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June 20, 2003

VIA FEDERAL EXPRESS

Mr. Dale Roberts
Chief ALJ and Executive Secretary
Missouri Public Service Commission
200 Madison Street, Suite 100
Jefferson City, MO 65102

FILED²

JUN 25 2003

Missouri Public
Service Commission

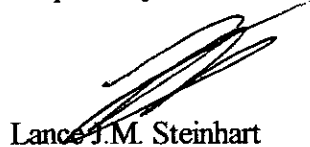
Re: Covista Communications, Inc. – LOCAL EXCHANGE
Case No. CA-2003-0479

Dear Mr. Roberts:

Pursuant to a letter from John Van Eschen dated May 21, 2003, enclosed please find for filing an original and eight (8) copies of Covista Communications, Inc.'s Form 10Q for the quarterly period ended April 30, 2003, that meets the requirement of sufficient financial resources to provide basic local telecommunications services.

I have also enclosed an extra copy of this letter to be date stamped and returned to me in the enclosed, self addressed, postage prepaid envelope. If you have any questions, or if I may provide you with any additional information, please do not hesitate to contact me.

Respectfully submitted,



Lance J.M. Steinhart
Attorney for Covista Communications, Inc.

Enclosures

cc: John Leach
Lisa Mahaney, Commission Staff
General Counsel, Missouri Public Service Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended: April 30, 2003

OR

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

For the transition period from to

Commission File Number 0-2180

COVISTA COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other Jurisdiction of
incorporation or organization)

22-1656895
(I.R.S. Employer
Identification No.)

721 Broad Street, Suite 200 Chattanooga, TN 37402
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (423) 648-9700

4803 Highway 58 North, Chattanooga, TN 37416
(Former address of principal executive offices) (Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Share, \$.05 par value

Outstanding at June 1, 2003
17,783,092 shares

COVISTA COMMUNICATIONS, INC.

AND SUBSIDIARIES

SECOND QUARTER REPORT ON FORM 10-Q

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COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended April 30,	
	<u>2003</u>	<u>2002</u>
NET REVENUE	<u>\$23,269,857</u>	<u>\$24,548,143</u>
Costs and Expenses		
Cost of revenue	13,288,202	17,673,366
Selling, general and administrative	9,116,437	8,300,497
Depreciation and amortization	1,567,096	1,229,294
Other compensation	<u>--</u>	<u>12,011</u>
Total costs and expenses	<u>23,971,735</u>	<u>27,215,168</u>
OPERATING LOSS	<u>(701,878)</u>	<u>(2,667,025)</u>
Other Income (Expense)		
Interest income	4,909	1,617
Other	372	(85,675)
Interest expense	<u>(81,204)</u>	<u>(113,562)</u>
Total other income (expense)	<u>(75,923)</u>	<u>(197,620)</u>
Loss before income taxes	<u>(777,801)</u>	<u>(2,864,644)</u>
Income taxes	<u>--</u>	<u>--</u>
NET LOSS	<u>(777,801)</u>	<u>(2,864,644)</u>
BASIC LOSS PER COMMON SHARE	<u>\$ (0.04)</u>	<u>\$(0.23)</u>
DILUTED LOSS PER COMMON SHARE	<u>\$ (0.04)</u>	<u>\$(0.23)</u>

See notes to condensed consolidated financial statements.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>April 30, 2003</u>	<u>January 31, 2003</u>
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$4,173,194	\$3,444,307
Accounts receivable, net	15,045,639	15,716,015
Prepaid expenses and other current assets	831,169	626,574
TOTAL CURRENT ASSETS	<u>20,050,002</u>	<u>19,786,896</u>
PROPERTY AND EQUIPMENT, NET	<u>14,221,252</u>	<u>15,150,416</u>
OTHER ASSETS:		
Deferred line installation costs, net	564,670	473,688
Intangible assets, net	6,268,233	6,786,967
Goodwill	8,205,850	8,205,850
Other assets	486,275	646,581
TOTAL OTHER ASSETS	<u>15,525,028</u>	<u>16,113,086</u>
TOTAL ASSETS	<u>\$49,796,282</u>	<u>\$51,050,398</u>

