GROUP LONG DISTANCE INC
Form 10QSB
October 16, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-QSB

(Mark One)
|X| QUARTERLY REPORT UNDER SECTION 13 OR 14(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED JULY 31, 2001

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	65-0213198
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

400 E. ATLANTIC BOULEVARD, FIRST FLOOR
POMPANO BEACH, FL 33060
(Address of Principal Executive Offices)

(954) 788-7871
(Issuer's Telephone Number, Including Area Code)

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 the past 90 days. Yes |X| No |_|

The number of shares of Common Stock, no par value, outstanding as of October 12, 2001 was 13,525,402.

Transitional Small Business Disclosure Format (check one): Yes |_| No |X|

GROUP LONG DISTANCE, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GROUP LONG DISTANCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JULY 31, 2001 (UNAUDITED) AND APRIL 30, 2001

ASSETS

	July 31, 2001
	(Unaudited)

Current assets	
Cash	$ 523,081
Accounts receivable less allowance for doubtful accounts of $102,000 and $55,000 at July 31, 2001 and April 30, 2001, respectively	412,981
Income Tax receivable	335,942
Prepaid expenses and other current assets	53,651
Total current assets	1,325,655
Property and equipment, net	213,918
Intangible assets	7,340,615
Total assets	$ 8,880,188

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	$ 706,238
Volume shortfall charge payable, net	-
Deferred Revenue	300,000
Accrued expenses and other liabilities	613,511
Total current liabilities	1,619,749
Stockholders' equity	
Series A preferred stock, no par value, liquidation value of $4,000,000, 200,000 shares authorized; 200,000 shares issued and outstanding as of July 31, 2001 and April 30, 2001, respectively	-
Common stock, no par value, 100,000,000 shares authorized; 13,525,402 and 11,300,402 shares issued and outstanding as of July 31, 2001 and April 30, 2001, respectively	-
Additional paid-in capital	12,519,988
Accumulated deficit	(5,259,549)
Total stockholders' equity	7,260,439
Total liabilities and stockholders' equity	$ 8,880,188

The accompanying notes are an integral part of these statements.

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GROUP LONG DISTANCE, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED JULY 31, 2001 AND 2000

	Three Months Ended July 31, 2001	Three Months Ended July 31, 2000
Sales	$ 627,783	$ 1,362,431
Other revenue	90,098	-
Total Revenues	717,881	1,362,431
Cost of sales	379,863	685,114
Gross profit	338,018	677,317
Selling, general and administrative expenses	760,856	349,603
Depreciation and amortization	388,689	1,200
Research and development	342,139	-
(Loss) Income from operations	(1,153,666)	326,514
Interest income, net	34,296	55,417
(Loss) Income before income taxes	(1,119,370)	381,931
Income tax (benefit) expense	(40,000)	144,000
Net (loss) income	$ (1,079,370)	$ 237,931
Net (loss) income per common share - basic	$ (0.09)	$ 0.07
Net (loss) income per common share - diluted	$ (0.09)	$ 0.06
Weighted average of common shares outstanding - basic	11,567,250	3,500,402

The accompanying notes are an integral part of these statements.

GROUP LONG DISTANCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED JULY 31, 2001 AND 2000

Three

	2001
Cash flows from operating activities	
Net (loss) income	$(1,079,370
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	388,689
Provision for bad debts	69,648
Other adjustments	48,034
Changes in assets and liabilities	
(Increase) Decrease in accounts receivable	(249,715
Decrease in deferred tax assets	--
Decrease in prepaid expenses and other current assets	30,092
Increase in taxes receivable	(40,000
Decrease in volume shortfall charge payable	(30,556
Decrease in accounts payable	(157,537
Increase in accrued expenses and other liabilities	119,586
Increase in deferred revenue	300,000
Decrease in income taxes payable	--
Net cash used in operating activities	(601,129
Cash flows from investing activities	
Net cash provided by investing activities	--
Cash flows from financing activities	
Proceeds from exercising of director options	6,000
Net cash provided from financing activities	6,000
Net decrease in cash	(595,129
Cash at beginning of year	1,118,210
Cash at end of year	$ 523,081

Supplemental disclosure of cash flow information: Cash paid during the year for:

Taxes	$ -
Interest	$ -

Non-cash activity:

On July 20, 2001 the Company acquired 20% of the outstanding shares of common stock of HA Technology, Inc. ("HAT") not yet owned by the Company, from the spouse of the Company's Chairman of the Board of Directors, in exchange for 2.2 million shares of the Company's common stock.

