference.)
- 10.33 -- Asset Purchase Agreement between INET Interactive Network Systems, Inc., and the Company dated April 30, 2000. (Filed as an Exhibit to Form 8-K on April 30, 2000 and incorporated herein by reference.)
- 10.34 -- First Amendment to Agreement and Plan of Merger between Coyote and the Company dated July 31, 2000. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2000.)
- 21.1 -- Subsidiaries of Registrant.
- 27.1 -- Financial Data Schedule.

(b) Reports on Form 8-K

On March 31, 2000 the Company filed a Form 8-K with the Securities Exchange Commission in connection with the Coyote Letter of Intent to acquire the Company.

On May 3, 2000 the Company filed a Form 8-K with the Securities Exchange Commission in connection with the Agreement and Plan of Merger between Coyote and the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of March 2001.

GROUP LONG DISTANCE, INC.

By: /s/ GLENN S. KOACH

Glenn S. Koach

Pursuant to the requirements of the Securities Exchange Act of 1945, this Report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| Signature ----- | Title ----- |
|---|--|
| /s/ GLENN S. KOACH ----- Glenn S. Koach | President and Chief Executive Officer (Principal Executive Officer) |

Marco

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | | |
|---|--|-------|
| /s/ SAM D. HITNER ----- Sam D. Hitner | Chief Financial Officer (Principal Financial Officer and Chief Accounting Officer) | Marco |
| /s/ JOHN L. TOMLINSON ----- John L. Tomlinson | Chairman of the Board and Vice President | Marco |
| /s/ EDWARD HARWOOD ----- Edward Harwood | Director | Marco |
| /s/ STANLEY GOTTLIEB ----- Stanley Gottlieb | Director | Marco |
| /s/ JACK KANFER ----- Jack Kanfer | Director | Marco |

24

FINANCIAL STATEMENTS AND REPORT
OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

GROUP LONG DISTANCE, INC.
AND SUBSIDIARIES

April 30, 2000 and 1999

TABLE OF CONTENTS

| | |
|--|-----|
| REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS | F-1 |
| CONSOLIDATED BALANCE SHEETS | F-2 |
| CONSOLIDATED STATEMENTS OF OPERATIONS | F-3 |
| CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) | F-4 |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | F-5 |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | F-6 |

REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Board of Directors and Shareholders
Group Long Distance, Inc.

We have audited the accompanying consolidated balance sheets of Group Long Distance, Inc. and Subsidiaries as of April 30, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Group Long Distance, Inc. as of April 30, 2000 and 1999, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ GRANT THORNTON LLP

Fort Lauderdale, Florida
July 14, 2000 (except for Note K, as to
which the date is July 31, 2000)

F-1

Group Long Distance, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

April 30,

ASSETS

| | 2000 |
|--|--------------|
| | ----- |
| Current assets | |
| Cash | \$ 2,240,267 |
| Accounts receivable less allowance for doubtful accounts of \$259,000 and \$388,000 at April 30, 2000 and 1999, respectively | 392,783 |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | |
|---|--------------|
| Prepaid expenses and other current assets | 36,000 |
| Deferred tax asset - current | 97,448 |
| | ----- |
| Total current assets | 2,766,498 |
| | ----- |
| Property and equipment, net | 5,879 |
| Note receivable | 950,000 |
| Deferred tax asset | 213,312 |
| | ----- |
| Total assets | \$ 3,935,689 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | |
| Current liabilities | |
| Accounts payable | \$ 595,334 |
| Volume shortfall charge payable, net | 397,222 |
| Deferred revenue | -- |
| Income taxes payable | 539,824 |
| Accrued expenses and other liabilities | 102,630 |
| | ----- |
| Total current liabilities | 1,635,010 |
| | ----- |
| Stockholders' equity (deficit) | |
| Preferred stock, no par value, 2,000,000 shares authorized; no shares issued and outstanding | -- |
| Common stock, no par value, 12,000,000 shares authorized; 3,500,402 shares issued and outstanding as of April 30, 2000 and 1999 | -- |
| Additional paid-in capital | 5,913,988 |
| Accumulated deficit | (3,613,309) |
| | ----- |
| Total stockholders' equity (deficit) | 2,300,679 |
| | ----- |
| Total liabilities and stockholders' equity (deficit) | \$ 3,935,689 |
| | ===== |

The accompanying notes are an integral part of these statements.