See notes to condensed consolidated financial statements.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>April 30, 2003</u>	<u>January 31, 2003</u>
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$4,374,669	\$2,827,999
Accounts payable	12,776,025	15,073,691
Other current and accrued liabilities	11,470,908	11,024,151
Salaries and wages payable	535,119	397,430
TOTAL CURRENT LIABILITIES	<u>\$29,156,721</u>	<u>29,323,271</u>
OTHER LONG-TERM LIABILITIES	<u>228,253</u>	<u>223,434</u>
LONG-TERM DEBT	<u>1,496,175</u>	<u>1,810,759</u>
TOTAL LIABILITIES	<u>30,881,149</u>	<u>31,357,464</u>
SHAREHOLDERS' EQUITY:		
Common Stock	965,976	965,976
Additional paid-in-capital	52,834,984	52,834,984
Accumulated deficit	(33,440,387)	(32,662,586)
Treasury stock	(1,445,440)	(1,445,440)
TOTAL SHAREHOLDERS' EQUITY	<u>18,915,133</u>	<u>19,692,934</u>
	<u>\$49,796,282</u>	<u>\$51,050,398</u>

See notes to condensed consolidated financial statements.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended April 30,	
	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES:		
Net loss	\$(777,801)	\$(2,864,644)
Adjustment for non-cash charges	2,191,494	2,031,156
Changes in assets and liabilities, net of effect of acquisition of business	(1,706,712)	(1,264,737)
Net cash used in by operating activities	<u>(293,019)</u>	<u>(2,098,225)</u>
INVESTING ACTIVITIES:		
Cash acquired in purchase of business		1,179,172
Proceeds on sale of marketable securities	--	439,773
Purchase of property and equipment	(83,620)	(425,071)
Additions to deferred line installation cost	(126,560)	(19,248)
Net cash provided used in investing activities	<u>(210,180)</u>	<u>1,174,626</u>
FINANCING ACTIVITIES:		
Sale of Common Stock	--	174,140
Bank Borrowing – net of repayment	1,232,086	42,506
Note payable to related party	--	2,600,000
Net cash provided by financing activities	<u>1,232,086</u>	<u>2,816,646</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>728,887</u>	<u>1,893,047</u>
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 <u>3,444,307</u>	 <u>1,379,038</u>
 CASH AND CASH EQUIVALENTS, END OF PERIOD	 <u>\$4,173,194</u>	 <u>\$3,272,085</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest	\$64,001	\$6,295
Business Acquired		
Fair Value of Assets	--	\$21,524,458
Less Liability Assumed	--	(10,056,503)
Less: Stock Consideration for business acquired	--	(12,647,127)
Cash acquired from business acquired	--	(1,179,172)

See notes to condensed consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Covista Communications, Inc. and Subsidiaries (Covista) for the fiscal year ended January 31, 2003. In the opinion of management, all adjustments (consisting of normal recurring accruals only) considered necessary for a fair presentation have been included. Operating results for the three-month period ended April 30, 2003 are not necessarily indicative of the results that may be expected for the year ending January 31, 2004. Certain reclassifications have been made to conform prior years' balances to the current year presentation.

Revenue Recognition

The Company's revenues, net of sales discounts, are recognized in the period in which the service is provided, based on the number of minutes of telecommunications traffic carried, and a rate per minute. Access and other service fees charged to customers, typically monthly, are recognized in the period in which service is provided.

Deferred Line Installation Costs

The Company defers charges from other common carriers related to the cost of installing telephone transmission facilities (lines). Amortization of these costs is provided using the straight-line method over the related contract life of the lines ranging from three to five years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Company sells its telecommunications services and products primarily to small to medium size businesses, residential and wholesale customers. The Company performs ongoing credit evaluations of both its retail and wholesale customers. The Company generally does not require collateral, however when circumstances warrant, deposits are required. Recent conditions in the telecommunications industry have given rise to an increase in potential doubtful accounts. Allowances are maintained for such potential credit losses. The Company has entered into offset arrangements with certain of its customers, who are also vendors, allowing for the ability to offset receivables against the Company's payable balance.

NOTE B – NEW ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantees," an interpretation of FASB Statement No. 5, "Accounting for Contingencies." This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. Covista has adopted FIN 45 and there has not been a material impact on its financial position or results of operations.

In January 2003, FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. Covista has adopted FIN 46 and there has not been a material impact on its financial position or results of operations.