The accompanying notes are an integral part of these statements.

GROUP LONG DISTANCE, INC. AND SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with the generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ended July 31, 2001, are not necessarily indicative of the results that may be expected for the year ending April 30, 2002.

The balance sheet at April 30, 2001, has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the audited financial statements and footnotes thereto included in the Form 10-KSB filed by the Company for the year ended April 30, 2001.

NOTE B--FORMATION AND OPERATIONS OF THE COMPANY

Group Long Distance, Inc. (the "Company") comprises two business operations. The first business, which prior to April 2001 had been the only source of revenue for the Company since its inception, is telecommunications services. The second line of business is as a provider of software development and integration services for various information and e-commerce products and services.

The telecommunications segment of the Company's business is as a non-facilities-based reseller of long distance telecommunications services to small and medium-sized commercial customers and residential subscribers. The Company utilizes contracts with Talk America Holdings, Inc., ("TALK"), formerly Talk.com Inc., a national long-distance telecommunications carrier 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.

As of the date of this report, the Company has earned minimal revenue and has not generated any sales from its software development and integration line of business. Based in Irvine, California, HomeAccess Microweb, Inc. ("HomeAccess") deploys HomeAccess (TM) information and e-commerce services, software and systems. The technology known as "HomeAccess Technology," has been in a development stage since 1995. HomeAccess has focused nearly all of its efforts and resources on continuing the development of HomeAccess Technology. Such technology consists of source code, programs, software, hardware, business methods, and other inventions relating to a system designed for use with various Internet appliances. The development continues to progress towards providing a solution for connecting consumers via various Internet appliances, the first of which is an Internet screen telephone, which contains features that include a 1/4 VGA screen, pull-out keyboard, speaker phone, built-in rolodex, caller ID, and a smart card slot. HomeAccess software is also used to integrate peripherals such as bar-code scanners and smart cards. The HomeAccess Technology supports the provisioning of a variety of services including; email, messaging, news and information, financial services, bill presentation and payment, travel and entertainment, ticketing, coupon distribution, directory search, localized shopping and personal productivity services.

Unless otherwise indicated, all references to the Company include GLD, the Company's predecessor, and the Company's wholly owned subsidiaries. These subsidiaries include HomeAccess Microweb, Inc., HAT Technology, Inc., Eastern Telecommunications Incorporated, Gulf Communications Services and Adventures-in-Telecom.

NOTE C--ACQUISITION OF SUBSIDIARIES

On February 20, 2001, the Company and Quentra Networks, Inc. (formerly Coyote Network Systems, Inc.), as debtor in possession ("Quentra"), entered into a Stock Purchase Agreement (the "Stock Purchase Agreement"). Pursuant to the Stock Purchase Agreement, the Company agreed to acquire all of the outstanding shares of common stock of HomeAccess from Quentra in exchange for (i) cash in the amount of $100,000 and (ii) 200,000 shares of Series A Preferred Stock. Each share of Series A Preferred Stock has no par value, has a liquidation preference of $20.00 per share, does not have a dividend preference and does not pay dividends, does not have any voting rights, except as otherwise provided by law, and, commencing April 13, 2002, is convertible into ten shares of the Company's common stock ("Common Stock").

The Stock Purchase Agreement was approved by the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") on March 8, 2001. In addition, pursuant to an order of the Bankruptcy Court, upon its acquisition of a controlling interest in HA Technology, Inc. ("HAT"), the Company was required to deliver to Quentra warrants to purchase 200,000 shares of Common Stock at an exercise price of $4.50 per share. The warrants are exercisable for a period of six months, commencing on April 13, 2002, and terminating on October 12, 2002. The Company also agreed to convert all loans made to HomeAccess prior to closing into capital. Such loans totaled $625,000 on April 13, 2001.

On April 13, 2001, the Company acquired all of the outstanding shares of common stock of HomeAccess.