F-2

Group Long Distance, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended April 30,

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | 2000 | 1999 |
|--|---------------|---------------|
| | ----- | ----- |
| Sales | \$ 13,736,337 | \$ 22,837,340 |
| Cost of sales | 5,230,837 | 11,834,036 |
| | ----- | ----- |
| Gross profit | 8,505,500 | 11,003,304 |
| Selling, general and administrative expenses | 1,961,578 | 3,463,625 |
| Depreciation and amortization | 15,368 | 1,019,087 |
| Volume shortfall charge | -- | 1,100,000 |
| | ----- | ----- |
| Income from operations | 6,528,554 | 5,420,592 |
| Gain on sale of customer base | 1,000,000 | -- |
| Interest income (expense), net | 3,825 | (83,094) |
| | ----- | ----- |
| Income before income taxes | 7,532,379 | 5,337,498 |
| Income tax | 867,511 | 1,769,900 |
| | ----- | ----- |
| Net income | \$ 6,664,868 | \$ 3,567,598 |
| | ===== | ===== |
| Net income per common share - basic | \$ 1.90 | \$ 1.02 |
| | ===== | ===== |
| Net income per common share - diluted | \$ 1.87 | \$ 1.00 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

F-3

Group Long Distance, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Years Ended April 30, 2000 and 1999

| | Shares of Common Stock | Common Stock | Additional Paid-in Capital | Accumulated Deficit | To Stock Eq (De |
|---------------------------|------------------------------|-----------------|----------------------------------|------------------------|--------------------------|
| Balance, April 30, 1997 | 3,462,354 | \$ -- | \$ 5,848,819 | \$ (4,212,445) | \$ 1,6 |
| Exercise of stock options | 40,429 | -- | 65,169 | -- | |
| Net loss | -- | -- | -- | (9,633,330) | (9,6 |
| | ----- | ----- | ----- | ----- | ----- |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | | | | | |
|-------------------------|-----------|-------|--------------|----------------|--------|
| Balance, April 30, 1998 | 3,502,783 | -- | 5,913,988 | (13,845,775) | (7,9 |
| Return of stock | (2,381) | -- | -- | -- | |
| Net income | -- | -- | -- | 3,567,598 | 3,5 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, April 30, 1999 | 3,500,402 | -- | 5,913,988 | (10,278,177) | (4,3 |
| Net income | -- | -- | -- | 6,664,868 | 6,6 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, April 30, 2000 | 3,500,402 | \$ -- | \$ 5,913,988 | \$ (3,613,309) | \$ 2,3 |
| | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of this statement.

F-4

Group Long Distance, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended April 30,

| | |
|---|--------------|
| | 2000 |
| | ----- |
| Cash flows from operating activities | |
| Net income | \$ 6,664,868 |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Depreciation and amortization | 15,368 |
| Provision for bad debts | 129,038 |
| Gain on sale of customer base | (1,000,000) |
| Forgiveness of debt | -- |
| Changes in assets and liabilities | |
| Decrease in accounts receivable | 769,641 |
| (Increase) decrease in prepaid expenses and other current assets | (29,845) |
| Increase in deferred tax asset | (310,760) |
| (Decrease) increase in volume shortfall charge payable | (10,516) |
| Increase (decrease) in accounts payable | 119,250 |
| Decrease in accrued expenses and other liabilities | (409,323) |
| (Decrease) increase in deferred billing revenue | (3,012,244) |
| (Decrease) increase in income taxes payable | (1,230,076) |
| | ----- |
| Net cash provided by operating activities | 1,695,401 |
| | ----- |
| Cash flows from investing activities | |
| Acquisitions of property and equipment | (8,080) |
| Receipt on sale of customer base | 50,000 |
| | ----- |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | |
|--|--------------|
| Net cash provided by investing activities | 41,920 |
| | ----- |
| Cash flows from financing activities | |
| Net payments under line of credit agreement | -- |
| Principal repayments of long-term debt | -- |
| | ----- |
| Net cash used in financing activities | -- |
| | ----- |
| Net increase in cash | 1,737,321 |
| Cash at beginning of year | 502,946 |
| | ----- |
| Cash at end of year | \$ 2,240,267 |
| | ===== |
| Supplemental disclosure of cash flow information: Cash paid during the year for: | |
| Taxes | \$ 2,477,288 |
| Interest | \$ 54,236 |

The accompanying notes are an integral part of these statements.