NOTE C – STOCK BASED COMPENSATION

The following disclosure complies with the adoption of SFAS No. 123, amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123", and includes pro forma net loss as if the fair value based method of accounting had been applied:

	Three Months Ended April 30,	
	<u>2003</u>	<u>2002</u>
Net Loss as reported (000's)	\$(778)	\$(2,865)
Stock-based compensation expense included in reported net loss	--	--
Total stock-based compensation expense determined under fair value based method for all options (000's)	<u>(58)</u>	<u>(87)</u>
Pro forma net loss (000's)	<u>\$(836)</u>	<u>\$(2,952)</u>

	Three Months Ended April 30,	
	<u>2003</u>	<u>2002</u>
Basic Earnings Per Share:		
As reported	\$(.04)	\$(0.23)
Pro forma	\$(.05)	\$(0.24)
Diluted Earnings Per Share:		
As reported	\$(.04)	\$(0.23)
Pro forma	\$(.05)	\$(0.24)

For purposes of pro forma disclosures under SFAS 123, the estimated fair value of the options is assumed to be amortized to expense over the options' vesting period. The fair value of the options granted has been estimated at the various dates of the grants using the Black-Scholes option-pricing model with the following assumptions:

- Fair market value based on the Company's closing common stock price on the date the option is granted;
- Risk-free interest rate based on the weighted averaged U.S. treasury note rates;
- Volatility based on the historical stock price over the expected term;
- No expected dividend yield based on future dividend payment plans.

NOTE D – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted loss earnings per common share:

	Three Months Ended April 30,	
	<u>2003</u>	<u>2002</u>
Numerator:		
Loss available to Common Shareholders		
used in basic and diluted loss per Common Share	\$(777,801)	\$(2,864,644)
Denominator:		
Weighted-average number of Common Shares used in		
basic loss earnings per Common Share	17,783,092	12,462,885
Effect of diluted securities:		
Common share options (1)	--	--
Weighted-average number of Common Shares and diluted potential		
Common Shares used in diluted loss per Common Share	17,783,092	12,462,885
Basic loss Per Common Share	\$(0.04)	\$(0.23)
Diluted loss per Common Share	\$(0.04)	\$(0.23)

- 1) Common Shares subject to options are not included in the calculation of diluted loss per Common Share for the three-month period ended April 30, as doing so would be antidilutive due to the net loss per common share.

NOTE E – SEGMENT REPORTING

The Company sells telecommunication services to three distinct segments: a retail segment, consisting primarily of small to medium size businesses, a wholesale segment, with sales to other telecommunications carriers and KISSLD which targets residential users.

In addition to direct costs, each segment is allocated a proportion of the Company's operating expenses, including utilization of its switch and facilities. The allocation of expenses is based upon the minutes of use flowing through the Company's switching network. There are no intersegment sales. When specifically identified, assets are allocated to each segment. All intangible assets and goodwill have been allocated to the retail segment. Capital expenditures and other assets are allocated based on total revenue. Management evaluates performance on operating results of the three business segments.

Summarized financial information (000's) concerning Covista's reportable segments is shown in the following table:

	<u>Retail</u>	<u>Wholesale</u>	<u>KISSLD</u>	<u>Total</u>
Three Months Ended April 30, 2003				
Net Sales	\$17,367	\$1,631	\$4,272	\$23,270
Operating profit (loss)	\$(364)	\$(388)	\$50	\$(702)
Assets	\$39,773	\$4,547	\$5,476	\$49,796
Capital expenditures	\$63	\$6	\$15	\$84
Three Months Ended April 30, 2002				
Net Sales	\$18,854	\$4,634	\$1,060	\$24,548
Operating profit (loss)	\$(2,048)	\$(504)	\$(115)	\$(2,667)
Assets	\$44,393	\$7,618	\$1,742	\$53,753
Capital expenditures	\$327	\$80	\$18	\$425

NOTE F – INCOME TAXES

For the fiscal year ended January 31, 2003, Covista established a valuation allowance against its net deferred tax asset due to the uncertainty of realizing certain tax credits and loss carryforwards. In the quarter ended April 30, 2003, Covista continued this accounting treatment and recorded a full valuation allowance against the net tax benefit arising from the quarter's net operating loss. The result is that the net deferred tax asset of approximately \$3,579,000 is fully offset by the valuation allowance and as such, does not appear as an asset on the balance sheet. It will be reflected in the Company's balance sheet when the net deferred tax asset can be utilized in future periods or when managements' assessment is substantially changed.