On April 13, 2001, the Company and Barbara Conrad entered into an Exchange Agreement (the "Exchange Agreement"). Pursuant to the Exchange Agreement, among other things, the Company acquired 80% of the outstanding shares of common stock of HAT, in exchange for 7,800,000 shares of Common Stock. In October 2000, HomeAccess licensed its HomeAccess Technology for all states except Washington, Nevada, Oregon and Pennsylvania, to HAT. Barbara Conrad is the spouse of the Company's Chairman and Chief Executive Officer.

Simultaneously with the acquisition, the Company entered into an agreement to acquire the remaining 20% of the outstanding shares of HAT common stock from Mrs. Conrad in exchange for an additional 2.2 million shares of the Company's Common Stock. The acquisition of the remaining shares of HAT common stock was subject to certain conditions, including an increase in the number of authorized shares of the Company's Common Stock. During July 2001, all of the conditions were satisfied and the Company purchased the remaining 20% of HAT common stock based on the terms discussed above.

On April 27, 2001, the Company filed a Form 8-K with the Securities and Exchange Commission in connection with the acquisition of HomeAccess and HAT.

Simultaneously with the acquisition of 80% of the outstanding number of shares of common stock of HAT, the Company issued to Quentra the warrants described above.

On July 20, 2001, the Company issued 2,200,000 shares of Common Stock to Barbara Conrad pursuant to the Second Exchange Agreement in exchange for 20% of the common stock of HAT not then owned by the Company.

NOTE D--CHANGE IN CONTROL AND OWNERSHIP

As a result of the issuance of shares of the Company's Common Stock in connection with the acquisition of HAT, a change in control of the Company occurred. As of the date of this report, Barbara Conrad holds legal title to 10,000,000 shares of the Company's Common Stock, or approximately 74% of the aggregate number of common shares then outstanding.

Pursuant to an Amended and Restated Investment Sharing Agreement effective as of September 30, 2000 (the "Investment Sharing Agreement") by and between John J. Prehn ("Prehn"), Peter J. Wachtell ("Wachtell"), and Barbara Conrad, each of Prehn and Wachtell holds a 20% interest in the shares of Common Stock legally owned by Barbara Conrad. As such, as of the date of this report, Prehn holds an interest in 2,000,000 shares of Common Stock, or approximately 14.8% of the aggregate number of then outstanding shares of Common Stock; Wachtell holds an interest in 2,000,000 shares of Common Stock, or approximately 14.8% of the aggregate number of then outstanding shares of Common Stock; and Barbara Conrad beneficially owns 6,000,000 shares of Common Stock, or approximately 44.4% of the aggregate number of then outstanding shares of Common Stock.

Pursuant to the Investment Sharing Agreement, until such time as the transfer of all of the shares of Common Stock in which Prehn and Wachtell hold an interest are registered under the Securities Act of 1933, Barbara Conrad alone holds the power to vote all of such shares and the power to dispose of all of such shares. Pursuant to a Registration Rights Agreement (the "Registration Rights Agreement") entered into between the Company and Barbara Conrad, at any time after April 13, 2002, Barbara Conrad may cause the Company to register the transfer of varying numbers of shares of Common Stock registered in her name on one occasion during each fiscal year of the Company until April 12, 2006. In

addition, pursuant to such Registration Rights Agreement, Barbara Conrad may from time to time through April 12, 2006, cause the Company to register the transfer of shares of Common Stock registered in her name in connection with other registered offerings of securities by the Company.

In addition, upon conversion of the shares of Series A Preferred Stock and exercise of its warrants, Quentra would own up to 2,200,000 shares of Common Stock, or up to approximately 14.0% of the then aggregate number of outstanding shares of Common Stock. As of the date of this report, Quentra has not exercised its rights related to the conversion of the Series A Preferred Stock or its warrants.

NOTE E - SEGMENT DATA

The Company comprises two business operations. The first business operation is as a provider of telecommunications services and the second line of business is as a provider of software development and integration services for various information and e-commerce products and services.

Summarized financial information concerning the Company's reportable segments is shown in the following table. Corporate related items, results of insignificant operations and income and expenses not allocated to reportable segments are included in the reconciliations to consolidated results.

The following schedule presents information about the Company's operating segments for the three months ended July 31, 2001.