F-5

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a non-facility based reseller of long distance telecommunication services. The Company utilizes service contracts to provide its customers with switched, dedicated and private line services through its long distance telecommunications carrier TALK.com, Inc. (herein referred to as TALK) (formerly Tel-Save, Inc.)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

Property and Equipment

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Additions and major renewals to property and equipment are recorded at cost. The Company provides for depreciation using the straight-line method over an estimated useful life of five years for office equipment, furniture and fixtures and leasehold improvements. Total accumulated depreciation was \$129,246 and \$113,877 at April 30, 2000 and 1999, respectively.

Customer Acquisition Costs

Customer acquisition costs represent the net cost of purchased customer accounts, which, historically, were generally amortized over five years utilizing an accelerated method. The Company's amortization method and life are based on estimated attrition rates and attempt to match these costs with the corresponding revenues. Accumulated amortization was \$7,607,743 at April 30, 1999, and the customer acquisition costs have been fully amortized as of April 30, 1999.

(continued)

F-6

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Customer Acquisition Costs - Continued

In December 1996, as a result of higher than expected customer attrition, the Company accelerated the amortization costs of the AIT customer base over a three year period. Fiscal 1999 was the final year of amortization for these customer acquisition costs. The amortization expense for the year ended April 30, 1999 was \$937,484.

Employee Benefit Plan

Effective January 1, 2000, the Company adopted the simple IRA plan. The Company made matching contributions of \$2,192, equal to a limit of 3% of the participant's salary for the year ended April 30, 2000.

Income Taxes

Deferred income taxes have been provided for elements of income and expense, which are recognized for financial reporting purposes in periods different than such items are recognized for income tax purposes. The Company accounts for deferred taxes utilizing the liability method, which applies the enacted statutory rates in effect at the balance sheet date to differences between the book and tax basis of assets and liabilities. The resulting deferred tax liabilities and assets are adjusted to reflect changes in tax laws. A valuation allowance is provided against deferred income tax assets to the extent of the likelihood that the deferred tax asset may not be realized.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Deferred Revenues

As of April 30, 1999, deferred revenue includes the funds collected from its customers and held by the Company's long distance telecommunications carrier. The funds were being held by the carrier as a result of the Company's failure to satisfy the volume purchase commitment in the contract with the carrier for which collectibility was uncertain.

On December 8, 1999, the Company entered into a settlement and amended agreement with its carrier TALK that resolved the Company's violation of the purchase commitment. The agreement includes a payment to TALK of \$1.1 million, the release of receivables and the release of \$2.9 million dollars of cash to the Company, the resolution of the shortfall charge, an extension of its carrier agreement and the exchange of releases. As a result, the Company recognized the related revenue in the amount of \$3,012,244 in the year ended April 30, 2000 without a corresponding cost of sales.

(continued)

F-7

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Earnings Per Share

Basic earnings per common share are based on the weighted average number of common shares outstanding. Diluted earnings per common share are based on the assumption that all dilutive potential common shares and dilutive stock options were converted at the beginning of the year. The total number of such weighted average shares was 3,500,402 and 3,502,463 for the years ended April 30, 2000 and 1999, respectively. Stock options and warrants are considered common stock equivalents unless their inclusion would be antidilutive.

The following table illustrates the reconciliation of the income and weighted average number of shares of the basic and diluted earnings per share computations:

| | Year Ended April 30, 2000 | | | Year Ended April 30, 1999 | | |
|-------------|---------------------------|-------------------------------|---------------------|---------------------------|-------------------------------|---------------------|
| | Net Income | Weighted Average Shares | Per Share Amount | Net Income | Weighted Average Shares | Per Share Amount |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Basic EPS | \$ 6,664,868 | 3,500,402 | \$ 1.90 | \$ 3,567,598 | 3,502,463 | \$ 1.02 |
| Diluted EPS | \$ 6,664,868 | 3,559,911 | \$ 1.87 | \$ 3,567,598 | 3,584,327 | \$ 0.99 |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

Included in diluted shares are common stock equivalents relating to options of 59,509 and 81,864 for 2000 and 1999, respectively. Options to purchase 438,250 shares of common stock at prices ranging from \$0.40 to \$1.00, which were outstanding at April 30, 2000 and options to purchase 465,000 shares of common stock at prices ranging from \$1.38 to \$5.06, which were outstanding during 1999, were not included in the computation of diluted EPS because the options' exercise prices were greater than the annual average market price of the common shares. The options for the year ended April 30, 2000 were granted in 1999 and 2000 and are exercisable primarily over the next five years.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(continued)

F-8

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of estimated fair values of financial instruments. These estimated fair values are to be disclosed whether or not they are recognized in the balance sheet, provided it is practical to estimate such values. The Company estimates that the fair value of its financial instruments approximates the carrying value of its financial instruments at April 30, 2000 and 1999.