NOTE G – ACQUISITION OF CAPSULE COMMUNICATIONS

On February 8, 2002, Covista completed the acquisition of Capsule Communications, Inc., through the issuance of 1,742,320 shares of Common Stock and the assumption of certain liabilities and stock options. As a result, Capsule became a wholly owned subsidiary of Covista. The Company has accounted for the combination with Capsule as a purchase business combination under SFAS 141("Business Combination").

The results of Capsule's operations have been included in the Company's Consolidated Statement of Loss and Comprehensive Loss since the date of merger. The total purchase price, including certain direct costs, was approximately \$12,972,000 plus assumed liabilities of approximately \$10,057,000. Included in the purchase, the Company assumed options from Capsule for the purchase of 286,975 shares of Common Stock valued at approximately \$1.1 million using the Black-Scholes Valuation Model, using an exercise price of \$3.49 to \$20.10, expected lives of 0.5 to 2 years, 156% volatility, 2.69% discount rate, and a Company stock price of \$6.71. In addition, the Company incurred approximately \$0.3 million in acquisition expenses.

The identifiable intangible assets acquired from Capsule were classified as its business customer relationships valued at \$1,288,000, its residential customer relationships valued at \$376,000, and its agent relationships valued at \$2,526,000. These intangibles are being amortized using the straight-line method over a weighted average period of 40 months. Goodwill and intangible assets acquired are not deductible for tax purposes.

NOTE H – LONG TERM DEBT

The Company had a revolving \$2,000,000 credit facility with Wells Fargo Business Credit Corporation. Interest on the revolving credit facility was calculated at the prime lending rate plus 2 3/4%, on a minimum loan balance of \$750,000. The loan was collateralized by accounts receivable and fixed and intangible assets of the Company. This facility was terminated and paid in full with proceeds from a new credit facility, effective April 16, 2003

Effective April 16, 2003, Covista executed a revolving credit and security agreement with Capital Source Finance, LLC. This credit facility provides the Company with an \$8 million loan of which approximately \$4,439,000 was available at April 30, 2003, based on eligible accounts receivable. An additional \$1 million becomes available upon Covista maintaining twelve consecutive months of positive cash flow as defined in the agreement. This thirty-six month facility allows the Company to borrow funds based on a portion of eligible customer accounts receivable and bears interest at the Prime Rate plus 2.00% with a floor of 6.25%. Interest, unused line and collateral management fees are payable monthly in arrears. Covista is required to maintain certain covenants that include cash velocity and fixed charge coverage ratios as defined in the agreement. The loan is secured by all of the Company's assets. Initial loan proceeds were used to payoff the Wells Fargo facility in full. The loan balance at April 30, 2003 was \$3,351,080 and is included in current portion of long-term debt.

On June 17, 2002, Covista entered into a term loan agreement with a major bank. The initial principal amount of this note was \$3,775,000, payable in 36 monthly installments at a fixed interest rate of 4.495% for the first year and converting to 2% over LIBOR on June 17, 2003 and thereafter. This note is secured by certain of the Company's switching equipment and certificates of deposit provided by Covista's Chairman of the Board. The balance on this facility was \$2,765,003 at April 30, 2003 of which \$1,268,828 is classified as current.

NOTE I – COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal and administrative actions arising in the normal course of business. While the resolution of any such actions may have an impact on the financial results for the period in which it is resolved, management believes that the ultimate disposition of these matters will not have a material adverse effect upon its consolidated results of operations, cash flows or financial position.

ITEM 2
COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULT OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

Certain matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" intended to qualify for the safe harbor from liability provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified as such because the context of the statement will include words such as Covista "believes", "anticipates", "expects", or words of similar import. Similarly, statements, which describe Covista's future plans, objectives or goals, are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties, which are described in, close proximity to such statements and which could cause actual results to differ materially from those anticipated as of the date of this Report. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance upon such forward-looking statements. The forward-looking statements included herein are made only as of the date of this Report and Covista undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as required under applicable laws.