Industry Segment	2001
Revenues:	
Telecommunications	$ 627,783
Software Development and Integration	90,098
	$ 717,881
Operating (Loss) Profit:	
Telecommunications	$ 27,041
Software Development and Integration	(1,180,707)
	$(1,153,666)
Identifiable Assets:	
Telecommunications	$ 1,240,948
Software Development and Integration	7,639,240
	$ 8,880,188
Reconciliation to consolidated amounts was as follows:	
Operating (Loss)	
Total loss for reportable segments	$(1,153,666)
Other Income	34,296
Consolidated loss before income tax benefit	$(1,119,370)

NOTE F--SUBSEQUENT EVENTS

In August 2001, the Company entered into a software development agreement (the "Pilot Program Agreement") with Portland General Electric Company ("PGE").

The Pilot Program Agreement provides for the two companies to develop and integrate technology and software to be used in delivering a variety of services to consumers including online bill presentation and payment, two-way messaging and time-of-use energy consumption information. As part of the Pilot Program, PGE has deployed approximately 800 Internet Screen Phones in apartment buildings within its service area and plans to deploy an additional 600 Internet Screen Phones in single-family neighborhoods as part of the next phase of the Pilot Program. The Pilot Program Agreement also provides PGE with an option to enter into longer-term agreements with the Company for up to fifteen years and provides PGE with an exclusive licensing option for the states of Oregon, Washington, and Nevada, for a minimum licensing fee per state per month, subject to certain performance criteria. There can be no assurance the Company will enter into any longer-term agreements or receive any licensing fees. (See "Liquidity and Capital Resources" for more details.)

Pursuant to the agreement, the Company agreed to issue to PGE a warrant to purchase 310,000 shares of the Company's common stock for an aggregate exercise price of $1,050,000. The warrant expires on June 30, 2002. Provided that PGE satisfies all conditions under the agreement, including making all required payments, the Company will apply such payments towards the exercise price of the warrant. The agreement provides the Company with an aggregate of $1,050,000 in cash through December 31, 2001, $800,000 of which has already been received for services performed to date. For the three months ended July 31, 2001, the Company had received $300,000 from PGE and which has been included in deferred revenue on the balance sheet. Revenue from the Pilot Program Agreement will be recognized over the period beginning August 1, 2001 and ending December 31, 2001. In addition, a certain amount of the payment received from PGE will be treated as equity due to the warrant provision in the agreement.

The Company's headquarters are currently located at 400 E. Atlantic Boulevard, First Floor, Pompano Beach, Florida. All telecommunications operations are currently performed at this location. Within approximately 30 to 60 days the Company intends to close this office and relocate its corporate headquarters to Irvine, California. The Company has agreed to terms with its current Chief Financial Officer and one office employee. The severance packages total approximately $130,000.

NOTE G--RELATED PARTY TRANSACTIONS

During the three month period ended July 31, 2001, the Company processed its payroll through Primary Knowledge, Inc. ("PKI"), a related party through common ownership and management. As such, the Company paid approximately $268,000 to PKI for HomeAccess employees' payroll costs. During August 2001, the Company opened a separate payroll account for HomeAccess and transferred all employees that were being paid through PKI's payroll to the new payroll account.

During the three month period ended July 31, 2001, the Company paid approximately $53,000 in rent to Roswell Properties for the Irvine, California office. The daughter of the Company's Chief Executive Officer is a partial owner of Roswell Properties.

During the three month period ended July 31, 2001, the Company incurred approximately $26,000 in travel expenses to be paid to Object Development, Inc., a related party through common ownership and management. The Company anticipates paying such expenses by December 31, 2001.