Stock Options

Options granted under the Company's Stock Option Plans are accounted for under APB 25, "Accounting for Stock Issued to Employees," and related interpretations. Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" requires additional proforma disclosures for companies, such as Group Long Distance, Inc. that continue to account for employee stock options under the intrinsic value method specified in APB 25 (see Note G).

Segment Reporting

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

The Company has one single reporting segment. The Company's revenues are derived from customers located in the United States and all the Company's long-lived assets are located in the United States.

Recently Issued Pronouncement

In June 1998, the FASB issued Statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" which was amended by FASB No. 138. FAS No. 133 establishes standards for accounting and reporting for derivative instruments, and conforms the requirements for treatment of different types of hedging activities. These statements are effective for all fiscal years beginning after June 15, 2000. Management does not expect these standards to have a significant impact on the Company's operations.

(continued)

F-9

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE B - CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable, which are due from small, and medium size businesses. The Company continually evaluates the creditworthiness of its customers; however, it generally does not require collateral.

The Company's revenues are derived from calls routed through TALK network switching equipment utilizing AT&T transmission facilities. The use of the equipment and transmission facilities are afforded through the Partition Agreement the Company has with TALK. TALK may suspend services or terminate the agreement upon the occurrence of any event of default by the Company. Such revenues represented 100% of total revenues in fiscal 2000 and 1999.

NOTE C - LINE OF CREDIT

In 1999, the Company repaid a line of credit of \$87,044 and did not renew the line of credit agreement.

NOTE D - INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" which requires the use of the "liability method" of accounting for income taxes. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using statutory federal income tax rates in effect for the year.

The provision for income taxes consists of the following at April 30,:

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | 2000 | 1999 |
|----------|--------------|--------------|
| | ----- | ----- |
| Current | | |
| Federal | \$ 1,001,750 | \$ 1,502,600 |
| State | 176,521 | 267,300 |
| Deferred | | |
| Federal | (280,783) | -- |
| State | (29,977) | -- |
| | ----- | ----- |
| | \$ 867,511 | \$ 1,769,900 |
| | ===== | ===== |

(continued)

F-10

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE D - INCOME TAXES - Continued

The expense for income taxes differs from the amount of income tax determined by applying the applicable statutory federal income tax rates to pretax income as a result of the following differences at April 30, 2000 and 1999:

| | 2000 | 1999 |
|--|--------------|--------------|
| | ----- | ----- |
| Expense for income taxes, at 34% | \$ 2,561,000 | \$ 1,769,900 |
| Increase (decrease) in tax resulting from: | | |
| Change in valuation allowance | (1,791,900) | -- |
| Nondeductible items | 43,052 | -- |
| Nontaxable gain on forgiveness of debt | -- | -- |
| State taxes, net of federal tax benefit | 96,734 | -- |
| Utilization of net operating loss | -- | -- |
| Other | (41,375) | -- |
| | ----- | ----- |
| | \$ 867,511 | \$ 1,769,900 |
| | ===== | ===== |

Deferred tax assets are comprised of the following at April 30, 2000 and 1999.

2000

1999

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| | | |
|---------------------------------|------------|-------|
| Allowance for doubtful accounts | \$ 97,448 | \$ |
| Customer acquisition costs | 213,312 | |
| Net operating loss | 28,800 | |
| | ----- | ----- |
| Deferred tax assets | 339,560 | |
| Less valuation allowance | 28,800 | |
| | ----- | ----- |
| | \$ 310,760 | \$ |
| | ===== | ===== |

The valuation allowance decreased \$1,945,000 in 2000. This was primarily the result of the sale of a customer base (see Note J). For tax purposes, the tax basis in the asset sold was approximately \$3,900,000 and for book purposes its basis was zero.

At April 30, 2000, the Company had net operating loss carryforwards for federal tax purposes of \$76,631, expiring April 30, 2011. This net operating loss relates to the separate return limitation year ("SRLY") provisions which apply to this net operating loss of a subsidiary.