Results of Operations

Net sales were approximately \$23,270,000 for the first three months of the current fiscal year, a decrease of approximately \$1,278,000 or 5.2% as compared to the approximately \$24,548,000 recorded in the first three months of the prior fiscal year.

For the quarter ended April 30, 2003, retail revenues were approximately \$17,367,000, a decrease of approximately \$1,487,000 or 7.9% versus the comparative quarter in the last fiscal year. Retail minutes sold in the three-month period ended April 30, 2003 were approximately 252,093,000 minutes, a decrease of approximately 6,615,000 minutes or 2.5%. The overall blended retail rate per minute decreased to \$.069 versus \$.073 from the first quarter of the previous year. Management expects to experience continued rate per minute erosion due to competition in the retail segment.

For the quarter ended April 30, 2003, KISSLD revenues were approximately \$4,272,000, an increase of approximately \$3,212,000 or 303% versus the first quarter from the prior fiscal year. KISSLD minutes sold for the three-month period ended April 30, 2003 were approximately 75,155,000, an increase of approximately 57,367,000 or 323%. The overall blended rate per minute was \$.057 versus \$.06 from the first quarter of the previous year.

The Company has continued to successfully reduce reliance on lower margin wholesale revenue. For the quarter ended April 30, 2003, wholesale revenue was approximately \$1,631,000, a decrease of approximately \$3,003,000 or 64.8% versus the comparative quarter in the last fiscal year. Wholesale minutes sold in the three-month period ended April 30, 2003 were approximately 16,212,000 minutes, a decrease of approximately 49,938,000 minutes or 75.5%.

Cost of revenue for the current three-month period was approximately \$13,288,000, a decrease of approximately \$4,385,000 or 24.8%. These changes were favorable in relation to the 5.2% decrease in revenue for the three-month period. The decrease in cost of revenue was primarily due to an overall decrease in lower margin wholesale minute volume of approximately \$2,702,000 in addition to credits from vendors for previously disputed charges and the realization of network cost savings initiatives of approximately \$1,682,000.

For the quarter ended April 30, 2003, selling, general and administrative expense, excluding depreciation and amortization was approximately \$9,116,000, an increase of approximately \$816,000 or 9.8% over the comparative quarter in the last fiscal year. The increase was primarily due to an increase in agent commission expense of approximately \$447,000 as a result of higher residual payout rates, an increase in bad debt expense of approximately \$494,000 and an increase in bank credit card charges of approximately \$323,000 as a result of greater KISSLD volume whereby the majority of customers pay via credit card. These increases were partially offset by reductions in payroll, building rent and other miscellaneous decreases of approximately \$448,000 as a result of more efficient use of human and building resources.

For the reasons described above, the operating loss for the three-month period ended April 30, 2003 was approximately \$702,000, a decrease of approximately \$1,965,000 from the three-month period ended April 30, 2002.

Basic and diluted loss per Common Share was \$(.04) per share for the current three-month period ended April 30, 2003 as compared to \$(.23) loss per share for the three-months ended April 30, 2002.

Liquidity and Capital Resources

At April 30, 2003, Covista had a working capital deficit of approximately \$9,107,000, an improvement of approximately \$429,000 as compared to January 31, 2003. The ratio of current assets to current liabilities at April 30, 2003 was .69:1, as compared to the ratio of .67:1 at January 31, 2003. The improvement in the working capital deficit at April 30, 2003 was primarily attributable to; a net increase in current assets of approximately \$263,000. These increases in current assets were supplemented by a decrease in current liabilities of approximately \$166,000.

The increase in cash of approximately \$729,000 was the result primarily of net proceeds from bank borrowings of approximately \$1,232,000. This increase was offset by cash used in operations of approximately \$293,000 and cash used in investing activities of approximately \$210,000.

Capital Expenditures

Capital expenditures for the three-month period ended April 30, 2003 were approximately \$84,000. Capital expenditures for the remainder of Fiscal 2003 are estimated at approximately \$1,500,000 and are expected to be funded from operations.

Prepaid Network Capacity

In July 2002, Covista purchased 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has filed for Chapter 11 reorganization; however, as of the date of this report, is continuing to perform under the agreement and therefore, management does not believe that this asset is impaired. However, management was unable to determine if this carriers' bankruptcy filing would impact the carrier's ability to fulfill it's obligation to Covista under the prepaid network capacity agreement.