NOTE H--GOING CONCERN

The quarterly financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced a significant decrease in cash as a result of the software development and integration business that is described above in Note B. On September 30, 2001, the Company had a cash balance of approximately $234,000. No sales have been generated and significant expenses have been incurred to develop and integrate the technology acquired. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's plan to meet its liquidity needs for the next twelve months is comprised of the following: enter into a development cost sharing agreement with a strategic partner (Refer Note F - Subsequent Events), identify and enter into agreements with property management companies to generate revenue, and raise additional capital by issuing securities. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

There can be no assurance the Company's plan will be successful in meeting the Company's short-term liquidity needs. The funds to be received under the Pilot Program Agreement (Refer Note F - Subsequent Events) are not adequate to fund the Company's cash needs, and the Company does not have any immediate prospects to increase its revenues or cash flow. As a result, it can be reasonably anticipated that, within the next 60 to 90 days, the Company may be unable to pay its debts and obligations in the ordinary course of business as they become due. Failure to secure additional revenues or cash investments in the Company in that short time frame, may likely result in an inability to operate as a going concern as well as the Company seeking protection under the bankruptcy laws.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of significant factors affecting the Company's operating results and liquidity and capital resources should be read in conjunction with the accompanying financial statements and related notes.

This Report on Form 10-QSB 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. Some of these risks and factors are identified herein and from time to time in the Company's filings with the SEC. Readers are cautioned that forward-looking statements are not guarantees of future performance and that the actual results may differ materially from those suggested or projected in forward-looking statements. Accordingly, there can be no assurance that the forward looking statements will occur, or that the results will not vary significantly from those described in the forward-looking statements.

OVERVIEW

Group Long Distance, Inc., has two primary business operations; telecommunications services and software development and integration. See "Note B - Formation and Operations of the Company" for a more detailed discussion.

Historically, the Company has only offered telecommunication services and products, which are provided for under contracts with TALK. The Company is no longer conducting, nor does it have any plans to conduct any marketing campaigns to attract new customers related to telecommunications services provided by TALK, 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. The Company expects telecommunications revenues to continue to decline. Future marketing and sales efforts will be directed at growing the Company's software development business.

HomeAccess has been in a development stage since its formation in 1999 and the majority of its costs have been related to research and development of the HomeAccess Technology. Although the Company believes HomeAccess will evolve from a development stage company into an operational company in the future, the Company expects to continue to incur significant research and development costs. There can be no assurance as to the Company's ability to evolve into an operational company or as to the amount of research and development costs to be incurred in the future.

RESULTS OF OPERATIONS

The results of operations for comparison reasons have been split according to their respective business operations, "telecommunications services operations" and "software development and integration operations". For the remaining categories that are not distinct to one or other of the business operations, they have been included together under the heading "combined operations". Refer "Note E - Segment Data" for more detail.

COMPARISON OF THREE MONTHS ENDED JULY 31, 2001 TO THREE MONTHS ENDED JULY 31, 2000

TELECOMMUNICATIONS SERVICES OPERATIONS:

SALES. The Company's sales were $627,783 for the three months ended July 31, 2001, compared to $1,362,431 for the three months ended July 31, 2000, a decrease of $734,648 or approximately 54%. The decrease in sales was primarily due to continued attrition of the Company's telecommunications customer base. The Company ceased all marketing activities in fiscal year 1998 and is currently not marketing its telecommunications products and services. Based on continued attrition, and a decline in the commissions paid by TALK on the "800" customer base, the Company's telecommunications sales are expected to continue to decline through the rest of the fiscal year ending April 30, 2002. The Company has disputed the reduced commissions with TALK.

COST OF SALES. Cost of sales were $329,011 for the three months ended July 31, 2001, compared to $685,114 for the three months ended July 31, 2000, a decrease of $356,103, or approximately 52%. As a percentage of sales, cost of sales was approximately 52% and 50% for the three months ended July 31, 2001 and July 31, 2000, respectively. The decrease in cost of sales between comparative periods was due to the decrease in the Company's telecommunications revenues as a result of customer attrition. Cost of sales are expected to further decline

for the fiscal year ended April 30, 2002. The increase in the cost of sales as a percentage of sales for the current fiscal year was due to a price increase from the carrier. The Company has disputed the correctness of the price increase and other related overcharges and is in discussions with its carrier. There however is no assurance that the matter will be resolved in the Company's favor.

GROSS PROFIT. Gross profit was $298,772 for the three months ended July 31, 2001, compared to $677,317 for the three months ended July 31, 2000, a decrease of $378,545, or approximately 56%. As a percentage of sales, gross profit was 48% and 50% for the three months ended July 31, 2001 and July 31, 2000, respectively. The decrease in gross margin between comparative periods was due to the decrease in revenues as a result of customer attrition, and a price increase imposed by the carrier during the previous fiscal year. The Company has disputed the correctness of the price increase and other related overcharges and is in discussions with its carrier. There however is no assurance that the matter will be resolved in the Company's favor.