(continued)

F-11

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE E - LEASES

As of April 30, 1999, the Company leased one office facility under a noncancellable-operating lease, which expired in March 2000. In November 1999, the Company subleased this space and subleased a new office facility under a noncancellable-operating lease, which expired June 30, 2000. The Company obtained an extension through September 30, 2000. Rent expense for the years ended April 30, 2000 and 1999 totaled approximately \$57,000 and \$98,000.

Approximate future minimum lease payments applicable to the noncancellable operating lease is as follows:

| | | |
|-----------------------|----|-------|
| Year Ending April 30, | | |
| ----- | | |
| 2001 | \$ | 9,000 |

NOTE F - COMMITMENTS AND CONTINGENCIES

In November 1999, the Company and the Company's President and Chief Executive Officer entered into a one-year employment agreement providing a

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

base salary of \$150,000 and a bonus based on the Company's performance, profitability, and positive cash flow. The agreement shall be automatically renewed for one-year periods unless written notice to the contrary is given by either party. In addition, he was granted options to purchase 500,000 shares of Common Stock at various exercise prices, all equal or above the fair market value of the Common Stock on the date of grant.

In February 2000, the Company and the Chief Financial Officer entered into a one-year employment agreement providing a base salary of \$85,000 and a bonus based on the Company's performance, profitability, and positive cash flow. The agreement shall be automatically renewed for one-year periods unless written notice to the contrary is given by either party.

The Company's network service agreement with TALK contains provisions for guaranteed monthly volume and network usage, which is the basis for determining volume discounts and other special billing features. The Company had failed to meet this commitment resulting in a volume shortfall charge. In December 1999, the Company settled this charge for \$1,100,000 (see Note A). Of the aggregate amount of \$1,100,000, \$550,000 was payable on the settlement date and the balance to be payable in eighteen equal monthly installments. As of April 30, 2000, a balance of approximately \$400,000 is remaining.

(continued)

F-12

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

There is no volume and network usage commitment for the fiscal year ending April 30, 2000. The Partition Agreement between the Company and TALK terminates the later of August 31, 2002 or the date that all obligations of the Company to TALK have been satisfied in full.

Pursuant to the Plan and Agreement of Merger dated November 14, 1995 (the "Plan"), Group Long Distance, Inc., a Florida corporation ("GLD"), was merged (the "Merger") into Second ITC and Second ITC changed its name to Group Long Distance, Inc. The Plan stated that the shareholders of GLD would own 94% of the outstanding shares of Second ITC and the existing shareholders of Second ITC would own the remaining 6% of the shares outstanding. Because the founders of GLD held certain founding shares (the "Founders' Shares") in Second ITC, there was a partial dilution of the interests received by the shareholders of GLD in the Merger from 94% to 87.5% (the "Dilution").

While the Merger was approved by the Board of Directors and a majority of the shareholders of the Company that were shareholders of GLD (the predecessor) at the time of the Merger and a majority of the then current shareholders of the Company, shareholders affected by the Dilution may have a cause of action against the Company. There can be no assurance that a shareholder may not seek legal remedy against the Company or the individual founders, notwithstanding the foregoing approvals. In the event any such action is brought, the Company's results of operations or cash flow for a particular quarterly or annual period could be materially affected by

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

protracted litigation or an unfavorable outcome.

In connection with the foregoing matter, pursuant to an indemnification agreement, the Company and each of the founders, jointly and severally, have agreed to indemnify the underwriters to the offering (see Note H), and each of the founders has agreed to indemnify the Company, for any and all losses, claims, damages, expenses or liabilities (including reasonable legal fees and expenses) as a result of any claim arising out of or based upon the failure to disclose the issuance of the shares to the founders. In the event and as a result of any such claim, the Company is required to issue additional shares of Common Stock; the founders have agreed to deliver an equal number of shares of Common Stock to the Company for cancellation.

NOTE G - STOCK OPTIONS

The Company's 1996 Employees' Stock Option Plan provides for granting of options of not more than 950,000 shares of common stock. The Option and Compensation Committee has the sole discretion to determine to whom options will be granted and the terms and conditions of such options.

(continued)

F-13

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE G - STOCK OPTIONS - Continued

Prior to April 30, 1996, the Company accounted for such options under APB Opinion 25 and related Interpretations. The Company accounts for non-qualified options issued to non-employees, under SFAS 123, Accounting for Stock Based Compensation.