As of the date hereof, Covista has used approximately 152 million DS-0 channel miles of telecommunications network capacity against the 2.8 billion DS-0 total prepaid network capacity, of which \$400,000 has been classified as a current asset and based on anticipated usage in the next 12 months the remainder of the prepaid capacity amount of approximately \$2,867,000 is included in intangible assets.

Accounts Receivable and Credit Risk

Accounts receivable subjects Covista to the potential for credit risk with customers in the retail and wholesale segments. To reduce credit risk, Covista performs ongoing evaluations of its customers' financial condition and, except in situations where the risk warrants it, Covista does not require a deposit or other collateral. Accounts receivable of approximately \$16,909,000, net of the reserve for uncollectible accounts totaling approximately \$1,864,000, represents approximately 30.2% of the total assets of Covista.

No one customer accounts for greater than eight percent of the total revenues. In the wholesale segment, which contains Covista's largest customers, Covista has been able to reduce credit risk by using reciprocal arrangements with certain customers, which are also Covista's suppliers, to offset outstanding receivables. Covista has historically maintained a better than three percent ratio of bad debts to revenues. For the three-month period ended April 30, 2003, this ratio was approximately 2.7%. Covista also measures accounts receivable turnover (as measured in days sales outstanding). For the periods ended April 30, 2003 and 2002, days sales outstanding were 52.5 days and 58.5 days, respectively.

Related Party Transactions

Jay J. Miller, a Director of Covista, has provided various legal services for Covista in Fiscal 2004. In the first quarter, Covista accrued \$8,700 to Mr. Miller for services rendered. As of April 30, 2003, Covista owed Mr. Miller \$49,785.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly owned Registrant, LPJ, Inc. During the first quarter, Fiscal 2004, LPJ, Inc. was paid commissions of \$18,271. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

CRITICAL ACCOUNTING POLICIES

Nature of Operations

Covista Communications, Inc. ("Covista"), and its wholly-owned subsidiaries (collectively, the "Company") operates as a switch based resale common carrier providing domestic and international long distance telecommunications service to customers throughout the United States. Prior to the Capsule acquisition, the Company's principal customers were primarily businesses and other common carriers. On September 15, 2000, the Company changed its name from Total-Tel USA Communications, Inc. to Covista Communications, Inc. On February 8, 2002, Covista completed the acquisition of Capsule Communications, Inc. As a result, Capsule became a wholly owned subsidiary of Covista. Capsule is a switch-based interexchange carrier providing long distance telephone communications services primarily to small and medium-size business customers as well as residential accounts. The results of Capsule's operations have been included in the Company's statement of operations since the acquisition date.

Revenue Recognition

Covista's revenues, net of sales discounts, are recognized in the period in which the service is provided, based on the number of minutes of telecommunications traffic carried, and a rate per minute. Access and other service fees charged to customers, typically monthly, are recognized in the period in which service is provided.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is being provided by use of the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease or the useful lives of the asset.

The estimated useful lives of the principal classes of assets are as follows:

<u>Classification</u>	<u>Years</u>
Machinery and equipment	5-10
Office furniture, fixtures and equipment	5-10
Vehicles	3-5
Leasehold improvements	2-10
Computer equipment and software	5-7

Deferred Line Installation Costs

Deferred line installation costs are costs incurred by Covista for new facilities and costs incurred for connections from within the Covista's network to the network of other telecommunication suppliers (such as Verizon, MFS and other carriers). Amortization of such line installation costs is provided using the straight-line method over the contract life of the lines ranging from three to five years.

Intangible Assets

Intangible assets consist of prepaid network capacity and purchased customer and agent relationships being amortized over a straight-line basis over periods varying between 10 and 120 months.

Goodwill

Goodwill consists of the excess purchase price over the fair value of identifiable net assets of acquired businesses. Goodwill added subsequent to January 1, 2002 is not being amortized in accordance to SFAS 142. The carrying value of goodwill is evaluated for impairment on an annual basis. Management also reviews goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of goodwill may be impaired.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Vendor Disputes

In the normal course of business Covista will file disputes with its service suppliers. The Covista accounting policy is to record the invoiced amount to cost of revenue which may include disputed amounts. When the dispute is resolved and the credit is received, the amount is credited to cost of revenue. Open disputes included accounts payable and accrued liabilities at April 30, 2003 total approximately \$5.3 million.