SOFTWARE DEVELOPMENT AND INTEGRATION OPERATIONS:

OTHER REVENUE. Other revenue of $90,098 for the three months ended July 31, 2001, are for services provided by HomeAccess to PGE in terms of software support and maintenance of computer equipment. Fees paid by PGE for software support for the time of certain engineers to help PGE manage its project with HomeAccess outside the defined scope of such project totaled $22,098 for the three months ended July 31, 2001. Fees paid for maintaining the computer server equipment totaled $68,000 for the three months ended July 31, 2001. These revenues are expected to continue throughout the period of the Pilot Agreement (Refer Note F- Subsequent Events) with PGE.

COST OF SALES. Cost of sales of $50,852 for the three months ended July 31, 2001 relate to costs for services provided by HomeAccess to PGE in terms of software support and maintenance of computer equipment. These costs are for the time of certain engineers to help PGE manage its project with HomeAccess outside the defined scope of such project.

GROSS PROFIT. Gross Profit of $39,246 for the three months ended July 31, 2001 is comprised of fees paid by PGE, less related expenses, for software support to help PGE manage its project with HomeAccess outside the defined scope of such project. These revenues are expected to continue throughout the period of the Pilot Agreement (Refer Note F- Subsequent Events) with PGE.

RESEARCH AND DEVELOPMENT. Research and development expense was $342,139 for the three months ended July 31, 2001, or 39% of total operating expenses. The Company incurs significant research and development costs in the development of its software for integration. Of the $342,139, approximately $288,000 related to salaries of HomeAccess employees and consultant costs, with the remaining balance related to third party development costs, other than outside consultants.

COMBINED OPERATIONS:

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expenses ("SG&A") were $760,856 for the three months ended July 31, 2001, compared to $349,603 for the three months ended July 31, 2000, an increase of $411,253, or approximately 118%. This increase in SG&A is a result of an increase in employee and related expenses, rent and operating expenses, related to HomeAccess.

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation and amortization expense was $388,689 for the three months ended July 31, 2001, compared to $1,200 for the three months ended July 31, 2000, an increase of $387,489. The increase in depreciation and amortization for the fiscal year ended April 30, 2001, was largely attributable to the amortization of the goodwill of $335,312 resulting from the acquisition of HomeAccess and HAT, as well as an increase in depreciation of 53,377. Of this increase in depreciation, $52,177 relates to depreciation of the fixed assets of HomeAccess.

INTEREST INCOME, NET. Interest income (net) for the three months ended July 31, 2001, was $34,296, compared to $55,417 for the three months ended July 31, 2000. The interest income for the three months ended July 31, 2001, and the three months ended July 31, 2000, was interest earned on cash deposits. The decrease in the interest income is due to the decrease in cash primarily resulting from funding HomeAccess during its development phase of operations.

INCOME TAXES. An income tax benefit of $40,000 was provided for the three months ended July 31, 2001, compared to income tax expense of $144,000 for the three months ended July 31, 2000. The decrease in the income tax expense for the three months ended July 31, 2001, is the result of the Company incurring a net operating loss, which the Company will carry back to past years in which taxes were paid and receive a refund. The net operating loss is only being applied against those losses other than of HomeAccess.

NET LOSS/INCOME. The Company had a net loss of $1,079,370 or net loss of $0.09 per share, for the three months ended July 31, 2001, as compared to net income of $237,931, or $0.07 per share, for the three months ended July 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the revenues derived from its telecommunications services and products were greater than the expenses to operate that segment. However, continued customer attrition, competition, and no marketing efforts, have contributed to the telecommunications segment operating at a nominal profit for three months ended July 31, 2001. As a result, the Company intends to either sell its existing customer base or manage it until it is no longer feasible to do so. As a result of the foregoing, the Company does not anticipate, within the next twelve months, having any telecommunications customers for which services are provided by TALK.

As of the date of this report, the Company has earned only minimal revenues and has not generated any sales from its new line of business. The Company's ability to continue its operations is dependent on a variety of factors, some of which include: the ability to successfully develop and integrate the HomeAccess Technology, the ability to generate sales of its products and services in the future, and the ability to secure financing or additional capital.