The exercise price of all options granted by the Company equals the market price at the date of grant. No compensation expense has been recognized.

On July 2, 1998, the Board of Directors approved and ratified the repricing of certain unexercised employee stock options granted under the Company's 1996 Stock Option Plan. As a result, options granted to purchase 420,000 shares of the Company's common stock were repriced from \$5.0625 to \$1.375 per share. In addition, options granted to purchase 14,000 shares of the Company's common stock were repriced from \$3.875 to \$1.375. On April 29, 1999, 346,000, of the 420,000, were repriced to the original exercise price of \$5.0625 and the 14,000 options were priced to the original exercise price of \$3.875.

On July 2, 1998, the Company's Board of Directors granted 148,000 options to purchase shares of common stock to various directors, officers and employees at \$1.375 a share. On April 29, 1999, the directors and officers relinquished 135,000 of these options.

On October 9, 1998, the Company's Board of Directors approved and ratified an increase of 350,000 in the number of options available for grant under the terms of the Stock Option Plan.

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

On October 9, 1998, the Company's Board of Directors granted 247,000 options to purchase shares of common stock to various directors, officers and employees at \$0.50 a share. On April 29, 1999, the directors and officers relinquished 225,000 of these options.

On November 18, 1999, the Company granted to the President and Chief Executive Officer currently exercisable options to purchase 100,000 shares of common stock at \$0.20 per share, 100,000 shares of common stock at \$0.40 per share, 100,000 shares of common stock at \$0.60 per share, 100,000 shares of common stock at \$0.80 per share, and 100,000 shares of common stock at \$1.00 per share. All of these options expire on November 18, 2004.

(continued)

F-14

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE G - STOCK OPTIONS - Continued

On November 18, 1999, the Company granted to each Director, excluding the President and Chief Executive Officer (a total of four individuals), options, exercisable one year after the grant date, to purchase 20,000 shares of common stock at an exercise price of \$0.20 per share and 5,000 shares of common stock at an exercise price of \$0.40 per share. All of these options expire on November 18, 2004.

On December 22, 1999, the Company's Option and Compensation Committee of the Board of Directors approved the repricing of options previously granted to various employees. These employees' 20,500 options previously granted at \$1.38 are now exercisable as follows: (1) 11,750 options at \$0.20 and (2) 8,750 options at \$0.40. These options expire on December 22, 2004.

Had compensation cost for the Employees' Stock Option Plan's options issued to employees been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, the Company's net income and income per share would have been changed to the pro forma amounts indicated below.

| | 2000 | 1999 |
|--------------------------|--------------|------|
| Net income | | |
| As reported | \$ 6,664,868 | \$ |
| Pro forma | \$ 6,565,297 | \$ |
| Basic income per share | | |
| As reported | \$ 1.90 | \$ |
| Pro forma | \$ 1.87 | \$ |
| Diluted income per share | | |
| As reported | \$ 1.87 | \$ |
| Pro forma | \$ 1.84 | \$ |

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

The above pro forma disclosures may not be representative of the effects on reported net income for future years as options vest over several years and the Company may continue to grant options to employees.

(continued)

F-15

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE G - STOCK OPTIONS - Continued

The fair value of each option grant is estimated on the date of grant using the binomial option-pricing model with the following weighted-average assumptions used for grants in 2000 and 1999, respectively: dividend yield of 0.0 percent for all years; expected volatility of 221.52 % and 268.29 %, and 129.78 %; risk-free interest rate ranging from 4.51% to 6.54%, and 4.51% to 5.49%; and expected holding periods ranging up to 4 and 5 years.

A summary of the status of the Company's fixed stock options as of April 30, 2000 and 1999, and changes during the years ending on those dates is as follows:

| | 2000 | | 1999 |
|--|---------|---|---------|
| | Shares | Weighted - Average Exercise Price | Shares |
| Outstanding at beginning of year | 487,000 | \$ 4.15 | 449,707 |
| Granted | 626,750 | 0.53 | 395,000 |
| Exercised | - | | - |
| Expired | - | | - |
| Forfeited | 483,750 | 4.17 | 357,707 |
| Outstanding at end of year | 630,000 | 0.53 | 487,000 |
| Options exercisable at end of year | | 530,000 | 458,906 |
| Weighted-average fair value of options granted during the year | | \$ 0.15 | \$ 0.54 |