Concentrations of Credit Risk

The Company sells its telecommunications services and products primarily to small to medium size businesses, residential and wholesale customers. The Company performs ongoing credit evaluations of both its retail and wholesale customers. The Company generally does not require collateral, however when circumstances warrant, deposits are required. Recent conditions in the telecommunications industry have given rise to an increase in potential doubtful accounts. Allowances are maintained for such potential credit losses. The Company has entered into offset arrangements with certain of its customers, who are also vendors, allowing for the ability to offset receivables against the Company's payables balance.

Market Risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As Covista holds no marketable securities at April 30, 2003, the exposure to interest rate risk relating to marketable securities no longer exists. Covista does not hold any derivatives related to its interest rate exposure. Covista also maintains long-term debt at fixed rates. Due to the nature and amounts of Covista's note payable, an immediate 10% change in interest rates would not have a material effect in Covista's results of operations over the next fiscal year. Covista's exposure to adverse changes in foreign exchange rates is also immaterial to the consolidated statements as a whole.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, demand deposits and money market accounts.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEMS 1 – 5 Not applicable

ITEM 6 Exhibits and Reports on Form 8K – None

I, A. John Leach, Jr., certify that;

- 1) I have reviewed this quarterly report on Form 10-Q of Covista;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in quarterly annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Covista as of, and for, the periods presented in this annual report;
- 4) Covista's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Covista are have;
 - a) Designed such disclosure controls and procedures to ensure that material information relating to Covista, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness Covista's disclosure controls and procedures as of a date with 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) Covista's other certifying officers and I have disclosed, based on our most recent evaluation, to Covista's auditors and the audit committee of Covista's board of directors (or persons performing the equivalent functions);
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect Covista's ability to record, process, summarize, and report financial data, and I have identified for Covista's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Covista's internal controls; and
- 6) Covista's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

By: /s/ A. John Leach, Jr.
A. John Leach, Jr.
President and Chief Executive Officer

I, Thomas P. Gunning., certify that;

- 1) I have reviewed this quarterly report on Form 10-Q of Covista;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in quarterly annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Covista as of, and for, the periods presented in this annual report;
- 4) Covista's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Covista are have;
 - a) Designed such disclosure controls and procedures to ensure that material information relating to Covista, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness Covista's disclosure controls and procedures as of a date with 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) Covista's other certifying officers and I have disclosed, based on our most recent evaluation, to Covista's auditors and the audit committee of Covista's board of directors (or persons performing the equivalent functions);
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect Covista's ability to record, process, summarize, and report financial data, and I have identified for Covista's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Covista's internal controls; and
- 6) Covista's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

By: /s/ Thomas P. Gunning
Thomas P. Gunning,
Vice President, Chief Financial Officer and
Principal Accounting Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Covista Communications, Inc. on Form 10-Q for the period ending April 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A. John Leach, Jr., President and CEO of Covista Communications, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that;

- 1) The report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Covista Communications, Inc.

Date: June 13, 2003

By: /s/ A. John Leach, Jr.
A. John Leach, Jr.
President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Covista Communications, Inc. on Form 10-Q for the period ending April 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Gunning, CFO of Covista Communications, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that;

- 1) The report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Covista Communications, Inc.

Date: June 13, 2003

By: /s/ Thomas P. Gunning
Thomas P. Gunning,
Vice President, Chief Financial
Officer and Principal Accounting Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COVISTA COMMUNICATIONS, INC.
(Registrant)

Date: June 13, 2003

By: /s/ A. John Leach, Jr.
A. John Leach, Jr.
President and Chief Executive Officer

Date: June 13, 2003

By: /s/ Thomas P. Gunning
Vice President, Chief Financial
Officer and Principal Accounting Officer

PCL XL Warning
Subsystem:
Error:
Operator:
Position:

KERNEL
FontNameSubstituted
SetFont
3230

PCL XL Warning
Subsystem:
Error:
Operator:
Position:

KERNEL
UndefinedFontNotRemoved
RemoveFont
4656