The Company's plan to meet its liquidity needs for the next twelve months is comprised of the following: enter into a development cost sharing agreement with a strategic partner, identify and enter into agreements with property management companies to generate revenue, and raise additional capital by issuing securities.

In August 2001, the Company entered into agreement with Portland General Electric Company ("PGE"). The agreement provides for the two companies to develop and integrate technology and software to be used in delivering a variety of services to consumers including online bill presentation and payment and time-of-use energy consumption information. The agreement provides the Company with an aggregate of $1,050,000 in cash through December 31, 2001, $800,000 of which has already been received for services performed to date. Pursuant to the agreement, the Company agreed to issue to PGE a warrant to purchase 310,000 shares of the Company's common stock for an aggregate exercise price of $1,050,000. The warrant expires on June 30, 2002. Provided that PGE satisfies all conditions under the agreement, including making all required payments, the Company will apply such payments towards the exercise price of the warrant. The agreement also provides PGE with the option to enter into longer-term agreements with the Company for up to fifteen years. In addition, the agreement provides PGE with the option for exclusive licensing rights to HomeAccess(TM) technology for the states of Oregon, Washington and Nevada, for a minimum licensing fee of $150,000 per month per state, subject to certain performance criteria. There can be no assurance that PGE will enter into any longer-term agreement or that the Company will receive any licensing fees for the states noted above.

The Company has had discussions with several property management companies to install HomeAccess-enabled devices at their multi-dwelling unit complex ("MDU") facilities. The Company's intent would be to charge a fee for a package of services offered to the MDU tenants, thereby generating sales on a per phone, per month basis. There can be no assurance the Company will be able to enter into an agreements with, or generate sales from, any property management companies.

The Company continues to have discussions with various investors, including investment banks, venture capital firms, and strategic partners, to sell securities. There can be no assurance the Company will be able to sell any securities.

There can be no assurance the Company's plan will be successful in meeting the Company's short-term liquidity needs. The funds to be received under the Pilot Program Agreement are not adequate to fund the Company's cash needs, and the Company does not have any immediate prospects to increase its revenues or cash flow. As a result, it can be reasonably anticipated that, within the next 60 to 90 days, the Company may be unable to pay its debts and obligations in the ordinary course of business as they become due. Failure to secure additional revenues or cash investments in the Company in that short time frame, may likely result in an inability to operate as a going concern as well as the Company seeking protection under the bankruptcy laws.

At July 31, 2001, the Company had a working capital deficit of $294,094 compared to a working capital surplus of $342,553 at April 30, 2001. The primary reason for the decrease in working capital surplus is due to funding the operations of HomeAccess.

Net cash used in operating activities was $601,129 for the three months ended July 31, 2001, as compared to $68,495 for the three months ended July 31, 2000. The primary reason for the increase in cash used in operating activities for the three months ended July 31, 2001, is due to net loss from operations and an increase in accounts receivable, and a decrease in accounts payable. The cash used in operating activities for the three months ended July 31, 2000, is attributable to net income from operating activities, offset by a decrease in income taxes payable.

No cash was provided by investing activities for the three months ended July 31, 2001, and for the three months ended July 31, 2000.

Net cash provided from financing activities was $6,000 for the three months ended July 31, 2001,as compared to no cash provided for the three months ended July 31, 2000. The cash provided for the three months ended July 31, 2001 related to the exercise of 25,000 previously issued, vested options, 20,000 at $0.20 and 5,000 at $0.40, by a director of the Company.

The Company during the three months ended July 31, 2001 experienced collection related issues with TALK, who performs all back office services including collections on behalf of the Company. The Company had addressed this matter with TALK as recent developments had indicated a potential collectability issue with an underlying service provider. This has led to an increase in outstanding receivables at July 31, 2001, and a corresponding increase in the allowance for doubtful accounts. The Company through discussions with TALK has resolved the outstanding collections from the third party service provider. The Company received payment of approximately $168,000 on October 12, 2001.