The following information applies to options outstanding at April 30, 2000.

| Options Outstanding | Options |
|---------------------|---------|
|---------------------|---------|

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

| Range of Exercise Prices | Shares | Weighted - Average Remaining Contractual Life | Weighted - Average Exercise Price | Shares |
|-----------------------------|---------|--|---|---------|
| \$0.20-0.50 | 330,000 | 4.53 | \$ 0.29 | 230,000 |
| \$0.60-1.00 | 300,000 | 4.55 | \$ 0.80 | 300,000 |

(continued)

F-16

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE H - EQUITY

In March 1997, the Company completed an underwritten public offering of its common stock and warrants. The Company sold 1,250,000 shares and warrants to purchase 1,437,500 shares at an exercise price of \$5.40 per share (the "Redeemable Warrants"). The Company realized proceeds of \$3,895,455, net of underwriter's discount and out of pocket expenses. In connection with the offering, the underwriter was granted warrants to purchase 125,000 shares of common stock at \$4.95 per share, which expired on March 24, 2000. The underwriter also was granted the right to purchase 125,000 redeemable warrants at \$.11 per redeemable warrant all of which are exercisable at any time within the three years ending March 24, 2000. None of the warrants issued to the underwriter have been exercised, and none of the redeemable warrants have been exercised.

NOTE I - RELATED PARTY TRANSACTIONS

For the years ended April 30, 2000 and 1999, a vice president and director of the Company performed tax preparation services for the Company, was paid approximately \$17,000 and \$19,000 for the years ending April 30, 2000 and 1999, respectively.

On September 11, 1999, the Company entered into a four-month consulting agreement with Torbay Management Services, Inc., ("Torbay") a corporation controlled by Mr. Peter J. Russo, former Chief Financial Officer and Director of the Company. For the year ending April 30, 2000, the Company paid Torbay \$24,000.

NOTE J - SALE OF CUSTOMER BASE

The Company entered into an Asset Purchase Agreement ("agreement") with another company ("purchaser") on April 30, 2000. The purchaser is a wholly owned subsidiary of Coyote (see Note K). Under the agreement, the Company sold to the purchaser a "customer base," which includes certain of the Company's customers under a series of related sites. The purchase price for this transaction is \$1 million payable with \$50,000 in cash on April 30, 2000 and a note of \$950,000 due on April 30, 2002 with an annual interest

Edgar Filing: GROUP LONG DISTANCE INC - Form 10KSB/A

rate of 8%. The note is secured by all existing and future pledges and Security Agreement dated April 30, 2000 and interest is payable monthly. Repayment of the note is to be with receipts from the purchased customer base.

(continued)

F-17

Group Long Distance, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

April 30, 2000 and 1999

NOTE J - SALE OF CUSTOMER BASE - Continued

In addition, the Company agrees to provide the purchaser with "customer service". Customer service shall mean collection services provided by the Company, which is currently being provided to the Company by TALK. The price for the customer service under this agreement shall be \$10,000 per month, commencing May 2000, and ending on the earliest of (1) upon completion of the purchaser's obligations to the Company under the Asset and Purchase Agreement and the promissory note or (2) the mutual consent of the parties at any time. In conjunction with the agreement and the related sale of the customer base, the Company recorded a gain of \$1,000,000 in the year ended April 30, 2000.

NOTE K - SALE OF THE COMPANY

On May 1, 2000, the Company executed an Agreement and Plan of Merger ("merger") with Coyote Network Systems, Inc. ("Coyote"). This agreement contemplates a merger between a wholly owned subsidiary of Coyote and the Company. On July 31, 2000, a First Amendment to the Agreement and Plan of Merger was executed.

As a result of the contemplated merger, among other things, Coyote would acquire all of the assets and business of the Company, and the Company's shareholders would receive a number of shares of Coyote Common Stock determined, pursuant to a formula, but not less than 562,500 shares of Coyote Common Stock, subject to adjustment under certain circumstances.

Per the amendment, if the price of the Coyote Common Stock closes at less than \$4 per share during each of the five trading days immediately prior to the closing, then either party in its discretion may terminate the Agreement and Plan of Merger.

The closing of the transactions is subject to a number of conditions, including without limitation the completion of due diligence, the receipt of all requisite regulatory approvals, and the receipt of approval of the Company's shareholders. It is anticipated that the closing would occur before the end of the calendar year 2000.

F-18