At July 31, 2001, the Company believes the allowance for doubtful accounts is currently adequate for the size and nature of its receivables. Nevertheless, delays in collection or uncollectability of accounts receivable could continue to have an adverse effect on the Company's liquidity and working capital position and require the Company to continually increase its allowance for doubtful accounts.

The Company has experienced a significant decrease in cash as a result of funding the software development and integration business that was acquired. On September 30, 2001, the Company had a cash balance of approximately $234,000. Unless the Company can generate revenue streams or secure additional cash within the next 60 to 90 days, management anticipates the Company may be unable to pay its obligations as they come due.

DEFERRED REVENUE

For the three months ended July 31, 2001, the Company had received $300,000 from PGE as part of the Pilot Program Agreement, which has been included in deferred revenue on the balance sheet. Revenue from the Pilot Program Agreement will be recognized over the period beginning August 1, 2001 and ending December 31, 2001. In addition, a certain amount of the payment received from PGE will be treated as equity due to the warrant provision in the agreement. The Pilot Program Agreement provides the Company with an aggregate of $1,050,000 in cash through December 31, 2001, $800,000 of which has already been received for services performed to date, and provides PGE with a warrant for 310,000 shares of Common Stock.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS, LIST AND REPORTS ON FORM 8-K

(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 Company's Registration Statement on Form SB-2 (No. 333-17681) filed March 3, 1996 and incorporated herein by reference.)
3.3	Articles of Amendment creating Series A Preferred Stock. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2001 and incorporated herein by reference.)
3.4	Amendment to Amended and Restated Articles of Incorporation to increase the authorized shares of capital stock of Group Long Distance, Inc., to 20,000,000 shares of no par value Preferred Stock and 100,000,000 shares of no par value Common Stock. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2001 and incorporated herein by reference.)
10.32	Exchange Agreement dated April 13, 2001 by and between Group Long Distance, Inc. and Barbara Conrad. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)
10.33	Second Exchange Agreement dated April 13, 2001 by and between Group

Long Distance, Inc. and Barbara Conrad. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.34 Registration Rights Agreement dated April 13, 2001 by and between Group Long Distance, Inc. and Barbara Conrad. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.35 Employment Agreement dated April 13, 2001 by and between Group Long Distance, Inc. and Jerry Conrad. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.36 Employment Agreement dated April 13, 2001 by and between Group Long Distance, Inc. and Glenn S. Koach. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.37 Warrant to Purchase 250,000 shares of Common Stock dated April 13, 2001 issued by Group Long Distance, Inc. to Jerry Conrad. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.38 Warrant to Purchase 250,000 shares of Common Stock dated April 13, 2001 issued by Group Long Distance, Inc. to Glenn S. Koach. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.39 Warrant to Purchase 200,000 shares of Common Stock dated April 13, 2001 issued by Group Long Distance, Inc. to Quentra Networks, Inc. (Filed as an Exhibit to Form 8K on April 27, 2001 and incorporated herein by reference.)

10.40 Group Long Distance, Inc., 2001 Employee Stock Option Plan dated June 13, 2001. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2001 and incorporated herein by reference.)

10.41 Lease agreement between Roswell Property LLC and HomeAccess MicroWeb, Inc., dated April 20, 2001. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2001 and incorporated herein by reference.)

10.42 Pilot Program Agreement between Portland General Electric Company and Group Long Distance, Inc., dated August 29, 2001. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2001 and incorporated herein by reference.)

10.43 Proposed Interim Agreement between Portland General Electric Company and Group Long Distance, Inc., dated August 29, 2001. (Filed as an Exhibit to the Company's Annual Report on Form 10-KSB for the year ended April 30, 2001 and incorporated herein by reference.)

(b) Reports on Form 8-K

On September 7, 2001, the Company filed a Form 8-K/A with the Securities Exchange Commission in connection with its previously announced acquisitions of HomeAccess MicroWeb, Inc., and HA Technology, Inc.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GROUP LONG DISTANCE, INC.

October 16, 2001 By: /s/ JERRY CONRAD

Jerry Conrad,
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

October 16, 2001 By: /s/ GLENN S. KOACH

Glenn S. Koach,
DIRECTOR, PRESIDENT AND CHIEF OPERATING OFFICER

October 16, 2001 By: /s/ SAM D. HITNER

Sam D. Hitner,
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)